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華融國際金融控股有限公司

HUARONG INTERNATIONAL FINANCIAL HOLDINGS LIMITED

(Incorporated in Bermuda with limited liability)

(Stock Code: 993)

FINAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2017

The board (the “**Board**”) of directors (the “**Directors**”) of Huarong International Financial Holdings Limited (the “**Company**”) is pleased to present to its shareholders the consolidated results of the Company and its subsidiaries (the “**Group**”), which is extracted from the audited consolidated financial statements for the year ended 31 December 2017, together with the comparative figures for the year ended 31 December 2016 as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the year ended 31 December 2017

	Notes	Year ended	
		31 December 2017 HK\$'000	31 December 2016 HK\$'000
Revenue	5	2,023,030	727,066
Net gains on financial assets at fair value through profit or loss	5	756,502	674,963
Gain on disposal of available-for-sale investments	5	55,358	–
		2,834,890	1,402,029
Other income and gains or losses, net		(144,210)	(27,659)
Brokerage and commission expenses		(10,375)	(8,571)
Administrative and other operating expenses		(288,907)	(170,346)
Net gain on deemed disposal of a joint venture entity	13	200,705	–
Net loss on disposal of subsidiaries		(292)	–
Provision for impairment of other loans and advances	14	(140,129)	(50,077)
Provision for impairment of amount due from an associate	13	(30,916)	–
Net reversal of impairment of advances to customers in margin financing and accounts receivable		374	625
Finance costs	7	(1,158,237)	(449,148)
Share of result of associates	13	1,126	–

	<i>Notes</i>	Year ended	
		31 December 2017 HK\$'000	31 December 2016 HK\$'000
Profit before tax	6	1,264,029	696,853
Income tax expense	8	(258,386)	(145,939)
Profit for the year		<u>1,005,643</u>	<u>550,914</u>
Profit for the year attributable to:			
Owners of the Company		964,093	550,914
Holder of perpetual capital securities		41,550	–
		<u>1,005,643</u>	<u>550,914</u>
Earnings per share attributable to owners of the Company	10		
— Basic		<u>HK27.06 cents</u>	<u>HK16.41 cents</u>
— Diluted		<u>N/A</u>	<u>HK16.40 cents</u>

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2017

		Year ended	
	<i>Notes</i>	31 December 2017 HK\$'000	31 December 2016 HK\$'000
Profit for the year		1,005,643	550,914
Other comprehensive income (expense)			
Items that may be reclassified subsequently to profit or loss:			
Fair value loss on available-for-sale investments	12	(5,039)	(25,347)
Reclassification adjustments relating to disposal of available-for-sale investments during the year	12	(55,358)	–
Exchange differences on translation of foreign operations:			
Exchange differences arising from subsidiaries during the year		10,458	(228)
Exchange differences on translation of:			
— Financial statements of associates		477	–
Other comprehensive expense for the year, net of tax		(49,462)	(25,575)
Total comprehensive income for the year		956,181	525,339
Total comprehensive income for the year attributable to:			
Owners of the Company		914,631	525,339
Holder of perpetual capital securities		41,550	–
		956,181	525,339

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2017

	Notes	2017 HK\$'000	2016 HK\$'000
Non-current assets			
Property and equipment		22,027	18,512
Other long term assets		5,250	4,525
Prepayments, deposits and other receivables		20,478	–
Intangible assets		3,316	4,778
Available-for-sale investments	12	7,611,244	–
Financial assets at fair value through profit or loss	11	4,896,282	1,078,852
Other loans and advances	14	5,153,625	2,217,463
Deferred tax assets		8,522	300
Investments accounted for using the equity method	13	18,665	190
Amount due from an associate	13	1,532,328	–
Total non-current assets		<u>19,271,737</u>	<u>3,324,620</u>
Current assets			
Advances to customers in margin financing	15	4,948,219	4,236,463
Accounts receivable	16	79,154	684,577
Interest receivable		184,435	34,400
Prepayments, deposits and other receivables		152,779	61,537
Available-for-sale investments	12	7,034,309	4,339,012
Financial assets at fair value through profit or loss	11	4,221,431	1,935,158
Other loans and advances	14	4,149,535	2,736,696
Amount due from a joint venture	13	–	660,000
Amount due from an associate	13	11,735	–
Restricted bank balances		848,591	3,315,589
Pledged bank deposits		1,898,063	–
Cash and cash equivalents		3,524,781	956,675
Total current assets		<u>27,053,032</u>	<u>18,960,107</u>
Current liabilities			
Accounts payable	17	3,758,807	2,942,458
Other liabilities, payables and accruals		454,578	200,702
Amount due to an associate		–	190
Interest-bearing borrowings	18	15,997,241	5,620,480
Tax payable		181,516	76,747
Financial liabilities at fair value through profit or loss	11	194,981	256,734
Financial assets sold under repurchase agreements		4,032,804	–
Total current liabilities		<u>24,619,927</u>	<u>9,097,311</u>

	<i>Notes</i>	2017 <i>HK\$'000</i>	2016 <i>HK\$'000</i>
Net current assets		<u>2,433,105</u>	<u>9,862,796</u>
Total assets less current liabilities		<u>21,704,842</u>	<u>13,187,416</u>
Non-current liabilities			
Other liabilities, payables and accruals		211,420	481
Deferred tax liabilities		166,102	99,251
Interest-bearing borrowings	18	17,040,736	11,634,000
Financial liabilities at fair value through profit or loss	11	<u>223,762</u>	<u>166,743</u>
Total non-current liabilities		<u>17,642,020</u>	<u>11,900,475</u>
Net assets		<u>4,062,822</u>	<u>1,286,941</u>
Capital and reserves			
Equity attributable to owners of the Company			
Share capital		3,588	3,338
Perpetual capital securities classified as equity investments		1,209,218	–
Share premium and reserves		<u>2,850,016</u>	<u>1,283,603</u>
Total equity		<u>4,062,822</u>	<u>1,286,941</u>

Notes:

1. GENERAL

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

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

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

2. BASIS OF PREPARATION

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

3. APPLICATION OF AMENDMENTS TO HKFRSs

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

Amendments to HKAS 7	Disclosure Initiative
Amendments to HKAS 12	Recognition of Deferred Tax Assets for Unrealised Losses
Amendments to HKFRS 12	As part of the Annual Improvements to HKFRSs 2014–2016 cycle

Amendments to HKAS 7 Disclosure initiative

The Group has applied these amendments for the first time in the current year. The amendments require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both cash and non-cash changes. In addition, the amendments also require disclosures on changes in financial assets if cash flows from those financial assets were, or future cash flows will be, included in cash flows from financing activities.

The application of the other amendments to HKFRSs in the current year has had no material impact on the Group’s financial performance and positions for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

4. OPERATING SEGMENT INFORMATION

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

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

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

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

(a) Operating segments

The following tables present the revenue and results for the years ended 31 December 2017 and 2016 and certain assets, liabilities and expenditure information for the Group's operating segments as at 31 December 2017 and 2016 and for the years then ended.

For the year ended 31 December 2017

	Securities HK\$'000	Corporate finance HK\$'000	Asset management and direct investment HK\$'000	Total HK\$'000
Segment revenue				
Revenue from external customers	401,230	314,361	1,307,439	2,023,030
Net gains on financial assets at fair value through profit or loss	-	-	756,502	756,502
Gain on disposal of available-for-sale investments	-	-	55,358	55,358
Other income and gains or losses, net	6,085	357	(121,527)	(115,085)
Administrative expenses and impairment of financial assets	(41,501)	(16,114)	(229,935)	(287,550)
Net gain on deemed disposal of a joint venture entity	-	-	200,705	200,705
Net loss on disposal of subsidiaries	-	-	(292)	(292)
Finance costs	(196,291)	-	(947,787)	(1,144,078)
Share of result of associates	-	-	1,126	1,126
Segment results	<u>169,523</u>	<u>298,604</u>	<u>1,021,589</u>	1,489,716
Other unallocated income and gains or losses, net				(29,125)
Other unallocated expenses				<u>(196,562)</u>
Profit before tax				1,264,029
Income tax expense				<u>(258,386)</u>
Profit for the year				<u>1,005,643</u>

For the year ended 31 December 2016

	Securities <i>HK\$'000</i>	Corporate finance <i>HK\$'000</i>	Asset management and direct investment <i>HK\$'000</i>	Total <i>HK\$'000</i>
Segment revenue				
Revenue from external customers	289,185	219,412	218,469	727,066
Net gains on financial assets at fair value through profit or loss	–	–	674,963	674,963
Other income and gains or losses, net	2,340	(2)	(44,918)	(42,580)
Administrative expenses and impairment of financial assets	(35,730)	(21,076)	(76,984)	(133,790)
Finance costs	(111,110)	(78)	(199,289)	(310,477)
Segment results	<u>144,685</u>	<u>198,256</u>	<u>572,241</u>	915,182
Other unallocated income and gains or losses, net				14,921
Other unallocated expenses				<u>(233,250)</u>
Profit before tax				696,853
Income tax expense				<u>(145,939)</u>
Profit for the year				<u>550,914</u>

As at 31 December 2017

	Securities <i>HK\$'000</i>	Corporate finance <i>HK\$'000</i>	Asset management and direct investment <i>HK\$'000</i>	Total <i>HK\$'000</i>
Segment assets	5,993,311	120,534	35,319,758	41,433,603
Deferred tax assets				8,522
Other unallocated assets (<i>note 1</i>)				<u>4,882,644</u>
Total assets				<u>46,324,769</u>
Segment liabilities	1,483,703	333,812	9,663,487	11,481,002
Tax payable				181,516
Deferred tax liabilities				166,102
Other unallocated liabilities (<i>note 2</i>)				<u>30,433,327</u>
Total liabilities				<u>42,261,947</u>

For the year ended 31 December 2017

	Securities HK\$'000	Corporate finance HK\$'000	Asset management and direct investment HK\$'000	Unallocated HK\$'000	Total HK\$'000
Other segment information:					
Interest income from margin financing activities	358,632	-	-	-	358,632
Interest income from other loans and advances	-	-	537,439	-	537,439
Interest income from amount due from an associate	-	-	67,677	-	67,677
Interest income from convertible bonds and convertible notes	-	-	72,764	-	72,764
Interest income from available-for-sale investments	-	-	304,221	-	304,221
Net gains on financial assets at FVTPL	-	-	756,502	-	756,502
Fair value loss on financial liabilities at FVTPL	-	-	(168,462)	-	(168,462)
Depreciation	(663)	(19)	(826)	(6,035)	(7,543)
Net reversal of impairment of advances to customers in margin financing and accounts receivable	374	-	-	-	374
Provision for impairment of other loans and advances	-	-	(140,129)	-	(140,129)
Provision for impairment of amount due from an associate	-	-	(30,916)	-	(30,916)
Additions of property and equipment	3,452	-	-	7,606	11,058
Investments accounted for using the equity method	-	-	18,665	-	18,665

As at 31 December 2016

	Securities HK\$'000	Corporate finance HK\$'000	Asset management and direct investment HK\$'000	Total HK\$'000
Segment assets	7,463,761	89,897	14,555,346	22,109,004
Deferred tax assets				300
Other unallocated assets (note 1)				175,423
Total assets				22,284,727
Segment liabilities	2,957,135	110	424,830	3,382,075
Tax payable				76,747
Deferred tax liabilities				99,251
Other unallocated liabilities (note 2)				17,439,713
Total liabilities				20,997,786

For the year ended 31 December 2016

	Securities HK\$'000	Corporate finance HK\$'000	Asset management and direct investment HK\$'000	Unallocated HK\$'000	Total HK\$'000
Other segment information:					
Interest income from margin financing activities	212,747	–	–	–	212,747
Interest income from other loans and advances	–	–	94,632	–	94,632
Interest income from convertible bonds and convertible notes	–	–	61,238	–	61,238
Interest income from available-for-sale investments	–	–	11,958	–	11,958
Net gains on financial assets at FVTPL	–	–	674,963	–	674,963
Fair value loss on financial liabilities at FVTPL	–	–	(47,436)	–	(47,436)
Depreciation	(330)	(19)	(19)	(2,733)	(3,101)
Net reversal of impairment of advances to customers in margin financing and accounts receivable	625	–	–	–	625
Provision for impairment of other loans and advances	–	–	(50,077)	–	(50,077)
Additions of property and equipment	–	–	–	18,194	18,194
Investments accounted for using the equity method	–	–	–	190	190

Note 1: The balance comprises bank balances of HK\$4,749,514,000 (2016: HK\$95,484,000), investments accounted for using the equity method of nil (2016: HK\$190,000), prepayments, deposits and other receivables of HK\$116,572,000 (2016: HK\$60,033,000), intangible assets of nil (2016: HK\$1,462,000) and property and equipment of HK\$16,558,000 (2016: HK\$18,254,000).

Note 2: The balance comprises other payables and accruals of HK\$290,539,000 (2016: HK\$185,233,000) and interest-bearing borrowings of HK\$30,142,788,000 (2016: HK\$17,254,480,000). These liabilities are not allocated to each segment above and not regularly reviewed by the Executive Committee while certain finance costs from these liabilities are relevant to its review and allocated to respective segments accordingly.

(b) Geographical information

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

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

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

	Revenue from external customers		Non-current assets	
	2017 HK\$'000	2016 HK\$'000	2017 HK\$'000	2016 HK\$'000
Hong Kong	1,860,163	727,066	56,040	28,005
PRC	162,867	–	13,696	–
	2,023,030	727,066	69,736	28,005

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

(c) Information about major customers

No customer contributed over 10% of total revenue of the Group for the year ended 31 December 2017 (2016: nil).

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

	Year ended	
	31 December	31 December
	2017	2016
	<i>HK\$'000</i>	<i>HK\$'000</i>
Revenue		
Securities:		
Commission income	23,228	22,959
Interest income from margin financing activities	358,632	212,747
Other service fee income	19,370	53,479
	<u>401,230</u>	<u>289,185</u>
Corporate finance:		
Consultancy, financial advisory fee and financing arrangement fee income	279,083	166,076
Placing, underwriting and sponsorship fee income	33,678	52,536
Other service income	1,600	800
	<u>314,361</u>	<u>219,412</u>
Asset management and direct investment:		
Dividend income	209,397	25,548
Interest income from other loans and advances	537,439	94,632
Interest income from amount due from an associate	67,677	–
Interest income from convertible bonds and convertible notes	72,764	61,238
Interest income from available-for-sale investments	304,221	11,958
Advisory, fund subscription and management fee income	54,495	24,177
Consultancy fee income	59,724	–
Other service income	1,722	916
	<u>1,307,439</u>	<u>218,469</u>
	2,023,030	727,066
Net gains on financial assets at fair value through profit or loss	756,502	674,963
Gain on disposal of available-for-sale investments	55,358	–
	<u>2,834,890</u>	<u>1,402,029</u>

6. PROFIT BEFORE TAX

	Year ended	
	31 December 2017 HK\$'000	31 December 2016 HK\$'000
The Group's profit before tax is arrived at after charging (crediting):		
Depreciation	7,543	3,101
Gain on disposal of items of property and equipment	(45)	–
Minimum lease payments under operating leases:		
Office premises	42,803	33,321
Office equipment	216	350
	43,019	33,671
Provision for reinstatement	2,281	402
Auditor's remuneration	3,205	2,380
Legal and professional fees	10,169	10,255
Directors' and chief executive's remuneration	8,743	7,477
Employee benefit expenses (excluding directors' and chief executive's remuneration):		
Salaries and other benefits*	117,249	71,634
Pension scheme contributions (defined contribution scheme)	2,469	1,887
Provision for (reversal of) long service payments, net	126	(746)
Provision for unused annual leaves	1,096	878

* Approximately HK\$114,000 (2016: HK\$77,000) was included in "Brokerage and commission expenses" in the consolidated statement of profit or loss.

7. FINANCE COSTS

	Year ended	
	31 December 2017 HK\$'000	31 December 2016 HK\$'000
Interest on bank borrowings	277,318	12,094
Interest on financial assets sold under repurchase agreements and other activities	19,284	–
Interest on borrowings from the intermediate holding company	814,555	437,000
Interest on borrowing from the ultimate holding company	47,080	–
Imputed interest expense on convertible notes	–	54
	1,158,237	449,148

8. 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 year.

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

	Year ended	
	31 December 2017 <i>HK\$'000</i>	31 December 2016 <i>HK\$'000</i>
Current tax:		
Hong Kong	186,384	60,503
PRC	13,412	–
	199,796	60,503
Overprovision in prior years:		
Hong Kong	(39)	–
Deferred tax	58,629	85,436
	258,386	145,939

9. DIVIDENDS

At a meeting of the Board held on 16 March 2018, the Board has resolved to pay a final dividend of HK1.70 cents per ordinary share in cash to shareholders for the year ended 31 December 2017 (2016: nil).

10. EARNINGS PER SHARE ATTRIBUTABLE TO OWNERS OF THE COMPANY

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

	Year ended	
	31 December	31 December
	2017	2016
	<i>HK\$'000</i>	<i>HK\$'000</i>
Earnings		
Profit for the year attributable to owners of the Company used as earnings for the purpose of basic earnings per share	964,093	550,914
Effect of dilutive potential ordinary shares:		
— Interest on convertible notes issued	—	54
	<u>964,093</u>	<u>550,968</u>
Earnings for the purpose of dilutive earnings per share	964,093	550,968
	Number of shares	
	2017	2016
	<i>'000</i>	<i>'000</i>
Number of shares		
Weighted average number of ordinary shares for the purpose of basic earnings per share	3,563,335	3,358,156
Effect of dilutive potential ordinary shares on		
— convertible notes issued	—	990
	<u>3,563,335</u>	<u>3,359,146</u>
Weighted average number of ordinary shares for the purpose of dilutive earnings per share	3,563,335	3,359,146

During the current year, there were no potential ordinary shares outstanding, no diluted earnings per share was presented accordingly.

11. FINANCIAL ASSETS (LIABILITIES) AT FAIR VALUE THROUGH PROFIT OR LOSS (“FVTPL”)

	2017 <i>HK\$'000</i>	2016 <i>HK\$'000</i>
Assets		
Non-current:		
Unlisted investments		
Convertible bonds and convertible notes, designated at FVTPL <i>(note (i) & (iii))</i>	2,136,536	1,078,852
Fund investments, designated at FVTPL <i>(note (iii))</i>	2,759,746	–
	<u>4,896,282</u>	<u>1,078,852</u>
Current:		
Listed investments		
Equity investments, at fair value <i>(note (iii))</i>		
– designated at FVTPL	2,177,419	659,712
– held for trading	705,662	545,705
Preference shares, designated at FVTPL <i>(note (iii))</i>	469,080	–
Debt investments, held for trading	101,209	–
	<u>3,453,370</u>	<u>1,205,417</u>
Unlisted investments		
Convertible bonds and convertible notes, designated at FVTPL <i>(note (i) & (iii))</i>	79,394	294,615
Convertible bonds with put option, designated at FVTPL <i>(note (ii) & (iii))</i>	398,302	385,783
Put options on listed equity investment, at fair value <i>(note (iv))</i>	272,852	49,343
Put options on unlisted equity investment, at fair value <i>(note (iv))</i>	17,513	–
	<u>768,061</u>	<u>729,741</u>
	<u>4,221,431</u>	<u>1,935,158</u>
Liabilities		
Current:		
Unlisted investments		
Payables to interest holders of unlisted consolidated investment funds, designated at FVTPL <i>(note (v))</i>	194,981	256,734
Non-current:		
Unlisted investments		
Payables to interest holders of unlisted consolidated investment fund, designated at FVTPL <i>(note (vi))</i>	223,762	166,743

- (i) On 3 February 2016, the Group set up a fund, Huarong International Asset Management Growth Fund LP (the “**Growth 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\$557,775,000 as at 31 December 2017 (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 18 May 2016, the Group acquired unlisted convertible bonds, with principal amount of US\$20,000,000, equivalent to approximately HK\$155,250,000, 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.

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\$757,472,000 as at 31 December 2017 (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 and the extension of maturity was mutually agreed on 8 August 2017. The fair value of the remaining convertible bonds amounted to approximately HK\$79,394,000 as at 31 December 2017 (2016: HK\$129,125,000), which was estimated by an independent firm of professional valuer.

On 4 December 2017, the Group acquired unlisted convertible bonds, with principal amount of HK\$800,000,000 issued by an independent party, a listed company in Hong Kong, bearing fixed interest rate payable semi-annually of 7% per annum for the period from and including the issue date up to and excluding the first anniversary of the issue date and 8% per annum for the period from the first anniversary of the issue date up to and including the maturity date, maturity on 3 December 2019 with conversion price of HK\$3.27 per share of the aforesaid listed company in Hong Kong. The fair value of the convertible bonds amounted to approximately HK\$821,289,000 as at 31 December 2017, which was estimated by an independent firm of professional valuer. The Group does not expect that the convertible bonds will be transferred to third parties by the Group within the next twelve months and has accordingly classified the convertible bonds as non-current assets.

- (ii) On 12 November 2015, the Group 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\$315,032,000 (2016: HK\$273,705,000) and the fair value of the put option amounted to approximately HK\$83,270,000 (2016: HK\$112,078,000) as at 31 December 2017, which was estimated by an independent firm of professional valuer.
- (iii) As at 31 December 2017, included in financial assets designated at fair value through profit or loss are unlisted fund investments of approximately HK\$2,760,000,000 which are mainly investments in a portfolio of fixed income products to achieve capital appreciation and investment returns in the medium to long term basis. The Group does not expect that these unlisted fund investments will be transferred to third parties by the Group within the next twelve months and has accordingly classified as non-current assets.

These unlisted fund investments together with unlisted convertible bonds and convertible notes, convertible bonds with put options, preference share and a portion of listed equity investments are designated at fair value through profit or loss, as the risks to the investments held by the Group are managed on a fair value basis as part of the Group's investment and holding strategy and the risk is reported to key management personnel on this basis.

- (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, an independent third party, to purchase a maximum of 190,798,000 shares of a listed company in Hong Kong at a range of pre-determined prices in a specific period. At the expiry date, the Group can sell all shares that 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\$49,213,000 as at 31 December 2017 (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, an independent third party, to purchase a maximum of 900,000 preference shares of an unlisted company in Hong Kong at a range of pre-determined prices in a specific period. 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\$17,513,000 as at 31 December 2017, which was estimated by an independent firm of professional valuer.

On 6 December 2017, the Group purchased listed securities together with a put option at an aggregated consideration of approximately HK\$181,073,000 which is presented in the current portion of listed equity investment as at year end. 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\$84,461,000 as at 31 December 2017, which was estimated by an independent firm of professional valuer.

On 18 December 2017, the Group purchased listed securities together with a put option at an aggregated consideration of approximately HK\$728,671,000 which is presented in the current portion of listed equity investment as at year end. 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\$135,622,000 as at 31 December 2017, which was estimated by an independent firm of professional valuer.

- (v) As at 31 December 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 at fair value through profit or loss of approximately HK\$80,105,000 as of 31 December 2016. In December 2017, the GCI Fund matured and was dissolved. The Group deconsolidated the GCI Fund accordingly.

As at 31 December 2017, a wholly-owned subsidiary of the Group held 65% interests in Paragon Resort Fund L.P. (the “**PRF Fund**”) as a limited partner (the “**First-Tier Limited Partner of the PRF Fund**”). According to the limited partnership agreement, at the end of the term of the PRF Fund, the First-Tier Limited Partner of the PRF Fund will be entitled to a priority return of its own capital contribution and a 8% preferred return; thereafter the second-tier limited partner is entitled to return of its own capital contribution. Thereafter, 60% and 40% of the residual amount of the consolidated investment fund will be distributed to First-Tier Limited Partner of the PRF Fund and second-tier limited partner, respectively. Accordingly, the interests of the second-tier limited partner in the consolidated investment fund are classified as financial liabilities designated at fair value through profit or loss of approximately HK\$51,121,000 as at 31 December 2017.

As at 31 December 2017, a wholly-owned subsidiary of the Group held 50% interests in Visual Dome Fund L.P. (the “**VD Fund**”) as a limited partner (the “**First-Tier Limited Partner of the VD Fund**”). According to the limited partnership agreement, at the end of the term of the VD Fund, the First-Tier Limited Partner of the VD Fund will be entitled to a priority return of its own capital contribution and a 10.5% preferred return; thereafter the second-tier limited partner is entitled to return of its own capital contribution. Thereafter, 20% and 80% of the residual amount of the consolidated investment fund will be distributed to First-Tier Limited Partner of the VD Fund and second-tier limited partner, respectively. Accordingly, the interests of the second-tier limited partner in the consolidated investment fund are classified as financial liabilities designated at fair value through profit or loss of approximately HK\$143,860,000 as at 31 December 2017.

As at 31 December 2016, a wholly-owned subsidiary of the Group held 60% interests in Huarong International South China Investment Fund Limited Partnership (the “**SCI Fund**”) as a limited partner (the “**First-Tier Limited Partner of the SCI Fund**”). Pursuant to the limited partnership agreement of the SCI Fund, the interests in the SCI Fund as a limited partner provide the Group with the return of capital equal to 100% of its total invested capital and a fixed proceed of 9% per annum return of its invested capital. Thereafter 30% and 70% of the residual amount of the consolidated investment fund will be distributed to First-Tier Limited Partner of the SCI Fund and second-tier limited partner, respectively. Accordingly, the interests of the second-tier limited partner are classified as financial liabilities designated at fair value through profit or loss of approximately HK\$43,326,000 as at 31 December 2016. In December 2017, the interests in SCI Fund held by the Group was fully redeemed. The Group deconsolidated this fund accordingly.

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. Accordingly, the interests of the second-tier limited partner are classified as financial liabilities designated at fair value through profit or loss of approximately HK\$133,303,000 as at 31 December 2016. In March 2017, the fund matured and was dissolved. The Group deconsolidated the BRI Fund accordingly.

- (vi) As at 31 December 2017 and 31 December 2016, a wholly-owned subsidiary of the Group held 90% interests in Growth Fund as a limited partner (the “**First-Tier Limited Partner of the Growth Fund**”). Pursuant to the limited partnership agreement of the Growth Fund, the interests in the Growth Fund as a limited partner provide the Group with the return of capital equal to 100% of its total invested capital and a fixed proceed of 12% per annum return of its invested capital to First-Tier Limited Partner of the Growth Fund. If the Growth Fund eventually holds the convertible notes till maturity (three years period), the total minimum return of First-Tier Limited Partner of the Growth Fund is guaranteed at 12% per annum of its invested capital. Thereafter, the second-tier limited partner is entitled to return of its own capital contribution. Thereafter 20% and 80% of the residual amount of the consolidated investment fund will be distributed to First-Tier Limited Partner of the Growth Fund and second-tier limited partner, respectively. Accordingly, the interests of the second-tier limited partner are classified as financial liabilities designated at fair value through profit or loss of approximately HK\$223,762,000 as at 31 December 2017 (2016: HK\$166,743,000).

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

12. AVAILABLE-FOR-SALE INVESTMENTS

	2017 <i>HK\$'000</i>	2016 <i>HK\$'000</i>
Non-current:		
Listed debt investments, at fair value	3,891,956	–
Unlisted fund investments, at fair value (<i>note</i>)	2,815,649	–
Unlisted equity investment, at fair value	903,639	–
	<u>7,611,244</u>	<u>–</u>
Current:		
Listed equity investments, at fair value	1,537,308	1,044,239
Listed debt investments, at fair value	5,282,534	3,294,773
Unlisted equity investment, at fair value	214,467	–
	<u>7,034,309</u>	<u>4,339,012</u>
	<u>14,645,553</u>	<u>4,339,012</u>

Note: The Group invested in investment funds. These investment funds mainly invest in debt securities, with a primary objective to provide the investors with investment return.

During the year ended 31 December 2017, the loss in respect of changes in fair value of the Group's available-for-sale investments recognised in other comprehensive income amounted to approximately HK\$5,039,000 (2016: loss of HK\$25,347,000). During the year ended 31 December 2017, the Group disposed of available-for-sale investments with proceeds of approximately HK\$5,764,696,000 to independent third parties (2016: nil), a gain of approximately HK\$55,358,000 was reclassified from other comprehensive income to profit or loss upon disposal (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 AND A JOINT VENTURE

	2017 <i>HK\$'000</i>	2016 <i>HK\$'000</i>
Associates:		
Cost of unlisted investments in associates	17,062	190
Share of result of associates	1,126	–
Exchange differences	477	–
	<u>18,665</u>	<u>190</u>
A joint venture:		
Cost of unlisted investment in a joint venture	<u>–</u>	<u>–</u>

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 31 December 2017	As at 31 December 2016	
Hua Rong Bo Run International Investment Holdings Limited (Note)	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

Note: A newly set up company with date of incorporation on 13 February 2017.

The share of profit arisen from Hua Rong Bo Run International Investment Holdings Limited and from 華融柏潤(珠海)資產管理有限公司 for the year ended 31 December 2017 was HK\$164,000 (2016: nil), and HK\$962,000 (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. 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. During the year ended 31 December 2017, the Group lost joint control over the joint venture as the Group had no participation right in the decision making in the future. The loss of joint control 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 loss of joint control. The difference between the fair value and carrying amount before disposal was recognised as net gain on deemed disposal of approximately HK\$200,705,000 in profit or loss in 2017. The amount due from Gold Brilliant Investment Limited has been reclassified to “Other loans and advances” with the balance of HK\$497,542,000 as at the current year end.

The carrying amount of amount due from an associate Hua Rong Bo Run International Investment Holdings Limited was approximately HK\$1,532,328,000 (2016: nil) as at 31 December 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\$11,735,000 (2016: nil). The carrying amount was netted off by collective allowance of HK\$30,916,000 (2016: nil) which is collective impairment.

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 the associate of approximately HK\$190,000 was unsecured, interest free and repayable on demand as at 31 December 2016. At the date of disposal, the outstanding balance was netted off with the investment cost, resulted in no gain or loss.

14. OTHER LOANS AND ADVANCES

	2017 <i>HK\$'000</i>	2016 <i>HK\$'000</i>
Other loans and advances	9,493,366	5,004,236
Less: Provision for impairment	<u>(190,206)</u>	<u>(50,077)</u>
	9,303,160	4,954,159
Secured	8,463,519	2,236,814
Unsecured	<u>839,641</u>	<u>2,717,345</u>
	9,303,160	4,954,159
Analysed as:		
Current	4,149,535	2,736,696
Non-current	<u>5,153,625</u>	<u>2,217,463</u>
	9,303,160	4,954,159

As at 31 December 2017, other loans and advances included loans to independent third parties which are secured and/or backed by guarantees and collaterals, with contractual interest rates ranging from 2% to 11% per annum (2016: 5% to 9% per annum) with contractual maturity ranging from approximately one month to three years from 31 December 2017 (2016: approximately six months to three years). As at 31 December 2017, other loans and advances with carrying amount of approximately HK\$8,267,232,000 (2016: HK\$2,236,814,000) is secured by properties in Australia and the PRC, unlisted convertible bonds issued by a company listed in Hong Kong, listed equity issued by a company listed in Hong Kong and unlisted equity. The remaining carrying amount of approximately HK\$505,628,000 (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 allowance of approximately HK\$190,206,000 as at 31 December 2017 (2016: HK\$50,077,000) is sufficient.

As at 31 December 2017, unsecured other loans and advances included a 8.5% redeemable fixed coupon notes with carrying amount of approximately HK\$334,013,000 (2016: HK\$334,780,000) and contractual maturity of approximately six months from 31 December 2017 (contractual maturity of approximately two years from 31 December 2016).

As at 31 December 2017, secured other loans and advances included a 5% guaranteed note with carrying amount of approximately HK\$196,287,000 (31 December 2016: HK\$198,000,000) and contractual maturity of approximately 8 months from 31 December 2017, which is secured by the borrower with a listed equity in Hong Kong and unlisted equity during the current year. As at 31 December 2016, this guaranteed notes was unsecured.

At 31 December 2017, the Group has concentration of credit risk as 47% (2016: 63%) of the total other loans and advances was due from the Group's five largest borrowing customers. Interest income derived from other loans and advance was recognised as "interest income from other loans and advances".

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.

Movements in the allowances for impaired debts are as follows:

	2017 <i>HK\$'000</i>	2016 <i>HK\$'000</i>
At beginning of year	50,077	–
Provision for impairment losses	140,129	50,077
At end of year	190,206	50,077

Other loans and advances are netted off by collective allowance of approximately HK\$190,206,000 (2016: HK\$50,077,000). No further impairment allowance was considered necessary based on the Group's evaluation of collectability.

As at 31 December 2016 and 2017, there are no loans and advances that are past due but not impaired.

15. ADVANCES TO CUSTOMERS IN MARGIN FINANCING

	2017 <i>HK\$'000</i>	2016 <i>HK\$'000</i>
Loans to customers in margin financing	4,949,148	4,237,786
Less: provision for impairment	(929)	(1,323)
	4,948,219	4,236,463

The loans to customers in margin financing are interest-bearing and secured by the underlying pledged securities. The Group maintains a list of approved securities for margin lending at a specific loan to collateral ratio. Any excess in the lending ratio will trigger a margin call in the case of which the customers have to make additional funds available for the shortfall.

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

	2017 <i>HK\$'000</i>	2016 <i>HK\$'000</i>
At beginning of year	1,323	1,951
Reversal of impairment losses, net	(394)	(628)
At end of year	929	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.

Securities, futures, options dealing services

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

All the pledged securities are listed equity securities in respective stock exchange as at 31 December 2017 and 2016. The loans are repayable on demand subsequent to settlement date and normally carry interest at Hong Kong Prime Rate +2.5% to Hong Kong Prime Rate +7.25% per annum (2016: Hong Kong Prime Rate + 1% to 15% per annum). Securities are assigned with specific margin ratios for calculating their margin values. Additional funds or collateral are required if the outstanding amount exceeds the eligible margin value of securities deposited. The collateral held can be repledged and can be sold at the Group's discretion to settle any outstanding amount owed by margin clients.

The Group has concentration of credit risk as 54% (2016: 57%) of the total loans to securities margin clients were due from the Group's five largest securities margin clients. The balance includes an aggregate amount of approximately HK\$2,683,022,000 (2016: HK\$2,394,288,000) which is neither past due nor impaired, of which the whole amount is secured by clients' pledged securities with an aggregate fair value of HK\$12,991,033,000 (2016: HK\$12,855,095,000). The Group believes that the amount is considered recoverable given the collaterals are sufficient to cover each balance on individual basis.

16. ACCOUNTS RECEIVABLE

	2017 <i>HK\$'000</i>	2016 <i>HK\$'000</i>
Accounts receivable from:		
— securities, futures and options dealing services		
— clients	7,653	8,902
— brokers, dealers and clearing houses	7,845	629,685
— corporate finance	56,368	45,104
— asset management	7,531	1,109
	<u>79,397</u>	<u>684,800</u>
Provision for impairment	(243)	(223)
	<u>79,154</u>	<u>684,577</u>

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

	2017 <i>HK\$'000</i>	2016 <i>HK\$'000</i>
Current to 1 month	75,199	682,633
1 to 3 months	1,734	1,779
3 months to 1 year	2,158	102
Over 1 year	63	63
	<u>79,154</u>	<u>684,577</u>

Movements in provision for impairment of accounts receivable are as follows:

	2017 <i>HK\$'000</i>	2016 <i>HK\$'000</i>
At beginning of year	223	220
Provision for impairment losses, net	20	3
	<u>243</u>	<u>223</u>
At end of year	243	223

Included in the above provision for impairment of accounts receivable is provision for individually impaired accounts receivable of approximately HK\$243,000 (2016: HK\$223,000) with carrying amounts before provision of approximately HK\$246,000 (2016: HK\$226,000). These individually impaired accounts receivable relate to customers that do not have sufficient amount of collateral at the end of the reporting period and are not expected to be fully recoverable.

The aged analysis of the accounts receivable that are past due but not individually nor collectively considered to be impaired is as follows:

	2017 <i>HK\$'000</i>	2016 <i>HK\$'000</i>
Less than 1 month past due	34,137	23,630
1 to 3 months past due	1,734	1,779
3 months to 1 year past due	2,158	102
Over 1 year past due	63	63
	<u>38,092</u>	<u>25,574</u>

For accounts receivable from clients that are overdue, the management ensures that the available cash balance and listed equity securities belonging to accounts receivable clients in which the Group holds as custodian are sufficient to cover the amounts due to the Group. For the remaining accounts receivable that are overdue, the management maintains effective control over its repayment schedule and assesses the latest status of the debtors. Thus, the Directors of the Company are of the opinion that no provision for impairment is necessary in respect of those receivables that were past due but not impaired.

17. ACCOUNTS PAYABLE

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

	2017 <i>HK\$'000</i>	2016 <i>HK\$'000</i>
Current to 1 month	<u>3,758,807</u>	<u>2,942,458</u>

As at 31 December 2017, included in the accounts payable is the accounts payable to financial institutions of approximately HK\$2,950,110,000 (2016: nil) which is maintained for investment trading. The balance is interest bearing at the rates ranging from 2.1% to 2.8% per annum (2016: nil).

The remaining accounts payable are unsecured and repayable on the settlement date of the relevant trades or upon demand from customers. As at 31 December 2017, accounts payable with carrying amount of approximately HK\$686,662,000 (2016: HK\$2,931,001,000) are interest-bearing at bank savings deposit rates.

18. INTEREST-BEARING BORROWINGS

	2017 <i>HK\$'000</i>	2016 <i>HK\$'000</i>
Bank loans	<u>13,835,491</u>	<u>5,620,480</u>
	13,835,491	5,620,480
Loan from the ultimate holding company	598,150	–
Loan from an intermediate holding company	<u>18,604,336</u>	<u>11,634,000</u>
	<u>33,037,977</u>	<u>17,254,480</u>
Secured	1,997,039	550,000
Unsecured	<u>31,040,938</u>	<u>16,704,480</u>
	<u>33,037,977</u>	<u>17,254,480</u>
Current portion	<u>15,997,241</u>	<u>5,620,480</u>
Non-current portion	<u>17,040,736</u>	<u>11,634,000</u>
	<u>33,037,977</u>	<u>17,254,480</u>

As at 31 December 2017, the Group had loans (the “**Company Loans**”) amounting to approximately US\$2,379,680,000 (equivalent to approximately HK\$18,604,336,000) (2016: US\$1,500,000,000 (equivalent to approximately HK\$11,634,000,000)) from its intermediate holding company, China Huarong International Holdings Limited (“**CHIH**”) and RMB500,000,000 (equivalent to approximately HK\$598,150,000) (2016: nil) from the ultimate holding company, China Huarong Asset Management Co., Ltd. (“**China Huarong**”) 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 (2016: 3.85% to 6.02% per annum) and are repayable in one month to ten years (2016: three to ten years) from the end of the reporting period.

As at 31 December 2017, the Group has utilised bank loan facilities amounting to RMB1,368,417,000 (equivalent to approximately HK\$1,637,039,000) (2016: nil) which are secured by pledge of the Group’s time deposits with carrying amount of approximately HK\$1,898,063,000 (2016: nil) and repayable on demand.

In addition, bank borrowings of HK\$360,000,000 (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 31 December 2017. The Company had provided corporate guarantees in respect of the Group’s utilised banking facilities to the extent of HK\$660,000,000 (2016: HK\$850,000,000). Certain indirect wholly-owned subsidiaries, namely Huarong International Securities Limited and Huarong International Capital Limited also provided corporate guarantees in respect of the Group’s banking facilities to the extent of US\$40,000,000 (equivalent to approximately HK\$312,720,000) (2016: US\$30,000,000 (equivalent to approximately HK\$232,680,000)).

As at 31 December 2017, the Group has undrawn bank facilities of approximately HK\$1,963,232,000 (2016: HK\$807,500,000), and the Group utilised approximately HK\$13,835,491,000 (2016: HK\$5,620,480,000) of these banking facilities.

MANAGEMENT DISCUSSION AND ANALYSIS

Financial Highlights

For the year ended 31 December 2017 (the “**Year**”), the Group recorded revenue of approximately HK\$2,023,030,000 as compared to approximately HK\$727,066,000 for the year ended 31 December 2016 (the “**Last Year**”), gain on disposal of available-for-sale investments of approximately HK\$55,358,000 as compared to nil for the Last Year and net gains on financial assets at fair value through profit or loss of approximately HK\$756,502,000 as compared to approximately HK\$674,963,000 for the Last Year. Therefore, total revenue and gains for the Year increased to approximately HK\$2,834,890,000 as compared to approximately HK\$1,402,029,000 for the Last Year, representing an increase of approximately 102.2%. Profit attributable to shareholders for the Year significantly increased to approximately HK\$964,093,000 as compared to that of approximately HK\$550,914,000 for the Last Year, representing an increase of approximately 75.0%. This achievement was attributable to the increase in operating profit for the Year from the three operating segments, namely (i) asset management and direct investment segment; (ii) corporate finance segment; and (iii) securities segment. The performance of these segments will be discussed further below.

Basic earnings per share was HK27.06 cents for the Year as compared to HK16.41 cents for the Last Year, and no diluted earnings per share has been presented for the Year as compared to HK16.40 cents for the Last Year as there was no potential ordinary shares outstanding for the year ended 31 December 2017.

Market Review

In 2017, amid the global economic rebound, the pace of economic growth has accelerated, with a sign of recovery shown in investment, trading and bulk commodity prices while stock markets remained buoyant. Due to the steady and positive development of China's economy, China's gross domestic product (GDP) recorded a growth of 6.9% over last year, which rebounded for the first time since the slowdown of economic growth in 2011. The performance of Hong Kong's capital market in 2017 was also impressive as Hang Seng Index became one of the indices with the most outstanding performance in the world. Following the launch of "Shanghai-Hong Kong Stock Connect", "Shenzhen-Hong Kong Stock Connect" and "Bond Connect", the internal and external synergy have been greatly enhanced. Currently, Hong Kong remains prominent as an international financial centre and is also the core hub among the countries and regions along the "One Belt, One Road" regions. Leveraging on the positive economic development around the globe and Hong Kong's unique position, the Group's development has been strongly underpinned.

Business Review

In 2017, the Group upheld the development principle of "Robust Progress" and proactively responded to both internal and external opportunities and challenges. The Group continuously optimized its business structure and further strengthened its internal management. It also put great effort in expanding the financial licensed business and provided customers with professional and a package of comprehensive financial services through the synergy of all business lines, so as to promote the rapid development of the three business segments of the Group, namely, asset management and direct investment, corporate finance and securities, which enhanced the market competitiveness and brand influence of the Group.

Asset Management and Direct Investment

The asset management and direct investment segment provides asset management services, direct investments in equities, bonds, funds, derivative instruments and other financial products, as well as money lending services. In 2017, the Group dovetailed with the initiative of "One Belt, One Road" and brought its financial licensed business and synergy of business lines into full play. The Group sought to provide customers with customised, professional and integrated financial service solutions through establishing long-term partnerships. To continuously enhance its investment revenue, the Group carried out various measures, including subdividing and optimising its professional investment teams, actively analysing and exploring market opportunities, and focusing on investment portfolio diversification. For the Year, the segment revenue from external customers was approximately HK\$1,307,439,000 as compared to approximately HK\$218,469,000 for the Last Year; the net gains on financial assets at fair value through profit or loss increased from approximately HK\$674,963,000 for the Last Year to approximately HK\$756,502,000 for the Year; the gain on disposal of available-for-sale investments was approximately HK\$55,358,000 for the Year as compared to nil for the Last Year; the segment result was approximately HK\$1,021,589,000 as compared to approximately HK\$572,241,000 for the Last Year, representing an increase of approximately 78.5%.

Meanwhile, the Group also actively examined the credit risk and market risk exposure of its investment, enhanced the criteria for customer screening and risk control, strengthened the various measures for post-investment management and responded to changes in the market promptly and flexibly. During the Year, this segment business successfully improved both in terms of business scale and quality.

Corporate Finance

The corporate finance segment is devoted to providing institutional clients with comprehensive securities issuance and underwriting, financial advisory and financing arrangement services. Leveraging on the diversified client portfolio of China Huarong, the corporate finance segment continued to put greater efforts in market expansion and to explore effective cooperation among different licensed businesses. Several large issues of USD bonds, financial advisory on merger and acquisition and underwriting of initial public offering (IPO) and placing in secondary market, together with equity financing projects were completed in 2017. For the Year, revenue from the corporate finance segment amounted to approximately HK\$314,361,000 as compared to approximately HK\$219,412,000 for the Last Year, representing an increase of approximately 43.3%; the segment result was approximately HK\$298,604,000 as compared to approximately HK\$198,256,000 for the Last Year, representing an increase of approximately 50.6%. Based on the aforementioned, it is expected that the corporate finance segment will continue to promote rapid business development through capturing its business synergy and expanding its customer base.

Securities

The securities segment comprises broking and dealing of securities, futures and options contracts, security custody services and the provision of margin financing services. The revenue from the securities segment for the Year was approximately HK\$401,230,000 as compared to approximately HK\$289,185,000 for the Last Year, representing an increase of approximately 38.8%; the segment result amounted to approximately HK\$169,523,000 as compared to approximately HK\$144,685,000 for the Last Year, representing an increase of approximately 17.2%. The increase mainly came from the growth of interest income from margin loans. As at 31 December 2017, the margin loan balance was approximately HK\$4,948,219,000, representing an increase of approximately 16.8% as compared to 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. During the second half of the Year, the securities segment focused on the development of security custody business and standardized handbook for security custody business with the aim to enhance the quality and efficiency of our customer services. Based on the diversified customer base of each business line, the securities segment will make the best efforts to expand the scale of security custody assets and therefore increase the revenue of custody business.

Prospect

Despite favorable economic development prospects, the global economy is still exposed to multiple risks of asset bubbles, high debt levels and protectionism, which cause considerable uncertainties. The Group will continue to strengthen its core business, revitalize existing inventories, implement the transformation from asset-heavy to asset-light business model and enhance quality and control over risks. It will also use its best endeavours to provide comprehensive financial services, achieve high-quality development and uphold the internationalised strategy of “laying a solid foundation in Hong Kong, Macau and Taiwan, providing services to the Greater China, coinciding with the ‘One Belt, One Road’ initiative, building internal and external synergy” and further expand the business of the Company, striving synergy to maximize values and returns for 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 for expanding and developing its securities and direct investment business.

In February and December 2017, the Company issued senior perpetual capital securities in the principal amount of US\$99,118,000 (equivalent to approximately HK\$769,354,000) and unsubordinated perpetual securities in the principal amount of approximately US\$53,846,000 (equivalent to approximately HK\$420,969,000) to CHIH respectively. The senior perpetual capital securities and unsubordinated perpetual securities were accounted for as equity in the statement of financial position of the Company.

Due to the aforementioned rights issue and the issue of senior perpetual capital securities and unsubordinated perpetual securities to CHIH, the capital base of the Group increased. As at 31 December 2017, the gearing ratio decreased to 813.2% (2016: 1,340.7%), being calculated as interest-bearing borrowings over the Group's shareholders' equity.

As at 31 December 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\$4,062,822,000 as compared to approximately HK\$1,286,941,000 as at 31 December 2016, representing an increase of 216%. The increase was attributable to the rights issue and the issue of senior perpetual capital securities and unsubordinated perpetual 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 31 December 2017, the Group had total cash and cash equivalents amounting to approximately HK\$3,524,781,000 (2016: HK\$956,675,000), which already excluded approximately HK\$848,591,000 (2016: HK\$3,315,589,000) of client funds that were kept in separate designated bank accounts.

The rapid development of the Group was attributable to the continuous support from our controlling shareholders. As at 31 December 2017, the Group had obtained shareholder loans in an aggregate principal amount of approximately US\$2,379,680,000 (equivalent to approximately HK\$18,604,336,000) (2016: US\$1,500,000,000, equivalent to approximately HK\$11,634,000,000) from CHIH and RMB500,000,000 (equivalent to approximately HK\$598,150,000) (2016: nil) from China Huarong respectively, which are unsecured and unguaranteed.

In addition, the Group actively expanded financial resources through establishing business relationship with various financial institutions. As at 31 December 2017, the Group has undrawn bank facilities of approximately HK\$1,963,232,000 (2016: HK\$807,500,000) and withdrawn outstanding bank borrowings of approximately HK\$13,835,491,000 (2016: HK\$5,620,480,000).

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

Charges on Group Assets

As at 31 December 2017, time deposits with carrying amount of approximately HK\$1,898,063,000 (2016: nil) were pledged to secure bank loan facilities of the Group.

Employee and Remuneration Policy

As at 31 December 2017, the Group employed a total of 169 employees (2016: 137 employees). The Group's staff recruitment and promotion are primarily based on individuals' merits, relevant experiences, development potentials for the positions offered and performance. Staff remuneration and benefit policies, which are formulated by reference to the market, are competitive and performance based.

Foreign Exchange Exposures

The Group's principal operations in Hong Kong and overseas are transacted and recorded in Hong Kong dollars and United States dollars, while principal operations in the PRC are transacted and recorded in Renminbi. The Group is not exposed to material foreign exchange risk because Hong Kong dollars are pegged with United States dollars, and the revenue from 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 31 December 2017. The Group has sought legal advice on the alleged claims and the Directors consider that HISL has 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.

ANNUAL GENERAL MEETING

The annual general meeting of the Company is scheduled to be held on Thursday, 24 May 2018 (the "AGM"). A notice convening the AGM will be published in due course.

FINAL DIVIDEND

At a meeting of the Board held on 16 March 2018, the Board has resolved to recommend the payment of a final dividend of HK1.70 cents per ordinary share in cash to shareholders for the year ended 31 December 2017 (2016: nil). The proposed final dividend, if approved by the shareholders of the Company at the forthcoming AGM, will be paid on or about 20 June 2018 to the shareholders whose names appear on the register of members of the Company on 1 June 2018.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from 18 May 2018 to 24 May 2018, both days inclusive, during which period no transfer of shares of the Company will be registered. In order to qualify for attending and voting at the forthcoming AGM which will be held on Thursday, 24 May 2018, all transfer documents accompanied by the relevant share certificates must be lodged with the Company's branch share registrar and transfer office in Hong Kong, Tricor Tengis Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong not later than 4:30 p.m. on 17 May 2018.

The register of members of the Company will be closed from 31 May 2018 to 1 June 2018 (both dates inclusive), during which period no transfer of shares of the Company will be registered. In order to qualify for the proposed final dividend, all transfer documents accompanied by the relevant share certificates must be lodged with the Company's branch share registrar and transfer office in Hong Kong, Tricor Tengis Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong not later than 4:30 p.m. on 30 May 2018.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

Neither the Company, nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the year ended 31 December 2017.

CORPORATE GOVERNANCE PRACTICES

Throughout the year ended 31 December 2017, the Company has complied with all the applicable code provisions of the Corporate Governance Code and Corporate Governance Report as set out in Appendix 14 of the Listing Rules.

Details of the Company's corporate governance practices can be found in the Corporate Governance Report set out in the Company's annual report 2017.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**") as set out in Appendix 10 of the Listing Rules as its own code of conduct regarding securities transactions by the Directors of the Company. In response to specific enquiry made by the Company, all Directors confirmed that they have fully complied with the required standards as set out in the Model Code throughout the year of 2017.

AUDIT COMMITTEE

The Audit Committee of the Company currently comprises three Independent Non-executive Directors, namely Dr. Wong Tin Yau Kelvin, Mr. Ma Lishan and Mr. Guan Huanfei. The principal duties of the Audit Committee include the review and supervision of the Group's financial reporting system, financial statements and internal control procedures. The Audit Committee has reviewed the accounting principles and practices adopted by the Group with the management and discussed auditing, internal control and financial reporting matters. The audited consolidated financial statements of the Group for the year ended 31 December 2017 have been reviewed by the Audit Committee.

SCOPE OF WORK OF MESSRS. DELOITTE TOUCHE TOHMATSU

The figures in respect of the Group's consolidated statement of financial position, consolidated statement of profit or loss, consolidated statement of profit or loss and other comprehensive income and the related notes thereto for the year ended 31 December 2017 as set out in the preliminary announcement have been agreed by the Group's auditor, Messrs. Deloitte Touche Tohmatsu, to the amounts set out in the Group's audited consolidated financial statements for the year. The work performed by Messrs. Deloitte Touche Tohmatsu in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by Messrs. Deloitte Touche Tohmatsu on the preliminary announcement.

PUBLICATION OF ANNUAL REPORT

The annual report 2017 of the Company containing all the applicable information required by the Listing Rules will be despatched to the shareholders of the Company and published on the websites of The Stock Exchange of Hong Kong Limited (www.hkexnews.hk) and the Company (www.hrif.com.hk) in due course.

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

Hong Kong, 16 March 2018

As at the date of this announcement, the executive directors of the Company are Mr. Wang Qiang, Mr. Lai Jinyu and Dr. Niu Shaofeng, and the independent non-executive directors are Dr. Wong Tin Yau Kelvin, Mr. Ma Lishan and Mr. Guan Huanfei.