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# 華融國際金融控股有限公司

HUARONG INTERNATIONAL FINANCIAL HOLDINGS LIMITED

*(Incorporated in Bermuda with limited liability)*

**(Stock Code: 993)**

## INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2017

The board (the “**Board**”) of directors (the “**Directors**”) of Huarong International Financial Holdings Limited (the “**Company**”) is pleased to present to its shareholders the unaudited condensed consolidated results of the Company and its subsidiaries (the “**Group**”) for the six months ended 30 June 2017 together with the comparative figures for the six months ended 30 June 2016 as follows:

### CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS FOR THE SIX MONTHS ENDED 30 JUNE 2017

		Six months ended	
		30 June 2017	30 June 2016
	NOTES	HK\$'000 (Unaudited)	HK\$'000 (Unaudited)
Revenue	4	865,281	227,692
Gain on disposal of available-for-sale investments	4	32,822	–
Net gains on financial assets at fair value through profit or loss	4	264,555	330,396
		<b>1,162,658</b>	<b>558,088</b>
Other income and gains or losses, net		(45,823)	(1,736)
Brokerage and commission expenses		(4,779)	(3,871)
Administrative and other operating expenses		(119,789)	(57,777)
Share of result of associates		7,086	–
Net gain on deemed disposal of a joint venture entity	12	200,705	–
Loss on disposal of a subsidiary		(332)	–
Net reversal of (provision for) impairment of advances to customers in margin financing and accounts receivable		149	(9,610)
Finance costs	5	(481,038)	(200,169)

		<b>Six months ended</b>	
		<b>30 June</b>	30 June
		<b>2017</b>	2016
<i>NOTES</i>		<i><b>HK\$'000</b></i>	<i><b>HK\$'000</b></i>
		<b>(Unaudited)</b>	<b>(Unaudited)</b>
Profit before tax	6	<b>718,837</b>	284,925
Income tax expense	7	<b>(118,784)</b>	(67,204)
Profit for the period		<b>600,053</b>	217,721
Profit for the period attributable to:			
Owners of the Company		<b>584,149</b>	217,721
Holder of perpetual capital securities		<b>15,904</b>	–
		<b>600,053</b>	217,721
Earnings per share attributable to			
Owners of the Company	9		(Restated)
— Basic		<b>HK16.51 cents</b>	HK6.49 cents
— Diluted		<b>N/A</b>	HK6.48 cents

**CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME**

*FOR THE SIX MONTHS ENDED 30 JUNE 2017*

	<b>Six months ended</b>	
	<b>30 June</b>	<b>30 June</b>
	<b>2017</b>	<b>2016</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>
	<b>(Unaudited)</b>	<b>(Unaudited)</b>
Profit for the period	<b>600,053</b>	217,721
Other comprehensive income (expense)		
Items that may be reclassified subsequently to profit or loss:		
Fair value gain on available-for-sale investments	<b>7,111</b>	–
Reclassification adjustments relating to disposal of available-for-sale investments during the period	<b>(32,822)</b>	–
Exchange differences on translating foreign operations:		
Exchange differences arising during the period	<b>609</b>	–
Exchange differences on translation of:		
Financial statements of associates	<b>(103)</b>	–
Other comprehensive expense for the period, net of tax	<b>(25,205)</b>	–
Total comprehensive income for the period	<b>574,848</b>	217,721
Total comprehensive income for the period attributable to:		
Owners of the Company	<b>558,944</b>	217,721
Holder of perpetual capital securities	<b>15,904</b>	–
	<b>574,848</b>	217,721

**CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION**  
**AT 30 JUNE 2017**

		<b>30 June 2017</b>	<b>31 December 2016</b>
	<i>NOTES</i>	<b>HK\$'000</b>	<b>HK\$'000</b>
		<b>(Unaudited)</b>	<b>(Audited)</b>
<b>NON-CURRENT ASSETS</b>			
Financial assets at fair value through profit or loss	10	<b>1,259,333</b>	1,078,852
Available-for-sale investments	11	<b>10,023,662</b>	–
Other loans and advances	13	<b>4,116,788</b>	2,217,463
Prepayments, deposits and other receivables		<b>11,417</b>	–
Property and equipment		<b>19,354</b>	18,512
Other long term assets		<b>6,257</b>	4,525
Intangible assets		<b>3,316</b>	4,778
Deferred tax assets		<b>100</b>	300
Investments accounted for using the equity method	12	<b>24,045</b>	190
Amount due from an associate	12	<b>1,561,221</b>	–
		<hr/>	<hr/>
Total non-current assets		<b>17,025,493</b>	3,324,620
		<hr/>	<hr/>
<b>CURRENT ASSETS</b>			
Advances to customers in margin financing	14	<b>3,832,935</b>	4,236,463
Accounts receivable	15	<b>79,376</b>	684,577
Interest receivable		<b>140,141</b>	34,400
Available-for-sale investments	11	–	4,339,012
Amount due from a joint venture	12	–	660,000
Amount due from an associate	12	<b>6,904</b>	–
Financial assets at fair value through profit or loss	10	<b>1,649,225</b>	1,935,158
Other loans and advances	13	<b>4,759,137</b>	2,736,696
Prepayments, deposits and other receivables		<b>64,328</b>	61,537
Restricted bank balances		<b>595,565</b>	3,315,589
Pledged bank deposits	16	<b>1,202,124</b>	–
Cash and cash equivalents	16	<b>2,966,808</b>	956,675
		<hr/>	<hr/>
Total current assets		<b>15,296,543</b>	18,960,107
		<hr/>	<hr/>

		<b>30 June 2017</b>	31 December 2016
	<i>NOTES</i>	<b>HK\$'000</b>	<b>HK\$'000</b>
		<b>(Unaudited)</b>	<b>(Audited)</b>
<b>CURRENT LIABILITIES</b>			
Accounts payable	17	<b>226,058</b>	2,942,458
Other payables and accruals		<b>277,790</b>	200,702
Amount due to an associate	12	–	190
Tax payable		<b>171,111</b>	76,747
Interest-bearing borrowings	18	<b>8,520,425</b>	5,620,480
Financial liabilities at fair value through profit or loss	10	<b>92,348</b>	256,734
Financial asset sold under repurchase agreements	19	<b>104,372</b>	–
Total current liabilities		<b>9,392,104</b>	9,097,311
<b>NET CURRENT ASSETS</b>		<b>5,904,439</b>	9,862,796
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		<b>22,929,932</b>	13,187,416
<b>NON-CURRENT LIABILITIES</b>			
Interest-bearing borrowings	18	<b>19,386,403</b>	11,634,000
Financial liabilities at fair value through profit or loss	10	<b>142,243</b>	166,743
Other payables and accruals		<b>743</b>	481
Deferred tax liabilities		<b>120,837</b>	99,251
Total non-current liabilities		<b>19,650,226</b>	11,900,475
<b>NET ASSETS</b>		<b>3,279,706</b>	1,286,941
<b>CAPITAL AND RESERVES</b>			
Equity attributable to owners of the Company			
Share capital		<b>3,588</b>	3,338
Perpetual capital securities classified as equity instruments	20	<b>781,789</b>	–
Share premium and reserves		<b>2,494,329</b>	1,283,603
<b>TOTAL EQUITY</b>		<b>3,279,706</b>	1,286,941

*Notes:*

**1. CORPORATE INFORMATION**

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

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

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

**2. BASIS OF PREPARATION**

The 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**”).

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.

For the application of amendments to Hong Kong Financial Reporting Standards (“**HKFRSs**”) issued by HKICPA that are mandatorily effective for the current interim period, the accounting policies and methods of computation used in the unaudited condensed consolidated financial statements for the six months ended 30 June 2017 are the same as those followed in the preparation of the Group’s consolidated financial statements for the year ended 31 December 2016. The application of the amendments to HKAS 7 Disclosure initiative will result in more disclosures relating to the reconciliations of liabilities arising from financing activities on the Group’s consolidated financial statements for the year ending 31 December 2017.

### New and amendments to HKFRSs in issue but not effective

The Group has not early applied the following new and amendments to HKFRSs that have been issued but are not yet effective:

HKFRS 9	Financial instruments <sup>1</sup>
HKFRS 15	Revenue from contracts with customers and the related amendments <sup>1</sup>
HKFRS 16	Leases <sup>2</sup>
Amendments to HKFRS 2	Classification and measurement of share-based payment transactions <sup>1</sup>
Amendments to HKFRS 4	Applying HKFRS 9 Financial instruments with HKFRS 4 Insurance contracts <sup>1</sup>
Amendments to HKFRS 10 and HKAS 28	Sale or contribution of assets between an investor and its associate or joint venture <sup>3</sup>
Amendments to HKFRSs	Annual improvements to HKFRSs 2014–2016 cycle except for amendments to HKFRS 12 <sup>1</sup>
HK(IFRIC) – Int 22	Foreign currency transactions and advance consideration <sup>1</sup>
Amendments to HKAS 40	Transfers of investment property <sup>1</sup>
HK(IFRIC) – Int 23	Uncertainty over income tax treatments <sup>2</sup>

1 Effective for annual periods beginning on or after 1 January 2018

2 Effective for annual periods beginning on or after 1 January 2019

3 Effective for annual periods beginning on or after a date to be determined

### 3. OPERATING SEGMENT INFORMATION

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

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

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

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

Six months ended 30 June 2017 (unaudited)

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



### 3. OPERATING SEGMENT INFORMATION – continued

Six months ended 30 June 2016 (unaudited)

	Securities <i>HK\$'000</i>	Corporate finance <i>HK\$'000</i>	Asset management and direct investment <i>HK\$'000</i>	Total <i>HK\$'000</i>
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	<u>864</u>	<u>11</u>	<u>(14,588)</u>	<u>(13,713)</u>
	<u>110,997</u>	<u>62,417</u>	<u>370,961</u>	<u>544,375</u>
Segment results	<u>87,897</u>	<u>52,570</u>	<u>360,887</u>	501,354
Finance costs				(200,169)
Other unallocated income and gains or losses, net				11,977
Other unallocated expenses				<u>(28,237)</u>
Profit before tax				284,925
Income tax expense				<u>(67,204)</u>
Profit for the period				<u>217,721</u>

#### 4. REVENUE, NET GAINS ON FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS AND GAIN ON DISPOSAL OF AVAILABLE-FOR-SALE INVESTMENTS

An analysis of the Group's revenue, net gains on financial assets at fair value through profit or loss and gain on disposal of available-for-sale investments is as follows:

	<b>Six months ended</b>	
	<b>30 June</b>	30 June
	<b>2017</b>	2016
	<b>HK\$'000</b>	HK\$'000
	<b>(Unaudited)</b>	(Unaudited)
Revenue		
Securities:		
Fee and commission income	<b>13,335</b>	40,093
Interest income from margin financing activities	<b>174,943</b>	70,040
Corporate finance:		
Consultancy, financial advisory fee and financing arrangement fee income	<b>168,193</b>	40,721
Placing and underwriting fee income	<b>24,672</b>	21,197
Other service income	<b>–</b>	488
Asset management and direct investment:		
Dividend income	<b>49,142</b>	–
Interest income from other loans and advances	<b>221,109</b>	24,917
Interest income from convertible bonds and convertible notes	<b>37,799</b>	20,519
Interest income from available-for-sale investments	<b>105,370</b>	–
Fund subscription and management fee income	<b>38,102</b>	9,291
Consultancy fee income	<b>31,764</b>	–
Other service income	<b>852</b>	426
	<b>865,281</b>	227,692
Gain on disposal of available-for-sale investments	<b>32,822</b>	–
Net gains on financial assets at fair value through profit or loss	<b>264,555</b>	330,396
	<b>1,162,658</b>	558,088

#### 5. FINANCE COSTS

An analysis of finance costs is as follows:

	<b>Six months ended</b>	
	<b>30 June</b>	30 June
	<b>2017</b>	2016
	<b>HK\$'000</b>	HK\$'000
	<b>(Unaudited)</b>	(Unaudited)
Interest on loans from the ultimate holding company	<b>26,333</b>	–
Interest on loans from an intermediate holding company	<b>364,316</b>	200,115
Interest on bank borrowings	<b>90,389</b>	–
Imputed interest expense on convertible notes	<b>–</b>	54
	<b>481,038</b>	200,169

## 6. PROFIT BEFORE TAX

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

	<b>Six months ended</b>	
	<b>30 June</b>	30 June
	<b>2017</b>	2016
	<b>HK\$'000</b>	HK\$'000
	<b>(Unaudited)</b>	(Unaudited)
Depreciation	<b>3,271</b>	752
Minimum lease payments under operating leases:		
– office premises	<b>21,156</b>	9,017
– office equipment	<b>108</b>	186
Employee benefit expenses (including directors' remuneration)	<b>44,811</b>	30,066

## 7. INCOME TAX EXPENSE

Hong Kong profits tax has been provided at the rate of 16.5% (2016: 16.5%) on the estimated assessable profits arising in Hong Kong during the period.

Under the Law of the People's Republic of China on Enterprise Income Tax (the "EIT Law") and Implementation Regulation of the EIT Law, the tax rate of the PRC subsidiaries is 25% for the period.

	<b>Six months ended</b>	
	<b>30 June</b>	30 June
	<b>2017</b>	2016
	<b>HK\$'000</b>	HK\$'000
	<b>(Unaudited)</b>	(Unaudited)
Current tax:		
Hong Kong	<b>91,891</b>	23,215
PRC	<b>5,107</b>	–
	<b>96,998</b>	23,215
Deferred tax	<b>21,786</b>	43,989
	<b>118,784</b>	67,204

As at 30 June 2017, the Group did not recognise deferred tax assets of approximately HK\$16,470,000 (31 December 2016: approximately HK\$29,680,000) in respect of tax losses amounting to approximately HK\$99,821,000 (31 December 2016: approximately HK\$179,877,000) 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.

## 8. DIVIDENDS

The Board has resolved not to declare the payment of any interim dividend for the six months ended 30 June 2017 (30 June 2016: HK\$nil).

## 9. EARNINGS PER SHARE ATTRIBUTABLE TO OWNERS OF THE COMPANY

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

	<b>Six months ended</b>	
	<b>30 June</b>	30 June
	<b>2017</b>	2016
	<b>HK\$'000</b>	HK\$'000
	<b>(Unaudited)</b>	(Unaudited)
<b>Earnings</b>		
Profit for the period attributable to owners of the Company, used as earnings for the purpose of basic earnings per share	<b>584,149</b>	217,721
Effect of dilutive potential ordinary shares:		
Interest on convertible notes	<u>–</u>	<u>54</u>
Earnings for the purpose of diluted earnings per share	<b><u>584,149</u></b>	<b><u>217,775</u></b>
<b>Number of shares</b>		
	<b>1 January 2017</b>	1 January 2016
	<b>to</b>	to
	<b>30 June 2017</b>	30 June 2016
	<b>'000</b>	'000
		(Restated)
<b>Number of shares</b>		
Weighted average number of ordinary shares for the purpose of basic earnings per share	<b>3,537,788</b>	3,357,156
Effect of dilutive potential ordinary shares on convertible notes issued	<u>–</u>	<u>1,990</u>
Weighted average number of ordinary shares for the purpose of diluted earnings per share	<b><u>3,537,788</u></b>	<b><u>3,359,146</u></b>

The basic and diluted earnings per share for the six months ended 30 June 2016 has been adjusted and restated retrospectively to take into account the rights issue in which the rights shares are issued at a discount on market price during the six months ended 30 June 2017. The weighted average number of shares outstanding was retrospectively increased to reflect the discount in the rights issue.

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

	30 June 2017 HK\$'000 (Unaudited)	31 December 2016 HK\$'000 (Audited)
<b>Assets</b>		
Non-current:		
Unlisted investments		
Convertible bonds and convertible notes, at fair value ( <i>note (i)</i> )	<u>1,259,333</u>	<u>1,078,852</u>
Current:		
Listed investments		
Equity investments, at fair value ( <i>note (iii)</i> )	1,112,818	1,205,417
Unlisted investments		
Convertible bonds and convertible notes, at fair value ( <i>note (i)</i> )	86,372	294,615
Convertible bonds with put option, at fair value ( <i>note (ii)</i> )	427,590	385,783
Put options on listed equity investments, at fair value ( <i>note (iv)</i> )	22,047	49,343
Put options on unlisted equity investments, at fair value ( <i>note (iv)</i> )	<u>398</u>	<u>–</u>
	<u>1,649,225</u>	<u>1,935,158</u>
<b>Liabilities</b>		
Current:		
Unlisted investments		
Non-controlling interests of unlisted consolidated investment funds, at fair value ( <i>note (v)</i> )	<u>92,348</u>	<u>256,734</u>
Non-current:		
Unlisted investments		
Non-controlling interests of unlisted consolidated investment fund, at fair value ( <i>note (v)</i> )	<u>142,243</u>	<u>166,743</u>

## 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. On 14 December 2016, convertible notes with principal amount of US\$30,000,000 were disposed. The fair value of the remaining convertible notes amounted to approximately HK\$455,113,000 as at 30 June 2017 (31 December 2016: HK\$404,941,000), which was estimated by an independent firm of professional valuer. The Group does not expect that the remaining 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.

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

*Notes: – continued*

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\$804,220,000 as at 30 June 2017 (31 December 2016: HK\$673,911,000), 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 26 October 2016, the Group acquired unlisted convertible bonds, with principal amount of HK\$100,000,000 issued by an independent party, a listed company in Hong Kong, bearing fixed interest rate of 5% per annum payable annually, maturity on 25 October 2017, extendable on a mutually agreed basis, to 25 October 2018 with conversion price of HK\$0.675 per share of the aforesaid listed company in Hong Kong. On 15 March 2017, the convertible bonds with principal amount of HK\$25,000,000 were converted into shares. The fair value of the remaining convertible bonds amounted to approximately HK\$86,372,000 as at 30 June 2017 (31 December 2016: HK\$129,125,000), which was estimated by an independent firm of professional valuer.

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\$165,490,000 as at 31 December 2016, which was estimated by an independent firm of professional valuer. In February 2017, the unlisted convertible bonds were fully redeemed.

- (ii) On 12 November 2015, the Group subscribed for unlisted convertible bonds with principal amount of HK\$275,000,000 which was issued by an independent party, a listed company in Hong Kong, and bears fixed interest rate of 4% per annum payable quarterly, and matures on 12 November 2017, extendable at the bondholder's sole and absolute discretion, to 12 November 2018 with initial conversion price of HK\$0.77 per share of the aforesaid listed company in Hong Kong. On 13 November 2015, a put option was granted by an independent third party to the Group, pursuant to which the Group has the right to require the issuer of the put option to purchase all outstanding convertible bonds held by the Group anytime within the 30 days period prior to the maturity date of the convertible bonds at an agreed share price. On 30 June 2016, the put option agreement was revised by both parties mutually. Under the revised put option agreement, the Group has the right to require the issuer of the put option to pay the agreed sum in cash, an amount which is equal to the difference between the option price and redemption price. The fair value of the convertible bonds amounted to approximately HK\$290,016,000 (31 December 2016: HK\$273,705,000) and the put option amounted to approximately HK\$137,574,000 (31 December 2016: HK\$112,078,000) as at 30 June 2017, which was estimated by an independent firm of professional valuer.
- (iii) The equity investments with fair value of approximately HK\$1,112,818,000 as at 30 June 2017 (31 December 2016: HK\$1,205,417,000) were securities listed in Hong Kong.

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

*Notes: – continued*

- (iv) On 30 March 2016, the Group purchased listed securities together with a put option at an aggregate consideration of approximately HK\$339,659,000. The put option gives the Group the right to require the issuer of put option, 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 of put option shall purchase and the Group shall sell all shares that has not been sold till then, at a price determined in accordance with the put option agreement. The fair value of the put option amounted to approximately HK\$16,205,000 as at 30 June 2017 (31 December 2016: HK\$49,343,000), which was estimated by an independent firm of professional valuer.

On 8 June 2017, the Group purchased preference shares together with a put option at an aggregate consideration of approximately HK\$900,000,000. The put option gives the Group the right to require the issuer of put option, an independent third party, to purchase a maximum of 900,000 preference shares of a non-listed company in Hong Kong at a range of pre-determined prices in a specific period. At the expiry date of the put option, the issuer of put option shall purchase and the Group shall sell all shares that has not been sold till then, at a price determined in accordance with the put option agreement. The fair value of the put option amounted to approximately HK\$398,000 as at 30 June 2017, which was estimated by an independent firm of professional valuer.

On 12 June 2017, the Group purchased listed securities together with a put option. The put option gives the Group the right to require the issuer of put option, an independent third party, to purchase shares of a listed company in Hong Kong at a range of pre-determined prices in a specific period. At the expiry date of the put option, the issuer of put option shall purchase and the Group shall sell all shares that has not been sold till then, at a price determined in accordance with the put option agreement. The fair value of the put option amounted to approximately HK\$5,842,000 as at 30 June 2017, which was estimated by an independent firm of professional valuer.

- (v) As at 30 June 2017 and 31 December 2016, included in financial liabilities at fair value through profit or loss are the non-controlling interests of unlisted consolidated investment funds.

As at 31 December 2016, a wholly-owned subsidiary of the Group held 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 of the GCI Fund**”). According to the limited partnership agreement, at the end of the term of the GCI Fund, the First-Tier Limited Partner of the GCI 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 GCI 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 designated as at fair value through profit or loss of approximately HK\$19,837,000 (31 December 2016: HK\$80,105,000) as at 30 June 2017.

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

*Notes: – continued*

As at 30 June 2017, a wholly-owned subsidiary of the Group held 65% interests in Paragon Resort Fund L.P. (the “**PRF Fund**”) as a limited partner (the “**First-Tier Limited Partner of the PRF Fund**”). According to the limited partnership agreement, at the end of the term of the PRF Fund, the First-Tier Limited Partner of the PRF Fund will be entitled to a priority return of its own capital contribution and a 8% preferred return; thereafter the second-tier limited partner is entitled to return of its own capital contribution. Thereafter, 60% and 40% of the residual amount of the consolidated investment fund will be distributed to First-Tier Limited Partner of the PRF Fund and second-tier limited partner, respectively. Accordingly, the interests of the second-tier limited partner in the consolidated investment fund are classified as financial liabilities designated as at fair value through profit or loss of approximately HK\$29,492,000 as at 30 June 2017.

As at 30 June 2017 and 31 December 2016, a wholly-owned subsidiary of the Group held 90% interests in Huarong International Asset Management Growth Fund LP (the “**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 8% per annum return of its invested capital to First-Tier Limited Partner of the SCI Fund. If the Growth Fund eventually holds the convertible notes till maturity (three years period), 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. The effective interest rate of the underlying convertible notes is 4.5%. Accordingly, the interests of the second-tier limited partner are classified as financial liabilities designated as at fair value through profit or loss of approximately HK\$142,243,000 (31 December 2016: HK\$166,743,000) as at 30 June 2017.

As at 30 June 2017 and 31 December 2016, a wholly-owned subsidiary of the Group held 60% interests in Huarong International South China Investment Fund Limited Partnership (the “**SCI Fund**”) as a limited partner (the “**First-Tier Limited Partner of the SCI Fund**”). Pursuant to the limited partnership agreement of the SCI Fund the interests in the SCI 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 9% per annum return of its invested capital. Thereafter 30% and 70% of the residual amount of the consolidated investment fund will be distributed to First-Tier Limited Partner of the SCI Fund and second-tier limited partner, respectively. Accordingly, the interests of the second-tier limited partner are classified as financial liabilities designated as at fair value through profit or loss of approximately HK\$43,019,000 (31 December 2016: HK\$43,326,000) as at 30 June 2017.

As at 31 December 2016, a wholly-owned subsidiary of the Group held 50% interests in Bridge Rock Industry Fund, L.P. (the “**BRI Fund**”) as a limited partner (the “**First-Tier Limited Partner of the BRI Fund**”), another subsidiary of the Group acted as the general partner of the BRI Fund. As the Group has control over the BRI Fund, it is accounted for as a subsidiary. Pursuant to the limited partnership agreement of the BRI Fund the interests in the BRI 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 10% and 12% per annum return of its invested capital to First-Tier Limited Partner of the BRI Fund and the second-tier limited partner, respectively. Thereafter 30% and 70% of the residual amount of the consolidated investment fund will be distributed to First-Tier Limited Partner of the BRI Fund and the second-tier limited partner, respectively. In March 2017, the fund was matured. Accordingly, the interests of the second-tier limited partner are classified as financial liabilities designated as at fair value through profit or loss of approximately HK\$133,303,000 as at 31 December 2016.

The Group did not provide any financial support to the above unlisted consolidated investment funds during the period ended 30 June 2017 and year ended 31 December 2016.



## 11. AVAILABLE-FOR-SALE INVESTMENTS

	30 June 2017 HK\$'000 (Unaudited)	31 December 2016 HK\$'000 (Audited)
Current:		
Listed equity investments, at fair value	–	1,044,239
Listed debt investments, at fair value	–	3,294,773
	–	4,339,012
Non-current:		
Unlisted fund investments, at fair value ( <i>note</i> )	2,809,184	–
Unlisted equity investments, at fair value	1,119,471	–
Listed equity investments, at fair value	1,522,967	–
Listed debt investments, at fair value	4,572,040	–
	10,023,662	–
	10,023,662	4,339,012

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

During the period, the gain in respect of changes in fair value of the Group's available-for-sale investments recognised in other comprehensive income amounted to approximately HK\$7,111,000 (31 December 2016: loss of HK\$25,347,000). During the period, the Group disposed of approximately HK\$1,967,164,000 available-for-sale investments to independent third parties (31 December 2016: HK\$nil). A gain of approximately HK\$32,822,000 was reclassified from other comprehensive income to profit or loss upon disposal during the period (31 December 2016: HK\$nil).

Interest income derived from available-for-sale investments was recognised as “interest income from available-for-sale investments”.

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

	30 June 2017 HK\$'000 (Unaudited)	31 December 2016 HK\$'000 (Audited)
Associates:		
Cost of unlisted investments in associates	17,062	190
Share of result of associates	7,086	–
Exchange differences	(103)	–
	24,045	190
A joint venture:		
Cost of unlisted investments in a joint venture	–	–
	–	–

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

Name of entity	Country of incorporation	Interest held by the Group		Principal activities
		As at 30 June 2017	As at 31 December 2016	
Hua Rong Bo Run International Investment Holdings Limited	HK	40%	–	Investment holding
華融柏潤(珠海)資產管理有限公司	PRC	40%	40%	Asset management and advisory services for mergers and acquisitions

The share of profit arisen from Hua Rong Bo Run International Investment Holdings Limited, since its date of incorporation on 13 February 2017 and from 華融柏潤(珠海)資產管理有限公司 for the period was HK\$5,048,000, and HK\$2,038,000 (2016: HK\$nil) respectively.

The investment in a joint venture as at 31 December 2016 represents the 16.5% interests (33 ordinary shares) held by the Group in Gold Brilliant Investment Limited from 21 December 2016 amounting to HK\$33, which was incorporated in Hong Kong and principally engaged in land development. During the period, the Group lost significant influence in the joint venture as the Group had no participation right in the decision making in the future. The loss of significant influence was a deemed disposal. The Group recognised the interest in Gold Brilliant Investment Limited as available-for-sale investment based on the fair value at the date of losing significant influence. The difference between the fair value and carrying amount before disposal was recognised as net gain on disposal of approximately HK\$200,705,000 in profit or loss.

The amount due from an associate Hua Rong Bo Run International Investment Holdings Limited approximately HK\$1,561,221,000 (31 December 2016: HK\$nil) as at 30 June 2017 with an interest rate of 7% per annum, repayable on 21 May 2022 and extendable to 2 years and a balance of interest receivable amounting to HK\$6,904,000 (31 December 2016: HK\$nil).

The Group disposed the interest in an associate China Huarong Tianxing Oversea Acquisition Fund 1 Limited in January 2017. The investment represents the 49% interests held by the Group as at 31 December 2016.

The amount due to an associate China Huarong Tianxing Oversea Acquisition Fund 1 Limited of approximately HK\$190,000 was unsecured, interest free and repayable on demand as at 31 December 2016.

The amount due from a joint venture of approximately HK\$660,000,000 was unsecured, interest free and repayable on demand as at 31 December 2016.

### 13. OTHER LOANS AND ADVANCES

	<b>30 June 2017 HK\$'000 (Unaudited)</b>	31 December 2016 HK\$'000 (Audited)
Other loans and advances	<b>8,926,086</b>	5,004,236
Less: Provision for impairment	<b>(50,161)</b>	(50,077)
	<b><u>8,875,925</u></b>	<b><u>4,954,159</u></b>
Secured	<b>6,949,621</b>	2,236,814
Unsecured	<b>1,926,304</b>	2,717,345
	<b><u>8,875,925</u></b>	<b><u>4,954,159</u></b>
Analysed as:		
Current	<b>4,759,137</b>	2,736,696
Non-current	<b>4,116,788</b>	2,217,463
	<b><u>8,875,925</u></b>	<b><u>4,954,159</u></b>

As at 30 June 2017, other loans and advances included loans to independent third parties which are secured and/or backed by guarantees and collaterals, with interest rates ranging from 2% to 11% per annum (31 December 2016: 5% to 9% per annum) with maturity ranging from approximately one month to five years from 30 June 2017 (31 December 2016: approximately six months to three years). As at 30 June 2017, other loans and advances with carrying amount of approximately HK\$6,949,621,000 (31 December 2016: HK\$2,236,814,000) is secured by properties in Australia and the PRC, unlisted convertible bonds issued by a listed company, listed equity issued by companies listed in Hong Kong and unlisted equity, security accounts, bank accounts and accounts receivable from third parties. The remaining carrying amount of approximately HK\$1,391,366,000 (31 December 2016: HK\$2,184,565,000) represents unsecured other loans and advances with personal or corporate guarantees. The management of the Group believes that the amount is considered recoverable given the collateral is sufficient to cover the entire balance for secured loans and no recent history of default of borrowers for unsecured loans. Other loans and advances that are individually not significant or assessed not to be impaired individually are reviewed at the end of each reporting period on a collective portfolio basis. The Directors of the Company believe that the provision are sufficient. 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 30 June 2017, unsecured other loans and advances included investments in a 5% guaranteed notes with carrying amount of approximately HK\$198,000,000 (31 December 2016: HK\$198,000,000) and maturity of approximately one month from 30 June 2017 and a 8.5% redeemable fixed coupon notes with carrying amount of approximately HK\$336,938,000 (31 December 2016: HK\$334,780,000) and maturity of approximately 11 months from 30 June 2017.

As at 30 June 2017, the Group has concentration of credit risk as 50% (31 December 2016: 63%) of the total other loans and advances was due from the Group's five largest lending customers.

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

### 13. OTHER LOANS AND ADVANCES – continued

Movements in the provision for impaired debts are as follows:

	<b>30 June 2017 HK\$'000 (Unaudited)</b>	31 December 2016 HK\$'000 (Audited)
At beginning of period/year	50,077	–
Provision for impairment losses	<u>84</u>	<u>50,077</u>
At end of period/year	<u><b>50,161</b></u>	<u>50,077</u>

Other loans and advances are netted off by provision for impaired debts of approximately HK\$50,161,000 (31 December 2016: HK\$50,077,000) which are collective provision. No further impairment provision was considered necessary based on the Group's evaluation of collectability.

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

### 14. ADVANCES TO CUSTOMERS IN MARGIN FINANCING

	<b>30 June 2017 HK\$'000 (Unaudited)</b>	31 December 2016 HK\$'000 (Audited)
Advances to customers in margin financing	3,834,095	4,237,786
Less: provision for impairment	<u>(1,160)</u>	<u>(1,323)</u>
	<u><b>3,832,935</b></u>	<u>4,236,463</u>

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

The advances 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 2017, advances to five largest securities margin clients were secured by pledged securities with market value of approximately HK\$11,661,990,000 (31 December 2016: HK\$12,855,095,000).

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

	<b>30 June 2017 HK\$'000 (Unaudited)</b>	31 December 2016 HK\$'000 (Audited)
At beginning of period/year	1,323	1,951
Reversal of impairment losses, net	<u>(163)</u>	<u>(628)</u>
At end of period/year	<u><b>1,160</b></u>	<u>1,323</u>

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.

## 15. ACCOUNTS RECEIVABLE

	30 June 2017 HK\$'000 (Unaudited)	31 December 2016 HK\$'000 (Audited)
Accounts receivable arising from		
– securities, futures and options dealing services		
– clients	8,404	8,902
– brokers, dealers and clearing houses	15,110	629,685
– corporate finance	47,876	45,104
– asset management	8,223	1,109
	<u>79,613</u>	<u>684,800</u>
Provision for impairment	(237)	(223)
	<u>79,376</u>	<u>684,577</u>

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

	30 June 2017 HK\$'000 (Unaudited)	31 December 2016 HK\$'000 (Audited)
Current to 1 month	73,030	682,633
1 to 3 months	4,067	1,779
3 months to 1 year	2,222	102
Over 1 year	57	63
	<u>79,376</u>	<u>684,577</u>

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

	30 June 2017 HK\$'000 (Unaudited)	31 December 2016 HK\$'000 (Audited)
At beginning of period/year	223	220
Provision of impairment losses, net	14	3
At end of period/year	<u>237</u>	<u>223</u>

## 16. CASH AND CASH EQUIVALENTS AND PLEDGED BANK DEPOSITS

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

## 17. 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 2017, accounts payable with carrying amount of approximately HK\$202,704,000 (31 December 2016: HK\$2,931,001,000) are interest-bearing at bank savings deposit rates.

## 18. INTEREST-BEARING BORROWINGS

	30 June 2017 HK\$'000 (Unaudited)	31 December 2016 HK\$'000 (Audited)
Current portion:		
Bank borrowings	7,945,825	5,620,480
Loans from the ultimate holding company	574,600	–
	<b>8,520,425</b>	5,620,480
Non-current portion:		
Loans from an intermediate holding company	19,386,403	11,634,000
	<b>27,906,828</b>	17,254,480

As at 30 June 2017, the Group had loans (the “**Company Loans**”) amounting to approximately US\$2,483,526,000 (31 December 2016: US\$1,500,000,000) (equivalent to approximately HK\$19,386,403,000 (31 December 2016: equivalent to approximately HK\$11,634,000,000)) from China Huarong International Holdings Limited (“**CHIH**”) and RMB500,000,000 (approximately HK\$574,600,000) (31 December 2016: HK\$nil) from the ultimate holding company for the expansion of the Group’s business. The Company Loans bear interest at fixed interest rates ranging from 3.85% to 6.1% per annum (31 December 2016: 3.85% to 6.02% per annum) and are repayable in one to ten years (31 December 2016: three to ten years) from the end of the reporting period.

As at 30 June 2017, the Group has bank loan facilities amounting to RMB868,417,000 (equivalent to approximately HK\$997,985,000) (31 December 2016: HK\$nil) which are secured by pledge of the Group’s time deposits with carrying amount of approximately HK\$1,202,124,000 (31 December 2016: HK\$nil).

In addition, bank borrowings of HK\$150,000,000 (31 December 2016: HK\$550,000,000) are secured by listed shares (held by the Group as security for advances to customers in margin financing with the customers’ consent) as at 30 June 2017. The Company had provided corporate guarantees in respect of the Group’s utilised banking facilities HK\$450,000,000 (31 December 2016: HK\$850,000,000). Certain indirect wholly-owned subsidiaries, namely Huarong International Securities Limited, Huarong International Asset Management Limited and Huarong International Capital Limited also provided corporate guarantees in respect of the Group’s banking facilities to the extent of US\$30,000,000 (equivalent to approximately HK\$203,250,000) (31 December 2016: US\$30,000,000 (equivalent to approximately HK\$232,680,000)). As at 30 June 2017, the Group has undrawn bank facilities of approximately HK\$2,742,274,000 (31 December 2016: HK\$807,500,000), and the Group utilised approximately HK\$7,945,825,000 (31 December 2016: HK\$5,620,480,000) of these banking facilities.

## 19. FINANCIAL ASSETS SOLD UNDER REPURCHASE AGREEMENTS

	<b>30 June 2017 HK\$'000 (Unaudited)</b>	31 December 2016 HK\$'000 (Audited)
Analysed by collateral type:		
Bond	<b>104,372</b>	–
Analysed by market:		
Inter-bank market	<b>104,372</b>	–

As at 30 June 2017, the Group entered into repurchase agreements with a financial institution to sell bond recognised as available-for-sale investments with carrying amount of approximately HK\$115,473,000, which are subject to the simultaneous agreements to repurchase these investments at the agreed date and price.

Sales and repurchase agreements are transactions in which the Group sells bonds and simultaneously agrees to repurchase it (or an asset that is substantially the same) at the agreed date and price. The repurchase prices are fixed and the Group is still exposed to substantially all the credit risks, market risks and rewards of those bonds sold. These bonds are not derecognised from the financial statements but regarded as “collateral” for the liabilities because the Group retains substantially all the risks and rewards of these bonds.

## 20. PERPETUAL CAPITAL SECURITIES CLASSIFIED AS EQUITY INSTRUMENTS

	<b>Principal HK\$'000</b>	<b>Distribution HK\$'000</b>	<b>Total HK\$'000</b>
Balance at 1 January 2017 (audited)	–	–	–
Issuance of perpetual capital securities ( <i>Note</i> )	765,885	–	765,885
Profit attributable to holder of perpetual capital securities	–	15,904	15,904
Balance at 30 June 2017 (unaudited)	765,885	15,904	781,789

*Note:* During the period, the Company issued perpetual capital securities with the face value of US\$99,118,000 (equivalent to approximately HK\$765,885,000) to CHIH, an intermediate holding company of the Company.

## MANAGEMENT DISCUSSION AND ANALYSIS

### Financial Highlights

For the six months ended 30 June 2017 (the “**Period**”), the Group recorded a revenue of approximately HK\$865,281,000 (six months ended 30 June 2016 (the “**Last Period**”): approximately HK\$227,692,000), gain on disposal of available-for-sale investments of approximately HK\$32,822,000 (Last Period: HK\$ nil) and net gains on financial assets at fair value through profit or loss of approximately HK\$264,555,000 (Last Period: approximately HK\$330,396,000). Therefore, total revenue and gains above increased to approximately HK\$1,162,658,000 as compared to approximately HK\$558,088,000 for the Last Period, representing an increase of approximately 108.3%. Profit attributable to shareholders for the Period significantly increased to approximately HK\$584,149,000 as compared to the profit of approximately HK\$217,721,000 in the Last Period, representing an increase of approximately 168.3%. 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.

Basic earnings per share was HK16.51 cents for the Period as compared to HK6.49 cents (restated) for the Last Period, and no diluted earnings per share has been presented for the Period (HK6.48 cents (restated) for the Last Period) as there was no diluted financial instrument for the six months ended 30 June 2017.

The Board has resolved not to declare the payment of any interim dividend for the six months ended 30 June 2017 (30 June 2016: Nil).

### Market Review

The first half of 2017 saw the global economy in recovery, with the expansion of U.S. economy and moderate economic growth in the Eurozone and Japan. Less policy uncertainty has brought about greater stability to global financial market. Mainland China also recorded better-than-expected economic performance and a slightly higher than projected growth rate for the first half of the year. During the Period, the International Monetary Fund raised its expectation on Chinese gross domestic product (GDP) twice, setting the growth rate at 6.7%. In Hong Kong, investors’ confidence has been further boosted as the financial market benefited from an improving global economic outlook. As a result, Hong Kong has witnessed a substantial increase in the daily average turnover of its stock market, with the Hang Seng index also recording a new height for the past two years. The good economic environment created favorable conditions for the business development of the Group.

### Business Review

During the first half of 2017, the Group upheld the development principle of “Robust Progress” and continued to expand its three business segments, namely, securities, corporate finance, and asset management and direct investment. In addition, the Group brought the synergy of its business lines into full play and strove to provide customers with professional, diversified and integrated financial services, so as to keep improving the market competitiveness of the Group.



## Asset Management and Direct Investment

The asset management and direct investment segment provides asset management services, the direct investments in equities, bonds, funds, derivative instruments and other financial products, and money lending services. During the first half of 2017, the Group has sought to provide customers with customized, professional and integrated financial service solutions, through various measures such as establishing long-term partnerships with key customers, exploring new customers through business synergy, and subdividing and expanding professional investment teams. The segment also seized various business cooperation and market opportunities, to optimize its investment portfolio continuously and achieve better investment returns. During the Period, the segment revenue was approximately HK\$1,023,239,000 as compared to approximately HK\$370,961,000 for the Last Period, representing a year-on-year increase of 175.8%; the segment result was approximately HK\$996,977,000 as compared to approximately HK\$360,887,000 for the Last Period, representing a year-on-year increase of 176.3%.

## Corporate Finance

The corporate finance segment is devoted to provide institutional clients with comprehensive securities issuance and underwriting, financial advisory and financing arrangement services. Leveraging on the diversified client portfolio of China Huarong Asset Management Co., Ltd. (“**China Huarong**”), the corporate finance segment gained a new driving force by putting greater efforts in market expansion to explore the effective cooperation among different licensed companies and in doing so, the benefits of synergy have been achieved. Several large issues of USD bonds and equity financing projects were completed during the first half of 2017, including underwriting of initial public offering (IPO) and placing. During the Period, revenue from the corporate finance segment amounted to approximately HK\$193,069,000 as compared to approximately HK\$62,417,000 for the Last Period, representing a year-on-year increase of 209.3%; the segment result was approximately HK\$186,232,000 as compared to approximately HK\$52,570,000 for the Last Period, representing a year-on-year increase of 254.3%.

## Securities

The securities segment comprises broking and dealing of securities, futures and options contracts and the provision of margin financing services. The revenue from the securities segment during the Period was approximately HK\$190,406,000 as compared to approximately HK\$110,997,000 for the Last Period, representing a year-on-year increase of 71.5%; the segment result amounted to approximately HK\$171,884,000 as compared to approximately HK\$87,897,000 for the Last Period, representing a year-on-year increase of 95.6%. The increase mainly came from the growth of interest income from margin financing activities. As at 30 June 2017, the margin loan balance was approximately HK\$3,832,935,000, representing an increase of 71.0% from approximately HK\$2,242,101,000 as at 30 June 2016 but a decrease of 9.5% from approximately HK\$4,236,463,000 as at 31 December 2016. After a strategic adjustment of its margin financing business, in the first half of 2017, the Group has further diversified the portfolio of margin financing stocks and reduced its exposure to concentration risk, causing the growth in its margin financing business to slow down. Meanwhile, increasing market competition led to lower margin interest rates in the industry. The Group continued to strike a better balance between risk and return.

## **Prospect**

In the second half of 2017, external environment is expected to be challenging. Major economies around the world have begun to adjust their monetary policies, with China continuing to strengthen its deleveraging policy, the U.S. gradually raising its interest rates, the Eurozone about to stop interest rate reduction and the Japanese central bank discussing the withdrawal from quantitative easing. Meanwhile, the U.S. Federal Reserve is expected to start reducing the size of its balance sheet in the second half of this year which could substantially reduce global liquidity. In addition, uncertainty derived from, among other things, the Brexit and geopolitical conflicts may still cause risks.

Looking ahead, in the complicated and constantly changing macro-economic environment, the Group will continue to adhere to “Stability, Innovation, Harmony, Development” as its core principles and strive to become “Professional Asset Manager, Excellent Integrated Financial Service Provider”. The Group will fully explore the synergy and interconnection between its direct investment business and licensed business, and actively seize the development opportunities made available by Shanghai-Hong Kong Stock Connect, Shenzhen-Hong Kong Stock Connect, Bond Connect, RMB internationalization and the “One Belt, One Road” initiative. With all such efforts in the pipeline, the Company seeks to propel the development of platforms regarding its three major business segments, namely securities, corporate finance, and asset management and direct investment. The Board and management of the Company believe that, with clear strategic position, effective execution capabilities and team of professionals, the Company will continue to enhance its core competitiveness and overall profitability to create greater value for the shareholders.

## **Capital Structure**

In February 2017, the Company issued and allotted 250,358,093 rights shares at HK\$2.63 per rights share on the basis of 1.5 rights shares for every 20 existing shares on the record date of 11 January 2017, and successfully raised net proceeds of approximately HK\$652,032,000.

On 21 February 2017, the Company issued senior perpetual capital securities in the principal amount of US\$99,118,000 to CHIH. The senior perpetual capital securities will be accounted for as equity in the statement of financial position of the Company.

As at 30 June 2017, the total number of issued shares of the Company (with the par value of HK\$0.001 each) was 3,588,466,011 as compared to 3,338,107,918 as at 31 December 2016, and the total equity attributable to shareholders was approximately HK\$3,279,706,000 as compared to HK\$1,286,941,000 as at 31 December 2016, representing an increase of 155%. The increase was attributable to the rights issue and the issue of senior perpetual capital securities.

## **Liquidity and Financial Resources**

The Group reviewed the liquidity position regularly and managed liquidity position and financial resources actively according to the changes on economic environment and business development needs. As at 30 June 2017, the Group had total cash and cash equivalents amounting to approximately HK\$2,966,808,000 as compared to HK\$956,675,000 as at 31

December 2016, which already excluded approximately HK\$595,565,000 (as compared to HK\$3,315,589,000 as at 31 December 2016) of client funds that were kept in separate designated bank accounts. The Group's gearing ratio as at 30 June 2017 was 850.9% as compared to 1,340.7% as at 31 December 2016, being calculated as borrowings over the Group's shareholders' equity. The decreased gearing ratio is attributable to strengthened capital base as a result of the above mentioned rights issue and the issue of senior perpetual capital securities to CHIH by the Company. As at 30 June 2017, the Group obtained shareholder loans in an aggregate principal amount of approximately US\$2,483,526,000 (equivalent to approximately HK\$19,386,403,000) (as compared to US\$1,500,000,000, equivalent to approximately HK\$11,634,000,000 as at 31 December 2016) from CHIH and RMB500,000,000 (equivalent to approximately HK\$574,600,000) (31 December 2016: nil) from China Huarong respectively, which are unsecured and unguaranteed, to expand the business of the Group. As at 30 June 2017, the Group has undrawn bank facilities of approximately HK\$2,742,274,000 (as compared to HK\$807,500,000 as at 31 December 2016), and the Group had outstanding bank borrowings of approximately HK\$7,945,825,000 as at 30 June 2017 (as compared to HK\$5,620,480,000 as at 31 December 2016).

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

### **Charges on Group Assets**

As at 30 June 2017, the Group's time deposits with carrying amount of approximately HK\$1,202,124,000 (31 December 2016: HK\$nil) was pledged to secure bank loan facilities of the Group.

### **Employee and Remuneration Policy**

As at 30 June 2017, the Group employed a total of 156 employees as compared to 137 employees as at 31 December 2016. The Group's staff recruitment and promotion are primarily based on individuals' merits, relevant experiences, development potentials for the positions offered and performance. Staff remuneration and benefit policies, which are formulated by reference to the market, are competitive and performance based.

### **Foreign Exchange Exposures**

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

## **Contingent Liabilities**

Regarding the alleged claims against Huarong International Securities Limited (formerly known as United Simsen Securities Limited) (“**HISL**”), an indirectly wholly owned subsidiary of the Company, 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 2017. The Group has sought legal advice on the alleged claims and the Directors consider that HISL has a good defence and has a strong case to pursue its counterclaim against the plaintiff. The Directors consider that it is not probable that there will be any significant financial impact to the Group arising from these alleged claims.

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

Neither the Company, nor any of its subsidiaries had purchased, sold or redeemed any of the Company’s listed securities during the 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 to the Listing Rules throughout the six months ended 30 June 2017, save for the deviations as described below:

Pursuant to Code Provision A.6.7, the independent non-executive directors and the non-executive directors should attend general meetings and develop a balanced understanding of the views of shareholders. At the annual general meeting of the Company held on 23 May 2017, Ms. Yu Xiaojing, the non-executive Director of the Company and Mr. Yeung Siu Keung, an independent non-executive Director of the Company, were unable to attend the meeting due to other business engagements. However, the Board believes that the presence of other Directors at that annual general meeting has allowed the Board to develop a balanced understanding of the views of the Company’s shareholders.

## **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 to the Listing Rules as its own code of conduct regarding securities transactions by the Directors of the Company. In response to specific enquiry by the Company, all Directors confirmed that they have fully complied with the required standards as set out in the aforesaid Model Code throughout the six months ended 30 June 2017.

## **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 2017, including the accounting principles and practices adopted by the Group.

The Group’s external auditor has 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 Auditor of the Entity”, issued by the Hong Kong Institute of Certified Public Accountants.

## **PUBLICATION OF INTERIM REPORT**

The interim report of the Company for the six months ended 30 June 2017 will be despatched to shareholders and published on the websites of The Stock Exchange of Hong Kong Limited ([www.hkexnews.hk](http://www.hkexnews.hk)) and the Company ([www.hrif.com.hk](http://www.hrif.com.hk)) in due course.

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

Hong Kong, 18 August 2017

*As at the date of this announcement, the executive directors of the Company are Mr. Wang Qiang, Mr. Lai Jinyu and Ms. Wang Wei, the non-executive director is Ms. Yu Xiaojing, and the independent non-executive directors are Dr. Wong Tin Yau Kelvin, Mr. Ma Lishan and Mr. Guan Huanfei.*