



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)

華英成秀
融通致遠

2017 中期報告
INTERIM REPORT





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CORPORATE INFORMATION

Board of Directors

Executive Directors

Mr. Wang Qiang (*Chairman*)
Mr. Lai Jinyu (*Chief Executive Officer*)
Ms. Wang Wei

Non-executive Director

Ms. Yu Xiaojing

Independent Non-executive Directors

Dr. Wong Tin Yau Kelvin
Mr. Ma Lishan
Mr. Guan Huanfei

Audit Committee

Dr. Wong Tin Yau Kelvin (*Chairman*)
Mr. Ma Lishan
Mr. Guan Huanfei

Remuneration Committee

Mr. Guan Huanfei (*Chairman*)
Dr. Wong Tin Yau Kelvin
Mr. Ma Lishan

Nomination Committee

Dr. Wong Tin Yau Kelvin (*Chairman*)
Mr. Wang Qiang
Ms. Yu Xiaojing
Mr. Ma Lishan
Mr. Guan Huanfei

Executive Committee

Mr. Wang Qiang (*Chairman*)
Mr. Lai Jinyu
Ms. Wang Wei

Risk Management Committee

Mr. Ma Lishan (*Chairman*)
Mr. Lai Jinyu
Ms. Wang Wei
Ms. Yu Xiaojing

Company Secretary

Ms. Ng Yee Ping

Registered Office

Clarendon House
2 Church Street
Hamilton HM 11
Bermuda

Head Office and Principal Place of Business

Level 29
One Pacific Place
88 Queensway
Hong Kong

Resident Representative

Conyers Corporate Services (Bermuda) Limited
Clarendon House
2 Church Street
Hamilton HM 11
Bermuda

Principal Bankers

China CITIC Bank International Limited
Wing Lung Bank Limited
Bank of China (Hong Kong) 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

For the six months ended 30 June 2017 (the “Period”), Huarong International Financial Holdings Limited (the “Company”) and its subsidiaries (collectively 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: 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) asset management and direct investment segment; (ii) corporate finance segment; and (iii) securities segment. The performance of these segments will be discussed further below.

Basic 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.

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 asset management and direct investment, corporate finance and securities. 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 was principally driven by 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 asset management and direct investment, corporate finance and securities. 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 China Huarong International Holdings Limited (“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). Further details on the interest-bearing borrowings of the Group are set out in Note 20 to the condensed consolidated financial statements of the Group.

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, (i) the Group's time deposits with carrying amount of approximately HK\$1,202,124,000 (31 December 2016: nil) was pledged to secure bank loan facilities of the Group and (ii) the Group has agreed to assign its right, title, interest and benefit in the amount of approximately HK\$518.3 million due from a company owned as to 16.5% by the Group to a bank as a continuing security to secure, among others, the payment obligations under a loan facility in the amount of approximately HK\$3,146 million advanced by a group of syndicate banks to that company (details of such arrangement are set out in the announcement of the Company dated 29 June 2017).

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

Contingent Liabilities

Regarding the alleged claims against Huarong International Securities Limited (formerly known as United Simsen Securities Limited) ("HISL"), an indirectly wholly owned subsidiary of the Company, 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.

Interim Dividend

The Board does not recommend the payment of any interim dividend for the six months ended 30 June 2017 (30 June 2016: nil).

REPORT ON REVIEW OF CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2017

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)

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 11 to 54, which comprise the condensed consolidated statement of financial position as at 30 June 2017, and the related condensed consolidated statement of profit or loss and other comprehensive income, condensed consolidated statement of changes in equity and condensed consolidated statement of cash flows for the six-month period then ended, and certain explanatory notes. The 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

18 August 2017

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the six months ended 30 June 2017

	NOTES	Six months ended	
		30 June 2017 HK\$'000 (Unaudited)	30 June 2016 HK\$'000 (Unaudited)
Revenue	4	865,281	227,692
Net gains on financial assets at fair value through profit or loss	4	264,555	330,396
Gain on disposal of available-for-sale investments	4	32,822	–
Other income and gains or losses, net	5	(45,823)	(1,736)
Brokerage and commission expenses		(4,779)	(3,871)
Administrative and other operating expenses		(119,789)	(57,777)
Net gain on deemed disposal of a joint venture entity	13	200,705	–
Loss on disposal of a subsidiary	6	(332)	–
Net reversal of (provision for) impairment of advances to customers in margin financing and accounts receivable		149	(9,610)
Finance costs	7	(481,038)	(200,169)
Share of result of associates	13	7,086	–
PROFIT BEFORE TAX	8	718,837	284,925
Income tax expense	9	(118,784)	(67,204)
PROFIT FOR THE PERIOD		600,053	217,721
PROFIT FOR THE PERIOD ATTRIBUTABLE TO OWNERS OF THE COMPANY		584,149	217,721
HOLDER OF PERPETUAL CAPITAL SECURITIES		15,904	–
		600,053	217,721
			(Restated)
EARNINGS PER SHARE ATTRIBUTABLE TO OWNERS OF THE COMPANY			
– Basic	10	HK16.51 cents	HK6.49 cents
– Diluted		N/A	HK6.48 cents

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2017

	Six months ended	
	30 June 2017 HK\$'000 (Unaudited)	30 June 2016 HK\$'000 (Unaudited)
PROFIT FOR THE PERIOD	600,053	217,721
OTHER COMPREHENSIVE INCOME (EXPENSE)		
Items that may be reclassified subsequently to profit or loss:		
Fair value gain on available-for-sale investments	7,111	–
Reclassification adjustments relating to disposal of available-for-sale investments during the period	(32,822)	–
Exchange differences on translating foreign operations		
Exchange differences arising during the period	609	–
Exchange differences on translation of:		
– Financial statements of associates	(103)	–
OTHER COMPREHENSIVE EXPENSE FOR THE PERIOD, NET OF TAX	(25,205)	–
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	574,848	217,721
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD ATTRIBUTABLE TO		
Owners of the company	558,944	217,721
Holder of perpetual capital securities	15,904	–
	574,848	217,721

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2017

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

	NOTES	30 June 2017 HK\$'000 (Unaudited)	31 December 2016 HK\$'000 (Audited)
CURRENT LIABILITIES			
Accounts payable	19	226,058	2,942,458
Other payables and accruals		277,790	200,702
Amount due to an associate	13	–	190
Interest-bearing borrowings	20	8,520,425	5,620,480
Tax payable		171,111	76,747
Financial liabilities at fair value through profit or loss	11	92,348	256,734
Financial asset sold under repurchase agreements	22	104,372	–
Total current liabilities		9,392,104	9,097,311
NET CURRENT ASSETS			
		5,904,439	9,862,796
TOTAL ASSETS LESS CURRENT LIABILITIES			
		22,929,932	13,187,416
NON-CURRENT LIABILITIES			
Other payables and accruals		743	481
Deferred tax liabilities		120,837	99,251
Interest-bearing borrowings	20	19,386,403	11,634,000
Financial liabilities at fair value through profit or loss	11	142,243	166,743
Total non-current liabilities		19,650,226	11,900,475
NET ASSETS			
		3,279,706	1,286,941
CAPITAL AND RESERVES			
Equity attributable to owners of the Company			
Share capital	21	3,588	3,338
Perpetual capital securities classified as equity instruments	23	781,789	–
Share premium and reserves		2,494,329	1,283,603
TOTAL EQUITY		3,279,706	1,286,941

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2017

	Attributable to owners of the Company									
	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	(Accumulated losses) retained profits HK\$'000	Subtotal HK\$'000	Perpetual capital instruments HK\$'000	Total equity HK\$'000
At 1 January 2016 (audited)	3,278	924,584	139,615	-	-	36,780	(369,102)	735,155	-	735,155
Profit and total comprehensive income for the period	-	-	-	-	-	-	217,721	217,721	-	217,721
Issue of shares upon conversion of convertible notes (note 21(a))	60	63,167	-	-	-	(36,780)	-	26,447	-	26,447
At 30 June 2016 (unaudited)	3,338	987,751	139,615	-	-	-	(151,381)	979,323	-	979,323
At 1 January 2017 (audited)	3,338	987,751	139,615	(25,347)	(228)	-	181,812	1,286,941	-	1,286,941
Shares issued (note 21(b))	250	651,782	-	-	-	-	-	652,032	-	652,032
Profit and total comprehensive income for the period	-	-	-	-	-	-	584,149	584,149	15,904	600,053
Fair value gain on available-for-sale investments	-	-	-	7,111	-	-	-	7,111	-	7,111
Reclassification adjustment relating to disposal of available-for-sale investments during the period	-	-	-	(32,822)	-	-	-	(32,822)	-	(32,822)
Exchange differences on translation of foreign operations	-	-	-	-	506	-	-	506	-	506
Exchange differences arising during the period	-	-	-	-	506	-	-	506	-	506
Total comprehensive income for the period	-	-	-	(25,711)	506	-	584,149	558,944	15,904	574,848
Issuance of perpetual capital instruments (note 23)	-	-	-	-	-	-	-	-	765,885	765,885
At 30 June 2017 (unaudited)	3,588	1,639,533	139,615	(51,058)	278	-	765,961	2,497,917	781,789	3,279,706

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2017

	NOTES	Six months ended	
		30 June 2017 HK\$'000 (Unaudited)	30 June 2016 HK\$'000 (Unaudited)
NET CASH FLOWS USED IN OPERATING ACTIVITIES		(1,923,689)	(4,414,460)
INVESTING ACTIVITIES			
Interest received		442,246	115,476
Dividend received	4	49,142	–
Proceeds from disposal of financial assets at fair value through profit or loss		155,200	–
(Increase) decrease in other long term assets		(1,732)	1,789
Purchases of items of property and equipment		(4,114)	(378)
Addition in pledged time deposits		(1,982,724)	(191)
Reduction in pledged time deposits		780,600	–
Proceeds from disposal of available-for-sale investments		1,983,530	–
Purchases of available-for-sale investments		(7,413,292)	–
Purchase of investments accounted for using the equity method		(17,062)	–
Disposal of subsidiary	6	1,130	–
Addition in amount due from an associate		(1,561,221)	–
Repayment from a joint venture		142,000	–
NET CASH FLOWS (USED IN) FROM INVESTING ACTIVITIES		(7,426,297)	116,696
FINANCING ACTIVITIES			
Contribution from non-controlling interests of unlisted consolidated investment funds		56,740	118,761
Interest-bearing borrowings raised		12,781,315	6,229,500
Repayment of interest-bearing borrowings		(2,245,800)	(2,326,050)
Interest paid		(413,248)	(109,212)
Withdrawal from second-tier limited partners of consolidated investment fund		(267,782)	–
Issuance of share capital	21	652,032	–
Issuance of perpetual capital instruments	23	765,885	–
NET CASH FLOWS FROM FINANCING ACTIVITIES		11,329,142	3,912,999

	NOTES	Six months ended	
		30 June 2017 HK\$'000 (Unaudited)	30 June 2016 HK\$'000 (Unaudited)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		1,979,156	(384,765)
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD – as stated in the condensed consolidated statement of financial position		956,675	3,040,911
Effect of foreign exchange rate changes, net		30,977	(16,589)
CASH AND CASH EQUIVALENTS AT END OF THE PERIOD		2,966,808	2,639,557

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2017

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.

2. Basis of Preparation (continued)

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

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 maker. The chief operating decision maker is the person or group that allocates resources to and assesses the performance of the operating segments of an entity. The Company has determined the members of the Executive Committee as its chief operating decision maker.

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

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

3. Operating Segment Information (continued)

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 HK\$'000	Corporate finance HK\$'000	Asset management and direct investment HK\$'000	Total HK\$'000
Segment revenue				
Revenue from external customers	188,278	192,865	484,138	865,281
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
	190,406	193,069	1,023,239	1,406,714
Segment results	171,884	186,232	996,977	1,355,093
Finance costs				(481,038)
Other unallocated income and gains or losses, net				(82,088)
Other unallocated expenses, net				(73,130)
Profit before tax				718,837
Income tax expense				(118,784)
Profit for the period				600,053

3. Operating Segment Information (continued)

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				284,925
Income tax expense				(67,204)
Profit for the period				217,721

3. Operating Segment Information (continued)

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

	As at 30 June 2017 HK\$'000 (Unaudited)	As at 31 December 2016 HK\$'000 (Audited)
Securities	4,670,805	7,463,761
Corporate finance	111,038	89,897
Asset management and direct investment	24,251,002	14,555,346
Total segment assets	29,032,845	22,109,004
Deferred tax assets	100	300
Other unallocated assets	3,289,091	175,423
Total assets	32,322,036	22,284,727
Securities	686,711	2,957,135
Corporate finance	89	110
Asset management and direct investment	1,357,230	424,830
Total segment liabilities	2,044,030	3,382,075
Tax payable	171,111	76,747
Deferred tax liabilities	120,837	99,251
Other unallocated liabilities	26,706,352	17,439,713
Total liabilities	29,042,330	20,997,786

3. Operating Segment Information (continued)

Geographical information:

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

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

	Revenue from external customers		Specific non-current assets	
	Six months ended		As at	
	30 June 2017	30 June 2016	30 June 2017	31 December 2016
	HK\$'000 (Unaudited)	HK\$'000 (Unaudited)	HK\$'000 (Unaudited)	HK\$'000 (Audited)
Hong Kong	817,170	227,692	39,654	28,004
PRC	48,111	–	13,318	–
	865,281	227,692	52,972	28,004

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:

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

5. Other Income and Gains or Losses, Net

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

	Six months ended	
	30 June 2017 HK\$'000 (Unaudited)	30 June 2016 HK\$'000 (Unaudited)
Bank interest income	8,766	11,300
Foreign exchange differences, net	(32,449)	2,598
Fair value losses on financial liabilities at fair value through profit or loss	(22,156)	(14,847)
Others	16	(787)
	(45,823)	(1,736)

6. Disposal of a Subsidiary

The Group disposed a subsidiary, Brilliant Focus Limited on 17 February 2017, on which date 100% equity interest of Brilliant Focus Limited passed to the acquirer, for a consideration of RMB1,000,000 (equivalent to approximately HK\$1,130,000).

Analysis of assets and liabilities over which control was lost:

	17 February 2017 HK\$'000 (Unaudited)
Intangible asset	1,462
Net assets disposed of	1,462
	HK\$'000
Consideration received:	
Cash received	1,130
Total consideration received	1,130
Loss on disposal of a subsidiary	
Consideration received	1,130
Net assets disposed of	(1,462)
	(332)

7. Finance Costs

An analysis of finance costs is as follows:

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

8. Profit Before Tax

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

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

9. 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.

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

10. 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:

	Six months ended	
	30 June 2017 HK\$'000 (Unaudited)	30 June 2016 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	584,149	217,721
Effect of dilutive potential ordinary shares:		
Interest on convertible notes	–	54
Earnings for the purpose of diluted earnings per share	584,149	217,775

	Number of shares	
	1 January 2017 to 30 June 2017 '000	1 January 2016 to 30 June 2016 '000 (Restated)
Number of shares		
Weighted average number of ordinary shares for the purpose of basic earnings per share	3,537,788	3,357,156
Effect of dilutive potential ordinary shares on convertible notes issued	–	1,990
Weighted average number of ordinary shares for the purpose of diluted earnings per share	3,537,788	3,359,146

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.

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

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

11. 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. 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.

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.

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

Notes: (continued)

- (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.
- (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.

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

Notes: (continued)

- (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.

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. 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%. 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.

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

Notes: (continued)

(v) (continued)

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 to First-Tier Limited Partner of the SCI Fund. 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. 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.

12. 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
Non-current:		
Listed equity investments, at fair value	1,522,967	–
Listed debt investments, at fair value	4,572,040	–
Unlisted fund investments, at fair value (note)	2,809,184	–
Unlisted equity investments, at fair value	1,119,471	–
	10,023,662	4,339,012

Note: The Group invested in investment funds. These investment funds mainly invest in 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: 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: nil).

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

13. 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 investment 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

13. Investments Accounted for Using the Equity Method and Amount Due from an Associate (continued)

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: 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: 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: 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.

14. Other Loans and Advances

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

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) represent 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.

14. Other Loans and Advances (continued)

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. The Group has extended the maturity date of the guaranteed notes for 1 year to 7 August 2018.

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".

Movements in the provision for impaired debts are as follows:

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

Other loans and advances are netted off by provision for impaired debts of approximately HK\$50,161,000 (31 December 2016: approximately 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.

15. Advances to Customers in Margin Financing

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

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:

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

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

16. Accounts Receivable

	30 June 2017 HK\$'000 (Unaudited)	31 December 2016 HK\$'000 (Audited)
Accounts receivable 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
	79,613	684,800
Provision for impairment	(237)	(223)
	79,376	684,577

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

	30 June 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
	79,376	684,577

16. Accounts Receivable (continued)

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 for impairment losses, net	14	3
At end of period/year	237	223

17. Restricted Bank Balances

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

18. Cash and Cash Equivalents and Pledged Bank Deposits

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

19. Accounts Payable

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.

20. 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	–
Non-current portion:		
Loans from an intermediate holding company	19,386,403	11,634,000
	27,906,828	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 HK\$11,634,000,000)) from China Huarong International Holdings Limited (“CHIH”) and RMB500,000,000 (equivalent to approximately HK\$574,600,000) (31 December 2016: 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: 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: 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 HK\$7,945,825,000 (31 December 2016: HK\$5,620,480,000) of these banking facilities. Letters of comfort (“Comfort Letters”) were issued by China Huarong Asset Management Co., Ltd. (“China Huarong”), the controlling shareholder of the Company for Group’s banking facilities to the extent of approximately HK\$8,582,100,000 (31 December 2016: approximately HK\$5,857,980,000). Under the Comfort Letters, as long as the facilities remain outstanding, China Huarong has undertaken to, among others, maintain its status as the Company’s controlling shareholder holding at least 51% of the issued share capital of the Company.

21. Share Capital

	Number of shares '000	Total value HK\$'000
Authorised		
Ordinary shares of HK\$0.001 each at 31 December 2016 and 30 June 2017	1,000,000,000	1,000,000
Issued and fully paid		
At 1 January 2016 (audited)	3,278,108	3,278
Issue of new shares upon conversion of convertible notes (note (a))	60,000	60
At 31 December 2016 and 1 January 2017 (audited)	3,338,108	3,338
Shares issued upon rights issue (note (b))	250,358	250
At 30 June 2017 (unaudited)	3,588,466	3,588

Notes:

- (a) 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.
- (b) The rights issue on the basis of 1.5 rights shares for every 20 existing shares held on the record date of 11 January 2017 became unconditional on 6 February 2017. On 10 February 2017, the Company issued and allotted 250,358,093 rights shares at HK\$2.63 per rights share and successfully raised net proceeds of approximately HK\$652,032,000 for expanding and developing the securities and direct investment business.

22. Financial Assets Sold Under Repurchase Agreements

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

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.

23. Perpetual Capital Securities Classified as Equity Instruments

	Principal HK\$'000	Distribution HK\$'000	Total HK\$'000
Balance at 1 January 2017 (audited)	–	–	–
Issuance of perpetual capital securities (Note)	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. The perpetual capital securities are classified as equity instruments, there is no maturity of the instruments and the payments of distribution can be deferred at the discretion of the Company. When the Company elects to distribute, the distribution to the holder of perpetual capital securities shall be made at the distribution rate as set out in the subscription agreement.

24. 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 four years (31 December 2016: one to four years), and those for office equipment are for terms of five years (31 December 2016: 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 2017 HK\$'000 (Unaudited)	31 December 2016 HK\$'000 (Audited)
Within one year	50,903	43,841
In the second to fifth years, inclusive	91,581	99,741
	142,484	143,582

25. 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 2017 HK\$'000 (Unaudited)	30 June 2016 HK\$'000 (Unaudited)
Short term employee benefit	3,711	2,800

- (b) During the period ended 30 June 2017, the Group had the following material transactions with related parties:

	Six months ended	
	30 June 2017 HK\$'000 (Unaudited)	30 June 2016 HK\$'000 (Unaudited)
Interest expenses to the intermediate holding company (Note (i))	364,316	200,115
Interest expense to the ultimate holding company (Note (ii))	19,660	–
Underwriting income from the ultimate holding company	–	11,197
Underwriting income from the fellow subsidiary (Note (iii))	5,952	–
Consultancy fee income from an associate (Note (iv))	7,786	–
Interest income from an associate (Note (v))	11,507	–
Interest income from a related party (Note (vi))	17,517	–

25. Related Party Transactions (continued)

(b) (continued)

Notes:

- (i) During the period, CHIH, the intermediate holding company provided an aggregate amount of approximately US\$2,483,526,000 (31 December 2016: US\$1,500,000,000), approximately HK\$19,386,403,000 (31 December 2016: approximately HK\$11,634,000,000) Company Loans. The loans bear annual interest rate ranging from 3.85% to 6.02% (31 December 2016: 3.85% to 6.02% per annum) and repayable in one to ten years (31 December 2016: three to ten years). Approximately HK\$210,606,881 (31 December 2016: HK\$142,817,000) interest payables are incurred from the loans as at 30 June 2017.
- (ii) During the period, China Huarong, the ultimate holding company provided an aggregate amount of RMB860,000,000 (31 December 2016: nil) Company Loans, approximately HK\$990,875,000 (31 December 2016: nil) Company Loans. The loans bear annual interest rate ranging from 5.7% to 6.1% (31 December 2016: nil per annum) and repayable in one year (31 December 2016: nil). RMB360,000,000, which is approximately HK\$416,275,000 was repaid on 22 March 2017.
- (iii) During the period, the Group earned underwriting income from its fellow subsidiary, Huarong Finance 2017 Co. Ltd, in respect of the issuance of medium term notes. The total amount represented continuing connected transactions.
- (iv) During the period, the Group earned consultancy fee income from its associate, Hua Rong Bo Run International Investment Holdings Ltd., in respect of the term loan facility.
- (v) During the period, the Group provided an aggregate amount of US\$200,000,000 (31 December 2016: nil) Company Loans, approximately HK\$1,561,200,000 (31 December 2016: nil) to Hua Rong Bo Run International Investment Holdings Ltd. The loans bear annual interest rate at 7% and repayable in five to seven years.
- (vi) During the period, the Group provided an aggregate amount of HK\$500,000,000 (31 December 2016: nil) to Eagle Shine Enterprises Limited, a wholly-owned subsidiary of China Tian Yuan Finance Group (Holdings) Limited. The loan bears annual interest rate at 7% and repayable in one year.

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 2017. 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 but not limited to receiving loan facilities, rendering underwriting services. The Group is of opinion that these transactions are in normal business terms that do not require separate disclosure.

26. Fair Value and Fair Value Hierarchy of Financial Instruments

Fair value of the Group's financial assets (liabilities) that 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 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 is 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).

An analysis of the Group's financial assets (liabilities) measured at fair value as at 30 June 2017 and 31 December 2016 are as follows:

	Fair value as at 30 June 2017 HK\$'000	Fair value as at 31 December 2016 HK\$'000	Fair value hierarchy	Valuation technique(s) and key input(s)	Significant unobservable inputs	Reasonable change in key inputs +/-	Increase (decrease) in fair value of financial instruments by reasonable changes in significant inputs
Financial assets							
1) Financial assets classified as held for trading	Listed equity securities: – HK\$552,043	Listed equity securities: – HK\$545,705	Level 1	Note (a)	N/A	N/A	N/A
2) Financial asset classified as available-for-sale investments	Listed bond securities and preference shares: – HK\$6,030,594	Listed bond securities and preference shares: – HK\$4,322,147	Level 1	Note (a)	N/A	N/A	N/A
3) Financial assets classified as available-for-sale investments	Listed bond securities – HK\$64,413	Listed bond securities – HK\$16,865	Level 2	Note (b)	N/A	N/A	N/A
4) Financial assets classified as available-for-sale investments	Unlisted preference shares – HK\$907,429	–	Level 3	Note (d)	Discount rate	10%	Increase/decrease in discount rate: HK\$(520,000)/ HK\$521,000

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

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

	Fair value as at 30 June 2017 HK\$'000	Fair value as at 31 December 2016 HK\$'000	Fair value hierarchy	Valuation technique(s) and key input(s)	Significant unobservable inputs	Reasonable change in key inputs +/-	Increase (decrease) in fair value of financial instruments by reasonable changes in significant inputs
Financial assets (continued)							
5) Financial assets classified as available-for-sale investments	Unlisted shares – HK\$212,042	–	Level 3	Note (h)	Liquidity discount	10%	Increase/decrease in liquidity discount: HK\$(21,204,000)/ HK\$21,204,000
6) Financial assets classified as available-for-sale investments	Unlisted fund – HK\$2,809,184	–	Level 3	Note (g)	Discount rate	10%	Increase/decrease in discount rate: HK\$(255,380,000)/ HK\$312,132,000
7) Financial assets designated at fair value through profit or loss	Unlisted convertible bonds with put option: – HK\$427,590	Unlisted convertible bonds with put option: – HK\$385,783	Level 3	Note (c)	Volatility of 31.09% (2016: 33.40%) Discount rate 21.06% (2016: 23.29%)	10% (volatility ranging from 27.98% to 34.2% (2016: 30.06% to 36.74%)) 10% (discount rate ranging from 18.95% to 23.17% (2016: 20.96% to 25.62%))	Increase/decrease in volatility: HK\$60,000/ HK\$50,000 (2016: HK\$(45,000)/ HK\$(13,000)) Decrease/increase in discount rate: HK\$2,869,000/ HK\$(2,797,000) (2016: HK\$6,648,000/ HK\$(6,409,000))
8) Financial assets designated at fair value through profit or loss	Unlisted convertible bonds and convertible notes: – HK\$1,345,705	Unlisted convertible bonds and convertible notes: – HK\$1,373,467	Level 3	Note (c)	Volatility ranging from 37.59% to 39.55% (2016: 39.31% to 50.56%) Discount rates ranging from 15.23% to 27.68% (2016: 17.62% to 28.70%)	10% (volatility ranging from 33.83% to 43.5% (2016: 35.38% to 55.62%)) 10% (discount rate ranging from 13.71% to 30.45% (2016: 15.86% to 31.57%))	Decrease/increase in volatility: HK\$(5,583,000)/ HK\$6,479,000 (2016: HK\$(10,669,000)/ HK\$9,027,000) Decrease/increase in discount rate: HK\$12,025,000/ HK\$(11,720,000) (2016: HK\$22,861,000/ HK\$(18,728,000))

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

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

	Fair value as at 30 June 2017 HK\$'000	Fair value as at 31 December 2016 HK\$'000	Fair value hierarchy	Valuation technique(s) and key input(s)	Significant unobservable inputs	Reasonable change in key inputs +/-	Increase (decrease) in fair value of financial instruments by reasonable changes in significant inputs
Financial assets (continued)							
9) Financial assets designated at fair value through profit or loss	Unlisted put option: – HK\$22,445	Unlisted put option: – HK\$49,343	Level 3	Note (c)	Volatility ranging from 21.62% to 55% (2016: 40.19%)	10% (volatility ranging from 19.46% to 60.5% (2016: 36.17% to 44.21%))	Increase/decrease in volatility: HK\$3,181,000/ HK\$(2,994,000) (2016: HK\$5,099,000/ HK\$(5,043,000))
10) Financial assets designated at fair value through profit or loss	Listed equity securities: – HK\$560,775	Listed equity securities: – HK\$659,712	Level 1	Note (a)	N/A	N/A	N/A
Financial liabilities							
1) Non-controlling interests of unlisted consolidated investment funds Financial liabilities designated as at fair value through profit or loss	Non-controlling interests in consolidated investment fund: – HK\$92,348	Non-controlling interests in a consolidated investment fund: – HK\$256,734	Level 2	Note (e)	N/A	N/A	N/A
2) Non-controlling interests of unlisted consolidated investment funds Financial liabilities designated as at fair value through profit or loss	Non-controlling interests in consolidated investment fund: – HK\$142,243	Non-controlling interests in consolidated investment fund: – HK\$166,743	Level 3	Note (f)	Volatility of 37.97% (2016: 39.31%) Discount rate of 15.23% (2016: 17.62%)	10% (volatility ranging from 34.17% to 41.77% (2016: 35.38% to 43.24%)) 10% (discount ranging from 13.71% to 16.75% (2016: 15.86% to 19.38%))	Increase/decrease in volatility: HK\$1,959,000/ HK\$(1,975,000) (2016: HK\$1,669,000/ HK\$(1,790,000)) Decrease/increase in discount rate: HK\$2,732,000/ HK\$(2,701,000) (2016: HK\$(4,000,000)/ HK\$4,107,000)

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

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

Notes:

- (a) Quoted bid price in an active market.
- (b) The fair value was determined with reference to the recent transaction price of the investment.
- (c) 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.
- (d) The fair value was determined by adopting the discounted cash flows model. The key inputs are distribution rate, discount rate which reflects the credit risk of the issuer.
- (e) Share of net asset value based on (i) the fair value of underlying investments which are publicly traded equity investments and (ii) the terms of the consolidated investment funds.
- (f) Share of net asset value based on (i) the fair value of unlisted convertible investments and (ii) the terms of the consolidated investment fund.
- (g) The Group has determined that the reported net asset value represents fair value at the end of the reporting period. The key inputs are fair value of underlying unlisted debt investments determined by discounted cash flows model.
- (h) The Group has determined that the fair value at the end of the reporting period by using market approach. The key inputs are price-earnings ratio of comparable listed companies and a discount reflecting the lack of liquidity.

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.

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

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

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

	30 June 2017 HK\$'000 (Unaudited)	30 June 2016 HK\$'000 (Unaudited)
Financial assets designated at fair value through profit or loss:		
At beginning of the period	1,808,593	315,806
Purchased during the period	–	892,595
Disposed during the period	(10,375)	–
Fair value (loss) gain recognised on financial asset designated at fair value through profit or loss	(2,478)	555,110
At end of the period	1,795,740	1,763,511
Financial assets classified as available-for-sale investments:		
At beginning of the period	–	–
Purchased during the period	3,927,831	–
Total gains in other comprehensive income	824	–
At end of the period	3,928,655	–
Financial liabilities designated at fair value through profit or loss:		
At beginning of the period	166,743	–
Net gains during the period	40,348	65,259
Distribution to second-tier limited partners of consolidated investment fund during the period	(64,848)	–
Contribution from second-tier limited partners of consolidated investment fund during the period	–	81,860
At end of the period	142,243	147,119

27. 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 of the Company consider that HISL has a defence of merit and will therefore direct HISL to defend the alleged claims. There was no substantial progress or development to the Action as at 30 June 2017.

28. Events After the End of the Reporting Period

The Group has entered several discloseable transactions as defined in the Listing Rules after the period ended 30 June 2017, details of which are set out in the relevant announcements published on the websites of the Stock Exchange and the Company.

SUPPLEMENTARY INFORMATION

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

As at 30 June 2017, 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 which were required to be and were 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 (the "Model Code") as set out in Appendix 10 to the Listing Rules.

Share Option Scheme

On 9 September 2011, the Company adopted a new share option scheme (the "Scheme") to replace the old share option scheme and, unless otherwise cancelled or amended, the Scheme will remain in force for 10 years from that date. The purpose of the Scheme is to provide eligible participants with an additional incentive by offering them an opportunity to obtain equity interest in the Company and to reward them for contributing to the long-term success of the business of the Group.

The total number of shares in respect of which options may be granted under the Scheme must not exceed 10% of the shares of the Company in issue at any point in time, without prior approval from the shareholders of the Company. The maximum number of shares issuable under share options to each eligible participant in the Scheme within any 12-month period is limited to 1% of the shares of the Company in issue at the exercise date. Any further grant of share options in excess of this limit is subject to shareholders' approval in a general meeting.

Share options to be granted to a director, chief executive or substantial shareholder of the Company, or to any of their associates, are subject to approval in advance by the independent non-executive directors of the Company. In addition, any share option granted to a substantial shareholder or an independent non-executive director of the Company, or to any of their associates, in excess of 0.1% of the shares of the Company in issue at any time or with an aggregate value (based on the price of the Company's shares on the date of grant) in excess of HK\$5 million, within any 12-month period, must be approved by the shareholders in advance in a general meeting.

The offer of a grant of share options may be accepted within 21 days from the date of offer, upon payment of a nominal consideration of HK\$1 in total by the grantee. The exercise period of the share options granted is determinable by the directors of the Company, and commences after a certain vesting period and ends on a date which is not later than 10 years from the date of offer of the share options.

Share Option Scheme (continued)

The subscription price of the share options is determined by the directors of the Company, but must be at least the higher of (i) the Stock Exchange closing price of the Company's shares on the date of grant which must be a business day; and (ii) the average Stock Exchange closing price of the Company's shares for the five trading days immediately preceding the date of grant.

No share options were granted or outstanding under the Scheme during the six months ended 30 June 2017. As at the date of this report, the number of share options available for issue under the Scheme was 327,810,791, representing approximately 9.14% of the total issued shares of the Company as at the date of this report. A summary of the principal terms of the Scheme is set out in Appendix I to the circular of the Company dated 11 August 2011.

Interests and Short Positions of Substantial Shareholders

As at 30 June 2017, so far as was known to the Directors and the chief executive of the Company, the following persons or corporations (other than a Director or chief executive of the Company) who had interests and/or short positions in the shares and underlying shares of the Company which would be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company under section 336 of the SFO:

Name of shareholder	Capacity/ Nature of interest	Long position/ Short position	Number of shares held	Approximate percentage of the issued share capital of the Company
China Huarong Asset Management Co., Ltd. ("China Huarong") (Note 1)	Interests in controlled corporation	Long position	1,830,117,664	51.00%
China Huarong International Holdings Limited ("CHIH") (Note 1)	Interests in controlled corporation	Long position	1,830,117,664	51.00%
Camellia Pacific Investment Holding Limited ("Camellia")	Beneficial owner	Long position	1,830,117,664	51.00%

Interests and Short Positions of Substantial Shareholders (continued)

Name of shareholder	Capacity/ Nature of interest	Long position/ Short position	Number of shares held	Approximate percentage of the issued share capital of the Company
Hero Link Enterprises Limited ("Hero Link") (Note 2)	Beneficial owner	Long position	129,000,000	3.59%
China Tian Yuan International Finance Limited ("Tian Yuan Int'l") (Note 2)	Beneficial owner Interests in controlled corporation	Long position Long position	646,220,529 129,000,000	18.01% 3.59%
China Tian Yuan Finance Group (Holdings) Limited ("Tian Yuan Group") (Note 2)	Interests in controlled corporation	Long Position	775,220,529	21.60%
Tong Liang (Note 3)	Interests in controlled corporation	Long Position Short Position	111,081,000 111,081,000	3.10% 3.10%
Tong Liang	Beneficial owner	Long Position Short Position	60,120,000 15,247,000	1.68% 0.42%

Notes:

- 1,830,117,664 shares of the Company 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 of the Company beneficially owned by Camellia by virtue of the SFO.
- Tian Yuan Group was deemed or taken to be interested in (i) 129,000,000 shares of the Company held by Hero Link which is held as to 82% by Tian Yuan Int'l; and (ii) 646,220,529 shares of the Company held by Tian Yuan Int'l. Tian Yuan Int'l is a wholly-owned subsidiary of Tian Yuan Group which, in turn wholly-owned by Mr. Jia Tianjiang. By virtue of the SFO, Tian Yuan Int'l, Tian Yuan Group, Mr. Jia Tianjiang and his spouse Ms. Dong Jufeng were deemed or taken to be interested in 775,220,529 shares of the Company.
- Super Century Investments Limited was interested in 111,081,000 shares of the Company. Super Century Investments Limited was wholly-owned by Mr. Tong Liang. Therefore, Mr. Tong Liang was deemed to have interests in the shares of the Company 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 and/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 2017.

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 who resigned from the directorship after the conclusion of such annual general meeting, 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.

Changes in Information of Directors

Pursuant to Rule 13.51(B) of the Listing Rules, the changes in information of Directors of the Company subsequent to the date of the 2016 Annual Report of the Company are as follows:

- (i) Mr. Wang Qiang ("Mr. Wang"), who was appointed as an executive Director and the Chief Executive Officer of the Company on 20 February 2017, was re-designated as the Chairman of the Company on 13 April 2017. Following his re-designation, Mr. Wang ceased to be a member of the Risk Management Committee, and was appointed as the chairman of the Executive Committee and a member of the Nomination Committee of the Company; and
- (ii) Ms. Wang Wei, an executive Director and an Assistant to the Chief Executive Officer of the Company, was promoted as a Deputy Chief Executive Officer of the Company with effect from 12 May 2017.

Further details of the above are set out in the announcements of the Company dated 13 April 2017 and 12 May 2017, respectively.

Disclosure Pursuant to Rule 13.21 of the Listing Rules

As at 30 June 2017, details of existing banking facilities with covenants relating to specific performance of the Company's controlling shareholder which constitute disclosure obligation pursuant to Rule 13.21 of the Listing Rules are as follows:

Date of Agreements	Nature of Agreements	Aggregate Amount	Life of the Facility	Specific Performance Obligations
23 September 2016	Revolving loan facilities with a bank	HK\$700,000,000	No fixed term and repayable on demand by the bank	Note 1
4 October 2016	Term loan facility with a bank	US\$50,000,000	Maximum term of one year (subject to the bank's review from time to time)	Note 2
27 October 2016	Term loan facility and dual currency revolving loan facility with a syndicate of banks and financial institutions	HK\$3,000,000,000	Both facilities have a term of one year which is renewable for another year	Note 3
14 November 2016	Revolving short term advance facility with a bank	US\$30,000,000	No fixed term and repayable on demand by the bank	Note 4
28 November 2016	Revolving loan facility with a bank	US\$100,000,000	Term of one year, extendable for another year at the bank's sole discretion	Note 5
15 December 2016	Revolving loan facility with a bank	US\$50,000,000	No fixed term and repayable on demand by the bank	Note 6
21 December 2016	Term loan facility with a bank	HK\$400,000,000	Term of one year from acceptance of the facility letter	Note 6
30 December 2016	Term loan facility with a bank	HK\$700,000,000	Term of one year from acceptance of the facility letter	Note 6
22 February 2017	Revolving loan facility with a bank	US\$80,000,000	No fixed term and repayable on demand by the bank	Note 6
21 June 2017	Term loan facility with a bank	HK\$1,050,000,000	Term of one year from acceptance of the facility letter	Note 7
29 June 2017	Revolving credit facility with a bank	US\$40,000,000	No fixed term and repayable on demand by the bank	Note 8

Disclosure Pursuant to Rule 13.21 of the Listing Rules (continued)

Notes:

1. China Huarong is required to maintain majority interest in the borrower (which is an indirect wholly-owned subsidiary of the Company) throughout the term of the facility letter. The Company will be in breach of the facility letter should China Huarong, during the term of such facility letter, cease to maintain, directly or indirectly, majority interest in the borrower, and the bank may require the borrower to repay the facilities immediately.
2. The Company is required to procure the undertaking that the Ministry of Finance of the People's Republic of China (the "MOF") shall remain as a controlling shareholder of China Huarong, and China Huarong shall remain as a controlling shareholder of the Company directly or indirectly. The Company would be in breach of the facility letter if during the term of the facility: (i) China Huarong ceases to retain the status as a controlling shareholder of the Company directly or indirectly; and/or (ii) the MOF ceases to remain as a controlling shareholder of China Huarong, and the bank may require the Company to repay the facility immediately.
3. As long as the facility remains outstanding, China Huarong undertakes to (i) maintain its status as the Company's controlling shareholder, (ii) will not take any action which will cause the Company to become unable to perform any or all of the repayment obligations to the lenders in the relevant facility agreement; (iii) use its best endeavors to cause the Company to perform its repayment obligations; and (iv) cause the Company to provide its annual financial reports to the lead arranger. The Company shall repay the facility immediately should China Huarong (a) cease to own at least 51% of the issued share capital of the Company; (b) terminate, revoke or repudiate the comfort letter issued by it.
4. As long as the facility remains outstanding, China Huarong undertakes to maintain its status as the Company's controlling shareholder. In addition, the Company shall be directly or indirectly at least 51% beneficially owned and controlled by China Huarong, which in turn shall have the MOF as its controlling shareholder.
5. As long as the facility remains outstanding, China Huarong undertakes to maintain its status as the Company's controlling shareholder. In addition, the Company shall be beneficially owned and controlled by China Huarong, either directly or indirectly, as to at least 51% throughout the life of the facility.
6. As long as the facility remains outstanding, China Huarong has undertaken to, among others, maintain its status as the Company's controlling shareholder.
7. The Company shall repay the facility immediately should China Huarong (a) cease to own at least 51% of the issued share capital of the Company; (b) terminate, revoke or repudiate the comfort letter issued by it; or (c) cease to provide shareholder loans to the Group in the aggregate principal amount of not less than US\$500,000,000.
8. During the term of the facility letter, the Company shall be directly or indirectly at least 51% beneficially owned and controlled by China Huarong, which in turn shall have the MOF as its controlling shareholder. In addition, China Huarong shall maintain the absolute management control over the Company.

Details of the above mentioned banking facilities are set out in the announcements of the Company dated 23 September 2016, 4 October 2016, 27 October 2016, 14 November 2016, 28 November 2016, 15 December 2016, 21 December 2016, 30 December 2016, 22 February 2017, 21 June 2017 and 29 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.



華融國際金融控股有限公司

HUARONG INTERNATIONAL FINANCIAL HOLDINGS LIMITED