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)

ANNUAL REPORT 2017

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Mr. Lai Jinyu *(Chief Executive Officer)*
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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
Mr. Ma Lishan
Mr. Guan Huanfei

EXECUTIVE COMMITTEE

Mr. Wang Qiang *(Chairman)*
Mr. Lai Jinyu
Dr. Niu Shaofeng

RISK MANAGEMENT COMMITTEE

Mr. Ma Lishan *(Chairman)*
Mr. Lai Jinyu
Dr. Niu Shaofeng

AUTHORISED REPRESENTATIVES

Dr. Niu Shaofeng
Ms. Ng Yee Ping

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
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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

Chairman's Statement

Mr. WANG Qiang
Chairman

Dear shareholders,

In 2017, with all staff of Huarong International Financial Holdings Limited (hereafter referred to as "Huarong Financial" or the "Company", together with its subsidiaries, the "Group") insisting on hard work and innovation and sticking to the guidance of "Going back to the Fundamental Purpose and Highlighting the Main Business" to fully utilize the advantages of multiple SFC licences and maintain the strategy of having combo businesses, our Securities, Investment Banking and Asset Management businesses have achieved new results and the targets for the whole year have been completed above the quota, with our profits almost doubled. Besides, we strengthened control on risks and maintained all projects at acceptable risk extent, which accomplished impressive results.

Operating results increased significantly For the year ended 31 December 2017 (the "Year"), the main operating revenue of the Group was approximately HK$2.83 billion, representing a year-on-year increase of approximately 102.2%. The net profit was approximately HK$1.006 billion, representing a year-on-year increase of approximately 82.5%. The return on equity (ROE) was approximately 37.6% with approximately 2.9% of return on assets (ROA).

The Company continuously capitalizes on the brand influence of China Huarong Asset Management Co., Ltd ("China Huarong"), an indirect holding company of the Company, to actively expand new customer base for its securities business, innovate its margin financing business model and focus on the business of listed company clients. With sponsorship qualification under Type 6 licence, the investment banking business successfully became the joint sponsor for financial enterprises listed on the main board, including the placing of Jiayuan Holdings (佳源控股) and joint financial advisory for mergers and acquisitions of State Energy HK. It also completed projects of senior bonds and preference shares for Postal Savings Bank and China Life Insurance (Overseas). The asset management business emphasized on the optimisation of business structure and has obtained high-quality projects in financial services under the "One Belt, One Road" initiative.

Asset base is enhancing Relying on China Huarong's brand strength and resource support, the Company continuously expanded market-based financing channels and conducted rights issue and issue of perpetual securities, and obtained bank facilities during the Year. At the end of the Year, total assets of the Company was approximately HK$46.32 billion, representing a year-on-year increase of approximately 107.9%; net asset was approximately HK$4.06 billion, representing a year-on-year increase of approximately 215.7%.

The brand influence has been expanded The Company focused on strengthening brand building and intensifying daily investor relationship and market value management. The Company also enhanced the communication with its shareholders and institutional investors and strengthened the cooperation with key customers and peers in financial industry, through events such as the annual results presentation. The Company won the "Outstanding Award Corporate Finance Business" (Corporate Finance Category) of "Financial Institution Award 2017" held by Bloomberg Businessweek (Chinese). In an election of listed companies of financial market in China organized by China Finacial Market, a high-end financial magazine in the Hong Kong capital market, the Company was awarded the "Best Brand Value Award" and the "Best Investment Value Award", which further demonstrated the Company's reputation and recognition.

The international business has created new phase The Company upholds international development strategies of "laying a solid foundation in Hong Kong, Macau and Taiwan, providing services to the Greater China, and coinciding with the "One Belt, One Road" initiative and building internal and external synergy", grasps the opportunity of the "One Belt, One Road" initiative created by nearby countries and focuses on customers with strong comprehensive strength and qualified assets in domestic and abroad as key cooperation partners. In 2017, the Company sought the cooperation in Southeast Asia and nearby regions to provide professional financial services for the implementation of the "One Belt, One Road" initiative, and laid the foundation for win-win cooperation.

Risk management and internal control have been further strengthened The Group complies with the regulatory requirements by the Securities and Futures Commission of Hong Kong (the "SFC"), the Stock Exchange of Hong Kong Limited (the "Stock Exchange") and relevant internal requirements by China Huarong. The Company's risk management system has been further improved; the business management and control process has been optimized; and the risk management tools have been enriched and the risk management culture has been promoted and guided. The Company has further promoted the principle of comprehensive risk management and control of "One Vertical, One Horizontal and Four Lines of Defense", to continue to strive to control on risks of our projects.

Looking back at 2017, we faced challenges in the fierce competition and prevailed over difficulties with great determination, presenting satisfactory results to our investors for the second complete financial year since the Company's restructuring and the change of name. Looking forward to 2018, with global economy continuing to rebound, China's economy has shown steady momentum of growth. Taking supply-side structural reform as the main line and enhancing the implementation of various policies and initiatives will bring tremendous potential and good opportunities for the development of enterprises and capital markets in Hong Kong and the PRC. However, we have to be aware that the global economy is still facing the constraints of uncertainties such as the high level of debt, asset bubbles and geopolitical risks, and the monetary policy of major economies has shifted from quantitative easing to normalization, which creates pressure on real economy. In early February this year, global stock markets experienced drastic adjustment in synchronization, reflecting the greater volatility of capital markets. Currently, in the overall circumstances of deleveraging and enhancing financial regulations for domestic economy, the top priorities for financial institutions are to strictly control risks and strive to improve the quality of development; and there are challenges in the pursuit of evolution and development as well as provision of excellent financial services.

In 2018, Huarong Financial will follow the development strategy of China Huarong and make the best use of multiple licenses in Hong Kong, in particular with a view to further advancing and optimizing the Type 1 securities brokerage business and the Type 6 investment banking business, in order to make up the less-developed business of the Type 2 futures brokerage business and the Type 4 securities consulting business. We will endeavor to grasp the prudent direction for overseas investment and financing, taking advantage of the "One Belt, One Road" initiative; strive to capture the opportunities in the construction of a modern economic system in China and set a proper direction of financial services for the "Going out" of domestic enterprises; take the initiative to actively participate in the construction of the Guangdong-Hong Kong-Macao Greater Bay area, promoting the linkage between domestic and overseas institutions and strengthening the cooperation in the Pan-Pearl River Delta. We will enhance our Company's self-development ability to fully guarantee the operation of our projects through further adjusting structure, revitalizing existing inventories and strengthening facilities such as privately-raised bonds and banking facilities. With good combination of our businesses and promotion of asset-light transformation, we can achieve robust, high quality and sustainable development.

In 2018, standing at a new starting point, we are full of confidence in our future, with a clear sense of great responsibility and ambitious mandate. Therefore, we need to work together to move forward boldly and seek stable progress following our well-developed strategies, and we also need to control risks and improve quality for the purpose of our high-quality development. In the future, we will continue to work hard to enhance values and create more returns for our shareholders, customers and employees.

WANG Qiang
Chairman
Hong Kong, 16 March 2018

Directors and Senior Management

BOARD OF DIRECTORS

Executive Directors

Mr. Wang Qiang, aged 55, joined the Company acting as Deputy Chief Executive Officer in June 2016. He was appointed as an executive Director and the Chief Executive Officer of the Company on 20 February 2017 and was re-designated as the Chairman of the Company on 13 April 2017. He is the chairman of the Executive Committee as well as a member of the Nomination Committee of the Company. Mr. Wang has worked in the financial industry for years and accumulated extensive experience in securities, investment and asset management. From December 1994 to January 2006, Mr. Wang worked at China Southern Securities (南方證券) and held various positions including the deputy general manager of the planning and financial department as well as the brokerage business department of China Southern Securities, the general manager of the administration headquarter of China Southern Securities Chengdu region, and the general manager of China Southern Securities Guangzhou office. In September 2009, Mr. Wang joined China Huarong and held various positions including the deputy general manager of China Huarong's Shenzhen office, the general manager of China Huarong International Holdings Limited (formerly known as Huarong (HK) International Holdings Limited, "CHIH"), and the general manager of China Huarong's Shanghai Pilot Free Trade Zone office. Mr. Wang graduated from Jiangxi University of Finance and Economics and holds a master degree of economics.

Mr. Lai Jinyu, aged 36, was appointed as an executive Director and the Chief Executive Officer of the Company on 13 April 2017. He is also a member of each of the Executive Committee and the Risk Management Committee of the Company. He has successively worked since 2007 with the asset custody department of the headquarter of China Industrial and Commercial Bank, the fund department of China Securities Regulatory Commission, the investment and international business department of China Huarong, where he has held various management positions. He has accumulated extensive experience in fund allocation and investment management. Mr. Lai was appointed as an executive Director, an Assistant to the Chief Executive Officer, a member of the Executive Committee, and an Authorised Representative of the Company on 27 April 2016, and he subsequently resigned on 20 December 2016. From December 2016 to April 2017, Mr. Lai served as the deputy general manager of China Huarong (Macau) International Co., Limited and was responsible for the daily operation duties. Mr. Lai obtained his master's degree in Finance Law from Peking University.

Dr. Niu Shaofeng, aged 41, was appointed as an executive Director and an Assistant to the Chief Executive Officer of the Company on 8 January 2018 and was promoted as the Deputy Chief Executive Officer of the Company on 26 January 2018. He is also a member of each of the Executive Committee and the Risk Management Committee, and an Authorised Representative of the Company. Dr. Niu has extensive experience in banking, financial market, market development and credit management. He worked in the People's Bank of China from July 2002 to November 2016 and last served as the director of gold and foreign exchange market division of its financial market department before his resignation. He then worked in China Huarong as the assistant general manager of its financial market department from November 2016 to August 2017, and served as an executive director and the assistant chief executive officer of Huarong Investment Stock Corporation Limited ("Huarong Investment"), a company listed on the Stock Exchange (stock code: 2277) and an indirect non-wholly owned subsidiary of China Huarong, and was responsible for overseeing the administration department, information technology department and market development department of Huarong Investment from October 2017 to December 2017. Dr. Niu holds a bachelor's degree in international economics from Hebei University, a master's degree in economics from Peking University and a doctoral degree in economics from Graduate Department of the People's Bank of China (now known as PBC School of Finance, Tsinghua University).

Independent Non-executive Directors

Dr. Wong Tin Yau Kelvin, aged 57, was appointed as an independent non-executive Director of the Company on 23 October 2015. He is also the chairman of each of the Audit Committee and Nomination Committee as well as a member of the Remuneration Committee of the Company. Dr. Wong is an executive director and deputy managing director of COSCO SHIPPING Ports Limited (formerly known as COSCO Pacific Limited) (HKSE: 1199), where he is responsible for the management of work relating to strategic planning, capital markets and investor relations. Currently, Dr. Wong also acts as an independent non-executive director for a number of listed companies including:

- Bank of Qingdao Co., Ltd. (HKSE: 3866);
- China ZhengTong Auto Services Holdings Limited (HKSE: 1728);
- I.T Limited (HKSE: 999);
- Shanghai Fosun Pharmaceutical (Group) Co., Ltd. (HKSE: 2196 and SHSE: 600196); and
- Xinjiang Goldwind Science & Technology Co., Ltd. (HKSE: 2208 and SZSE: 002202).

Dr. Wong also served as an independent non-executive director of Asia Investment Finance Group Limited (HKSE: 33) from October 2016 to February 2018, an independent non-executive director of AAG Energy Holdings Limited (HKSE: 2686) from June 2015 to April 2016 and an independent non-executive director of CIG Yangtze Ports PLC (HKSE: 8233) from September 2005 to October 2015.

Dr. Wong obtained his master of business administration degree from Andrews University in Michigan in the United States in August 1992 and his doctoral degree in business administration from The Hong Kong Polytechnic University in December 2007. Dr. Wong is the past chairman and was the chairman (2009–2014) of The Hong Kong Institute of Directors, a non-executive director of the Securities and Futures Commission, the chairman of the Investor Education Centre, a member of the Financial Reporting Council and a member of the Operations Review Committee of Independent Commission Against Corruption. Dr. Wong was appointed as a Justice of the Peace by the Government of the Hong Kong Special Administrative Region in 2013.

Mr. Ma Lishan, aged 66, was appointed as an independent non-executive Director of the Company on 19 August 2016. He is also the chairman of the Risk Management Committee and a member of each of the Audit Committee, the Remuneration Committee and the Nomination Committee of the Company. Mr. Ma has extensive experience in operation and management of modern large-scale corporations and listed companies. Mr. Ma graduated from Beijing Foreign Studies University in the PRC in 1975. He served in various positions such as chairman, executive director, general manager in certain large-scale joint ventures and Great Wall Wine under China Oil & Foodstuff Corporation. From January 1996 to June 2003, Mr. Ma served as an executive director of China Foods Limited, a company listed on the Stock Exchange (stock code: 506). From May 1997 to June 2003, Mr. Ma served as an executive director and the managing director of China Foods Limited. From June 2000 to June 2003, Mr. Ma served as the deputy general manager of China Foods Import and Export (Group) Co., Ltd.. Mr. Ma was the deputy chairman of Top Glory International Holdings Limited (a shareholder of COFCO Property (Group) Co., Ltd.) from June 2003 to July 2005. From June 2008 to January 2009, Mr. Ma was an executive director of Sino Resources Group Limited (now known as Elife Holdings Limited), a company listed on the Stock Exchange (stock code: 223). From March 2008 to present, he is an independent non-executive director of Silver Base Group Holdings Limited, a company listed on the Stock Exchange (stock code: 886). From 2 August 2009 to present, he is an independent non-executive director of Sunac China Holdings Limited, a company listed on the Stock Exchange (stock code: 1918). From September 2010 to August 2012, he was also the executive director, managing director and chairman of Hao Tian Resources Group Limited (now known as Hao Tian Development Group Limited), a company listed on the Stock Exchange (stock code: 474). He was the senior consultant in Hao Tian Development Group Limited from August 2012 to August 2016. From 28 June 2016 to present, Mr. Ma is an independent non-executive director of China Minsheng Drawin Technology Group Limited, a company listed on the Stock Exchange (stock code: 726). He is also currently an independent non-executive director of SRE Group Limited, a company listed on the Stock Exchange (stock code: 1207).

Mr. Guan Huanfei, aged 60, was appointed as an independent non-executive Director of the Company on 23 May 2017. He is also the chairman of the Remuneration Committee and a member of each of the Audit Committee and the Nomination Committee of the Company. Mr. Guan has extensive experience in the finance and insurance industry in Hong Kong and the PRC. He served various senior managerial positions in the People's Insurance Company of China (Jilin Branch), the business department of Hong Kong and Macao Regional Office of China Insurance Group, Ming An Insurance Company (Hong Kong) Limited and China Pacific Insurance Co., (HK) Ltd. Mr. Guan also held offices at the Bank of Communications, including the deputy chairman of the risk asset management committee, deputy chairman of credit asset management committee, chairman of loan verification committee, deputy general manager of the Bank of Communications Hong Kong Branch, the director of Bank of Communications Trustee Limited, the chairman and chief executive of China BOCOM Insurance Co., Ltd. and an executive director and general manager of BoCommLife Insurance Company Limited. Mr. Guan is also an economic and technical consultant of Jilin Provincial Government.

From May 2015 to September 2017, Mr. Guan served as an executive director of CCT Land Holdings Limited, a company listed on the Stock Exchange (stock code: 261). Mr. Guan is currently a non-executive director of Ping An Securities Group (Holdings) Limited (a company listed in Hong Kong, stock code: 231) and an independent non-executive director of China Shandong Hi-Speed Financial Group Limited (a company listed in Hong Kong, stock code: 412), China Nonferrous Mining Corporation Limited (a company listed in Hong Kong, stock code: 1258) and Sunwah Kingsway Capital Holdings Limited (a company listed in Hong Kong, stock code: 188). Mr. Guan is the chairman emeritus of Culturecom Holdings Limited (a company listed in Hong Kong, stock code: 343) and the chairman of the board of directors of UCAN.COM Group Limited, a subsidiary of Culturecom Holdings Limited, since July 2013. Mr. Guan was an independent non-executive director of Silver Base Group Holdings Limited (a company listed in Hong Kong, stock code: 886) for the period from March 2008 to January 2011 and was re-designated as an executive director and appointed as the chief executive officer of that company from January 2011 to December 2012 and has been engaged as a senior consultant of that company since January 2013. He has been appointed as the independent non-executive director of Wing Lung Insurance Company Limited since 1 December 2017.

Mr. Guan has been a part-time researcher of the Insurance Research Centre of Fudan University since 2004. He has also been appointed as a part-time lecturer of professional degree of Fudan University since 2013. Mr. Guan obtained a doctor's degree in Economics in 2000 from Wuhan University and was a post-doctoral researcher in Theoretical Economics with Fudan University from 2000 to 2002.

Changes in Information of Directors

Pursuant to Rule 13.51B of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"), the changes in information of the directors of the Company (the "Directors") subsequent to the date of the 2017 Interim Report of the Company are as follows:

(i) Dr. Niu Shaofeng, an Executive Director of the Company, resigned as a director of certain subsidiaries of the Company including Skymart Global Limited, Huarong International Capital Limited, Huarong International Services Limited, Grand Shine International Holdings Limited and Linewear Assets Limited, with effect from 1 March 2018;

(ii) Mr. Guan Huanfei ("Mr. Guan"), an Independent Non-executive Director of the Company has been appointed as an independent non-executive director of China Shandong Hi-Speed Financial Group Limited (HKSE: 412) with effect from 10 November 2017, and a non-executive director of Ping An Securities Group (Holdings) Limited (HKSE: 231) and an independent non-executive director of Wing Lung Insurance Company Limited, both with effect from 1 December 2017;

(iii) Mr. Guan resigned as an executive director of CCT Land Holdings Limited (HKSE: 261) with effect from 30 September 2017; and

(iv) Dr. Wong Tin Yau Kelvin, an Independent Non-executive Director of the Company, resigned as an independent non-executive director of Asia Investment Finance Group Limited (HKSE: 33) with effect from 14 February 2018.

SENIOR MANAGEMENT

Mr. Xu Ruibai, was appointed as the Director of Supervision of the Company on 20 February 2017. Mr. Xu has served as a judge of local court, High People's Court and the Supreme People's Court of the People's Republic of China for 25 years, while serving as a member of the standing committee and deputy mayor of Meishan City, Sichuan Province from 2007 to 2009. He is a second-grade senior judge, a part-time professor of National Judges College of China and School of Law in Jiangxi University of Finance and Economics, and the tutor of the post-graduate students. While working at the Supreme People's Court, Mr. Xu was responsible for hearing over 800 cases of civil and economic disputes, and participated in drafting of judicial interpretation on the Contract Law and the Guarantee Law. Mr. Xu joined China Huarong in April 2010, and has served successively as secretary of the disciplinary commission of Huarong Xiangjiang Bank, director, deputy secretary and head of the supervisory office of the disciplinary committee of China Huarong, and chairman of the board of supervisors of Huarong Capital Management Limited. Mr. Xu graduated from the Law School of Jilin University in 1985 with a bachelor degree in law.

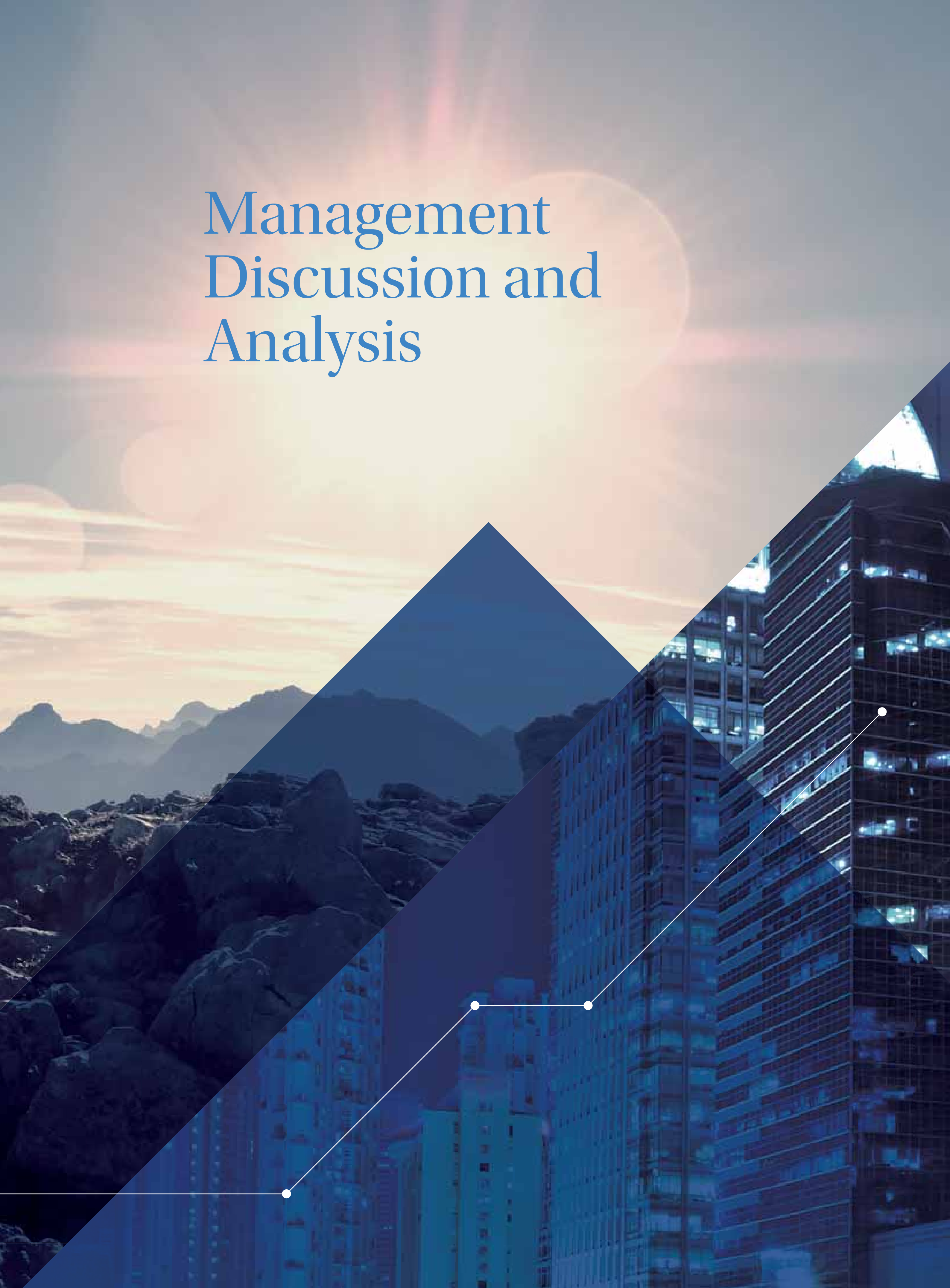
Ms. Ming Mei, was appointed as the Deputy Chief Executive Officer of the Company on 26 January 2018. Ms. Ming has worked successively in government departments, joint stock commercial banks and public fund companies in the PRC and has 22 years of experience in the commercial banking, fund and asset management business. Ms. Ming served successively at CITIC Bank as deputy manager of the general affairs department of the online banking section of the Head Office, assistant to general manager of the liabilities and intermediary business department of the retail banking section of the Head Office, vice-president, principal and president of Xidan Branch of the business department of the Head Office and general manager of the trade finance center of the corporate banking department of the Head Office. Prior to joining the Company, Ms. Ming served as co-director of the sales department of the pension investment center of ICBC Credit Suisse Asset Management Co., Ltd. Ms. Ming graduated from Renmin University of China with a bachelor's degree in philosophy and from Huazhong University of Science and Technology with a master's degree in industrial engineering.

Mr. Lee Po Tak Gilbert, was appointed as the Deputy Chief Executive Officer of the Company on 15 September 2015. He was chief operating officer of the Company before restructuring of the Group since he joined the Company in August 2010. He has over 29 years working experience in operational management in the banking, financial and investment banking industry. Mr. Lee possesses the Master Degree of Business Administration from University of Leicester, the Master Degree of Electronic Commerce from The Open University of Hong Kong, the Bachelor Degree of Laws from University of Wolverhampton and the Master Degree of Laws from University of London.

Ms. Ye Bai, was appointed as an Assistant to the Chief Executive Officer and the Chief Risk Officer of the Company on 8 December 2017. She has been working in the finance industry and with various listed companies for many years and has extensive experience in management. Ms. Ye joined North China Pharmaceutical Company Ltd. (Shanghai Stock Exchange: 600812) in 1996, and successively served as the budget section chief of such listed company, the head of finance department of Dongli branch (動力分公司) and the head of finance department of Hebei Huari Pharmaceuticals Co., Ltd. Ms. Ye joined China Huarong in 2007, and successively served as the manager of the Shijiazhuang Office, the deputy senior manager of the marketing department of China Huarong and the department general manager of Huarong International Trust Co., Ltd. Ms. Ye holds a master degree in engineering management and is a senior accountant.

Mr. Wang Xuejun, was appointed as the Board Secretary of the Company on 26 January 2018. Mr. Wang joined the Company in September 2017 as head of integrated management department. Prior to joining the Company, Mr. Wang worked in Daqing Branch of the People's Bank of China, Heilongjiang (黑龍江大慶市人民銀行), Daqing sub-division of CBRC (大慶銀監分局), CBRC Heilongjiang Office (黑龍江銀監局) and Hegang subdivision of CBRC, Heilongjiang (黑龍江鶴崗銀監分局). During his tenure in CBRC Heilongjiang Office (黑龍江銀監局), Mr. Wang served successively as deputy head of publicity department, deputy head of state-owned bank regulatory department (國有銀行監管處), head of Hegang sub-division of CBRC (鶴崗銀監分局) and head of foreign-funded bank regulatory department (外資銀行監管處). Mr. Wang graduated from School of Business, Renmin University of China with major in Finance and is an economist.

Management Discussion and Analysis



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, net gains on financial asset at fair value through profit or loss and gain on disposal of available-for-sale investment 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 the shareholders of the Company (the "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 approximately 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 of the Company licensed by the SFC, 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.

Report of the Directors

The Directors present their report and the audited consolidated financial statements of the Group for the year ended 31 December 2017.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. Details of principal activities of the principal subsidiaries of the Company are set out in note 1 to the consolidated financial statements. During the year ended 31 December 2017 and up to the date of this report, the Group expanded its businesses and operations by fully utilising its licenses issued under the Securities and Futures Ordinance ("SFO") (Type 1, 2, 4, 6 and 9 licences).

RESULTS AND DIVIDENDS

The Group's profit for the year ended 31 December 2017 and the financial position of the Group at that date are set out in the consolidated financial statements on pages 70 to 179.

The Company provides returns to its shareholders through the payment of dividend. The board of the Directors (the "Board") determines in its absolute discretion the payment of dividend and such payment amount in accordance with, among others, factors including operation results, cash flow, capital requirement, overall financial condition and future prospect. Taking into account the economic prospect, overall financial condition of the Group, its future expansion plan and other factors, the Board proposes to pay the 2017 final dividend of HK1.70 cents per share to the shareholders whose names appear on the register of members of the Company on 1 June 2018, based on the total number of issued shares of the Company of 3,588,466,011 as at 31 December 2017 and a total cash dividend of approximately HK$61 million, representing approximately 6.3% of the profit for attributable to the owners of the Company for the year ended 31 December 2017.

The Board has resolved to recommend the payment of a final dividend of HK1.70 cents per ordinary share in cash to the 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 annual general meeting (the "AGM") to be held on Thursday, 24 May 2018, 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.

BUSINESS REVIEW

The business review of the Group for the year ended 31 December 2017 is set out in the section headed "Management Discussion and Analysis" on pages 14 to 18 of this annual report, the discussion thereof forms part of the Report of the Directors.

SUMMARY FINANCIAL INFORMATION

A summary of the results and of the assets, liabilities and non-controlling interests of the Group for the last five financial periods, as extracted from the published audited consolidated financial statements and reclassified as appropriate, is set out on page 180 of this annual report. The summary does not form part of the audited consolidated financial statements.

PROPERTY, PLANT AND EQUIPMENT

Details of movements in the property, plant and equipment of the Group during the year ended 31 December 2017 are set out in note 16 to the consolidated financial statements.

SHARE CAPITAL

Details of movements in the Company's share capital during the year ended 31 December 2017 are set out in note 33 and 36 to the consolidated financial statements.

SHARE OPTION SCHEME

Details of the share option scheme of the Company are set out in note 34 to the consolidated financial statements.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the bye-laws of the Company (the "Bye-laws") or the laws of Bermuda which would oblige the Company to offer new shares on a pro rata basis to existing shareholders.

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.

RESERVES

Details of movements in the reserves of the Company and of the Group during the year are set out in note 37 to the consolidated financial statements and in the consolidated statement of changes in equity on page 74, respectively.

DISTRIBUTABLE RESERVES

As at 31 December 2017, the Company had reserves available for distribution in the amount of approximately HK$119,946,000 (31 December 2016: nil), in accordance with the provisions of the Companies Act 1981 of Bermuda (as amended).

DONATIONS

During the year ended 31 December 2017, the Group made charitable donations amounted to approximately HK$2,580,000.

MAJOR CUSTOMERS AND SUPPLIERS

During the year, the aggregate amount of turnover (including revenue, net gains on financial assets at fair value through profit or loss and gain on disposal of available-for-sale investments) attributable to the Group's five largest customers represented approximately 9.2% of the Group's total turnover and turnover to the largest customer included therein represented approximately 2.5%. None of the Directors of the Company or any of their close associates or any shareholders (who, to the best knowledge of the Directors, owns more than 5% of the Company's issued share capital) has any beneficial interest in the Group's largest customers. The Group is engaged in the provision of financial services. In the opinion of the Directors, it is of no value to disclose details of the Group's suppliers.

PRINCIPAL RISKS AND UNCERTAINTIES

The Group's business operations are highly dependent on the economic and market environment in China and Hong Kong. The principal risks and uncertainties faced by the Group include but not limited to (i) market risk that may arise when there is fluctuation of the equity price of companies invested by the Group; (ii) credit risk that may arise from possible default of the Group's business counterparties, including borrowers, trading counterparties and note issuers; and (iii) legal and compliance risk that may arise when the Group is not able to comply with changes in laws, regulations and rules of regulatory authorities that are applicable to it and its business on a timely manner due to the Group's rapid expansion and development of its business.

The Group assesses, monitors and manages the market and credit risks through the risk management department which is independent from the business department, and relevant assessment result is reported on time to relevant business teams of the Group. After receiving the assessment and report, the relevant business teams will propose market and credit risk mitigation plans and submit such plans to the management, after obtaining clearance from the legal department, the compliance department and the risk management department, for discussion and approval. While the relevant business teams are in charge of implementing risk mitigation plans, the risk management department cooperates closely with the business teams and make valuable recommendations on risk management.

The Group's legal department and compliance department keep track of the development of applicable laws, regulations and rules, and establish, improve and implement compliance policies for the Group as well as provide compliance advice for the management of the Group and the relevant business teams. The Group has also engaged external counsels to provide advice regarding development of laws, regulations and rules applicable to the Group and its business.

ENVIRONMENTAL POLICIES

The Board and the management of the Company is committed to better protecting the environment by encouraging its employees to reduce consumption of electricity and paper, reduce waste, and use environmental friendly products whenever possible. Details of the policies are set out in the Environmental, Social and Governance Report on pages 46 to 64 of this annual report.

COMPLIANCE WITH LAWS AND REGULATIONS

The Group's legal department and compliance department establish and implement compliance policies for the Group as well as provide compliance advice for the management of the Group and the relevant business teams. Steps have been taken to ensure that each potential business transaction engaged by the relevant business teams is in compliance with applicable laws, regulations and rules, including but not limited to the SFO, the Listing Rules, anti-money laundering laws, and the Foreign Account Tax Compliance Act. The Group has also engaged external counsels to provide advices regarding development of laws, regulations and rules applicable to the Group and its business.

RELATIONSHIP WITH EMPLOYEES

The Group recognizes the unique position and value of its employees. Apart from market competitive remuneration, the Group also provides positive working environment and organizes leisure activities such as birthday parties on a regular basis and annual dinner to build up strong connection with the employees. Details of the policies in relation to employment are set out in the Environmental, Social and Governance Report on pages 46 to 64 of this annual report.

RELATIONSHIP WITH CUSTOMERS

The Group is committed to providing excellent services to our customers with a view to maintaining steady business and asset growth as well as long term profitability.

DIRECTORS

The Directors who held office during the Year and up to the date of this report are:

Executive Directors:

Mr. Wang Qiang *(Chairman)*
(appointed on 20 February 2017 and re-designated as the Chairman on 13 April 2017)
Mr. Lai Jinyu *(Chief Executive Officer)* (appointed on 13 April 2017)
Dr. Niu Shaofeng (appointed on 8 January 2018)
Ms. Wang Wei (resigned on 8 January 2018)
Mr. Liu Xiaodong (resigned 13 April 2017)
Mr. Huang Rui (resigned on 20 February 2017)

Non-executive Directors:

Ms. Fan Haibo (appointed on 27 September 2017 and resigned on 16 March 2018)
Ms. Yu Xiaojing (appointed on 20 February 2017 and resigned on 27 September 2017)
Mr. Zeng Jianyong (resigned 20 February 2017)

Independent Non-executive Directors:

Dr. Wong Tin Yau Kelvin
Mr. Ma Lishan
Mr. Guan Huanfei (appointed on 23 May 2017)
Mr. Yeung Siu Keung (retired on 23 May 2017)

All Directors including Independent Non-executive Directors are appointed for a specific term and all Directors are subject to retirement and re-election at the first general meeting of the Company after their appointment, and thereafter subject to retirement by rotation and re-election at the AGM in accordance with the Bye-laws.

CONNECTED TRANSACTIONS

Certain related party transactions, disclosed in note 41 to the consolidated financial statements also constitute connected transactions or continuing connected transactions under the Listing Rules, are required to be disclosed in accordance with Chapter 14A of the Listing Rules. The Company confirmed that it has complied with the disclosure requirement as applicable to the following connected transactions or continuing connected transactions under Chapter 14A of the Listing Rules.

During the year ended 31 December 2017, the Group earned underwriting income of HK$5,951,940 from its fellow subsidiary, Huarong Finance 2017 Co., Ltd., in respect of its issuance of medium term notes.

The Directors, including the Independent Non-executive Directors, have reviewed the aforesaid continuing connected transactions and confirmed that these transactions were entered into:

(1) in the ordinary and usual course of business of the Group;

(2) on normal commercial terms or better;

(3) according to the agreements governing them on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole; and

(4) have not exceeded the relevant annual caps as disclosed in previous announcements.

The Company's auditor was engaged to report on the Group's continuing connected transactions in accordance with Hong Kong Standard on Assurance Engagements 3000 (Revised) "Assurance Engagements Other than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants. The management has confirmed that the auditor has issued an unqualified letter containing his findings and conclusions in respect of the aforesaid continuing connected transactions in accordance with Rule 14A.56 of the Listing Rules. A copy of the auditor's letter has been provided by the Company to the Stock Exchange.

Regarding the related party transactions as set out in note 41(b) to the consolidated financial statements, the loans from the intermediate holding company and the ultimate holding company, and the corresponding interest are connected transactions exempted from announcement, reporting and independent shareholders' approval requirements under the Listing Rules.

On 1 November 2017, the Company entered into an underwriting agreement with Huarong Securities Co., Ltd. ("Huarong Securities"), a non wholly-owned subsidiary of China Huarong, pursuant to which Huarong Securities shall underwrite the proposed issuance of non-public corporate bonds of the Company to qualified investors in the PRC by way of standby commitment underwriting. The Company shall pay the underwriting fees to be calculated at 0.75% of the actual total issue amount of the bonds to Huarong Securities with the maximum aggregate amount of underwriting fees payable being RMB15,000,000. No underwriting fee was incurred during the year ended 31 December 2017 and Huarong Securities will deduct the underwriting fees from the proceeds after completion of issue of the bonds.

DISCLOSURE PURSUANT TO RULE 13.21 OF THE LISTING RULES

As at 31 December 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	Term of one year (subject to the bank's review from time to time)	Note 2
28 November 2016	Uncommitted 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 3
15 December 2016	Uncommitted revolving loan facility with a bank	US$50,000,000	No fixed term and repayable on demand by the bank	Note 4
30 December 2016	Term loan facility with a bank	HK$700,000,000	Term of one year from the Company's acceptance of the facility	Note 4
21 June 2017	Term loan facility with a bank	HK$1,050,000,000	Term of one year after the date of the facility agreement	Note 5
29 June 2017	Revolving credit facility with a bank	US$40,000,000	No fixed term and repayable on demand by the bank	Note 6
7 July 2017	Revolving short term advance facility with a bank	US$40,000,000	No fixed term and repayable on demand by the bank	Note 7
25 September 2017	Term loan facility with a bank	HK$775,000,000	Term of twelve months from the utilization date of the facility	Note 8
23 October 2017	Term loan facility and dual currency revolving loan facility with a syndicate of banks	HK$2,720,000,000	Both facilities have a term of one year with a renewal option for another year	Note 9

Date of Agreements	Nature of Agreements	Aggregate Amount	Life of the Facility	Specific Performance Obligations
8 November 2017	Term loan facility with a bank	US$100,000,000	Term of twelve months from the drawdown date	Note 10
14 November 2017	Term loan facility with a syndicate of banks	HK$1,100,000,000	Term of twelve months from the date of the facility agreement	Note 11
6 December 2017	Term loan facility with a bank	HK$650,000,000	Term of one year from acceptance of the facility letter	Note 7
28 December 2017	Uncommitted revolving loan facility with a bank	US$300,000,000	No fixed term and repayable on demand by the bank	Note 4

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, ceases to maintain, directly or indirectly, majority interest in the borrower, and the bank may require the borrower to repay the facilities immediately, and terminate the facility letter.

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, and terminate the facility letter.

3. 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.

4. As long as the facility remains outstanding, China Huarong has undertaken to, among others, maintain its status as the Company's controlling shareholder.

5. The Company shall repay the facility immediately should China Huarong (a) ceases to own at least 51% of the issued share capital of the Company; (b) terminates, revokes or repudiates the comfort letter issued by it; or (c) ceases to provide shareholder loans to the Group in the aggregate principal amount of not less than US$500,000,000.

6. 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.

7. As long as the facility remains outstanding, China Huarong undertakes to, among others, 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.

8. As long as the facility remains outstanding, China Huarong has undertaken to, among others, maintain its status as the Company's controlling shareholder. During the term of the facility agreement, the Company shall promptly notify the lender if the Company becomes aware of any change of control and after a change of control, the lender may cancel the facility and declare all outstanding loans, together with accrued interest and all other amounts accrued under the facility agreement, to be immediately due and payable.

9. As long as the facilities remain outstanding, China Huarong has undertaken to, among others, maintain its status as the Company's controlling shareholder. Under the terms of the facility agreement, the Company will be in breach of the facilities upon the occurrence of (i) a change of control of the Company, or (ii) China Huarong ceasing to provide or continue to provide shareholder loans to the Group in an aggregate principal amount of not less than US$1,000,000,000, upon which the lenders may cancel the facilities and declare that all or part of the outstanding loans under the facilities, together with accrued interest and all other amounts outstanding, become immediately due and payable.

10. If the Company ceases to be directly or indirectly at least 51% beneficially owned and controlled by China Huarong, the Company shall notify the lender within five (5) business days and the lender may, with at least five (5) business days' notice, cancel the facility and declare all outstanding loans, together with accrued interest and all other amounts accrued under the facility agreement, to be immediately due and payable.

11. As long as the facility remains outstanding, China Huarong has undertaken to, among others, maintain its status as the Company's controlling shareholder. Under the terms of the facility agreement, upon (i) the occurrence of a change of control of the Company, (ii) China Huarong ceasing to be rated by Moody's Investors Services Limited, S&P Global Ratings and Fitch Ratings Ltd. (or their respective successors), or (iii) an event of default in relation to China Huarong of US$50,000,000 or above (or its equivalent in other currencies) which is not remedied within 10 business days (if capable of remedy), a mandatory prepayment event will be triggered and the facility will be cancelled and all the outstanding principal amounts under the facility, together with accrued interest, shall become immediately due and payable by the Company. Under the cross default provision of the facility agreement, it is an event of default of the Company if any member of China Huarong and its subsidiaries (the "Parent Group") is in default of any financial indebtedness unless the aggregate amount of financial indebtedness of the Parent Group in default is less than US$50,000,000 (or its equivalent in other currencies) or such default is remedied within 10 business days from the day on which it occurs. If any event of default under the facility agreement occurs, the majority lenders may by notice to the Company through the agent, cancel the facility or any part thereof and declare all or part of the outstanding principal amounts under the facility, together with accrued interest, become immediately due and payable.

Details of the above mentioned banking facilities are set out in the announcements of the Company dated 23 September 2016, 4 October 2016, 28 November 2016, 15 December 2016, 30 December 2016, 21 June 2017, 29 June 2017, 7 July 2017, 25 September 2017, 23 October 2017, 8 November 2017, 14 November 2017, 6 December 2017 and 28 December 2017.

DIRECTORS' SERVICE CONTRACTS

Each of the Directors has entered into an appointment letter with the Company and was appointed for a specific term, any of which is not more than three years.

All of the Directors are subject to retirement by rotation at least once every three years and in accordance with the Bye-laws. There is no service contract with the Group, which is not determinable by the Group within one year without payment of compensation (other than normal statutory compensation), in respect of any Director proposed for re-election at the forthcoming AGM.

DIRECTORS' INTERESTS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS OF SIGNIFICANCE

Save as disclosed in note 11 to the consolidated financial statements, no transactions, arrangements or contract of significance between the Company or any of its subsidiaries and the Company's controlling shareholder or any of its subsidiaries, in which a Director or an entity connected with a Director had a material interest, whether directly or indirectly, subsisted during or at the end of 31 December 2017.

MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the year ended 31 December 2017.

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 31 December 2017, none of the Directors nor chief executives of the Company or their respective associates had any interest or short position in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of 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.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

At no time during the year ended 31 December 2017 was the Company, its subsidiaries, its fellow subsidiaries or its holding companies a party to any arrangement whose objects are, or one of whose objects is, to enable the Directors and chief executives of the Company (including their spouse and children under 18 years of age) to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or its associated corporations or any other body corporate.

INDEMNITY PROVISION

Pursuant to the Bye-laws, every Director shall be entitled to be indemnified out of the assets and profits of the Company from and against all actions, costs, charges, losses, damages and expenses which he/she may sustain or incur in or about the execution of the duties of his/her office or otherwise in relation thereto, provided that the indemnity shall not extend to any matter in respect of any willful negligence, willful defaults, fraud or dishonesty which may attach to the said persons. The Company has arranged appropriate directors' and officers' liability insurance coverage for the Directors and officers of the Group during the year ended 31 December 2017 and up to the date of this annual report.

SUBSTANTIAL SHAREHOLDERS' INTERESTS

As at 31 December 2017, so far as was known to the Directors and chief executives of the Company, the following persons or corporations (other than a Director or chief executives 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%
China Huarong International Holdings Limited ("CHIH") *(Note 1)*	Interests in controlled corporation	Long position	1,830,117,664	51%
Camellia Pacific Investment Holding Limited ("Camellia")	Beneficial owner	Long position	1,830,117,664	51%
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	Long position	646,220,529	18.01%
	Interests in controlled corporation	Long position	129,000,000	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%

Notes:

1. 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.

2. Tian Yuan Group is 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 is 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.

Saved as disclosed above, the Company had not been notified and is not aware of any other persons who had an interest and/or 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 31 December 2017.

CORPORATE GOVERNANCE

A report on the principal corporate governance practices adopted by the Company is set out on pages 31 to 43 of this annual report.

SUFFICIENCY OF PUBLIC FLOAT

Based on information that is publicly available to the Company and within the knowledge of the Directors, at least 25% of the Company's total issued share capital was held by the public throughout the year ended 31 December 2017.

EVENTS AFTER THE END OF THE REPORTING PERIOD

Details of the significant events after the end of the reporting period of the Group are set out in note 47 to the consolidated financial statements.

AUDIT COMMITTEE

The Audit Committee was established in accordance with the requirements of Rule 3.21 of the Listing Rules, for the purposes of reviewing and providing supervision over the Group's financial reporting process and internal control system, and compliance with the relevant rules and regulations. The Audit Committee currently comprises three Independent Non-executive Directors, namely Dr. Wong Tin Yau Kelvin (chairman), Mr. Ma Lishan and Mr. Guan Huanfei. The Audit Committee has reviewed the audited financial statements of the Group for the year ended 31 December 2017.

AUDITOR

A resolution will be submitted to the forthcoming AGM to re-appoint Messrs Deloitte Touche Tohmatsu as auditor of the Company.

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 for registration by no 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 days 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 for registration by no later than 4:30 p.m. on 30 May 2018.

On behalf of the Board
Huarong International Financial Holdings Limited
Wang Qiang
Chairman

Hong Kong, 16 March 2018

The Company is committed to achieving high standards of corporate governance. The Company believes that conducting the Group's business in an open and responsible manner and following good corporate governance practices serve its long-term interests and those of its shareholders. 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 (the "CG Code") as set out in Appendix 14 of the Listing Rules.

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transaction by Directors of Listed Issuers in Appendix 10 of the Listing Rules (the "Model Code") as its own code of conduct regarding securities transactions by the Directors. In response to specific enquiry made by the Company, all Directors confirmed that they have complied with the required standards as set out in the aforesaid Model Code throughout the year ended 31 December 2017 and up to the date of this report.

BOARD OF DIRECTORS

Board Composition

The Board of Directors currently has six Directors comprising three Executive Directors and three Independent Non-executive Directors, whose names and offices are listed on page 2 of this annual report.

The Directors give sufficient time and attention to the Company's affairs. The Company requests the Directors to disclose annually to the Company the number and nature of offices held in public companies or organizations and other significant commitments.

The Independent Non-executive Directors provide the Board with diversified skills, expertise and experience. Their views and participation in the Board and committees meetings bring independent, constructive and informed comments on issues relating to the Company's strategies and policies to ensure that the interests of all shareholders are taken into account.

An updated list of the Directors identifying their roles and functions is maintained on the websites of the Company and the Hong Kong Exchanges and Clearing Limited ("HKEx"). Independent Non-executive Directors are identified as such in all corporate communications containing the name of the Directors.

None of the members of the Board has any relationship with one another (including financial, business, family or other material/relevant relationship(s)).

Board Diversity

The Company has already adopted a board diversity policy (the "Board Diversity Policy") in August 2013 setting out the approach to achieve diversity on the Board.

The Company considers diversity as a wide concept and believes that a diversity of perspectives can be achieved through consideration of a number of factors, including but not limited to gender, age, cultural background, educational background and professional experience. All director appointments will be based on meritocracy, in the context of the skills and experience required by the Board as a whole to be effective. The ultimate decision will be based on merit and contribution that the selected candidate will bring to the Board.

The Nomination Committee of the Company will monitor the achievement of the measurable objectives set out in the Board Diversity Policy and review the same as appropriate to ensure its continuous effectiveness.

Directors' and Officers' Liabilities Insurance

The Company has arranged appropriate insurance coverage on the liabilities of the Directors and officers of the Group in respect of any legal actions taken against the Directors and officers of the Group arising out of corporate activities.

Delegation by the Board

The Board is responsible for overseeing the strategic development of the Group and for determining the objectives, strategies, policies and business plan of the Group. In addition to its overall supervisory role, the Board retains specific responsibilities such as approving the Group's strategic direction and other important matters such as interim and annual results, dividends, annual financial budgets, business and operation plans etc., while delegating day-to-day operations of the Group to the management.

The Board gives clear directions as to the management's power, and periodically reviews the delegations to the management to ensure that they are appropriate and continue to be beneficial to the Group as a whole. The management are required to report to the Board in relation to their decisions, findings or recommendations, and in certain specific situations, to seek the Board's approval before taking any action.

To comply with the requirements under the CG Code, the Board is also responsible for performing the corporate governance duties. During the year ended 31 December 2017, the Board has performed the corporate governance duties set out in D.3.1 of the CG Code, including but not limited to reviewing the Company's compliance with the CG Code and disclosure in the Corporate Governance Report.

Board Meetings

The Board meets at least four times each year at approximately quarterly intervals to discuss the Group's overall strategy, operation and financial performance. A tentative meeting schedule of the Board and the Board committees for the whole year is provided to the Directors prior to the beginning of each year. In addition, at least 14 days' notice of all regular Board meetings and an agenda with supporting Board papers no less than 3 days prior to the meeting are given to all Directors and all Directors are given the opportunity to include matters for discussion in the agenda. The Chairman also ensures that all Directors are supplied with adequate information in a timely manner before each meeting and that all Directors are properly briefed on issues arising at Board meetings. Senior executives of the Group are invited to attend the Board meetings to present and answer any enquiries raised by Directors. At all time the Board and each Director have separate and independent access to the Company's senior executives for the purpose of obtaining additional information.

During the year ended 31 December 2017, the Board held four regular meetings and six ad-hoc meetings. The attendance record of individual Directors is set out below. Figure in brackets indicates the total number of meetings held in the period in which the individual was a Director.

Directors	Attendance
Executive Directors	
Wang Qiang *(Chairman)* (appointed on 20 February 2017)	9/(9)
Lai Jinyu *(Chief Executive Officer)* (appointed on 13 April 2017)	6/(7)
Niu Shaofeng (appointed on 8 January 2018)	N/A
Independent Non-executive Directors	
Wong Tin Yau Kelvin	10/(10)
Ma Lishan	10/(10)
Guan Huanfei (appointed on 23 May 2017)	5/(5)
Former Directors	
Huang Rui (resigned on 20 February 2017)	1/(1)
Zeng Jianyong (resigned on 20 February 2017)	0/(1)
Liu Xiaodong (resigned on 13 April 2017)	3/(3)
Yeung Siu Keung (retired on 23 May 2017)	3/(4)
Yu Xiaojing (appointed on 20 February 2017 and resigned on 27 September 2017)	4/(6)
Wang Wei (resigned on 8 January 2018)	9/(10)
Fan Haibo (appointed on 27 September 2017 and resigned on 16 March 2018)	1/(3)

The Directors have access to relevant and timely information, and they can ask for further information or retain independent professional advisors at the Company's expense to assist them in performing their duties if necessary. They can also have access to advice and services of the Company Secretary, who is responsible for providing the Directors with board papers and related materials and ensuring that Board procedures are followed. The Directors are given sufficient time for discussion at the Board meetings. Where queries are raised by the Directors, the management will provide prompt and full responses to the extent possible.

Should a potential conflict of interest involving a substantial shareholder or one or more of the Directors arises which the Board has determined to be material, the matter will be discussed in a physical board meeting, as opposed to being dealt with by written resolution. The Independent Non-executive Directors with no material interest in the transaction will be present at the meetings to deal with such conflict issues.

The Company Secretary is responsible for compiling minutes of the Board meetings and meetings of the Board Committees. The minutes record in sufficient details the matters considered by the Board and the Board Committees, decisions reached, including any concerns raised by the Directors or dissenting views expressed. All such minutes are kept by the Company Secretary and are available for inspection by the Directors upon request.

Chairman and Chief Executive Officer

In order to reinforce their respective independence, accountability and responsibility, the roles of Chairman and Chief Executive Officer (the "CEO") of the Company are segregated. Mr. Wang Qiang is currently the Chairman and Mr. Lai Jinyu is the CEO of the Company.

The Chairman is responsible for the leadership and effective running of the Board, and for ensuring that all key and appropriate issues are discussed by the Board in a timely and constructive manner. The Directors are encouraged to participate actively in all Board and committee meetings of which they are members. The Chairman holds at least one meeting annually with the Non-executive Directors (including Independent Non-executive Directors) to exchange views and comments further to those discussed at the Board meeting. The CEO, supported by other Board members and the senior management, is responsible for the day-to-day management of the Group's business, including developing and proposing the Group's strategies and policies for the Board's consideration and the implementation of major strategies and policies approved by the Board and its committees.

Independent Non-executive Directors

Every Independent Non-executive Director is appointed for a specific term not more than three years under their respective letters of appointment. All Directors including Independent Non-executive Directors are subject to retirement by rotation and eligible for re-election at annual general meeting at least once every three years in accordance with the Bye-laws. The Company has issued formal letters of appointment to its Directors setting out key terms of their appointments.

The Company has received from all Independent Non-executive Directors' confirmation of independence pursuant to the independence guidelines set out in Rule 3.13 of the Listing Rules and considers that they are independent. None of them has served the Company for more than nine years.

Directors' Continuous Professional Development

Every newly appointed Director is provided with a comprehensive induction and information to ensure that he/she has a proper understanding of the Company's operations and businesses as well as his/her responsibilities under the relevant statutes, laws, rules and regulations.

Development and training of Directors is an ongoing process so that they can perform their duties appropriately. The Directors are provided with monthly updates on the Company's performance, position and prospects to enable the Board as a whole and each Director to discharge their duties. In addition, the Directors are encouraged to participate in continuous professional development to develop and refresh their knowledge and skills to ensure that they continue to make contribution to the Board in an informed and relevant manner. The Company updates Directors on the latest development regarding the Listing Rules and other applicable regulatory requirements from time to time, to ensure compliance and enhance their awareness of good corporate governance practices.

The training received by the Directors during the year ended 31 December 2017 and up to the date of this report is summarized as follows:

Directors	Types of training
Wang Qiang (appointed on 20 February 2017)	A, B
Lai Jinyu (appointed on 13 April 2017)	A, B
Niu Shaofeng (appointed on 8 January 2018)	A
Wang Wei (resigned on 8 January 2018)	A, B
Fan Haibo (appointed on 27 September 2017 and resigned on 16 March 2018)	A
Wong Tin Yau Kelvin	A, B
Ma Lishan	A, B
Guan Huanfei (appointed on 23 May 2017)	A, B

A – attending seminars/conferences/forums/briefings/workshops/programmes relevant to the business or director's duties

B – reading articles relevant to corporate governance, regulatory updates and directors' duties and responsibilities

Company Secretary

The Company Secretary is responsible for facilitating the Board's processes and communications among Board members, with the Shareholders and with the management.

During the year ended 31 December 2017, the Company Secretary has undertaken not less than 15 hours of relevant professional training to update her skills and knowledge.

BOARD COMMITTEES

The Company currently has five Board committees, namely Audit Committee, Remuneration Committee, Nomination Committee, Executive Committee and Risk Management Committee for overseeing particular aspects of the Company's affairs. The Board committees are provided with sufficient resources to discharge their duties and, upon reasonable request, are able to seek independent professional advice in appropriate circumstances, at the Company's expenses. Terms of Reference of respective Board committees are available on the websites of the Company and HKEx.

Audit Committee

The current composition of the Audit Committee consists of three Independent Non-executive Directors and is chaired by Dr. Wong Tin Yau Kelvin. No former partner of the Company's existing auditing firm has acted as a member of the Audit Committee.

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. It also acts as an important link between the Board and the Company's internal and external auditors in matters within the scope of the Group audit.

The Audit Committee met regularly with the senior management, the external and internal auditors to consider and discuss the Group's financial reporting process, systems of internal control and compliance. It has considered the appointment of the external auditors and the audit fee, and discussing with the external and internal auditors the nature and scope of audit before any audit commences. In addition, it discussed matters raised by the internal auditors and external auditors to ensure that appropriate recommendations are implemented.

The Audit Committee held four meetings during the year ended 31 December 2017. It had reviewed the interim and annual results of the Group and discussed and approved the relevant financial reports, reviewed the Group's internal control system, internal audit activities and discussed the audit plan for the financial year 2017. Private session between the Committee members and the external auditors without the presence of the management had also been arranged. The attendance record of individual members is set out below. Figure in brackets indicates the total number of meetings held in the period in which the individual was a member of the Audit Committee.

Committee members	Attendance
Wong Tin Yau Kelvin *(Chairman)*	4/(4)
Ma Lishan	4/(4)
Guan Huanfei (appointed on 23 May 2017)	2/(2)
Former Committee members	
Yeung Siu Keung (retired on 23 May 2017)	1/(2)

The Audit Committee is provided with sufficient resources enabling it to perform its duties. There was no disagreement between the Board and the Audit Committee on the selection, appointment, resignation or dismissal of the external auditors.

Remuneration Committee

The current composition of the Remuneration Committee consists of three Independent Non-executive Directors and is chaired by Mr. Guan Huanfei.

The primary objectives of the Remuneration Committee include making recommendations to the Board on the Company's policy and structure of remuneration packages of the Directors and senior management. The Remuneration Committee is also responsible for establishing formal and transparent procedures for developing remuneration policy and structure to ensure that no Director or any of his/her associates will participate in his/her own remuneration, which remuneration will be determined by reference to the performance of the individual and the Company as well as market practice and conditions. The Remuneration Committee, with delegated responsibility, is responsible for reviewing annually the existing remuneration policy including the remuneration packages of individual Executive Directors and senior management whereas the Board as a whole is responsible for determining the remuneration of Non-executive Directors (including the Independent Non-executive Directors) with recommendations from the Remuneration Committee, if any.

During the year ended 31 December 2017, two Remuneration Committee meetings were held. The attendance record of individual members is set out below. Figure in brackets indicates the total number of meetings held in the period in which the individual was a member of the Remuneration Committee.

Committee members	Attendance
Guan Huanfei (appointed on 23 May 2017) *(Chairman)*	1/(1)
Wong Tin Yau Kelvin	2/(2)
Ma Lishan	2/(2)
Former Committee members	
Yeung Siu Keung (retired on 23 May 2017)	1/(1)

During the year ended 31 December 2017, the Remuneration Committee made recommendations to the Board on the Executive Directors and the senior management's incentive bonus and salaries, reviewed the director fees of the Non-executive Directors (including the Independent Non-executive Directors) and made recommendations to the Board for such to be approved, if thought fit, and reviewed the remuneration proposal for the senior management of the Company and made recommendations to the Board.

Further particulars regarding the Directors' remuneration and individuals with highest emoluments are set out in notes 11 and 12 to the consolidated financial statements.

Nomination Committee

The Nomination Committee of the Company currently comprises three Independent Non-executive Directors and the Chairman of the Company, and is chaired by Dr. Wong Tin Yau Kelvin.

The roles and responsibilities of the Nomination Committee, as set out in its terms of reference, are published on the websites of the Company and HKEx. These primarily include considering the selection criteria and procedures of the Directors and the senior management in accordance with the recommendations of the Chairman of the Board and make recommendations to the Board; identifying individuals suitably qualified to become Board members in accordance with the recommendations of the Chairman of the Board and select or make recommendations to the Board on the selection of individuals nominated for directorships; assessing the independence of Independent Non-executive Directors in accordance with the recommendations of the Chairman of the Board; and making recommendations to the Board on the appointment or reappointment of the Directors and succession planning of the Directors in accordance with the recommendations of the Chairman of the Board.

During the year ended 31 December 2017, five Nomination Committee meetings were held. The attendance record of individual members is set out below. Figure in brackets indicates the total number of meetings held in the period in which the individual was a member of the Nomination Committee.

Committee members	Attendance
Wong Tin Yau Kelvin *(Chairman)*	5/(5)
Wang Qiang (appointed on 13 April 2017)	3/(3)
Ma Lishan	5/(5)
Guan Huanfei (appointed on 23 May 2017)	2/(2)
Former Committee members	
Zeng Jianyong (resigned on 20 February 2017)	0/(1)
Liu Xiaodong (resigned on 13 April 2017)	2/(2)
Yeung Siu Keung (retired on 23 May 2017)	2/(2)
Yu Xiaojing (appointed on 20 February 2017 and resigned on 27 September 2017)	1/(3)
Fan Haibo (appointed on 27 September 2017 and resigned on 16 March 2018)	0/(1)

During the year ended 31 December 2017, the Nomination Committee considered and recommended to the Board the re-election of directors who were subject to retirement by rotation at the 2017 annual general meeting of the Company, conducted annual review of the structure, size and composition (including the skills, knowledge and experience) of the Board, and considered the appointment of several Directors and made recommendations to the Board for such to be approved, if the Board thought fit. The Nomination Committee has considered, among others, the Board Diversity Policy in making their recommendations of candidates.

Executive Committee

The current composition of the Executive Committee consists of three Executive Directors and is chaired by Mr. Wang Qiang.

The major roles and functions of the Executive Committee are as follows:

- the rights to make investment decision granted to the Board and delegated to the Executive Committee;
- to handle relevant matters that shall not be necessarily dealt with through regular Board meetings or too late to be dealt with through provisional Board meetings as considered by the Chairman of the Board; and
- to handle any other matters provisionally authorised by the Board to the Executive Committee.

During the year ended 31 December 2017, the Executive Committee considered and approved investment projects under their delegated authority and other day-to-day operations as assigned by the Board. No physical Executive Committee meeting was held. All matters were circulated to the members of the Executive Committee for consideration and approval by way of written resolutions.

Risk Management Committee

The current composition of the Risk Management Committee consists of two Executive Directors and one Independent Non-executive Director, and is chaired by Mr. Ma Lishan. The major roles and functions of the Risk Management Committee are as follows:

- to advise the Board on the risk appetite statements, risk principles and other risk-related issues of the Company and its subsidiaries, including strategic transactions such as mergers, acquisitions and disposals;
- to discuss with management the scope and quality of the risk management system and ensure that management has discharge its duty to maintain effective systems;
- to review the major investigation findings on risk management matters and the management's response to these investigation findings as delegated by the Board or on its own initiative;
- to approve the Company's risk policies and risk tolerances, review the risk reports and examine the breaches of risk tolerances and policies;
- to consider emerging risks relating to the Company's business and strategies, and assess whether appropriate arrangements are put in place to control and mitigate the risks effectively;
- to review and assess the adequacy and effectiveness of the Company's risk management framework, internal control system and risk management policies and procedures in identifying, measuring and controlling risks; to review and assess the effectiveness of the Company's risk management/mitigation instruments, including the enterprise risk management programme, risk management system, internal audit function relating to risk management and the Company's contingency plans; to ensure that the aforementioned reviews and assessment are conducted at least once a year; and
- to review the Company's capital adequacy and solvency level.

During the year ended 31 December 2017, two Risk Management Committee meetings were held. The attendance record of individual members is set out below. Figure in brackets indicates the total number of meetings held in the period in which the individual was a member of the Risk Management Committee.

Committee members	Attendance
Ma Lishan *(Chairman)*	2/(2)
Lai Jinyu (appointed on 13 April 2017)	2/(2)
Niu Shaofeng (appointed on 8 January 2018)	N/A
Former Committee members	
Huang Rui (resigned on 20 February 2017)	N/A
Zeng Jianyong (resigned on 20 February 2017)	N/A
Wang Qiang (appointed on 20 February 2017 and resigned on 13 April 2017)	N/A
Yu Xiaojing (appointed on 20 February 2017 and resigned on 27 September 2017)	1/(1)
Wang Wei (resigned on 8 January 2018)	1/(2)
Fan Haibo (appointed on 27 September 2017 and resigned on 16 March 2018)	0/(1)

During the year ended 31 December 2017, the Risk Management Committee reviewed and assessed the adequacy and effectiveness of the Company's risk management and internal control system and internal audit function on a semi-annually basis, reviewed the risk management plan for the second half of 2017 and for the year of 2018, discussed with the management if there was any major investigation findings on new risks relating to the Company's business and strategies and risk management matters, and made recommendations on improvement of the risk management system of the Company.

RISK MANAGEMENT AND INTERNAL CONTROL

The Board is responsible for assessing and determining the nature and extent of risk that the Group is willing to accept for achieving its strategic objectives, and overseeing the management in the design, implementation and supervision of the risk management and internal control system, so as to ensure that the Group sets up and maintains robust and effective risk management and internal control system. The management takes charge of the day-to-day operation of the risk management and internal control system, and confirms to the Board on the effectiveness of the system.

Risk Management and Internal Control System

The Group has established scientific and effective risk management and internal control systems based on COSO internal control framework. This can reasonably ensure the legality and compliance of its operation and management, assets security, financial reporting and relevant information being true and complete; enhance operation efficiency and effectiveness; and promote the development strategy of the Group. The aforesaid control system is established to manage rather than eliminate the risk of failure to achieve business objectives, and only to provide reasonable, but not absolute assurance against material misstatements or losses.

In accordance with requirements of the Code on Corporate Governance Practices of the Stock Exchange, the Group constantly strengthens its procedures of identification, assessment and management of material risks, and have established a risk management system of "One Vertical, One Horizontal and Four Lines of Defense". "One Vertical" refers to a "Vertical Risk Management System" based on a standardized corporate governance structure. "One Horizontal" refers to a "Horizontal Risk Management process" that carries out prior inspection, advance warning, on-going monitoring, post-evaluation and feedback through an entire transaction. "Four Lines of Defense" refers to that (i) operating departments are directly responsible for their own conduct and form the first line of defense in risk management; (ii) the Risk Management Department, Legal Affairs Department, Compliance Department and Supervision Department are designated as primary entities responsible for risk management, and jointly build up the second line of defense in risk management; (iii) the Investment Decision Committee is responsible for business review and project risk assessment and supervision, which forms the third line of defense in risk management; and (iv) the Internal Audit Department independently inspects and supervises on the completeness, reasonability and effectiveness of the internal control system, which forms the fourth line of defense in risk management.

In strict compliance with the relevant laws and regulations and taking into account of industrial characteristics and the Group's own circumstances, the Group has continuously optimized rules on its internal control system and the management, and standardized its business process. The Group also ensures that the internal control is implemented in every business process of decision-making, execution and supervision of each business line and management section. The Group has built up an information disclosure system, which has been properly disclosed in compliance of the Listing Rules, in order to regulate disclosure of results announcement, price-sensitive information and other significant information. Moreover, the Group has established a tiered system for approval and review, so as to ensure the integrity, accuracy and completeness of the Company's financial reports and related information being disclosed.

Annual Review on Risk Management and Internal Control System and Internal Audit Function

The Group is constantly devoted to strengthening internal control and risk management, and maintains a good risk management and internal control system. The Company's principal risk management and internal control measures in 2017 are summarized as follows:

The Board, management, functional management departments and business operation departments have established an internal control governance structure with reasonable job division and clear duties. The Risk Management Committee and Audit Committee under the Board were responsible for the review of the risk management and internal control system of the Company, and the overall supervision of the effective implementation of risk management and internal control system as well as the self-assessment of the day-to-day internal control system. The Audit Committee, delegated by the Board, reviewed the effectiveness of the risk management and internal control system and the internal audit function of the Group. The Internal Audit Department was responsible for conducting the work for the risk management and internal control assessment (the "Internal Control Review") and reported to the Audit Committee.

For the year ended 31 December 2017, the Internal Audit Department continued to uphold the principles of "Supervision and Services, Defects Detecting and Correction, and Management Enhancement" and developed, among others, the internal control assessment manual and the auditing procedures manual in order to achieve the Group's development objectives. The Internal Control Review carried out inspection and assessment to some high risk areas and key control points such as financial control, operational control and compliance control after implementing a comprehensive evaluation. The Group designed a feasible plan in order to rectify the defects detected in relation to the internal control system's establishment and implementation through inspection and assessment of the same. Thus, the Group put the risk management effort in its daily operations, and promoted its compliance with laws and regulations, so that the Group optimized and improved its risk management and internal control system in order to further enhance its risk prevention capabilities and uplift its operation and management standards.

For the year ended 31 December 2017, the Board continued to oversee the risk management and the internal control systems of the Group. The Audit Committee, delegated by the Board, conducted a formal annual review on the risk management and internal control systems. The Board also considered the adequacy of resources, relevant staff qualifications and experience, training programmes and budget of the Group's accounting, internal audit and financial reporting functions. After receiving the report from the Audit Committee and obtaining the management's confirmation on the effectiveness of the systems, the Board considers that the Group's risk management and internal control system and its internal audit function were adequate and effective.

ACCOUNTABILITY AND AUDIT

The Directors acknowledge their responsibility for preparing the financial statements of the Group for each financial period and confirmed that the consolidated financial statements contained herein give a true and fair view of the consolidated financial position of the Group as at 31 December 2017, and of the consolidated financial performance and the consolidated cash flow of the Group for the year ended 31 December 2017. In preparing the accounts for the year ended 31 December 2017. The Directors, with the assistance of the management, selected the suitable accounting policies and applied them consistently, approved the adoption of all Hong Kong Financial Reporting Standards which are in conformity to the International Financial Reporting Standards, made judgements and estimates that were prudent, and prepared the accounts on the going concern basis. Such acknowledgement should be read in conjunction with, but be distinguished from, the Independent Auditor's Report of the external auditors of the Company, Deloitte Touche Tohmatsu ("Deloitte"), in relation to their reporting responsibilities as set out in their auditor's report on pages 65 to 69 of this annual report.

The Directors are not aware of any material uncertainties relating to events or conditions that may cast significant doubt upon the Company's and the Group's ability to continue as a going concern. Accordingly, the Directors have prepared the consolidated financial statements on a going concern basis.

Deloitte has been acted as the external auditors of the Company since November 2015. The financial statements of the Company for the year ended 31 December 2017 have been audited by Deloitte. For the year ended 31 December 2017, fees charged by Deloitte for audit services amounted to HK$2,725,000 and for interim review fee of HK$480,000. Non-audit services fee of HK$315,000 mainly included tax advisory fee of HK$35,000 and professional services fee rendered in connection with corporate bonds of HK$280,000.

COMMUNICATION WITH SHAREHOLDERS

The Board has established a shareholders' communication policy and posted it on the website of the Company setting out the principles of the Company in relation to the shareholders' communications, with the objective of ensuring that the shareholders are informed of balanced and understandable information about the Company (including the Group's strategies, businesses, major developments and financial performance) in a factual and timely manner and to enable them to exercise their rights as shareholder in an informed manner. The Company aims to be open and transparent with its shareholders and encourage the shareholders' active participation at the Company's general meetings.

Information would be communicated to the shareholders mainly through the Company's corporate communications (such as interim and annual reports, announcements and circulars), annual general meetings and other general meetings, as well as disclosure on the website of the Company. Interim reports, annual reports and circulars are sent to the shareholders in a timely manner and are also available on the website of the Company. The Company's website provides the shareholders with the corporate information.

The shareholders are provided with contact details of the Company, such as telephone hotline, fax number, email address and postal address, in order to enable them to make any query that they may have with respect to the Company. They can also send their enquiries to the Board through these means. In addition, the shareholders can contact Tricor Tengis Limited, the branch share registrar of the Company, if they have any enquiries about their shareholdings and entitlements to dividend.

The Company's AGM allows the Directors to meet and communicate with the shareholders. The Company ensures that the shareholders' views are communicated to the Board. The chairman of AGM proposes separate resolutions for each issue to be considered. AGM proceedings are reviewed from time to time to ensure that the Company follows good corporate governance practices. The notice of AGM is distributed to all shareholders at least 20 clear business days prior to AGM and the accompanying circular also sets out details of each proposed resolution and other relevant information as required under the Listing Rules. Separate resolution is proposed for each issue to be considered at the meeting. The chairman of AGM exercises his power under the Bye-laws to put each proposed resolution to the vote by way of a poll. The procedures for demanding and conducting a poll are explained at the meeting prior to the polls being taken. Voting results are posted on the Company's website and HKEx on the day of AGM.

During the year ended 31 December 2017, the Company held one general meeting. The attendance record of individual Directors is set out below. Figure in brackets indicates the total number of meetings held in the period in which the individual was a Director of the Company.

Directors	Annual General Meeting
Executive Directors	
Wang Qiang (Chairman) (appointed on 20 February 2017)	1/(1)
Lai Jinyu (appointed on 13 April 2017)	1/(1)
Niu Shaofeng (appointed on 8 January 2018)	N/A
Independent Non-executive Directors	
Wong Tin Yau Kelvin	1/(1)
Ma Lishan	1/(1)
Guan Huanfei (appointed on 23 May 2017)	N/A
Former Directors	
Huang Rui (resigned on 20 February 2017)	N/A
Zeng Jianyong (resigned on 20 February 2017)	N/A
Liu Xiaodong (resigned on 13 April 2017)	N/A
Yeung Siu Keung (retired on 23 May 2017)	0/(1)
Yu Xiaojing (appointed on 20 February 2017 and resigned on 27 September 2017)	0/(1)
Wang Wei (resigned on 8 January 2018)	1/(1)
Fan Haibo (appointed on 27 September 2017 and resigned on 16 March 2018)	N/A

SHAREHOLDERS' RIGHTS

Pursuant to Bye-law 58 of the Bye-laws, any one or more shareholders holding at the date of deposit of the requisition not less than one-tenth of the paid up capital of the Company carrying the right of voting at general meetings of the Company shall at all times have the right, by written requisition to the Board or the Company Secretary of the Company, to require a special general meeting to be called by the Board for the transaction of any business specified in such requisition, including making proposals or moving a resolution at the special general meeting. Such meeting shall be held within two months after the deposit of such requisition. If within 21 days of such deposit the Board fails to proceed to convene such meeting, the requisitionists themselves may do so in accordance with the provisions of Section 74(3) of the Companies Act 1981 of Bermuda.

Shareholders may at any time send their enquiries and concerns to the Board by addressing them to the principal place of business of the Company in Hong Kong at Level 29, One Pacific Place, 88 Queensway, Hong Kong by post or email to comsec@hrif.com.hk for the attention of the Company Secretary of the Company. The Company Secretary will be responsible for forwarding communications relating to matters within the Board's direct responsibilities to the Board and communications relating to ordinary business matters, such as suggestions and enquiries, to the CEO of the Company. Shareholders may also raise their enquiries in general meetings.

Proposals except for proposal nominating candidate(s) for election as Director at shareholders' meetings can be put forward by the shareholders holding at the date of the submission of such proposals not less than one-tenth of the paid-up capital of the Company as at the date of the submission carrying the right of voting at general meetings of the Company. The proposals must state the objects of the proposals and must be signed by the proposers. The Shareholders can submit such proposals to the Company Secretary within 3 business days after a notice of the shareholders' meeting has been served to all registered shareholders by the Board.

Shareholders may also propose a person for election as Director, the procedures for which are available on the Company's website.

CONSTITUTIONAL DOCUMENTS

There is no change to the Company's Memorandum of Association and Bye-laws during 2017. The latest version of the Memorandum of Association and Bye-laws of the Company are available on both the websites of the Company and HKEx.

Environmental, Social and Governance Report

Environmental, Social and Governance Report

ABOUT US

The Group is the first multi-licensed overseas listed financial holding platform under the China's largest state-owned financial asset management company, China Huarong.

The Group is granted licenses for Type 1, 2, 4, 6 and 9 regulated activities under the SFO by the SFC for conducting business activities, including "securities business" comprising brokering and trading of securities, futures and options contracts and the provision of margin financing services; "corporate finance business" comprising securities underwriting and sponsorship, financial advisory and financing arrangement services to institutional clients; and "asset management and direct investment business" comprising provision of asset management services and direct investments in equities, bonds, funds, derivative instruments and other financial products and provision of money lending services.

While facing changes in the global financial environment, Huarong Financial will continue to adhere to "Stability, Innovation, Harmony and Development" as its core principle and 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 in order to propel the development of its three major businesses and to leverage the synergy between its direct investment business and licensed businesses.

ABOUT THIS REPORT

This report is the second Environmental, Social and Governance ("ESG") report published by Huarong Financial. By reporting policies, measures and performances of the Group in environmental, social and governmental aspects, it enables all stakeholders to have a better overview of the progress and development direction of the Group. Available in both Chinese and English, the report has been uploaded to the websites of HKEx and the Company (www.hrif.com.hk).

Reporting Boundary

This ESG report focuses on operation of Huarong Financial in its main operational sites for the year ended 31 December 2017 (the "Year"). The main operational sites include Head Office in Pacific Place, Central Branch (until May 2017, after which the branch moved to Sheung Wan), Sheung Wan Branch and Mong Kok Branch. The Sheung Shui Branch is closed in February 2017 therefore it is not included in this report. While this report does not cover our operations in Shenzhen and Shanghai in China, the Group is constantly improving its internal data collection procedure, and will gradually expand the scope of disclosure.

Reporting Standards

This report has complied with the "comply or explain" provisions of the ESG Reporting Guide (the "Guide") launched by the HKEx. The four reporting principles, namely the principles of – materiality, quantitative, balance and consistency, form the backbone of this report. With an aim to provide a more comprehensive report, this report has taken the actual situation of the Group into consideration and included certain key performance indicators ("KPI") under the "recommended disclosures" of the Guide. Based on this foundation, the Group is considering to adopt national and international sustainability reporting standards in the future.

To ensure the accuracy of environmental KPIs, the Group commissioned a professional consultancy, Carbon Care Asia, to conduct a carbon assessment according to Guidelines to Account for and Report on Greenhouse Gas Emissions and Removals for Buildings (Commercial, Residential or Institutional Purposes) in Hong Kong prepared by the Environmental Protection Department and the Electrical and Mechanical Services Department of Hong Kong and with reference to international standards such as ISO 14064-1 and Greenhouse Gas Protocol.

A complete index is available in the last chapter for reader's easy reference to the Guide.

Confirmation and Approval

Information in this report is sourced from official documents, statistical data, management and operational information of and collected by the Group according to the policies of the Group. In March 2018, the report was approved by the Board of Directors of the Company.

Opinion and Feedback

Huarong Financial values the opinion of stakeholders. If you have any questions or suggestions regarding the content or format of the report, please contact the Company via email (ir@hrif.com.hk).

SUSTAINABILITY VISION OF THE GROUP

Strengthen the synergy between businesses while creating value for the environment and society

As the Group accumulates reporting experience, it becomes more aware that its continuous operation is closely linked to the wellbeing of staff, customers and the entire community and environment, which drives the Group to work harder to improve the internal management of all aspects of sustainable development.

Huarong Financial firmly believes that changes come from staff. We consistently improve staff welfare and communication platform by organizing team building events, planning internal and external training and supporting staff in applying for professional qualifications so as to enhance their sense of belonging to Huarong Financial. Apart from saving energy and reducing carbon emissions in operation, the Group also promotes green office habits to encourage staff to save resources, such as switching to electronic documentation systems to reduce paper usage on approval processes. Apart from responding to the parent company's hope primary school donation project in mainland China, the Group also encourages staff to participate in local volunteering services and work hand in hand to contribute to the communities where it operates.

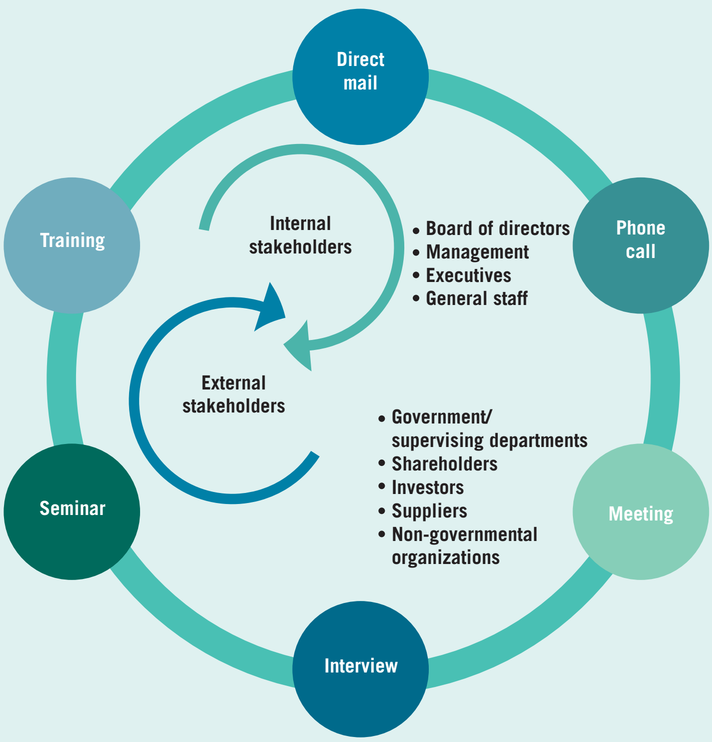
As a professional integrated financial services provider, Huarong Financial regards the interests of the clients as its own. In pursuit of asset growth, we are committed to providing structurally safe financial products for corporates and individuals and therefore we strive to effectively identify different types of risks, including the potential impact of environmental and social factors on the industries in which our customers operate. We have set up customer management such as communication, sales and after-sales services, as well as an internal mechanism to prevent corruption. The Group also provides compliance training for all staff to perform the fundamental duty of responsible operation.

Being in the financial sector, Huarong Financial has additional opportunities and responsibilities to contribute to the sustainable development of the environment and society. To tackle the critical climate challenge and respond to the macroscopic development strategy of our country, green finance is an important direction for our future business development. In the future, we will explore ways to enhance communication with stakeholders and discuss how to further integrate sustainable development in the Group's long-term strategy so as to drive resources sharing and interaction between teams, strengthen the synergy between businesses and creating value for the environment and society.

STAKEHOLDER ENGAGEMENT

Main Means of Stakeholder Engagement during the Year

In the business management of Huarong Financial, stakeholder[1] participation helps the Group to review potential risks and business opportunities. Understanding and exchanging with stakeholders' views allow the Group to better fulfil their needs and expectations with the Group's business practice and manage different stakeholders' opinions. The Group constantly communicates with key internal and external stakeholders via various channels. This ensures that they have the opportunity to learn about the Group's development and operation directions and offers the Group the chance to listen to them in order to identify the priority of issues and develop corresponding policies.



1 Stakeholders refer to groups or individuals materially influencing or affected by the Group's business. Internal stakeholders include board of directors, management, executives and general staff. External stakeholders include the government, supervising departments, shareholders, investors, suppliers and non-governmental organizations.

Material Sustainability Issues during the Year

As with last year, the Group commissioned an independent consultant to conduct an interview with the management to identify the most important environmental and social issues to the Group and its stakeholders and to discuss the Group's sustainable development strategy and directions. Based the results of the interview and the advice of the consultant, the Group selected six environmental and social aspects from the Guide to be highlighted in the report.

To ensure the effectiveness of stakeholder engagement, the Group dedicates itself to establishing communication mechanisms for transparency, integrity and accuracy, and providing timely response. In the future, the Group will strengthen its interaction with stakeholders to develop more diverse channels to communicate with stakeholders and create mutually beneficial relationships.

SUSTAINABILITY GOVERNANCE

Huarong Financial attaches great importance to promoting sustainability and believes that incorporating sustainable development into its operations and providing timely responses to stakeholders will enable the business to grow steadily in the long run. During the Year, the Group formulated the Corporate Responsibility Policy (the "CSR Policy") covering not only the Environment Protection Policy drafted earlier, but also other social issues. By formally implementing the CSR Policy, the Group provides its subsidiaries and all staff with the related management directions, commitments, strategies and objectives.

In the future, the Group will announce its corporate social responsibility efforts on its website. Press releases will be published to enable more external stakeholders to understand the measures and performance of the Group to implement its sustainable development. The Group will also review the CSR Policy in due course so as to ensure that all the guidelines and measures are timely and effective.

PROTECTING THE ENVIRONMENT

Huarong Financial pays high attention to climate change and strives to increase the efficiency in the use of natural resources and reduce the environmental impact of its operation.

Considering the consumption of resources and emissions in daily operations, the Group has formulated various operation guidelines in the CSR Policy. To further implement the directions stipulated, this Year Huarong Financial announced an energy saving plan to all staff to promote energy saving habits in day-to-day operations, which cover the use of energy, water and paper. This plan is to remind staff of conservation habits when using office facilities, equipments and vehicles, and having meals in the canteen.

Emissions Management

Emission of greenhouse gases is closely related to climate change and global warming. Businesses across the globe are formulating carbon reduction measures and targets. The greenhouse gases emission of Huarong Financial mainly arises from energy consumption, the main source of which is purchased energy. The Group commissioned a professional consultancy Carbon Care Asia to conduct a carbon assessment to calculate the emission of greenhouse gases produced by its operation. Please refer to the KPI Summary on page 59 for the greenhouse gases emission data this year.

At the same time, in response to China's goal to mitigate climate change and transition towards a low carbon economy, Huarong Financial will begin the research to formulate the long-term carbon reduction goal, including understanding internal use of resources and reviewing the performance of the current carbon reduction measures. Huarong Financial will also use this year's carbon emission data as a baseline for future comparison to formulate the appropriate carbon reduction target and plan.

Apart from greenhouse gas emission, the use of diesel for vehicles also produces exhaust gases, which caused air pollution. To address the problem caused by company's vehicles, Huarong Financial implemented the vehicle sharing scheme and will gradually improve the monitoring system of petrol consumption of each vehicle. Besides, the Group will further promote telecommunications to reduce the need for business travel. For the exhaust gases emissions in this Year, please refer to the KPI Summary on page 59.

Huarong Financial has started to take into account amount of waste generation this year. Currently, only non-hazardous waste is generated within the Group, all which is domestic waste and is collected by the relevant property management company. In the future, the Group plans to conduct a trial on waste sorting and recycling at its offices where clearer sorting guidelines will be provided to staff. For the amount of waste generated in this Year, please refer to the KPI Summary on page 60.

Use of Resources

The daily operation of a financial company involves large number of documents. Therefore, electronic office is the key strategy in reducing the consumption of resources. Huarong Financial is dedicated to creating a paperless environment. On one hand, through managing its internal document approval processes with its office automation system, the Group estimates that over 20,000 sheets of paper could be saved each year. On the other hand, concerning documentation related to securities, futures and stock options for its clients, the Group had launched an electronic system to replace traditional paper statements and reports with electronic ones, which could save approximately two million sheets of paper per year.

Electricity is the most consumed energy of the Group. Main consumption include air conditioning, lighting and operation of office equipment. To further improve staff environmental awareness, this Year Huarong Financial reminded staff to save energy and other office resources via its internal communication channels. For the consumption of electricity, please refer to the KPI Summary on page 60.

Currently, all sites of operation are sourcing water from municipal supplies. Since there are no separate water meters in the Group's offices, and its property management companies cannot provide statistics, the data relating to total water consumption and water intensity is unavailable. As the Group's business is of service nature, its operation does not consume packaging materials.

Due to the nature of its business, the Group's operations do not have material impact on the environment and natural resources. There were no internal reported cases nor cases of non-compliance of the Group with laws and regulations relating to emissions and environment this Year.

EMPLOYMENT AND LABOUR PRACTICES

Employment System

With over a hundred staff, Huarong Financial is devoted to building a quality working environment. The Group has its Employee Handbook which sets out information on salary, annual leave and welfare so that staff members can understand their rights and duties.

To enhance communication between the Company and its staff, the Group established an intranet this Year. Staff could access the intranet through computers or phones to learn about new moves of Huarong Financial, such as press release, internal announcements or regulations anytime, anywhere.

Number of staff	Male to female ratio	Female to male salary ratio
142(+16%)	Maintained at 1.2:1	Improved from 0.6:1 to 0.7:1

For the turnover and number of employees of the Group, please refer to the KPI Summary on page 61.

Huarong Financial has zero tolerance for sexual harassment in the workplace. The Employee Handbook provides the legal definition and procedures of handling sexual harassment. Confidentiality of claimants' information, as well as their right to lodge a complaint at the Equal Opportunities Commission or to take legal actions. In the event of sexual harassment or discrimination, staff could exercise their rights to report the incident according to the procedures prescribed in the Group's Whistleblowing Policy. The harasser will face disciplinary actions by the Group upon investigation and proof. In the future, the Group will review the current policy and evaluate how to refine the employment guidelines related to equal opportunities, diversity and anti-discrimination.

In this Year, there were no cases of non-compliance of the Group with laws and regulations relating to employment and labour practices and no complaints related to discrimination or sexual harassment in the Group.

Health and Safety

Huarong Financial values the health and wellbeing of every employee. The Group does not only provide full-time staff with health insurance covering outpatient services, hospital expenses and surgery, but also arranges basic health check for all staff to increase their health awareness. Besides, the Leisure Committee of the Group organized over 50 recreation and sports activities for staff this year, including The Basketball Competition of China Huarong's Hong Kong Affiliate Entities organized by Huarong Financial, to promote work-life balance.

This Year, Huarong Financial organized 12 professional trainings. In one of them, the Group invited Edward Altman, a well-known professor of finance at New York University to share on the research and application of the Altman Z-score model during the first session of 'Huarong Overseas Lecture'. Developed in 1968, the Z-Score risk warning model is the first of its kind. The lecture allows staff to gain deeper understanding of corporate credit risk management.

In this Year, there were no cases of non-compliance of the Group with laws and regulations relating to health and safety of work environment or cases of work related injury.

The Basketball Competition of China Huarong's Hong Kong Affiliate Entities organized by Huarong Financial this year is a highlight event that unites eight overseas organizations under China Huarong. Six teams comprising 63 members competed in ten exciting rounds and over 100 members of management and staff watched the games and supported their teams in Smithfield Sports Centre. The top titles went to China Huarong International Holdings Limited, Huarong Investment Stock Corporation Limited and Huarong Financial.

Huarong Financial organized a three-day orientation training in August this year. The chairman of the Group and representatives of different departments explained to the staff the Group's culture, goals and management system. To help new employees grasp the business processes and internal standards of the Group, the training included new elements related to risk compliance and business case analysis. Over 95% of staff demonstrated excellent performance in the end of the training assessment.

Development and Training

To regulate the training management of the Group, this Year Huarong Financial formulated the Staff Training Management Methods. Aiming at promoting the co-development of company and individuals, the Group follows the Management Methods to plan staff training activities. Two types of training were provided, including centralized staff training (such as pre-job training, professional training, management training and comprehensive quality training, etc.) and staff part-time learning (such as self-study degree programmes or various professional qualifications training). Besides, the Group has always provided subsidy for professional qualifications examination fees and professional association membership fees to its staff to encourage continuous learning.

Under the work performance evaluation scheme of Huarong Financial, department heads regularly assess the performance of staff in the period. Apart from reviewing performance, the evaluation also provides an opportunity for staff and department heads or division senior management to discuss problems they encountered at work.

Labour Standards

Huarong Financial prohibits the use of child labour and conducts inspection of proof of identity of applicants during recruitment process. The Group signs employment contracts with all employees, and does not treat the employment relationship in unfair ways.

Compensation for overtime work is available at Huarong Financial. If staff is required to work or participate in meetings at the office during holidays, they can apply for compensated leaves according to the Employee Handbook. Dinner and transport allowance are available for overtime work on working days on a reimbursement basis. This Year there were no cases of non-compliance of the Group with laws and regulations relating to child labour or forced labour.

OPERATIONAL MANAGEMENT

Huarong Financial has always been looking to protect its clients' rights and promote clean business which serve as one of its objectives in sustaining operation.

Product Responsibility

Licensing requirements of the SFC are listed in detail in the Compliance Manual of Huarong Financial to provide all staff with working guidelines and professional conduct in relation to client relationship, transaction management, and handling client fund. In this Year, the Guidelines for Reporting to Senior Executives formulated by Huarong Financial came into effect. Staff could report violations of the laws and regulations of monitoring organizations, including data breach or market misconduct defined by the SFO to the management, the compliance department, the legal department and the head of licensing to take remedial actions in a timely manner.

The requirements for client relationship management are listed in the Compliance Manual and Employee Handbook, which include understanding clients' financial background, investment experience and investment goals; explaining to the clients in full the risk disclosure statement in agreement before opening an account; and ensuring that the clients are aware of different kinds of potential risks which may be involved in their investment. Besides, staff must keep all personal information of clients confidential. The Group ensures that all client complaints are handled in timely and fair manner. All written or verbal complaints and results of investigations are recorded. In case of improper behavior of employees, department heads will immediately notify the compliance department and the internal audit department for follow-up action.

The Compliance Manual includes a control procedure to manage external communications and information distributed. All advertising and promotional activities must be approved by the head of licensing, the compliance department and the internal audit department to ensure that no false, misleading or fraudulent information is contained in advertisement or promotional information. Media communications related to the Group or the financial market such as seminars, interviews, published comments are subject to the approval of the senior management, the head of licensing and other relevant departments of the Group. The Group also expressly forbids staff from promoting any financial products through personal visits or phone calls to make sure that promotion practices comply with the laws and regulations. In this Year, there were no cases of non-compliance of the Group with the laws and regulations relating to product responsibility.

Anti-corruption

Huarong Financial dedicates itself to preventing corruption, bribery, extortion, fraud or money laundering. The Compliance Manual and the Accepting or Offering Gifts and Benefits Guidelines of the Group explains the code of conduct that must be followed by staff and defines the standards and principles of accepting or offering gifts and benefits. If the value of an item exceeds the maximum prescribed amount, staff must report it according to the procedure to seek approval. The Group's Policies and Procedures on Prevention of Money Laundering and Terrorist Financing explains the system and procedures related to customer due diligence, identification and reporting of suspicious transactions.

This Year, Huarong Financial formulated the Whistleblowing Policy to encourage whistleblowing of misconduct and malpractice as defined in the policy and to emphasize protection and support for the whistleblowers. Staff, clients, suppliers, shareholders and other stakeholders could report suspected cases through interviews or sending an email to a mailbox directly managed by the internal audit department (info@hrif.com.hk). The case will be referred either to the Director of Supervision of the Group or to the Audit Committee, who will decide to conduct an investigation should the need arises. The whistleblower will be notified of the result of the investigation in due course. The Group strives to protect the whistleblowers from unequal treatment by keeping their identity confidential.

Six anti-corruption trainings held this year include:

- Conduct training for new employees
- New anti-corruption section in intranet
- ICAC anti-corruption seminar
- Two viewing sessions of ICAC anti-corruption educational videos
- Huarong Financial Commitment to Clean Business Interim Measures (Clean Commitment) explanation video session
- Honesty Commitment project inspection result announcement

The effectiveness of anti-corruption measures also depends on the level of awareness and attention of staff. In this Year, Huarong Financial organized six internal and external trainings related to anti-corruption in order to enhance staff awareness through different means such as seminars and educational videos. Besides, the Group constantly updates staff through internal channels about cases of non-compliance uncovered by subsidiaries of China Huarong in mainland China as warnings and learning resources. In this Year there were no reported cases, litigations or cases of non-compliance of the Group with laws and regulations relating to corruption.

Supply Chain Management

Huarong Financial prioritizes risk management in procurement. In relation to procurement of office resources (including office equipment, engineering projects and service providers), the Group has formulated the Procurement Management Methods that prescribes the management structure, means of procurement, contract management and procurement management flow and requirements of receipt of purchased goods to ensure that the process is open and fair. To avoid corruption in the procurement process, the Group has implemented the counteracting mechanism of mutual supervision by appointing different staff for procurement application, quotation, approval, receipt and payment. Any conflict of interest between the supplier or contractor and the procurement staff must be reported to avoid abuse of power. The Group has created a list of suppliers of which evaluation will be conducted at least once a year. Suppliers that fail to meet the standards will be eliminated. Apart from assessing factors such as brand and quality, the Group also gives priority to suppliers that comply with social goals.

COMMUNITY INVESTMENT

Huarong Financial established the direction of community investment in the CSR Policy implemented this Year. In order to meet different stakeholders' expectation on corporate social responsibility of the Group, the Group makes every effort to understand the needs of the community where it operates in order to achieve its goal in making contribution to organizations and groups in need. In order to do so, the Group encourages and arranges staff to participate in volunteering service and charity fundraising, as well as utilizing its financial services and technology.

In this Year, Huarong Financial helped the victims of the earthquake in Jiuzhai County of Ngaba Prefecture in Sichuan, students in mainland China and the local elderly through donations and staff volunteering activities. By following the ideals of the CSR Policy, the Group will continue to refine its community investment projects and make greater contributions to the sustainable development of the community.

Number of community investment projects in this Year	Fund invested in community projects
Five	RMB2,200,000 and over HK$60,000

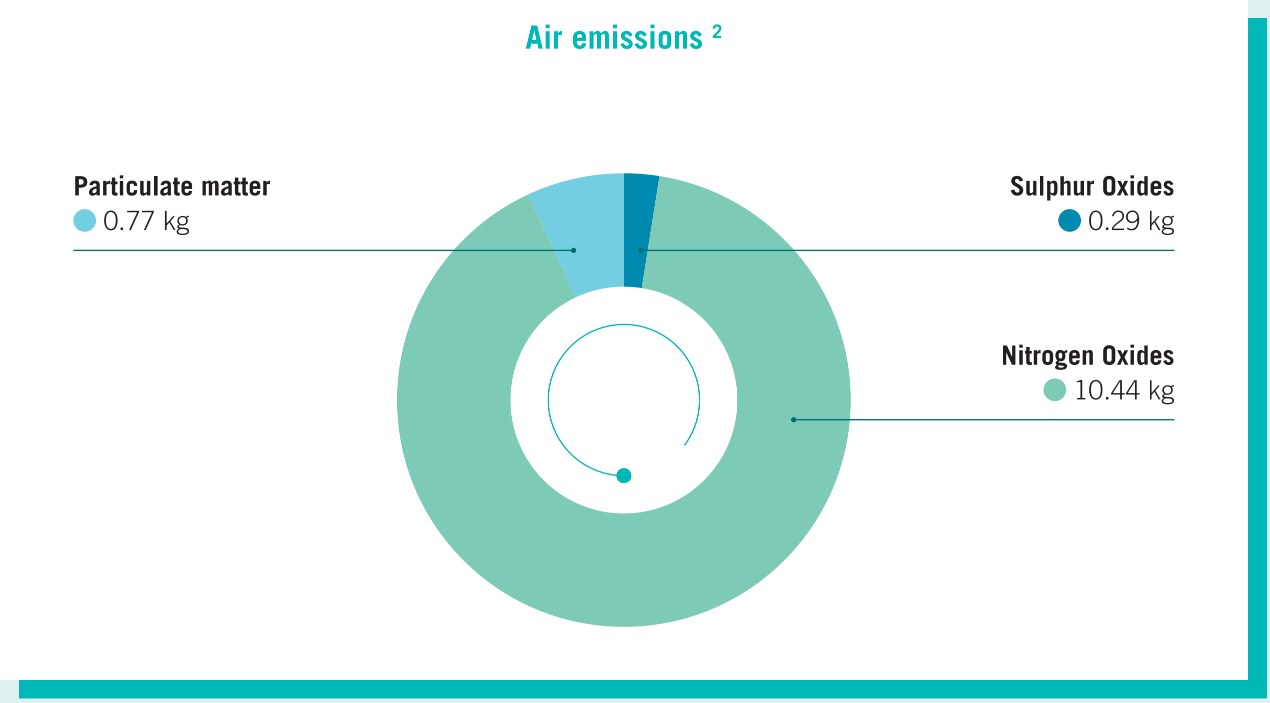
Huarong Financial made three donations to build the China Huarong Ruijin Hope Primary School, China Huarong Huining Hongjun Primary School and the China Huarong Gutian Hope Primary School to increase education opportunities and quality to improve the livelihood of local residents in the long term.

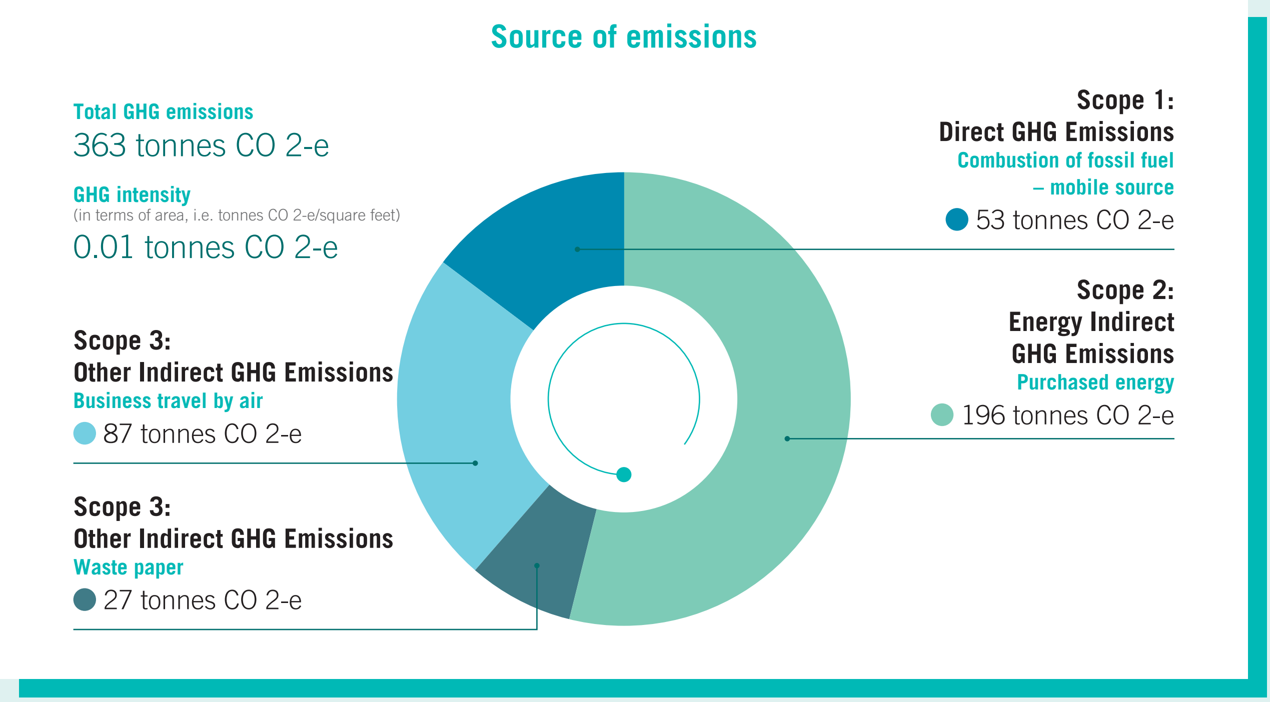
In August this Year, a Grade 7 earthquake occurred in the Jiuzhai County of Ngaba Prefecture, causing huge casualties. Huarong Financial initiated a fundraising campaign within a short time. Over HK$50,000 were raised to help the victims.

In November this Year, Huarong Financial co-organized the Huarong Financial Elderly Communion Elderly Centre Visit together with Hong Kong Family Welfare Society. The Huarong Financial volunteering team comprising twenty staff played games and distributed gift packs to the elderly to show care.

KPI SUMMARY

Environmental Performance





[2] From five private cars owned by the Group

Non-hazardous waste

Intensity of non-hazardous waste
(in terms of area, i.e. tonne/square feet)
0.00013 tonne

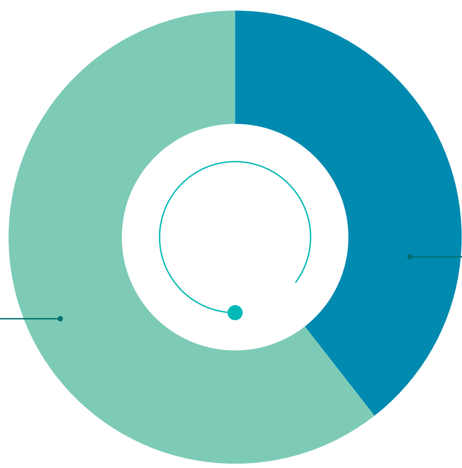
Domestic waste
3.8
tonnes

Note: No hazardous waste was generated within the operations of the Group

Energy consumption

Total energy consumption
432 thousand kWh

Energy intensity
(in terms of area, i.e. 1,000kWh/square feet)
0.01 thousand kWh



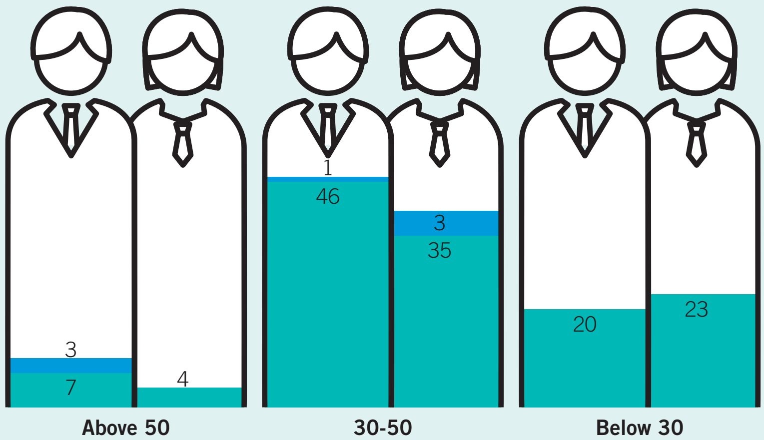
Indirect Energy
Electricity
261 thousand kWh

Direct Energy
Diesel
171 thousand kWh

Social Performance – employment and labour practices

Total workforce

Total
142



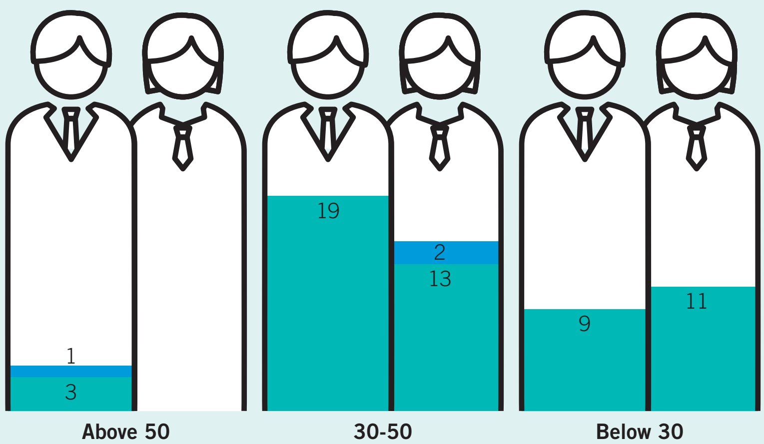
Senior management
General staff

Male to female ratio
2017
1.18:1

2016
1.18:1

Number of new employees

Total
58



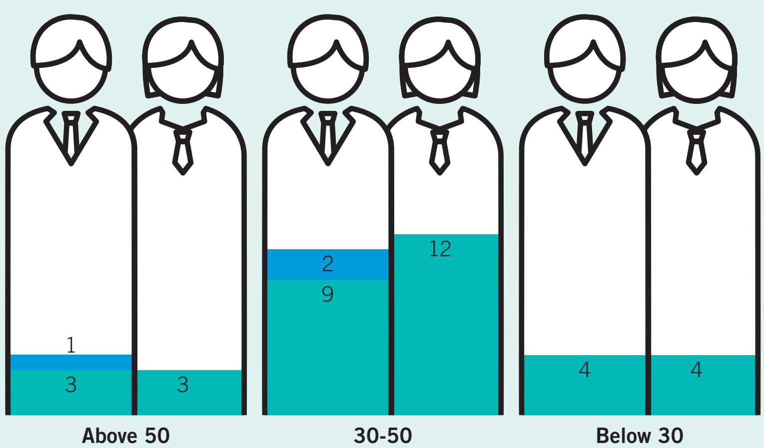
Senior management
General staff

New employee rate
2017
41%

2016
59%

Employee turnover

Total
38



Senior management
General staff

Employee turnover rate
2017
29%

2016
2%

REPORT CONTENT INDEX

Material Aspect	Content	Page Number/Remark
A. Environmental		
A1 Emissions		
General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to air and greenhouse gas emissions, discharges into water and land, and generation of hazardous and non-hazardous waste.	52
A1.1	The types of emissions and respective emissions data.	59
A1.2	Greenhouse gas emissions in total and intensity.	59
A1.3	Total hazardous waste produced.	No hazardous waste was generated within the operations of the Group.
A1.4	Total non-hazardous waste produced and intensity.	60
A1.5	Description of measures to mitigate emissions and results achieved.	52
A1.6	Description of how hazardous and non-hazardous wastes are handled, reduction initiatives and results achieved.	52
A2 Use of Resources		
General Disclosure	Policies on the efficient use of resources, including energy, water and other raw materials.	53
A2.1	Direct and indirect energy consumption by type in total and intensity.	60
A2.2	Water consumption in total and intensity.	There was no independent water meter installed in the Group's offices to record water consumption and its property management companies are unable to provide statistics. Hence, the data of total water consumption and water intensity is unavailable.
A2.3	Description of energy use efficiency initiatives and results achieved.	53
A2.4	Description of whether there is any issue in sourcing water that is fit for purpose, water efficiency initiatives and results achieved.	Currently sourcing sufficient water from municipal water supplies.
A2.5	Total packaging material used for finished products.	The Group did not use packaging material.

Material Aspect	Content	Page Number/Remark
A3 Environment and Natural Resources		
General Disclosure	Policies on minimising the issuer's significant impact on the environment and natural resources.	52 to 53
A3.1	Description of the significant impacts of activities on the environment and natural resources and the actions taken to manage them.	52 to 53
B. Social		
B1 Employment		
General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to compensation and dismissal, recruitment and promotion, working hours, rest periods, equal opportunity, diversity, anti-discrimination, and other benefits and welfare.	53 to 54
B1.1	Total workforce by gender, employment type, age group and geographical region.	61
B1.2	Employee turnover rate by gender, age group and geographical region.	61
B2 Health and Safety		
General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to providing a safe working environment and protecting employees from occupational hazards.	54 to 55
B2.3	Description of occupational health and safety measures adopted, how they are implemented and monitored.	54 to 55
B3 Development and Training		
General Disclosure	Policies on improving employees' knowledge and skills for discharging duties at work. Description of training activities.	55
B4 Labour Standards		
General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to preventing child and forced labour	55 to 56

Material Aspect	Content	Page Number/Remark
B5 Supply Chain Management		
General Disclosure	Policies on managing environmental and social risks of the supply chain.	57
B5.2	Description of practices relating to engaging suppliers, number of suppliers where the practices are being implemented, how they are implemented and monitored.	57
B6 Product Responsibility		
General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to health and safety, advertising, labelling and privacy matters relating to products and services provided and methods of redress.	56
B6.5	Description of consumer data protection and privacy policies, how they are implemented and monitored.	56
B7 Anti-corruption		
General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to bribery, extortion, fraud and money laundering.	57
B7.1	Number of concluded legal cases regarding corrupt practices brought against the issuer or its employees during the reporting period and the outcomes of the cases.	57
B7.2	Description of preventive measures and whistle-blowing procedures, how they are implemented and monitored.	57
B8 Community Investment		
General Disclosure	Policies on community engagement to understand the needs of the communities where the issuer operates and to ensure its activities take into consideration the communities' interests.	58
B8.2	Resources contributed (e.g. money or time) to the focus area.	58

Deloitte. 德勤

TO THE SHAREHOLDERS OF
HUARONG INTERNATIONAL FINANCIAL HOLDINGS LIMITED
(Incorporated in Bermuda with limited liability)

OPINION

We have audited the consolidated financial statements of Huarong International Financial Holdings Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 70 to 179, which comprise the consolidated statement of financial position as at 31 December 2017, and the consolidated statement of profit or loss, consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2017, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the HKICPA. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the HKICPA's Code of Ethics for Professional Accountants (the "Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

<table>
<tr><th>Key audit matter</th><th>How our audit addressed the key audit matter</th></tr>
<tr><td colspan="2">Valuation of level 3 financial instruments</td></tr>
<tr><td>We identified the valuation of level 3 financial instruments as a key audit matter due to the degree of complexity involved in valuing some of the instruments and the significance of the judgments and estimates made by management. In particular, the determination of level 3 prices is considerably more subjective given the lack of availability of market-based data. The fair value of level 3 financial instruments at fair value through profit or loss and available-for-sale investments are performed by the independent firms of professional valuers. The valuation is dependent on the key inputs of expected volatility on movement of stock price and discount rates applied in the valuation methodology.

As at 31 December 2017, HK$4,023 million of the Group's total financial assets that were carried at fair value and HK$224 million of the Group's total financial liabilities that were carried at fair value were classified as Level 3. Please refer to Notes 19, 20 and 43 to the consolidated financial statements on pages 129, 136 and 159 respectively. The level 3 financial instruments mainly comprised of (i) convertible bonds and convertible notes; (ii) convertible bonds with put option; (iii) put options on listed equity investments (iv) put options on unlisted equity investments; (v) unlisted preference shares; (vi) unlisted equity investment; and (vii) payables to interest holders of unlisted consolidated investment funds.</td><td>Our procedures in relation to valuation of level 3 financial instruments included:

• examining the relevant investment contracts for the key terms and the relevant contractual rights and obligations of the financial instruments.

• obtaining the appraisal reports and assessing the competence and independence of the professional valuers; and their experience in conducting valuation of similar financial instruments.

• involving our own internal valuation specialists:

– to evaluate the valuation methodologies and valuation assumptions applied based on industry knowledge; and

– to evaluate the appropriateness of the key inputs by testing observable and unobservable inputs used or performing sensitivity analysis to evaluate the reasonableness of the valuation, where appropriate.</td></tr>
</table>

<table>
<tr><th>Key audit matter</th><th>How our audit addressed the key audit matter</th></tr>
<tr><td colspan="2">Impairment of other loans and advances</td></tr>
<tr><td>We identified the impairment of other loans and advances as a key audit matter due to the judgment required to assess whether objective evidence of impairment exists for the other loans and advances and the estimation of the individual impairment amount, and the judgment involved in the estimate of collective impairment. The impairment assessment process consists of both individual and collective assessment.

As at 31 December 2017, other loans and advances represents 20% of the total assets of the Group amounting to HK$9,303 million, net of collective impairment allowance of HK$190 million. Among the other loans and advances, the Group's top five borrowers amounting to HK$4,351 million represented 47% of the balance.

Other loans and advances are assessed individually for objective evidence of impairment including significant financial difficulty of the borrower, breach of contract or probability that the borrower will enter bankruptcy or financial re-organisation.

For other loans and advances that are assessed not to be impaired individually are, in addition, assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, and any observable changes in market conditions that correlate with default on other loans and advances.

Please refer to Note 22 to the consolidated financial statements on page 138.</td><td>Our procedures in relation to impairment of other loans and advances included:

• reviewing and evaluating the credit management monitoring process.

• examining the loan credit files and other evidence, including the repayment records, obtained from management for any objective evidence of impairment.

• evaluating the collective impairment assessment performed by management and checking management's calculation of the collective impairment allowance.</td></tr>
</table>

OTHER INFORMATION

The directors of the Company are responsible for the other information. The other information comprises the information included in the annual report, but does not include the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

RESPONSIBILITIES OF DIRECTORS AND THOSE CHARGED WITH GOVERNANCE FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with HKFRSs issued by the HKICPA and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors of the Company are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors of the Company either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion solely to you, as a body, in accordance with Section 90 of the Bermuda Companies Act, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with HKSAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors of the Company.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in the independent auditor's report is Chan Wo Mi.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong

16 March 2018

Consolidated Statement of Profit or Loss

For the year ended 31 December 2017

	NOTES	2017 HK$'000	2016 HK$'000
Revenue	7	**2,023,030**	727,066
Net gains on financial assets at fair value through profit or loss	7	**756,502**	674,963
Gain on disposal of available-for-sale investments	7	**55,358**	–
		2,834,890	1,402,029
Other income and gains or losses, net	8	**(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	21	**200,705**	–
Net loss on disposal of subsidiaries	31	**(292)**	–
Provision for impairment of other loans and advances	22	**(140,129)**	(50,077)
Provision for impairment of amount due from an associate	21	**(30,916)**	–
Net reversal of impairment of advances to customers in margin financing and accounts receivable	23, 24	**374**	625
Finance costs	10	**(1,158,237)**	(449,148)
Share of result of associates	21	**1,126**	–
Profit before tax	9	**1,264,029**	696,853
Income tax expense	13	**(258,386)**	(145,939)
Profit for the year		**1,005,643**	550,914
Profit for the year attributable to:			
Owners of the Company		**964,093**	550,914
Holder of perpetual capital securities		**41,550**	–
		1,005,643	550,914
Earnings per share attributable to owners of the Company	15		
– Basic		**HK27.06 cents**	HK16.41 cents
– Diluted		**N/A**	HK16.40 cents

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31 December 2017

	NOTE	**2017 HK$'000**	2016 HK$'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	20	**(5,039)**	(25,347)
Reclassification adjustments relating to disposal of available-for-sale investments during the year	20	**(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	16	**22,027**	18,512
Other long term assets	17	**5,250**	4,525
Prepayments, deposits and other receivables	25	**20,478**	–
Intangible assets	18	**3,316**	4,778
Available-for-sale investments	20	**7,611,244**	–
Financial assets at fair value through profit or loss	19	**4,896,282**	1,078,852
Other loans and advances	22	**5,153,625**	2,217,463
Deferred tax assets	32	**8,522**	300
Investments accounted for using the equity method	21	**18,665**	190
Amount due from an associate	21	**1,532,328**	–
Total non-current assets		**19,271,737**	3,324,620
Current assets			
Advances to customers in margin financing	23	**4,948,219**	4,236,463
Accounts receivable	24	**79,154**	684,577
Interest receivable	25	**184,435**	34,400
Prepayments, deposits and other receivables	25	**152,779**	61,537
Available-for-sale investments	20	**7,034,309**	4,339,012
Financial assets at fair value through profit or loss	19	**4,221,431**	1,935,158
Other loans and advances	22	**4,149,535**	2,736,696
Amount due from a joint venture	21	**–**	660,000
Amount due from an associate	21	**11,735**	–
Restricted bank balances	26	**848,591**	3,315,589
Pledged bank deposits	27	**1,898,063**	–
Cash and cash equivalents	27	**3,524,781**	956,675
Total current assets		**27,053,032**	18,960,107
Current liabilities			
Accounts payable	28	**3,758,807**	2,942,458
Other liabilities, payables and accruals	29	**454,578**	200,702
Amount due to an associate	21	**–**	190
Interest-bearing borrowings	30	**15,997,241**	5,620,480
Tax payable		**181,516**	76,747
Financial liabilities at fair value through profit or loss	19	**194,981**	256,734
Financial assets sold under repurchase agreements	35	**4,032,804**	–
Total current liabilities		**24,619,927**	9,097,311
Net current assets		**2,433,105**	9,862,796
Total assets less current liabilities		**21,704,842**	13,187,416

Consolidated Statement of Financial Position

As at 31 December 2017

	NOTES	2017 HK$'000	2016 HK$'000
Non-current liabilities			
Other liabilities, payables and accruals	29	**211,420**	481
Deferred tax liabilities	32	**166,102**	99,251
Interest-bearing borrowings	30	**17,040,736**	11,634,000
Financial liabilities at fair value through profit or loss	19	**223,762**	166,743
Total non-current liabilities		**17,642,020**	11,900,475
Net assets		**4,062,822**	1,286,941
Capital and reserves			
Equity attributable to owners of the Company			
Share capital	33	**3,588**	3,338
Perpetual capital securities classified as equity investments	36	**1,209,218**	–
Share premium and reserves		**2,850,016**	1,283,603
Total equity		**4,062,822**	1,286,941

The consolidated financial statements on pages 70 to 179 were approved by the Board of Directors on 16 March 2018 and are signed on its behalf by:

Wang Qiang
DIRECTOR

Lai Jinyu
DIRECTOR

Consolidated Statement of Changes in Equity

For the year ended 31 December 2017

	Attributable to owners of the Company										
	Issued capital HK$'000	Share premium account HK$'000	Contributed surplus HK$'000 (Note ii)	Available-for-sale investment revaluation reserve HK$'000	Statutory reserve HK$'000 (Note i)	Currency translation reserve HK$'000	Convertible notes equity reserve HK$'000	(Accumulated losses) retained profits HK$'000	Subtotal HK$'000	Perpetual capital investment HK$'000	Total equity HK$'000
At 1 January 2016	3,278	924,584	139,615	–	–	–	36,780	(369,102)	735,155	–	735,155
Profit for the year	–	–	–	–	–	–	–	550,914	550,914	–	550,914
Other comprehensive expense for the year											
Fair value loss on available-for-sale investments	–	–	–	(25,347)	–	–	–	–	(25,347)	–	(25,347)
Exchange differences on translation of foreign operations											
Exchange differences arising during the year	–	–	–	–	–	(228)	–	–	(228)	–	(228)
Total comprehensive income (expense) for the year	–	–	–	(25,347)	–	(228)	–	550,914	525,339	–	525,339
Issue of shares upon conversion of convertible notes (note 33)	60	63,167	–	–	–	–	(36,780)	–	26,447	–	26,447
At 31 December 2016	3,338	987,751	139,615	(25,347)	–	(228)	–	181,812	1,286,941	–	1,286,941
Shares issued (note 33)	250	651,782	–	–	–	–	–	–	652,032	–	652,032
Profit for the year	–	–	–	–	–	–	–	964,093	964,093	41,550	1,005,643
Other comprehensive income (expense) for the year											
Fair value loss on available-for-sale investments	–	–	–	(5,039)	–	–	–	–	(5,039)	–	(5,039)
Reclassification adjustment relating to disposal of available-for-sale investments during the period	–	–	–	(55,358)	–	–	–	–	(55,358)	–	(55,358)
Exchange differences on translation of foreign operations											
Exchange differences arising during the year	–	–	–	–	–	10,935	–	–	10,935	–	10,935
Total comprehensive income (expense) for the year	–	–	–	(60,397)	–	10,935	–	964,093	914,631	41,550	956,181
Appropriation to reserve	–	–	–	–	1,433	–	–	(1,433)	–	–	–
Distribution relating to perpetual capital securities(note 36)	–	–	–	–	–	–	–	–	–	(19,186)	(19,186)
Issuance of perpetual capital instruments (note 36)	–	–	–	–	–	–	–	–	–	1,186,854	1,186,854
At 31 December 2017	**3,588**	**1,639,533**	**139,615**	**(85,744)**	**1,433**	**10,707**	**–**	**1,144,472**	**2,853,604**	**1,209,218**	**4,062,822**

Notes:

(i) Pursuant to the Article of the Company Law of the People's Republic of China (the "PRC"), the entity established in the PRC is required to appropriate 10% of its net profit to statutory reserve until the balance reaches 50% of its registered capital.

(ii) Under the Companies Act of Bermuda, the Company's contributed surplus is distributable to shareholders under certain circumstances.

Consolidated Statement of Cash Flows

For the year ended 31 December 2017

	2017 HK$'000	2016 HK$'000
Cash flows from operating activities		
Profit before tax	1,264,029	696,853
Adjustments for:		
Finance costs	1,158,237	449,148
Interest income	(1,367,780)	(395,796)
Net fair value gain on financial assets at fair value through profit or loss	(756,502)	(674,963)
Gain on disposal of available-for-sale investments	(55,358)	–
Dividend income	(209,397)	(25,548)
Fair value loss on financial liabilities at fair value through profit or loss	168,462	47,436
Depreciation	7,543	3,101
Provision for (reversal of) long service payments, net	126	(746)
Gain on disposal of items of property and equipment	(45)	–
Net loss on disposal of subsidiaries	292	–
Net gain on deemed disposal of a joint venture entity	(200,705)	–
Share of result of associates	(1,126)	–
Net reversal of impairment of advances to customers in margin financing loans and accounts receivable	(374)	(625)
Provision for impairment of amount due from associate	30,916	–
Provision for impairment of other loans and advances	140,129	50,077
Provision for reinstatement	2,281	402
Operating cash flows before movements in working capital	180,728	149,339
Increase in other loans and advances	(3,954,433)	(4,909,604)
Decrease (increase) in advances to customers in margin financing loans and accounts receivable	252,673	(4,008,383)
Increase in prepayments, deposits and other receivables	(111,720)	(45,617)
Increase in financial assets at fair value through profit or loss	(5,011,008)	(1,587,283)
Decrease (increase) in restricted bank balances	2,466,998	(2,692,348)
Increase in accounts payable	816,349	2,340,189
Increase in other payables and accruals	97,369	21,728
Increase in financial assets sold under repurchase agreement	4,032,804	–
Cash used in operations	(1,230,240)	(10,731,979)
Tax paid	(94,988)	–
Interest received	713,042	266,366
Net cash used in operating activities	(612,186)	(10,465,613)

Consolidated Statement of Cash Flows

For the year ended 31 December 2017

	2017 HK$'000	2016 HK$'000
Cash flows from investing activities		
Interest received from amount due from an associate	55,892	398
Dividend received	209,397	25,548
Proceeds from disposal of available-for-sale investments	5,764,696	–
Proceeds from disposal of items of property and equipment	45	–
Purchases of available-for-sale investments	(15,893,017)	(4,366,163)
(Increase) decrease in other long term assets	(725)	2,128
Purchases of items of property and equipment	(11,058)	(18,194)
Addition in amount due from a joint venture	–	(660,000)
Addition in amount due from an associate	(1,563,244)	–
Repayment from a joint venture	142,000	–
Acquisition of associates	(17,062)	–
Proceeds from disposal of subsidiaries	1,149	–
Net cash used in investing activities	(11,311,927)	(5,016,283)
Cash flows from financing activities		
Issuance of share capital	658,442	–
Share capital issuing cost paid	(6,410)	–
Contribution from interest holders of unlisted consolidated investment funds	171,040	321,653
Withdrawal from second-tier limited partners of consolidated investment fund	(344,236)	–
Interest paid	(1,068,876)	(336,718)
(Increase) decrease in pledged bank deposits	(1,898,063)	10,353
Proceeds from interest-bearing borrowings	17,941,159	15,729,010
Repayment of interest-bearing borrowings	(2,274,212)	(2,326,050)
Issuance of perpetual capital instruments	1,190,323	–
Perpetual capital instruments issuing cost paid	(3,469)	–
Distribution to perpetual capital securities holders	(19,186)	–
Net cash from financing activities	14,346,512	13,398,248
Net increase (decrease) in cash and cash equivalents	2,422,399	(2,083,648)
Cash and cash equivalents at beginning of year as stated in the consolidated statement of financial position	956,675	3,040,911
Effect of foreign exchange rate changes, net	145,707	(588)
Cash and cash equivalents at end of year	3,524,781	956,675

1. CORPORATE AND GROUP INFORMATION

The Company is a limited liability company incorporated in Bermuda and its shares are listed on The Stock Exchange of Hong Kong Limited. The registered office of the Company is located at Clarendon House, 2 Church Street, Hamilton HM 11, Bermuda. The principal place of operations of the Company is situated at Level 29, One Pacific Place, 88 Queensway, Hong Kong. The immediate controlling shareholder of the Company is Camellia Pacific Investment Holding Limited ("Camellia") which is incorporated in British Virgin Islands and is a wholly-owned subsidiary of China Huarong International Holdings Limited ("CIHH") that is incorporated in Hong Kong. China Huarong Asset Management Co., Ltd. ("China Huarong") a company established in the PRC and whose shares are listed on the Stock Exchange of Hong Kong Limited, became the indirect controlling shareholder of the Company. China Huarong is indirectly controlled by the PRC government through the Ministry of Finance (the "MOF").

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

The principal activity of the Company is investment holding. Information and particulars of the Company's principal subsidiaries are as follows:

Name	Place of incorporation/ establishment and operations	Nominal value of issued and paid-up ordinary share capital/ registered capital	Percentage of equity attributable to the Company				Principal activities
			2017		2016		
			Direct	Indirect	Direct	Indirect	
Excel Vision Development Limited 卓迅發展有限公司	Hong Kong	HK$1,000	–	100%	–	100%	Provision for sub-leasing arrangement
Huarong International Asset Management Limited 華融國際資產管理有限公司	Hong Kong	2017: HK$141,750,000 2016: HK$126,150,000	–	100%	–	100%	Provision of asset management services
Huarong International Securities Limited 華融國際證券有限公司	Hong Kong	2017: HK$3,620,000,000 2016: HK$2,620,000,000	–	100%	–	100%	Securities and futures contracts broking and trading and provision
Skymart Global Limited 天進國際集團有限公司	Hong Kong	HK$1	100%	–	100%	–	Money lending
Linewear Assets Limited	British Virgin Islands/Hong Kong	US$1	100%	–	100%	–	Investment holding

1. CORPORATE AND GROUP INFORMATION (continued)

Name	Place of incorporation/ establishment and operations	Nominal value of issued and paid-up ordinary share capital/ registered capital	Percentage of equity attributable to the Company 2017 Direct	2017 Indirect	2016 Direct	2016 Indirect	Principal activities
Brilliant Focus Limited 萬輝煌有限公司	Hong Kong	HK$1	–	–	–	100%	Investment holding
Ample Professional Limited 溢專有限公司	British Virgin Islands/ Hong Kong	US$1	–	100%	–	100%	Investment in fund
Admire Idea Limited 尊略有限公司	British Virgin Islands/ Hong Kong	US$100	–	100%	–	100%	Investment in convertible bond
Huarong International Capital Limited 華融國際融資有限公司	Hong Kong	HK$45,000,000	–	100%	–	100%	Advisory and corporate financing
Amazing Union Limited 奇盟有限公司	British Virgin Islands/ Hong Kong	US$100	–	100%	–	100%	Investments in equities
Beyond Steady Limited 堅越有限公司	British Virgin Islands/ Hong Kong	US$100	–	100%	–	100%	Investment holding
Huarong International Asset Management Great China Investment Fund Limited	Cayman Islands	US$1	–	100%	–	100%	Investment in fund
Huarong International Asset Management Great China Investment Fund L.P. ("GCI Fund") (note a)	Cayman Islands	HK$232,853,873 capital contribution	–	–	–	71%	Investment in equities
Grand Shine International Holdings Limited 崇曦國際有限公司	Hong Kong	HK$100	–	100%	–	100%	Investment holding

1. CORPORATE AND GROUP INFORMATION (continued)

Name	Place of incorporation/ establishment and operations	Nominal value of issued and paid-up ordinary share capital/ registered capital	Percentage of equity attributable to the Company 2017 Direct	2017 Indirect	2016 Direct	2016 Indirect	Principal activities
Huarong International Services Limited 華融國際服務有限公司	Hong Kong	HK$1	–	100%	–	100%	Provision of consultancy service
Energetic Unity Limited 怡剛有限公司	British Virgin Islands/ Hong Kong	US$100	–	100%	–	100%	Investment holding
Cottonfield Enterprises Limited	British Virgin Islands/ Hong Kong	US$100	–	100%	–	100%	Investment holding
Huarong International Asset Management Growth Fund L.P. ("Growth Fund") (note b)	Cayman Islands	US$40,000,000 capital contribution	–	90%	–	90%	Investment in equities
Beaverway Limited	British Virgin Islands/ Hong Kong	US$100	–	100%	–	100%	Investment holding
Champion Sense Global Limited (formerly known as Champion Sense Limited 冠思有限公司)	British Virgin Islands/ Hong Kong	US$100	–	100%	–	100%	Investment holding
Diamond Fox Limited	British Virgin Islands/ Hong Kong	US$100	–	100%	–	100%	Investment holding
Dragongate Ventures Limited	British Virgin Islands/ Hong Kong	US$100	–	100%	–	100%	Investment holding
Eternity Sky Investments Limited	British Virgin Islands/ Hong Kong	US$100	–	100%	–	100%	Investment holding

1. CORPORATE AND GROUP INFORMATION (continued)

Name	Place of incorporation/ establishment and operations	Nominal value of issued and paid-up ordinary share capital/ registered capital	Percentage of equity attributable to the Company 2017 Direct	2017 Indirect	2016 Direct	2016 Indirect	Principal activities
Abundant Ally Limited 豐盟有限公司	British Virgin Islands/ Hong Kong	US$100	–	100%	–	100%	Investment holding
Clear Connect Limited 明合有限公司	British Virgin Islands/ Hong Kong	US$100	–	100%	–	100%	Investment holding
Ever Ascend Investments Limited	British Virgin Islands/ Hong Kong	US$100	–	100%	–	100%	Investment holding
Global Celestial Limited 宇天有限公司	British Virgin Islands/ Hong Kong	US$100	–	100%	–	100%	Investment holding
Link Right Investments Limited 正協投資有限公司	British Virgin Islands/ Hong Kong	US$100	–	100%	–	100%	Investment holding
Sonic Cosmo Limited 宇迅有限公司	British Virgin Islands/ Hong Kong	US$100	–	100%	–	100%	Investment holding
Success Asia Global Limited 成亞環球有限公司	British Virgin Islands/ Hong Kong	US$100	–	100%	–	100%	Investment holding
Victor Source Investments Limited 勝源投資有限公司	British Virgin Islands/ Hong Kong	US$100	–	100%	–	100%	Investment holding
Concept Pioneer Limited	British Virgin Islands/ Hong Kong	US$100	–	100%	–	100%	Investment holding
Bridge Rock Industry Fund Limited	Cayman Islands	US$1	–	100%	–	100%	Investment in fund

1. CORPORATE AND GROUP INFORMATION (continued)

Name	Place of incorporation/ establishment and operations	Nominal value of issued and paid-up ordinary share capital/ registered capital	Percentage of equity attributable to the Company				Principal activities
			2017		2016		
			Direct	Indirect	Direct	Indirect	
Bridge Rock Industry Fund, L.P. ("BRI Fund") (note c)	Cayman Islands	HK$268,000,000 capital contribution	–	–	–	50%	Investment in equities
Valley Stone Industry Fund Limited	Cayman Islands	US$1	–	100%	–	100%	Investment in fund
華融天海(上海)投資管理有限公司	PRC	Registered capital US$30,000,000	100%	–	100%	–	Provision of professional investment and investment management services
Huarong International South China Investment Fund Limited (note d)	Cayman Islands	US$1	–	–	–	100%	Investment in fund
Huarong Investment South China Investment Fund Limited Partnership ("SCI Fund") (note e)	Cayman Islands	HK$99,996,000 capital contribution	–	–	–	60%	Investment in equities
Vigorous Plan Investments Limited	British Virgin Islands/ Hong Kong	US$1	–	100%	–	100%	Investment holding
Paragon Resort Fund L.P. ("PRF Fund") (note f)	Cayman Islands/ Hong Kong	–	–	65%	–	–	Investment in equities
Advance High Global Limited 晉高環球有限公司	British Virgin Islands/ Hong Kong	US$100	–	100%	–	100%	Investment holding
Main Choice Global Limited 明擇環球有限公司	British Virgin Islands/ Hong Kong	US$100	–	100%	–	100%	Investment holding
Neo Prospect Limited 新景有限公司	British Virgin Islands/ Hong Kong	US$100	–	100%	–	100%	Investment holding

1. CORPORATE AND GROUP INFORMATION (continued)

Name	Place of incorporation/ establishment and operations	Nominal value of issued and paid-up ordinary share capital/ registered capital	Percentage of equity attributable to the Company				Principal activities
			2017		2016		
			Direct	Indirect	Direct	Indirect	
華融國金(深圳)股權投資基金管理有限公司	PRC	RMB13,762,800	–	100%	–	–	Advisory services for equity investment

Note (a): During the year, the Group has redeemed the interest of GCI Fund and subsequently the fund matured and was dissolved. Therefore, the Group deconsolidated the GCI Fund accordingly.

Note (b): The variable returns that the Group is exposed to with respect to Growth Fund are significant and the Group is primarily acting as general partner which have the power to direct the relevant activities of Growth Fund. Therefore, the Group consolidated this fund.

Note (c): During the year, the Group has redeemed the interest of BRI Fund and subsequently the fund matured and was dissolved. Therefore, the Group deconsolidated the BRI Fund accordingly.

Note (d): During the year, the Group disposed the subsidiary, Huarong International South China Investment Fund Limited. Details are disclosed in note 31.

Note (e): The variable returns that the Group is exposed to with respect to SCI Fund are not significant and the interests in SCI Fund held by the Group was fully redeemed. The general partner of SCI Fund, which is Huarong International South China Investment Fund Limited, as stated in note (d) has been disposed during the current year. Therefore, the Group deconsolidated this fund accordingly in 2017.

Note (f): The variable returns that the Group is exposed to with respect to PRF Fund are significant and the Group is primarily acting as general partner which have the power to direct the relevant activities of PRF Fund. Therefore, the Group consolidated this fund.

The above table lists the subsidiaries of the Company which, in the opinion of the directors, primarily affected the results for the year or formed a substantial portion of the net assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excess length.

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).

The consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments that are measured at fair values at the end of each reporting period, as explained in the accounting policies set out below.

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

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of HKFRS 2, leasing transactions that are within the scope of HKAS 17, and measurements that have some similarities to fair value but are not fair value, such as value in use in HKAS 36.

For financial instruments which are transferred at fair value and a valuation technique that unobservable inputs is to be used to measure fair value in subsequent periods, the valuation technique is calibrated so that the results of the valuation technique equals the transaction price.

In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

The principal accounting policies are set out in Note 4.

3. APPLICATION OF NEW AND REVISED HKFRSs

Amendments to HKFRSs that are mandatorily effective for the current year

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

Except as described below, 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.

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.

Specifically, the amendments require the following to be disclosed: (i) changes from financing cash flows; (ii) changes arising from obtaining or losing control of subsidiaries or other businesses; (iii) the effect of changes in foreign exchange rates; (iv) changes in fair values; and (v) other changes.

A reconciliation between the opening and closing balances of these items is provided in note 46. Consistent with the transition provisions of the amendments, the Group has not disclosed comparative information for the prior year. Apart from the additional disclosure in note 46, the application of these amendments has had no impact on the Group's consolidated financial statements.

3. APPLICATION OF NEW AND REVISED HKFRSs (continued)

New and revised HKFRSs in issue but not yet effective

The Group has not early applied the following new and revised HKFRSs that have been issued but are not yet effective which may be relevant to the Group:

HKFRS 9	Financial instruments[1]
HKFRS 15	Revenue from contracts with customers and the related amendments[1]
HKFRS 16	Leases[2]
HKFRS 17	Insurance contracts[4]
HK(IFRIC) – Int 22	Foreign currency transactions and advance considerations[1]
HK(IFRIC) – Int 23	Uncertainty over income tax treatments[2]
Amendments to HKFRS 2	Classification and measurement of share-based payment transactions[1]
Amendments to HKFRS 4	Applying to HKFRS 9 Financial instruments with HKFRS 4 Insurance contracts[1]
Amendments to HKFRS 9	Prepayment features with negative compensation[2]
Amendments to HKFRS 10 and HKAS 28	Sale or contribution of assets between an investor and its associate or joint venture[3]
Amendments to HKAS 40	Transfers of investment property[1]
Amendments to HKAS 28	Long-term interests in associates and joint ventures[2]
Amendments to HKAS 28	As part of the annual improvements to HKFRSs 2014–2016 cycle[1]
Amendments to HKFRSs	Annual improvements to HKFRSs 2015-2017 cycle[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.
[4] Effective for annual periods beginning on or after 1 January 2021.

3. APPLICATION OF NEW AND REVISED HKFRSs (continued)

HKFRS 9 Financial instruments

HKFRS 9 introduces new requirements for the classification and measurement of financial assets, financial liabilities, general hedge accounting and impairment requirements for financial assets.

Key requirements of HKFRS 9 which are relevant to the Group are:

- all recognised financial assets that are within the scope of HKFRS 9 are required to be subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. Debt instruments that are held within a business model whose objective is achieved both by collecting contractual cash flows and selling financial assets, and that have contractual terms that give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding, are generally measured at fair value through other comprehensive income ("FVTOCI"). All other financial assets are measured at their fair value at subsequent accounting periods. In addition, under HKFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognised in profit or loss.

- with regard to the measurement of financial liabilities designated as at fair value through profit or loss, HKFRS 9 requires that the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Under HKAS 39 "Financial instruments: Recognition and measurement", the entire amount of the change in the fair value of the financial liability designated as fair value through profit or loss is presented in profit or loss.

- in relation to the impairment of financial assets, HKFRS 9 requires an expected credit loss model, as opposed to an incurred credit loss model under HKAS 39. The expected credit loss model requires an entity to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognised.

3. APPLICATION OF NEW AND REVISED HKFRSs (continued)

HKFRS 9 Financial instruments (continued)

Based on the Group's financial instruments and risk management policies as at 31 December 2017, the directors of the Company anticipate the following potential impact on initial application of HKFRS 9:

Classification and measurement:

- Debt instruments classified as other loans and advances, advances to customers in margin financing and accounts receivable carried at amortised cost as disclosed in notes 22, 23 and 24 respectively: these are held within a business model whose objective is to collect the contractual cash flows that are solely payments of principal and interest on the principal outstanding. Accordingly, these financial assets will continue to be subsequently measured at amortised cost upon the application of HKFRS 9;

- Listed debt instruments classified as available-for-sale investments carried at fair value as disclosed in note 20: majority of these financial assets are held within a business model whose objective is achieved both by collecting contractual cash flows and selling the listed debt instruments in the open market, and the contractual terms give rise to cash flows on specified dates that are solely payments of principal and interest on the principal outstanding. Accordingly, these listed debt instruments will continue to be subsequently measured at FVTOCI upon the application of HKFRS 9, and the fair value gains or losses accumulated in the investments revaluation reserve will continue to be subsequently reclassified to profit or loss when the listed debentures are derecognised or reclassified (except in the case of reclassifications to the amortised cost measurement category which case the accumulated gains or losses are removed from equity and adjusted against the fair value of the financial asset at reclassification date);

  For the remaining portion of listed debt securities classified as available-for-sale investments carried at fair value as disclosed in note 20: these financial assets are held within a business model whose objective is achieved by selling the listed debt instruments in the open market. Accordingly, these listed debt instruments will be subsequently measured at fair value through profit or loss upon the application of HKFRS 9, investments revaluation reserve relating to these available-for-sale investments will be transferred to retained profits at 1 January 2018;

- Listed equity securities classified as available-for-sale investments carried at fair value as disclosed in note 20: these securities qualified for designation as measured at FVTOCI under HKFRS 9, however, the Group plans not to elect the option for the designation and will measure these securities at fair value with subsequent fair value gains or losses to be recognised in profit or loss. Upon initial application of HKFRS 9, investments revaluation reserve relating to these available-for-sale investments will be transferred to retained profits at 1 January 2018;

3. APPLICATION OF NEW AND REVISED HKFRSs (continued)

HKFRS 9 Financial instruments (continued)

Classification and measurement: (continued)

- Unlisted equity securities classified under available-for-sale investments as disclosed in note 20: majority of these securities qualified for designation as measured at FVTOCI under HKFRS 9, however, the Group would not elect the option for designating these securities to be measured at FVTOCI and will measure these securities at fair value with subsequent fair value gains or losses to be recognised in profit or loss. Upon initial application of HKFRS 9, net fair value gains relating to these securities would be adjusted to retained profits as at 1 January 2018. For the remaining portion of unlisted equity investment classified as available-for-sale investments carried at fair value as disclosed in note 20: these securities qualified for designation as measured at FVTOCI under HKFRS 9, the Group elected the option for designating these securities to be measured at FVTOCI. however, the fair value gains or losses accumulated in the investments revaluation reserve as at 1 January 2018 will no longer be subsequently reclassified to profit or loss under HKFRS 9, which is different from the current treatment. This will affect the amounts recognised in the Group's profit or loss and other comprehensive income but will not affect total comprehensive income;

- Unlisted fund investments classified as available-for-sale investments carried at fair value as disclosed in note 20: these investments failed the test of solely payments of principal and interest on the principal amount outstanding. Accordingly, these unlisted fund investments will be subsequently measured at fair value through profit or loss upon the application of HKFRS 9, investments revaluation reserve relating to these available-for-sale investments will be transferred to retained profits at 1 January 2018;

- At 1 January 2018, the convertible bonds and convertible notes, convertible bonds with put option, preference shares, fund investments and some portion of equity investments designated at FVTPL as disclosed in note 19 will continue to be measured at FVTPL, as the contractual cash flows of those investments do not represent solely payments of principal and interest on the principal outstanding.

- All other financial assets and financial liabilities will continue to be measured on the same bases as are currently measured under HKAS 39.

According to the assessment made by the directors of the Company up to the date of issuance of the consolidated financial statements, the changes in classification and measurement basis mentioned above in respect of financial assets and liabilities will have no impact on the amount of total equity of the Group at 1 January 2018 on initial application of HKFRS 9.

3. APPLICATION OF NEW AND REVISED HKFRSs (continued)

HKFRS 9 Financial instruments (continued)

Impairment

In general, the directors of the Company anticipate that the application of the expected credit loss model of HKFRS 9 will result in earlier provision of credit losses which are not yet incurred in relation to the Group's financial assets measured at amortised costs and other items that subject to the impairment provision upon application of HKFRS 9 by the Group. This change will reduce the total equity of the Group at 1 January 2018 by less than 1% on initial application of HKFRS 9, after having taken into account the impacts of deferred tax.

HKFRS 15 Revenue from contracts with customers

HKFRS 15 was issued which establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. HKFRS 15 will supersede the current revenue recognition guidance including HKAS 18 "Revenue", HKAS 11 "Construction contracts" and the related Interpretations when it becomes effective.

The core principle of HKFRS 15 is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Specifically, the Standard introduces a 5-step approach to revenue recognition:

- Step 1: Identify the contract(s) with a customer
- Step 2: Identify the performance obligations in the contract
- Step 3: Determine the transaction price
- Step 4: Allocate the transaction price to the performance obligations in the contract
- Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation

Under HKFRS 15, an entity recognises revenue when (or as) a performance obligation is satisfied, i.e. when 'control' of the goods or services underlying the particular performance obligation is transferred to the customer. Far more prescriptive guidance has been added in HKFRS 15 to deal with specific scenarios. Furthermore, extensive disclosures are required by HKFRS 15.

3. APPLICATION OF NEW AND REVISED HKFRSs (continued)

HKFRS 15 Revenue from contracts with customers (continued)

In 2016, the HKICPA issued Clarifications to HKFRS 15 in relation to the identification of performance obligations, principal versus agent considerations, as well as licensing application guidance.

The directors of the Company anticipate that the application of HKFRS 15 in the future may result in more disclosures, however, the directors of the Company do not anticipate that the application of HKFRS 15 will have a material impact on the timing and amounts of revenue recognised in the respective reporting periods.

HKFRS 16 Leases

HKFRS 16 introduces a comprehensive model for the identification of lease arrangements and accounting treatments for both lessors and lessees. HKFRS 16 will supersede HKAS 17 “Leases” and the related interpretations when it becomes effective.

HKFRS 16 distinguishes lease and service contracts on the basis of whether an identified asset is controlled by a customer. Distinctions of operating leases and finance leases are removed for lessee accounting, and is replaced by a model where a right-of-use asset and a corresponding liability have to be recognised for all leases by lessees, except for short-term leases and leases of low value assets.

The right-of-use asset is initially measured at cost and subsequently measured at cost (subject to certain exceptions) less accumulated depreciation and impairment losses, adjusted for any remeasurement of the lease liability. The lease liability is initially measured at the present value of the lease payments that are not paid at that date. Subsequently, the lease liability is adjusted for interest and lease payments, as well as the impact of lease modifications, amongst others. For the classification of cash flows, the Group currently presents upfront prepaid lease payments as investing cash flows in relation to leasehold lands for owned use and those classified as investment properties while other operating lease payments are presented as operating cash flows. Upon application of HKFRS 16, lease payments in relation to lease liability will be allocated into a principal and an interest portion which will be presented as financing cash flows by the Group.

Furthermore, extensive disclosures are required by HKFRS 16.

As at 31 December 2017, the Group has non-cancellable operating lease commitments of HK$116,921,000 as disclosed in note 40. A preliminary assessment indicates that these arrangements will meet the definition of a lease. Upon application of HKFRS 16, the Group will recognise a right-of-use asset and a corresponding liability in respect of all these leases unless they qualify for low value or short-term leases upon the application of HKFRS 16. In addition, the Group currently considers refundable rental deposits paid under leases to which HKAS 17 applies. Based on the definition of lease payments under HKFRS 16, such deposits are not payments relating to the right to use the underlying assets, accordingly, the carrying amounts of such deposits may be adjusted to amortised cost and such adjustments are considered as additional lease payments. Adjustments to refundable rental deposits paid would be included in the carrying amount of right-of-use assets.

Except for the above, the directors of the Company do not anticipate that the application of the new and amendments to HKFRSs listed above will have a material impact on the consolidated financial statements.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities (including structured entities) controlled by the Company and its subsidiaries. Control is achieved when the Company:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

When the Group has less than a majority of the voting rights of an investee, it has power over the investee when the voting rights are sufficient to give it the practical ability to direct the relevant activities of the investee unilaterally. The Group considers all relevant facts and circumstances in assessing whether or not the Group's voting rights in an investee are sufficient to give it power, including:

- the size of the Group's holding of voting rights relative to the size and dispersion of holdings of the other vote holders;
- potential voting rights held by the Group, other vote holders or other parties;
- rights arising from other contractual arrangements; and
- any additional facts and circumstances that indicate that the Group has, or does not have, the current ability to direct the relevant activities at the time that decisions need to be made, including voting patterns at previous shareholders' meetings.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Basis of consolidation (continued)

Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of profit or loss and other comprehensive income from the date the Group gains control until the date when the Group ceases to control the subsidiary.

Profit or loss and each item of other comprehensive income are attributed to the owners of the Company and to the non-controlling interests. Total comprehensive income of subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies.

All intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

Dividends

Dividends are recognised as a liability when they are approved by the shareholders in a special general meeting or annual general meeting.

Investments in associates and joint ventures

An associate is an entity over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint arrangement. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments in associates and joint ventures (continued)

The results and assets and liabilities of associates and joint ventures are incorporated in these consolidated financial statements using the equity method of accounting. The financial statements of associates and joint ventures used for equity accounting purposes are prepared using uniform accounting policies as those of the Group for like transactions and events in similar circumstances. Under the equity method, an investment in an associate or a joint venture is initially recognised in the consolidated statement of financial position at cost and adjusted thereafter to recognise the Group's share of the profit or loss and other comprehensive income of the associate or a joint venture. Changes in net assets of the associate other than profit or loss and other comprehensive income are not accounted for unless such changes resulted in changes in ownership interest held by the Group. When the Group's share of losses of an associate or a joint venture exceeds the Group's interest in that associate or a joint venture (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate or joint venture), the Group discontinues recognising its share of further losses. Additional losses are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate or a joint venture.

An investment in an associate or a joint venture is accounted for using the equity method from the date on which the investee becomes an associate or a joint venture. On acquisition of the investment in an associate or a joint venture, any excess of the cost of the investment over the Group's share of the net fair value of the identifiable assets and liabilities of the investee is recognised as goodwill, which is included within the carrying amount of the investment. Any excess of the Group's share of the net fair value of the identifiable assets and liabilities over the cost of the investment, after reassessment, is recognised immediately in profit or loss in the period in which the investment is acquired.

The requirements of HKAS 39 are applied to determine whether it is necessary to recognise any impairment loss with respect to the Group's investment in an associate or a joint venture. When necessary, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with HKAS 36 "Impairment of assets" as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs of disposal) with its carrying amount. Any impairment loss recognised forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognised in accordance with HKAS 36 to the extent that the recoverable amount of the investment subsequently increases.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments in associates and joint ventures (continued)

When the Group ceases to have significant influence over an associate or joint control over a joint venture, it is accounted for as a disposal of the entire interest in the investee with a resulting gain or loss being recognised in profit or loss. When the Group retains an interest in the former associate or joint venture and the retained interest is a financial asset within the scope of HKAS 39, the Group measures the retained interest at fair value at that date and the fair value is regarded as its fair value on initial recognition. The difference between the carrying amount of the associate or a joint venture and the fair value of any retained interest and any proceeds from disposing the relevant interest in the associate or a joint venture is included in the determination of the gain or loss on disposal of the associate or a joint venture. In addition, the Group accounts for all amounts previously recognised in other comprehensive income in relation to that associate or a joint venture on the same basis as would be required if that associate or a joint venture had directly disposed of the related assets or liabilities. Therefore, if a gain or loss previously recognised in other comprehensive income by that associate or a joint venture would be reclassified to profit or loss on the disposal of the related assets or liabilities, the Group reclassifies the gain or loss from equity to profit or loss (as a reclassification adjustment) upon disposal of the relevant associate as joint venture.

When a group entity transacts with an associate or a joint venture of the Group, profits and losses resulting from the transactions with the associate or a joint venture are recognised in the Group's consolidated financial statements only to the extent of interests in the associate or a joint venture that are not related to the Group.

Property and equipment and depreciation

Property and equipment including leasehold improvements and furniture, equipment and motor vehicles are stated in the consolidated statement of financial position at cost less subsequent accumulated depreciation and subsequent accumulated impairment losses, if any.

Depreciation is recognised so as to write off the cost of assets less their residual values over their estimated useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

An item of property and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Intangible assets

Intangible assets acquired separately

Intangible assets with indefinite useful lives that are acquired separately are carried at cost less any subsequent accumulated impairment losses.

Impairment on tangible and intangible assets

At the end of the reporting period, the Group reviews the carrying amounts of its tangible and intangible assets with finite useful lives to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any).

When it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment at least annually, and whenever there is an indication that they may be impaired.

Recoverable amount is the higher of fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or a cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or a cash-generating unit) is reduced to its recoverable amount. In allocating the impairment loss, the impairment loss is allocated first to reduce the carrying amount of any goodwill (if applicable) and then to the other assets on a pro-rata basis based on the carrying amount of each asset in the unit. The carrying amount of an asset is not reduced below the highest of its fair value less costs of disposal (if measurable), its value in use (if determinable) and zero. The amount of the impairment loss that would otherwise have been allocated to the asset is allocated pro rata to the other assets of the unit. An impairment loss is recognised immediately in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or a cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Group as lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Contingent rentals arising under operating leases are recognised as an expense in the period in which they are incurred.

Financial instruments

Financial assets and financial liabilities are recognised when a group entity becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets or financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

Financial assets

Financial assets are classified into the following specified categories: financial assets at fair value through profit or loss ("FVTPL"), available-for-sale ("AFS") financial assets and loans and receivables. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the debt instrument, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Interest income is recognised on an effective interest basis for debt instruments.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Financial assets (continued)

Financial assets at FVTPL

Financial assets are classified as at FVTPL when the financial asset is (i) held for trading, or (ii) it is designated as at FVTPL.

A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of selling in the near term; or
- on initial recognition it is a part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

A financial asset other than a financial asset held for trading or contingent consideration that may be received by an acquirer as part of a business combination may be designated as at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial asset forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and HKAS 39 permits the entire combined contract (asset or liability) to be designated as at FVTPL.

Financial assets at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognised in profit or loss. The net gain or loss recognised in profit or loss includes any dividend or interest earned on the financial assets and is included in net gains on financial assets at FVTPL line item. Fair value is determined in the manner described in note 43.

AFS financial assets

AFS financial assets are non-derivatives that are either designated as available-for-sale or are not classified as (a) loans and receivables, (b) held-to-maturity investments or (c) financial assets at FVTPL. The Group designated certain items as AFS financial assets on initial recognition of those items.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Financial assets (continued)

AFS financial assets (continued)

Equity and debt securities held by the Group that are classified as AFS financial assets and are traded in an active market are measured at fair value at the end of each reporting period except for unquoted equity investments whose fair value cannot be reliably measured. Changes in the carrying amount of AFS debt instruments relating to interest income calculated using the effective interest method, and changes in foreign exchange rates, are recognised in profit or loss. Dividends on AFS equity instruments are recognised in profit or loss when the Group's right to receive the dividends is established. Other changes in the carrying amount of AFS financial assets are recognised in other comprehensive income and accumulated under the heading of available-for-sale investment revaluation reserve. When the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously accumulated in the available-for-sale investment revaluation reserve is reclassified to profit or loss.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables (including other loans and advances, other long term assets, amount due from an associate, amount due from a joint venture, advances to customers in margin financing, accounts receivable, deposits and other receivables, interest receivable, restricted bank balances, pledged bank deposits and cash and cash equivalents) are measured at amortised cost using the effective interest method, less any impairment (see accounting policy on impairment loss on financial assets below).

Interest income is recognised by applying the effective interest rate, except for short-term receivables where the recognition of interest would be immaterial.

Impairment of financial assets

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial assets have been affected.

For AFS equity investments, a significant or prolonged decline in the fair value of the security below its cost is considered to be objective evidence of impairment.

For all other financial assets, objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- breach of contract, such as a default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation; or
- disappearance of an active market for that financial asset because of financial difficulties.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Financial assets (continued)

Impairment of financial assets (continued)

For certain categories of financial assets, such as other loans and advances, assets are assessed on a collective basis even if they were assessed not to be impaired individually. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments and observable changes in market conditions that correlate with default on receivables.

For financial assets carried at amortised cost, the amount of the impairment loss recognised is the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the financial asset's original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of other loans and advances, advances to customers in margin financing and accounts receivable, where the carrying amount is reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss. When other loans and advances, advances to customers in margin financing and accounts receivable are considered uncollectible, they are written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss.

When an AFS financial asset is considered to be impaired, cumulative gains or losses previously recognised in other comprehensive income are reclassified to profit or loss in the period.

For financial assets measured at amortised cost, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

In respect of AFS equity investments, impairment losses previously recognised in profit or loss are not reversed through profit or loss. Any increase in fair value subsequent to an impairment loss is recognised in other comprehensive income and accumulated under the heading of investment revaluation reserve.

Financial liabilities and equity instruments

Debt and equity instruments issued by a group entity are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Group are recognised at the proceeds received, net of direct issue costs.

Perpetual capital instruments issued by the Group, which includes no contractual obligation for the Group to deliver cash or another financial asset to the holders or to exchange financial assets or financial liabilities with the holders under conditions that are potentially unfavorable to the Group, are classified as equity instruments and are initially recorded at the proceeds received.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Financial liabilities and equity instruments (continued)

Financial liabilities at FVTPL

The payables to interest holders of unlisted consolidated investment funds are designated as at FVTPL. A financial liability is designated as at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or

- the financial liability forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or

- it forms part of a contract containing one or more embedded derivatives, and HKAS 39 permits the entire combined contract (asset or liability) to be designated as at FVTPL.

Financial liabilities at FVTPL are measured at fair value, with any gains or losses arising on remeasurement recognised in profit or loss.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition. Interest expense is recognised on an effective interest basis.

Other financial liabilities

Other financial liabilities including accounts payable, other payables, amount due to an associate and interest-bearing borrowings are subsequently measured at amortised cost, using the effective interest method.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Financial liabilities and equity instruments (continued)

Convertible bonds

The component parts of the convertible loan notes are classified separately as financial liability and equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument. A conversion option that will be settled by the exchange of a fixed amount of cash or another financial asset for a fixed number of the Company's own equity instruments is an equity instrument.

At the date of issue, the fair value of the liability component (including any embedded non-equity derivatives features) is estimated by measuring the fair value of similar liability that does not have an associated equity component.

The conversion option classified as equity is determined by deducting the amount of the liability component from the fair value of the compound instrument as a whole. This is recognised and included in equity, net of income tax effects, and is not subsequently remeasured. In addition, the conversion option classified as equity will remain in equity until the conversion option is exercised, in which case, the balance recognised in equity will be transferred to share premium. Where the conversion option remains unexercised at the maturity date of the convertible note, the balance recognised in equity will be transferred to retained profits. No gain or loss is recognised in profit or loss upon conversion or expiration of the conversion option.

Transaction costs that relate to the issue of the convertible loan notes are allocated to the liability and equity components in proportion to the allocation of the gross proceeds. Transaction costs relating to the equity component are charged directly to equity. Transaction costs relating to the liability component are included in the carrying amount of the liability portion and amortised over the period of the convertible loan notes using the effective interest method.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Financial assets sold under repurchase agreements

Financial assets sold subject to agreements with a commitment to repurchase at a specific future date are not derecognised in the consolidated statement of financial position. The proceeds from selling such assets are presented as "financial assets sold under repurchase agreements" and included in the consolidated statement of financial position. Financial assets sold under repurchase agreements are initially measured at fair value and are subsequently measured at amortised cost using the effective interest method.

Derivative financial instruments

Derivatives are initially recognised at fair value at the date when derivative contracts are entered into and are subsequently remeasured to their fair value at the end of the reporting period. The resulting gain or loss is recognised in profit or loss immediately.

Derecognition

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity or when it neither transfers nor retains substantially all of the risks and rewards of ownership of the transferred assets and has not retained control of the financial asset. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised in other comprehensive income and accumulated in equity is recognised in profit or loss.

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or have expired. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the consolidated statement of financial position when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or realise the assets and settle the liabilities simultaneously.

Cash and cash equivalents

For the purpose of the consolidated statement of cash flows, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments that are readily convertible into known amounts of cash, are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

For the purpose of the consolidated statement of financial position, cash and cash equivalents comprise cash on hand and at banks, including term deposits, and assets similar in nature to cash, which are not restricted as to use.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle that obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (where the effect of the time value of money is material).

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from 'profit before tax' as reported in the consolidated statement of profit or loss because of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such deferred tax assets and liabilities are not recognised if the temporary difference arises from the initial recognition (other than in a business combination) of assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries, associates, and joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset is realised, based on tax rate (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Taxation (continued)

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Current and deferred tax are recognised in profit or loss, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognised in other comprehensive income or directly in equity respectively.

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for services provided in the normal course of business.

Revenue is recognised when the amount of revenue can be reliably measured; when it is probable that future economic benefits will flow to the Group and when specific criteria have been met for each of the Group's activities, as described below.

(a) Fees and commission income for broking business is recorded as income on a trade date basis;

(b) Interest income from a financial asset is recognised when it is probable that the economic benefits will flow to the Group and the amount of income can be measured reliably. Interest income is accrued on a time basis, by reference to the carrying amount and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition;

(c) Dividend income from investments is recognised when the shareholders' right to receive payment have been established;

(d) Underwriting commission income, placing commission are recognised as income in accordance with the terms of the underwriting agreement or deal mandate when the relevant significant acts have been completed; and

(e) Income from consultancy, financial advisory; placing, underwriting and sponsorship services; fund subscription and management service; and other service income are recorded when services and other service income are rendered.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Share-based payment arrangements

Equity-settled share-based payment transactions

Share options granted to employees

Equity-settled share-based payments to employees and others providing similar services are measured at the fair value of the equity instruments at the grant date.

The fair value of the equity-settled share-based payments determined at the grant date without taking into consideration all non-market vesting conditions is expensed on a straight-line basis over the vesting period, based on the Group's estimate of equity instruments that will eventually vest, with a corresponding increase in equity (share options reserve). At the end of each reporting period, the Group revises its estimate of the number of equity instruments expected to vest based on assessment of all relevant non-market vesting conditions. The impact of the revision of the original estimates, if any, is recognised in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to the share options reserve.

When share options are exercised, the amount previously recognised in share option reserve will be transferred to share premium. When the share options are forfeited after the vesting date or are still not exercised at the expiry date, the amount previously recognised in share option reserve will be transferred to retained profits.

Retirement benefit costs

Payments to the Mandatory Provident Fund Scheme are recognised as an expense when employees have rendered service entitling them to the contributions.

The employees of the Group's subsidiaries which operate in Mainland China are required to participate in a central pension scheme operated by the local municipal government. These subsidiaries are required to contribute certain percentage of its payroll costs, depending on the location of the subsidiaries, of their payroll costs to the central pension scheme. The contributions are charged to the statement of profit or loss as they become payable in accordance with the rules of the central pension scheme.

Borrowing costs

All borrowing costs are recognised in profit or loss in the period in which they are incurred.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recognised at the rates of exchanges prevailing on the dates of the transactions. At the end of the reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are recognised in profit or loss in the period in which they arise, except for exchange differences on monetary items receivable from or payable to a foreign operation for which settlement is neither planned nor likely to occur (therefore forming part of the net investment in the foreign operation), which are recognised initially in other comprehensive income and reclassified from equity to profit or loss on disposal or partial disposal of the Group's interests in associates.

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Group (i.e. Hong Kong dollars) using exchange rates prevailing at the end of each reporting period. Income and expenses items are translated at the average exchange rates for the period. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity under the heading of currency translation reserve (attributed to non-controlling interests as appropriate).

On the disposal of a foreign operation (i.e. a disposal of the Group's entire interest in a foreign operation, or a disposal involving loss of control over a subsidiary that includes a foreign operation, or a partial disposal of an interest in a joint arrangement or an associate that includes a foreign operation of which the retained interest becomes a financial asset), all of the exchange differences accumulated in equity in respect of that operation attributable to the owners of the Company are reclassified to profit or loss.

5. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

The preparation of the Group's consolidated financial statements requires the directors of the Company to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and their accompany disclosures, and the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected in the future.

In the process of applying the Group's accounting policies, which are described in note 4, the directors of the Company have made the following judgements, estimates and assumptions, which have the most significant effect on the amounts recognised in the financial statements:

Impairment of other loans and advances, advances to customers in margin financing and accounts receivable

The Group reviews its other loans and advances, advances to customers in margin financing and accounts receivable portfolio to assess impairment on a regular basis. In determining whether an impairment loss should be recorded in the consolidated statement of profit or loss, the Group makes judgement as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of other loans and advances, advances to customers in margin financing and accounts receivable before the decrease can be identified with an individual account receivable in that portfolio. Other loans and advances are assessed on a collective basis even if they were assessed not to be impaired individually. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or any observable changes in market conditions that correlate with defaults on assets in the Group. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

Income taxes

No deferred tax asset has been recognised on the estimated tax losses of HK$268,034,000 (2016: HK$179,877,000) and deductible temporary differences of HK$116,835,000 (2016: HK$50,077,000) due to the unpredictability of future profit streams. The realisability of the deferred tax asset mainly depends on whether sufficient future profits or taxable temporary differences will be available in the future.

5. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

Fair value measurements and valuation processes

Some of the Group's assets and liabilities are measured at fair value for financial reporting purposes.

In estimating the fair value of an asset or a liability, the Group uses market-observable data to the extent it is available. Where Level 1 inputs are not available, the Group engages third party qualified valuers to perform the valuation. The management of the Group works closely with the qualified external valuers to establish the appropriate valuation techniques and inputs to the model. The finance department would report the valuation findings to the Board of Directors of the Company every month to explain the cause of fluctuations in the fair value of the assets and liabilities.

The Group uses valuation techniques that include inputs that are not based on observable market data to estimate the fair value of certain types of financial instruments. Notes 19, 20 and 43 provide detailed information about the valuation techniques, inputs and key assumptions used in the determination of the fair value of various assets and liabilities.

6. 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 expenses, certain legal and professional fees and certain other expenses, incurred for strategic planning of the Group) are excluded from such measurement.

6. OPERATING SEGMENT INFORMATION (continued)

(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	169,523	298,604	1,021,589	1,489,716
Other unallocated income and gains or losses, net				(29,125)
Other unallocated expenses				(196,562)
Profit before tax				1,264,029
Income tax expense				(258,386)
Profit for the year				1,005,643

6. OPERATING SEGMENT INFORMATION (continued)

(a) Operating segments (continued)

For the year ended 31 December 2016

	Securities HK$'000	Corporate finance HK$'000	Asset management and direct investment HK$'000	Total HK$'000
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	144,685	198,256	572,241	915,182
Other unallocated income and gains or losses, net				14,921
Other unallocated expenses				(233,250)
Profit before tax				696,853
Income tax expense				(145,939)
Profit for the year				550,914

6. OPERATING SEGMENT INFORMATION (continued)

(a) Operating segments (continued)

As at 31 December 2017

	Securities HK$'000	Corporate finance HK$'000	Asset management and direct investment HK$'000	Total HK$'000
Segment assets	5,993,311	120,534	35,319,758	41,433,603
Deferred tax assets				8,522
Other unallocated assets (note i)				4,882,644
Total assets				46,324,769
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 (note ii)				30,433,327
Total liabilities				42,261,947

6. OPERATING SEGMENT INFORMATION (continued)

(a) Operating segments (continued)

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

6. OPERATING SEGMENT INFORMATION (continued)

(a) Operating segments (continued)

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 i)				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 ii)				17,439,713
Total liabilities				20,997,786

6. OPERATING SEGMENT INFORMATION (continued)

(a) Operating segments (continued)

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

6. OPERATING SEGMENT INFORMATION (continued)

(a) Operating segments (continued)

Note i: 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 ii: 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).

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

	2017 HK$'000	2016 HK$'000
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
	401,230	289,185
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
	314,361	219,412
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
	1,307,439	218,469
	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 (note 20)	55,358	–
	2,834,890	1,402,029

8. OTHER INCOME AND GAINS OR LOSSES, NET

	2017 HK$'000	2016 HK$'000
Bank interest income	**27,047**	15,221
Foreign exchange differences, net	**(45,851)**	4,510
Fair value loss on financial liabilities at FVTPL (note 19)	**(168,462)**	(47,436)
Others	**43,056**	46
	(144,210)	(27,659)

9. PROFIT BEFORE TAX

	2017 HK$'000	2016 HK$'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 (note 11)	**8,743**	7,477
Employee benefit expenses (excluding directors' and chief executive's remuneration (note 11)):		
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.

10. FINANCE COSTS

	2017 HK$'000	2016 HK$'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

11. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION

Directors' and chief executive's remuneration for the year is as follows:

	2017 HK$'000	2016 HK$'000
Fees	**894**	705
Other emoluments:		
Salaries and other benefits	**2,330**	3,975
Pension scheme contributions	**59**	51
Discretionary bonuses	**5,460**	2,746
	7,849	6,772
	8,743	7,477

Directors' and chief executive's remuneration for the year, disclosed pursuant to the applicable Listing Rules and the Hong Kong Companies Ordinance, is as follows:

11. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION (continued)

2017

(a) Executive directors

	Chief Executive Officer				Chief Executive Officer	
	Mr. Liu Xiaodong (resigned on 13 April 2017) HK$'000	Mr. Huang Rui (resigned on 20 February 2017) HK$'000	Ms. Wang Wei (resigned on 8 January 2018) HK$'000	Mr. Wang Qiang (appointed on 20 February 2017) HK$'000	Mr. Lai Jinyu (appointed on 13 April 2017) HK$'000	Total 1 January to 31 December 2017 HK$'000
Fees	–	–	–	–	–	–
Other emoluments:						
Salaries, allowances and benefits in kind	327	217	576	704	506	2,330
Discretionary related bonuses	813	310	663	2,283	1,391	5,460
Retirement benefits	8	6	17	15	13	59
Sub-total	1,148	533	1,256	3,002	1,910	7,849

The executive directors' emoluments shown above were for their services in connection with the management of the affairs of the Company and the Group.

(b) Non-executive directors

	Mr. Zeng Jianyong (resigned on 20 February 2017) HK$'000	Ms. Yu Xiaojing (appointed on 20 February 2017 and resigned on 27 September 2017) HK$'000	Mr. Fan Haibo (appointed on 27 September 2017 and resigned on 16 March 2018) HK$'000	Total 1 January 2017 to 31 December 2017 HK$'000
Fees	–	–	–	–
Other emoluments:				
Salaries, allowance and benefits in kind	–	–	–	–
Discretionary related bonuses	–	–	–	–
Retirement benefits	–	–	–	–
Sub-total	–	–	–	–

11. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION (continued)

2017 (continued)

(c) Independent non-executive directors

	Dr. Wong Tin Yau Kelvin HK$'000	Mr. Yeung Siu Keung (retired on 23 May 2017) HK$'000	Mr. Ma Li Shan HK$'000	Mr. Guan Huanfei (appointed on 23 May 2017) HK$'000	Total 1 January 2017 to 31 December 2017 HK$'000
Fees	306	108	298	182	894
Other emoluments:					
Salaries, allowances and benefits in kind	–	–	–	–	–
Discretionary related bonuses	–	–	–	–	–
Retirement benefits	–	–	–	–	–
Sub-total	306	108	298	182	894

The non-executive directors' emoluments shown above were mainly for their services as directors of the Company.

11. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION (continued)

2016

(a) Executive directors

	Mr. Liu Xiaodong HK$'000	Chief Executive Officer Mr. Huang Rui (appointed on 13 June 2016 and resigned on 20 February 2017) HK$'000	Ms. Wang Wei (appointed on 20 December 2016) HK$'000	Mr. Lai Jinyu (appointed on 27 April 2016 and resigned on 20 December 2016) HK$'000	Mr. Jiang Rongjian (resigned on 27 April 2016) HK$'000	Mr. Xiong Hao (resigned on 13 June 2016) HK$'000	Total 1 January to 31 December 2016 HK$'000
Fees	–	–	–	–	–	–	–
Other emoluments:							
Salaries, allowances and benefits in kind	737	1,057	44	641	739	757	3,975
Discretionary related bonuses	1,940	584	–	222	–	–	2,746
Retirement benefits	18	7	–	11	6	9	51
Sub-total	2,695	1,648	44	874	745	766	6,772

The executive directors' emoluments shown above were for their services in connection with the management of the affairs of the Company or its subsidiaries.

(b) Non-executive directors

	Mr. Zeng Jianyong (appointed on 19 August 2016 and resigned on 20 February 2017) HK$'000	Mr. Ming Hang (appointed on 13 June 2016 and resigned on 19 August 2016) HK$'000	Total 1 January 2016 to 31 December 2016 HK$'000
Fees	–	–	–
Other emoluments:			
Salaries, allowance and benefits in kind	–	–	–
Discretionary related bonuses	–	–	–
Retirement benefits	–	–	–
Sub-total	–	–	–

11. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION (continued)

2016 (continued)

(c) Independent non-executive directors

	Dr. Wong Tin Yau Kelvin HK$'000	Mr. Yeung Siu Keung HK$'000	Mr. Ma Li Shan (appointed on 19 August 2016) HK$'000	Mr. Tse Yung Hoi (resigned on 13 June 2016) HK$'000	Total 1 January 2016 to 31 December 2016 HK$'000
Fees	250	250	92	113	705
Other emoluments:					
Salaries, allowances and benefits in kind	–	–	–	–	–
Discretionary related bonuses	–	–	–	–	–
Retirement benefits	–	–	–	–	–
Sub-total	250	250	92	113	705

The non-executive directors' emoluments shown above were mainly for their services as directors of the Company.

Apart from the directors, the Group has not classified any other person as a chief executive during the years ended 31 December 2017 and 2016. There was no arrangement under which a director or the chief executive waived or agreed to waive any remuneration during the year (2016: nil).

12. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees did not included directors for the years ended 31 December 2017 and 2016, details of whose remuneration are set out in note 11 above. Details of the remuneration for the year ended 31 December 2017 of the five (2016: five) highest paid employees who are non-directors of the Company are as follows:

	2017 HK$'000	2016 HK$'000
Salaries and other benefits	**8,523**	9,760
Pension scheme contributions	**122**	159
	8,645	9,919

The number of non-directors, highest paid employees whose remuneration fell within the following bands is as follows:

	2017 Number of employees	2016 Number of employees
HK$1,000,001 to HK$1,500,000	**1**	–
HK$1,500,001 to HK$2,000,000	**3**	3
HK$2,000,001 to HK$2,500,000	**1**	1
HK$2,500,001 to HK$3,000,000	**–**	1
	5	5

13. 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.

	2017 HK$'000	2016 HK$'000
Current tax:		
Hong Kong	186,384	60,503
PRC	13,412	–
	199,796	60,503
Overprovision in prior year:		
Hong Kong	(39)	–
Deferred tax (note 32)	58,629	85,436
	258,386	145,939

A reconciliation of the tax expense applicable to profit before tax at the statutory rate of Hong Kong, where the Company is headquartered, to the tax expense is as follows:

	2017 HK$'000	2016 HK$'000
Profit before tax	1,264,029	696,853
Tax at the statutory tax rate of 16.5%	208,565	114,981
Income not subject to tax	(6,813)	(3,312)
Expenses not deductible for tax	30,724	15,911
Tax effect of deductible temporary differences not recognised	11,015	8,263
Overprovision in prior year	(39)	–
Tax losses utilised from previous periods	(27,234)	–
Tax losses not recognised	41,780	10,096
Effect of different tax rates of subsidiaries	1,102	–
Others	(714)	–
Tax expense	258,386	145,939

14. 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).

15. 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:

	2017 HK$'000	2016 HK$'000
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
Earnings for the purpose of dilutive earnings per share	964,093	550,968

	Number of shares	
	2017 '000	2016 '000
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
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.

Note: 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. The basic and diluted earnings per share for the year ended 31 December 2016 have been adjusted and restated respectively to take into account the rights issue in which the rights shares are issued at a discount on market price subsequent to the year ended 31 December 2016. The weighted average number of shares outstanding was retrospectively increased to reflect the discount in the rights issue.

16. PROPERTY AND EQUIPMENT

	Leasehold improvements HK$'000	Furniture, equipment and motor vehicles HK$'000	Total HK$'000
31 December 2017			
COST			
At 1 January 2017	18,560	15,281	33,841
Additions	5,868	5,190	11,058
Disposals	–	(360)	(360)
At 31 December 2017	24,428	20,111	44,539
ACCUMULATED DEPRECIATION AND IMPAIRMENT			
At 1 January 2017	(5,280)	(10,049)	(15,329)
Depreciation provided during the year	(5,010)	(2,533)	(7,543)
Eliminated on disposal	–	360	360
At 31 December 2017	(10,290)	(12,222)	(22,512)
CARRYING VALUES			
At 31 December 2017	14,138	7,889	22,027

16. PROPERTY AND EQUIPMENT (continued)

	Leasehold improvements HK$'000	Furniture, equipment and motor vehicles HK$'000	Total HK$'000
31 December 2016			
COST			
At 1 January 2016	3,894	11,753	15,647
Additions	14,666	3,528	18,194
At 31 December 2016	18,560	15,281	33,841
ACCUMULATED DEPRECIATION AND IMPAIRMENT			
At 1 January 2016	(3,264)	(8,964)	(12,228)
Depreciation provided during the year	(2,016)	(1,085)	(3,101)
At 31 December 2016	(5,280)	(10,049)	(15,329)
CARRYING VALUES			
At 31 December 2016	13,280	5,232	18,512

The above items of property and equipment are depreciated on a straight-line basis at the following rates per annum:

Leasehold improvements	25% or over the lease terms, whichever is shorter
Furniture, equipment and motor vehicles	25% to 33%

17. OTHER LONG TERM ASSETS

	2017 HK$'000	2016 HK$'000
Deposits with The Stock Exchange of Hong Kong Limited (the "SEHK"):		
Compensation Fund	**293**	293
Fidelity Fund	**250**	250
Admission fee paid to Hong Kong Securities Clearing Company Limited	**250**	250
Deposit with the Guarantee Fund of the Central Clearing and Settlement System	**1,044**	561
Deposit with the Reserve Fund of SEHK Options Clearing House Limited	**1,874**	1,662
Deposit with the Reserve Fund of Hong Kong Futures Exchange Clearing Corporation Limited	**1,539**	1,509
	5,250	4,525

18. INTANGIBLE ASSETS

	Trading rights HK$'000	**Other licences** HK$'000	**Total** HK$'000
COST			
At 1 January 2017	20,171	2,428	22,599
Disposal of a subsidiary (note 31)	–	(1,462)	(1,462)
At 31 December 2017	20,171	966	21,137
ACCUMULATED IMPAIRMENT			
At beginning and end of year	17,821	–	17,821
CARRYING VALUES			
At 31 December 2016	2,350	2,428	4,778
At 31 December 2017	2,350	966	3,316

The trading rights represent the eligibility rights to trade on or through the SEHK and Hong Kong Futures Exchange Limited and have no foreseeable limit to the period over which the Group can use to generate net cash flows. As a result, the trading rights are considered by the management of the Group as having indefinite useful lives because they are expected to contribute to net cash inflows indefinitely. The trading rights will not be amortised until their useful lives are determined to be finite. Instead, they will be tested for impairment annually and whenever there is an indication that they may be impaired. No additional impairment is considered necessary for the years ended 31 December 2017 and 2016.

18. INTANGIBLE ASSETS (continued)

Other licences used for the Group's operations are expected to be renewable without significant cost. Therefore, licences are considered by the management of the Group as having indefinite useful lives. These licences will not be amortised until their useful lives are determined to be finite. Instead, they will be tested for impairment annually and whenever there is an indication that they may be impaired. No impairment is considered necessary for years ended 31 December 2017 and 2016 by the management.

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

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

19. FINANCIAL ASSETS (LIABILITIES) AT FAIR VALUE THROUGH PROFIT OR LOSS (continued)

	2017 HK$'000	2016 HK$'000
Liabilities		
Current:		
Unlisted investments		
Payables to interest holders of unlisted consolidated investment funds, designated at FVTPL (note (v))	**194,981**	256,734
Non-current:		
Unlisted investments		
Payables to interest holders of unlisted consolidated investment fund, designated at FVTPL (note (vi))	**223,762**	166,743

(i) On 3 February 2016, the Group set up a fund, 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.

19. FINANCIAL ASSETS (LIABILITIES) AT FAIR VALUE THROUGH PROFIT OR LOSS (continued)

(i) (continued)

On 20 May 2016, the Group acquired unlisted convertible bonds, with principal amount of HK$500,000,000 issued by an independent party, a listed company in Hong Kong, bearing fixed interest rate of 7% per annum payable semi-annually, maturity on 20 May 2019 with conversion price of HK$3.476 per share of the aforesaid listed company in Hong Kong. The fair value of the convertible bonds amounted to approximately HK$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.

19. FINANCIAL ASSETS (LIABILITIES) AT FAIR VALUE THROUGH PROFIT OR LOSS (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. In November 2017, the unlisted convertible bonds with put options were extended. 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.

19. FINANCIAL ASSETS (LIABILITIES) AT FAIR VALUE THROUGH PROFIT OR LOSS (continued)

(iv) On 30 March 2016, the Group purchased listed securities together with a put option at an aggregate consideration of approximately HK$339,659,000. The put option gives the Group the right to require the issuer, 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.

19. FINANCIAL ASSETS (LIABILITIES) AT FAIR VALUE THROUGH PROFIT OR LOSS (continued)

(v) As at 31 December 2017 and 31 December 2016, included in financial liabilities at fair value through profit or loss are the payables to interest holders of unlisted consolidated investment funds.

As at 31 December 2016, a wholly-owned subsidiary of the Group held 71% interests in 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 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.

19. FINANCIAL ASSETS (LIABILITIES) AT FAIR VALUE THROUGH PROFIT OR LOSS (continued)

(v) (continued)

As at 31 December 2016, a wholly-owned subsidiary of the Group held 60% interests in 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 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 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.

20. AVAILABLE-FOR-SALE INVESTMENTS

	2017 HK$'000	2016 HK$'000
Non-current:		
Listed debt investments, at fair value	**3,891,956**	–
Unlisted fund investments, at fair value (note)	**2,815,649**	–
Unlisted equity investment, at fair value	**903,639**	–
	7,611,244	–
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**	–
	7,034,309	4,339,012
	14,645,553	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 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".

21. INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD AND AMOUNT DUE FROM AN ASSOCIATE AND A JOINT VENTURE

	2017 HK$'000	2016 HK$'000
Associates:		
Cost of unlisted investments in associates	17,062	190
Share of result of associates	1,126	–
Exchange differences	477	–
	18,665	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:

		Interest held by the Group		
Name of entity	Country of incorporation	As at 31 December 2017	As at 31 December 2016	Principal activities
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.

21. INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD AND AMOUNT DUE FROM AN ASSOCIATE AND A JOINT VENTURE (continued)

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.

22. OTHER LOANS AND ADVANCES

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

22. OTHER LOANS AND ADVANCES (continued)

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.

22. OTHER LOANS AND ADVANCES (continued)

Movements in the allowances for impaired debts are as follows:

	2017 HK$'000	2016 HK$'000
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 years ended 31 December 2016 and 2017, there are no loans and advances that are past due but not impaired.

The carrying amounts of the Group's other loans and advances are denominated in the following currencies:

	2017 HK$'000	2016 HK$'000
Hong Kong Dollar	**5,896,571**	3,655,758
United States Dollar ("USD")	**1,220,999**	1,298,401
Chinese Yuan Renminbi ("RMB")	**2,185,590**	–
	9,303,160	4,954,159

23. ADVANCES TO CUSTOMERS IN MARGIN FINANCING

	2017 HK$'000	2016 HK$'000
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.

23. ADVANCES TO CUSTOMERS IN MARGIN FINANCING (continued)

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

	2017 HK$'000	2016 HK$'000
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 exchanges 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.

24. ACCOUNTS RECEIVABLE

	2017 HK$'000	2016 HK$'000
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
	79,397	684,800
Provision for impairment	**(243)**	(223)
	79,154	684,577

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 HK$'000	2016 HK$'000
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
	79,154	684,577

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

	2017 HK$'000	2016 HK$'000
At beginning of year	**223**	220
Provision for impairment losses, net	**20**	3
At end of year	**243**	223

24. ACCOUNTS RECEIVABLE (continued)

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 HK$'000	2016 HK$'000
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
	38,092	25,574

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, 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.

The carrying amounts of the Group's accounts receivable are denominated in the following currencies:

	2017 HK$'000	2016 HK$'000
Hong Kong Dollar	**42,168**	15,677
United States Dollar ("USD")	**35,789**	668,900
Chinese Yuan Renminbi ("RMB")	**1,197**	–
	79,154	684,577

25. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES AND INTEREST RECEIVABLE

	2017 HK$'000	2016 HK$'000
Non-current portion:		
Deposits	**11,417**	–
Other receivables (Note (a))	**9,061**	–
	20,478	–
Current portion:		
Prepayments	**46,551**	32,787
Other deposits	**48,389**	18,117
Other receivables	**57,839**	10,633
	152,779	61,537
	173,257	61,537
Interest receivable (Note (b))	**184,435**	34,400

Notes:

(a) The Group has completed a group reorganisation and the distribution in specie in August 2015. Management of the Company are of the view that the group restructuring would be subject to "Bulletin of the State Administration of Taxation on Issues of Enterprise Income Tax on Indirect Transfer of Assets by Non-resident Enterprises" ("Bulletin 7") and taxable in China. On 26 June 2015, Mr. Cui Zhanhui ("Mr. Cui"), entered into a deed of indemnity, pursuant to which Mr. Cui has undertaken to fully compensate and indemnify the loss which may suffered by the Company for the tax provision made under Bulletin 7, the Group recognised HK$9,061,000 as the other income and the amount due from Mr. Cui in 2015. Details of the group reorganisation and the distribution in specie of the Group has been disclosed in note 15 and note 14 to consolidated financial statements included in the annual report for the years ended 31 December 2015 and 2016 respectively.

As at 31 December 2016 and 2017, the directors of the Company considered the recoverability of the amount due from Mr. Cui is satisfactory.

(b) Interest receivable represents the interest income receivable from financial assets at FVTPL and available-for-sale investments.

26. 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 "SFC"). The Group has classified these clients' monies as restricted bank balances under the current assets section of the 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 client's monies. The Group is not permitted to use the clients' monies to settle its own obligations.

27. CASH AND CASH EQUIVALENTS AND PLEDGED BANK DEPOSITS

	2017 HK$'000	2016 HK$'000
Cash and balances with financial institutions	3,524,781	956,675
Pledged bank deposits	1,898,063	–
	5,422,844	956,675
Less: Pledged deposits for bank loans (note 30)	1,898,063	–
Cash and cash equivalents	3,524,781	956,675

At the end of the reporting period, the cash and balances with financial institutions of the Group denominated in RMB amounted to approximately HK$77,440,000 (2016: HK$12,670,000) which are subject to exchange control.

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.

28. ACCOUNTS PAYABLE

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

	2017 HK$'000	2016 HK$'000
Current to 1 month	3,758,807	2,942,458

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.

29. OTHER LIABILITIES, PAYABLES AND ACCRUALS

	2017 HK$'000	2016 HK$'000
Current portion:		
Other payables	**4,437**	1,135
Interest payables (note (i))	**242,964**	152,333
Accruals (note (ii))	**54,444**	47,234
Receipt in advance	**88,402**	–
Deferred income (note (iii))	**64,331**	–
	454,578	200,702
Non-current portion:		
Other payables	**1,322**	481
Deferred income (note (iii))	**210,098**	–
	211,420	481

Notes:

(i) Included in interest payables are the interest payables in relation to the loan from the intermediate holding company of an aggregate amount of US$2,379,680,000 (2016: US$1,500,000,000) at annual interest rates of ranging from 3.85% to 6.02% (2016: 3.85% to 6.02%) and loan from the ultimate holding company of an aggregate amount of RMB500,000,000 (2016: nil) at annual interest rates of ranging from 5.7% to 6.1% (2016: nil) and HK$38,242,000 (2016: HK$9,516,000) interest payable in relation to bank borrowing.

(ii) Accruals mainly represent HK$30,140,000 (2016: HK$19,526,000) salaries and bonus payable.

(iii) As at 31 December 2017, included in the deferred income represents the day 1 gain or loss arising from put option investments with the underlying assets of listed securities as disclosed in Note 19 (iv) that the initial fair value is based on a valuation technique which included the unobservable input. Accordingly, the directors of the Company determine that the difference between the fair value at initial recognition and the transaction price shall be recognised as a gain or loss and amortised to the profit or loss in accordance with the terms of the instruments and to the extent that market participants would take into account when pricing them.

30. INTEREST-BEARING BORROWINGS

	2017 HK$'000	2016 HK$'000
Bank loans	**13,835,491**	5,620,480
	13,835,491	5,620,480
Loan from the ultimate holding company	**598,150**	–
Loan from an intermediate holding company	**18,604,336**	11,634,000
	33,037,977	17,254,480
Secured	**1,997,039**	550,000
Unsecured	**31,040,938**	16,704,480
	33,037,977	17,254,480
The carrying amounts of the above borrowings are repayable*:		
Within one year	**14,360,202**	5,620,480
Within a period of more than one year but not exceeding two years	**5,871,071**	–
Within a period of more than two years but not exceeding five years	**10,011,216**	9,960,032
Within a period of more than five years	**2,795,488**	1,673,968
	33,037,977	17,254,480
Less:		
The carrying amounts of bank loans that contain a repayment on demand clause (shown under current liabilities) but repayable:		
Within one year	**12,198,452**	5,620,480
Within a period of more than two years but not exceeding five years	**1,637,039**	–
	13,835,491	5,620,480
Amounts due within one year shown under current liabilities	**2,161,750**	–
Amounts shown under non-current liabilities	**17,040,736**	11,634,000

* The amounts due are based on scheduled repayment dates set out in the loan agreements.

30. INTEREST-BEARING BORROWINGS (continued)

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, CHIH and RMB500,000,000 (equivalent to approximately HK$598,150,000) (2016: nil) from the ultimate holding company, 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 years 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: USD30,000,000 (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.

31. DISPOSAL OF SUBSIDIARIES

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). On 4 December 2017, the Group disposed another subsidiary, Huarong International South China Investment Fund Limited, on which date 100% equity interest of Huarong International South China Investment Fund Limited passed to the acquirer, for a consideration of HK$19,000.

Analysis of assets and liabilities over which control was lost:

Brilliant Focus Limited

	17 February 2017 HK$'000
Intangible asset	1,462
Net assets disposed of	1,462

31. DISPOSAL OF SUBSIDIARIES (continued)

Brilliant Focus Limited (continued)

	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)

Huarong International South China Investment Fund Limited

	4 December 2017 HK$'000
Other payable	(21)
Net liabilities disposed of	(21)

	HK$'000
Consideration received:	
Cash received	19
Total consideration received	19
Gain on disposal of a subsidiary	
Consideration received	19
Net liabilities disposed of	21
	40

32. DEFERRED TAXATION

The movements in deferred tax liabilities during the year are as follows:

	Temporary difference on provision for impairment of advances to customers in margin financing, other loans and advances and accounts receivable HK$'000	Temporary difference on net unrealised gain on financial assets/ liabilities at FVTPL HK$'000	Total HK$'000
At 1 January 2016	–	(13,515)	(13,515)
Credit (charge) to profit or loss	300	(85,736)	(85,436)
At 31 December 2016	300	(99,251)	(98,951)
At 1 January 2017	**300**	**(99,251)**	**(98,951)**
Credit (charge) to profit or loss	**8,222**	**(66,851)**	**(58,629)**
At 31 December 2017	**8,522**	**(166,102)**	**(157,580)**

The Group has tax losses arising in Hong Kong of approximately HK$268,034,000 (2016: HK$179,877,000) that are available indefinitely for offsetting against future taxable profits of the companies in which the losses arose. The Group does not have tax losses arising in the Mainland China as at 31 December 2017 (2016: nil). Deferred tax assets have not been recognised in respect of these tax losses previously as it was not considered probable that the tax losses can be utilised in the foreseeable future.

At 31 December 2017, the Group has deductible temporary differences of HK$116,835,000 (2016: HK$50,077,000). No deferred tax asset has been recognised in relation to such deductible temporary difference as it is not probable that taxable profit will be available against which the deductible temporary differences can be utilised.

At 31 December 2017, in the opinion of the directors that there was no significant unrecognised deferred tax liability for taxes that would be payable on the unremitted earnings of the Group's subsidiaries established in Mainland China that are subject to withholding taxes.

There are no income tax consequences attaching to the payment of dividends by the Company to its shareholders.

33. SHARE CAPITAL

Shares

	Number of shares '000	Total value HK$'000
Authorised:		
Ordinary shares of HK$0.001 each at 31 December 2017 and 31 December 2016	1,000,000,000	1,000,000
Issued and fully paid:		
At 1 January 2016	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	3,338,108	3,338
Shares issued upon rights issue (note (b))	250,358	250
At 31 December 2017	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 which were planned for expanding and developing the securities and direct investment business.

For the year ended 31 December 2017, approximately 75% of the raised proceeds had been used to support the Group's securities business and the remainder of approximately 25% of the raised proceeds had been used to support the Group's asset management and direct investment business.

All shares issued during the period rank pari passu with the then existing ordinary shares in all respects.

Share options

Details of the Company's share option scheme are included in note 34.

34. SHARE OPTION SCHEME

Pursuant to an ordinary resolution passed at the annual general meeting held on 9 September 2011, a share option scheme (the"Scheme") was adopted. The Scheme became effective on 9 September 2011 and, unless otherwise cancelled or amended, will remain in force for 10 years from that date. The purpose of the Scheme is to enable the Group to grant options to the Eligible Participants (as defined below) as incentives or rewards for their contribution to the Group.

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.

The directors of the Company shall, in accordance with the provisions of the Scheme, be entitled but shall not be bound at any time during which the Scheme is effective to make an offer to any person belonging to the following classes of participants (the "Eligible Participants") to subscribe:

(a) any employee who is an employee (whether full time or part time, including any executive director but excluding any non-executive director) of the Company, any subsidiary of the Company (the "Subsidiaries") or any invested entities (the "Invested Entities") whose equity interested are held by the Group;

(b) any non-executive directors (including independent non-executive directors) of the Company, the Subsidiaries or the Invested Entities;

(c) any supplier of goods or services to any member of the Group or any Invested Entity;

(d) any customer of the Group or the Invested Entities;

(e) any person or entity that provides research, development or other technological support to the Group or the Invested Entities;

(f) any shareholder of any member of the Group or any Invested Entities or any holder of any securities issued by any member of the Group or any Invested Entities;

(g) any other group or classes of participants from time to time determined by the Directors as having contributed or may contribute by way of joint venture and business alliance to the development and growth of the Group; and

(h) any company wholly owned by one or more Eligible Participants.

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 options 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 at the date of grant) in excess of HK$5 million, within any 12-month period, are subject to shareholders' approval in advance in a general meeting.

34. SHARE OPTION SCHEME (continued)

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.

The subscription price of the share options is determinable by the directors of the Company, but must be at least the higher of (i) the SEHK closing price of the Company's shares on the date of offer of the share options which must be a business day; and (ii) the average SEHK closing price of the Company's shares as stated in the SEHK's daily quotations sheets for the five trading days immediately preceding the date of offer.

No share options were granted or outstanding under the Scheme during the years ended 31 December 2017 and 2016. 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 number of 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.

35. FINANCIAL ASSETS SOLD UNDER REPURCHASE AGREEMENTS

	2017 **HK$'000**	2016 HK$'000
Analysed by collateral type:		
Bond	**3,209,716**	–
Preference shares	**823,088**	–
	4,032,804	–
Analysed by market:		
Inter-bank market	**4,032,804**	–

Sales and repurchase agreements are transactions in which the Group sells bonds and preference shares and simultaneously agrees to repurchase it (or an asset that is substantially the same) at the agreed date and price. The repurchase prices are pre-determined and the Group is still exposed to substantially all the credit risks, market risks and rewards of those bonds and preference shares sold.

As at 31 December 2017, the Group entered into repurchase agreements with financial institutions to sell bond recognised as available-for-sale investments with carrying amount of approximately HK$4,828,868,000 and sell preference shares recognised as available-for-sale investments with carrying amount of approximately HK$1,537,308,000, which are subject to the simultaneous agreements to repurchase these investments at the agreed date and price. These bonds and preference shares 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 and preference shares.

36. PERPETUAL CAPITAL SECURITIES CLASSIFIED AS EQUITY INSTRUMENTS

	Principal HK$'000	Distribution HK$'000	Total HK$'000
Balance at 1 January 2017	–	–	–
Issuance of perpetual capital securities (Note)	1,186,854	–	1,186,854
Profit attributable to holder of perpetual capital securities	–	41,550	41,550
Distribution relating to perpetual capital securities	–	(19,186)	(19,186)
Balance at 31 December 2017	1,186,854	22,364	1,209,218

Note: During the year ended 31 December 2017, the Company issued perpetual capital securities with the principal amount of US$152,964,000 (equivalent to approximately HK$1,190,323,000) to CHIH, an intermediate holding company of the Company, with an issuing cost approximately HK$3,469,000. The perpetual capital securities are classified as equity instruments, as there is no maturity of the instruments and the payments of distribution can be deferred into perpetuity 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.

For the year ended 31 December 2017, the net proceeds of approximately HK$1,186,854,000 from the perpetual capital securities issued during the year had been fully used to support the Group's asset management and direct investment business.

37. RESERVES

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity on page 74 of these consolidated financial statements.

38. PLEDGE OF ASSETS

Details of the Group's interest-bearing borrowings, which were secured by the assets of the Group, are included in note 30.

39. 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 of the Company consider that HISL has good defence and has a strong case to pursue its counterclaim against the plaintiff. The directors of the Company consider that it is not probable that there will be any significant financial impact to the Group arising from these alleged claims. Details of the alleged claims has been disclosed in note 38 to consolidated financial statements included in the annual report for the year ended 31 December 2016.

40. OPERATING LEASE ARRANGEMENTS

The Group leases certain of its office properties and office equipment under operating lease arrangements. Leases for properties are negotiated for terms ranging from one to three years (2016: one to four years), and those for office equipment are for terms of four years (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:

	2017 HK$'000	2016 HK$'000
Within one year	**50,849**	43,841
In the second to fifth years, inclusive	**66,072**	99,741
	116,921	143,582

41. RELATED PARTY TRANSACTIONS

(a) Compensation of key management personnel of the Group:

The emoluments paid to the directors of the Company, who are the key management personnel of the Group, are included in note 11.

(b) Save as disclosed below and elsewhere in these consolidated financial statements, the Group did not have any material transactions with related parties during the year ended 31 December 2017.

During the years ended 31 December 2017 and 2016, the Group had the following material transactions with related parties.

	2017		2016	
	Underwriting fee income HK$'000	**Finance costs HK$'000**	Underwriting fee income HK$'000	Finance costs HK$'000
Intermediate holding company (i)	**–**	**814,555**	–	437,000
Ultimate holding company (ii)	**–**	**47,080**	11,197	–
Fellow subsidiary (iii)	**5,952**	**–**	14,651	–
	5,952	**861,635**	25,848	437,000

41. RELATED PARTY TRANSACTIONS (continued)

(b) (continued)

(i) As at 31 December 2017, the intermediate holding company CHIH provided an aggregate amount of US$2,379,680,000 (equivalent to HK$18,604,336,000) (2016: US$1,500,000,000 (equivalent to HK$11,634,000,000)) company loans. The loans bear annual interest rates ranging from 3.85% to 6.02% (2016: 3.85% to 6.02%) and repayable in 1 to 10 years (2016: 3 to 10 years). During the year ended 31 December 2017, the Group incurred arrangement fee expense to CHIH in respect of the issue of these loans from CHIH. Approximately HK$201,741,000 (2016: HK$142,817,000) interest payables are accrued from the company loans as at 31 December 2017.

(ii) As at 31 December 2017, the ultimate holding company China Huarong provided an aggregate amount of RMB500,000,000 (equivalent to HK$598,150,000) (2016:Nil) company loans. The loans bear annual interest rates ranging from 5.7% to 6.1% (2016: Nil) and repayable in 1 month (2016: Nil). Approximately HK$2,981,000 (2016: Nil) interest payable are accrued from the company loans as at 31 December 2017. During the year ended 31 December 2016, the Group earned underwriting income of HK$11,197,000 from the ultimate holding company, China Huarong in respect of the listing and initial public offering of its shares in 2015.

(iii) During the year ended 31 December 2017, the Group earned underwriting income of US$764,000 (equivalent to approximately HK$5,952,000) (2016: HK$14,651,000) from its fellow subsidiary, Huarong Finance 2017 Co., Ltd in respect of the issuance of medium term notes.

The Group is indirectly controlled by China Huarong, which is indirectly controlled by the PRC government through the MOF. MOF is the major shareholder of China Huarong as at 31 December 2017. For the current year, 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.

42. FINANCIAL INSTRUMENTS BY CATEGORY

The carrying amounts of each of the categories of financial instruments at the end of the reporting periods are as follows:

As at 31 December 2017

Financial assets

	Financial assets designated as at fair value through profit or loss HK$'000	Held for trading HK$'000	Loans and receivables HK$'000	Available-for-sale financial assets HK$'000	Total HK$'000
Other long term assets	–	–	5,250	–	5,250
Advances to customers in margin financing	–	–	4,948,219	–	4,948,219
Accounts receivable	–	–	79,154	–	79,154
Interest receivable	–	–	184,435	–	184,435
Deposits, other deposits and other receivables	–	–	126,706	–	126,706
Other loans and advances	–	–	9,303,160	–	9,303,160
Amount due from an associate	–	–	1,544,063	–	1,544,063
Financial assets at fair value through profit or loss	8,020,477	1,097,236	–	–	9,117,713
Available-for-sale investments	–	–	–	14,645,553	14,645,553
Restricted bank balances	–	–	848,591	–	848,591
Pledged bank deposits	–	–	1,898,063	–	1,898,063
Cash and cash equivalents	–	–	3,524,781	–	3,524,781
	8,020,477	1,097,236	22,462,422	14,645,553	46,225,688

42. FINANCIAL INSTRUMENTS BY CATEGORY (continued)

As at 31 December 2017 (continued)

Financial liabilities

	Financial liabilities designated as at fair value through profit or loss HK$'000	Financial liabilities at amortised cost HK$'000	Total HK$'000
Accounts payable	–	3,758,807	3,758,807
Other payables	–	247,401	247,401
Interest-bearing borrowings	–	33,037,977	33,037,977
Financial assets sold under repurchase agreement	–	4,032,804	4,032,804
Financial liabilities at fair value through profit or loss	418,743	–	418,743
	418,743	41,076,989	41,495,732

As at 31 December 2016

Financial assets

	Financial assets designated as at fair value through profit or loss HK$'000	Held for trading HK$'000	Loans and receivables HK$'000	Available-for-sale financial assets HK$'000	Total HK$'000
Other long term assets	–	–	4,525	–	4,525
Advances to customers in margin financing	–	–	4,236,463	–	4,236,463
Accounts receivable	–	–	684,577	–	684,577
Interest receivable	–	–	34,400	–	34,400
Deposits and other receivables	–	–	28,750	–	28,750
Other loans and advances	–	–	4,954,159	–	4,954,159
Amount due from a joint venture	–	–	660,000	–	660,000
Financial assets at fair value through profit or loss	2,418,962	595,048	–	–	3,014,010
Available-for-sale investments	–	–	–	4,339,012	4,339,012
Restricted bank balances	–	–	3,315,589	–	3,315,589
Cash and cash equivalents	–	–	956,675	–	956,675
	2,418,962	595,048	14,875,138	4,339,012	22,228,160

42. FINANCIAL INSTRUMENTS BY CATEGORY (continued)

As at 31 December 2016 (continued)

Financial liabilities

	Financial liabilities designated as at fair value through profit or loss HK$'000	Financial liabilities at amortised cost HK$'000	Total HK$'000
Accounts payable	–	2,942,458	2,942,458
Other payables	–	153,468	153,468
Interest-bearing borrowings	–	17,254,480	17,254,480
Amount due to an associate	–	190	190
Financial liabilities at fair value through profit or loss	423,477	–	423,477
	423,477	20,350,596	20,774,073

43. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

Fair value measurements of financial instruments

This note provides information about how the Group determines fair values of various financial assets and financial liabilities.

Some of the Group's financial instruments are measured at fair value for financial reporting purposes. The management determines the appropriate valuation techniques and inputs for fair value measurements and reports to the board of directors of the Company semi-annually.

In estimating the fair value, the Group uses market-observable data to the extent it is available. Where Level 1 inputs are not available, the Group engages third party qualified valuers to perform the valuation. The management of the Company works closely with the qualified external valuers to establish the appropriate valuation techniques and inputs to the model. The management of the Company reports the findings to the board of directors of the Company semi-annually to explain the cause of fluctuations in the fair value.

43. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS (continued)

Fair value measurements of financial instruments (continued)

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

Some of the Group's financial assets and financial 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 and financial liabilities are determined (in particular, the valuation technique(s) and inputs used).

	Fair value as at 31 December 2017 '000	Fair value as at 31 December 2016 '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$705,662	Listed equity securities: – HK$545,705	Level 1	Note (a)	N/A	N/A	N/A
2) Financial assets designated at fair value through profit or loss	Preference shares – HK$469,080	Preference shares – HK$nil	Level 2	Note (b)	N/A	N/A	N/A
3) Financial assets classified as held for trading	Debt investments – HK$101,209	Debt investments – HK$nil	Level 2	Note (b)	N/A	N/A	N/A
4) Financial assets classified as held for trading	Unlisted put option: – HK$290,365	Unlisted put option: – HK$49,343	Level 3	Note (j)	Volatility ranging from 27.46% to 53% (2016: 40.19%)	10% (volatility ranging from 24.71% to 58.3% (2016: 39.31% to 50.56%))	Increase/decrease in volatility: HK$23,989,211/ HK$(24,327,158) (2016: HK$535,000/ HK$(18,728,000))
5) Financial assets designated at fair value through profit or loss	Unlisted convertible bonds and convertible notes: – HK$2,215,930	Unlisted convertible bonds and convertible notes: – HK$1,373,467	Level 3	Note (c)	Volatilities ranging from 21.05% to 56.77% (2016: 39.31% to 50.56%) Discount rates ranging from 16.45% to 27.88% (2016: 17.62% to 28.70%)	10% (volatility ranging from 18.95% to 62.44% (2016: 35.55% to 55.62%)) 10% (discount rate ranging from 14.81% to 30.67% (2016: 15.86% to 31.57%))	Increase/decrease in volatility: HK$19,009,000/ HK$(19,191,000) (2016: HK$(10,669,000)/ HK$9,027,000) Decrease/increase in discount rate: HK$27,695,000/ HK$(27,218,000) (2016: nil)

43. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS (continued)

Fair value measurements of financial instruments (continued)

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

	Fair value as at 31 December 2017 '000	Fair value as at 31 December 2016 '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
6) Financial assets designated at fair value through profit or loss	Unlisted convertible bonds with put option: – HK$398,302	Unlisted convertible bonds with put option: – HK$385,783	Level 3	Note (c)	Volatility of 25.5% (2016: 30.37%) Discount rate 20.64% (2016: 23.29%)	10% (volatility ranging from 22.95% to 28.05% (2016: 27.33% to 33.41%)) 10% (discount rate ranging from 18.58% to 22.70% (2016: 20.96% to 25.62%))	Increase/decrease in volatility: HK$5,010,000/ HK$1,530,000 (2016: HK$(45,000)/ HK$(13,000)) Decrease/increase in discount rate: HK$5,817,000/ HK$(5,637,000)/ (2016: HK$6,648,000/ HK$(6,409,000))
7) Financial assets designated at fair value through profit or loss	Unlisted fund investments – HK$2,759,746	Unlisted fund investments – HK$nil	Level 2	Note (b)	N/A	N/A	N/A
8) Financial assets designated at fair value through profit or loss	Listed equity – HK$2,177,419	Listed equity – HK$659,712	Level 1	Note (a)	N/A	N/A	N/A
9) Financial asset classified as available-for-sale investments	Listed bond securities and preference shares: – HK$nil	Listed bond securities and preference shares: – HK$4,322,147	Level 1	Note (a)	N/A	N/A	N/A
10) Financial assets classified as available-for-sale investments	Listed bond securities and preference shares: HK$10,711,798	Listed bond securities – HK$16,865	Level 2	Note (b)	N/A	N/A	N/A
11) Financial assets classified as available-for-sale investments	Unlisted preference shares – HK$903,639	Unlisted preference shares – HK$nil	Level 3	Note (d)	Discount rate of 12.5% (2016: nil)	10% (discount rate ranging from 11.25% to 13.75%)	Increase/decrease in discount rate: HK$(151,744,000)/ HK$199,071,000

43. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS (continued)

Fair value measurements of financial instruments (continued)

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

	Fair value as at 31 December 2017 '000	Fair value as at 31 December 2016 '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
12) Financial assets classified as available-for-sale investments	Unlisted equity investment – HK$214,467	Unlisted equity investment – HK$ nil	Level 3	Note (h)	Liquidity discount	10%	Increase/decrease in liquidity discount: HK$(21,447,000)/ HK$21,447,000
13) Financial assets classified as available-for-sale investments	Unlisted fund – HK$475,865	Unlisted fund – HK$ nil	Level 2	Note (g)	Discount rate	10%	Increase/decrease in discount rate: HK$(43,260,000)/ HK$52,874,000
14) Financial assets classified as available-for-sale investments	Unlisted fund – HK$2,339,784	Unlisted fund – HK$ nil	Level 2	Note (i)	Discount rate	10%	Increase/decrease in discount rate: HK$(212,708,000)/ HK$259,976,000
Financial liabilities							
1) Payables to interest holders of unlisted consolidated investment funds Financial liabilities designated as at fair value through profit or loss	Payables to interest holders of unlisted consolidated investment fund: – HK$194,981	Payables to interest holders of unlisted consolidated investment fund: – HK$256,734	Level 2	Note (e)	N/A	N/A	N/A
2) Payables to interest holders of unlisted consolidated investment funds Financial liabilities designated as at fair value through profit or loss	Payables to interest holders of unlisted consolidated investment fund: – HK$223,762	Payables to interest holders of unlisted consolidated investment fund: – HK$166,743	Level 3	Note (f)	Volatility of 31.23% (2016: 39.31%) Discount rate of 16.45% (2016: 17.62%)	10% (volatility ranging from 28.11% to 34.35% (2016: 35.38% to 43.24%) 10% (discount ranging from 14.81% to 18.10% (2016: 15.86% to 19.38%)	Increase/decrease in volatility: HK$206,000/ HK$(111,000) (2016: HK$1,669,000/ HK$(1,790,000)) Decrease/increase in discount rate: HK505,000/ HK$(501,000) (2016: HK$(4,000,000)/ HK$4,107,000)

43. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS (continued)

Fair value measurements of financial instruments (continued)

Fair value of the Group's financial assets and financial 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) Dealing price of the investment funds derived from the net asset values of the investment funds with reference to observable quoted price of underlying investment portfolio in active markets.

(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.

(i) Fair value determined based on discounted cash flow. Future cash flows are based on the contracted value as at pre-determined dates, discounted at a rate determined by observable market yield.

(j) The fair value was determined based on option pricing model with 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.

Details of above financial instruments are set out in notes 19 and 20.

The directors of the Company consider that the carrying amounts of financial assets and liabilities measured at amortised cost recognised in the consolidated financial statements approximate their fair value.

43. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS (continued)

Fair value hierarchy

The following tables illustrate the fair value measurement hierarchy of the Group's financial instruments:

Assets measured at fair value:

As at 31 December 2017

	Fair value measurement			
	(Level 1) HK$'000	(Level 2) HK$'000	(Level 3) HK$'000	Total HK$'000
Financial assets at fair value through profit or loss	2,883,081	3,330,035	2,904,597	9,117,713
Available-for-sale investments	–	13,527,447	1,118,106	14,645,553
	2,883,081	16,857,482	4,022,703	23,763,266
Financial liabilities at fair value through profit or loss	–	194,981	223,762	418,743

As at 31 December 2016

	Fair value measurement			
	(Level 1) HK$'000	(Level 2) HK$'000	(Level 3) HK$'000	Total HK$'000
Financial assets at fair value through profit or loss	1,205,417	–	1,808,593	3,014,010
Available-for-sale investments	4,322,147	16,865	–	4,339,012
	5,527,564	16,865	1,808,593	7,353,022
Financial liabilities at fair value through profit or loss	–	256,734	166,743	423,477

During the years ended 31 December 2017 and 2016, there were no transfers of fair value measurements between Level 1 and Level 2.

43. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS (continued)

Fair value hierarchy (continued)

Reconciliation of Level 3 fair value measurements

The movements in fair value measurements in Level 3 during the year are as follows:

	2017 HK$'000	2016 HK$'000
Financial assets designated at fair value through profit or loss:		
At beginning of the year	1,808,593	315,806
Purchased during the year	800,000	1,299,535
Disposed during the year	(180,200)	(236,372)
Fair value gain recognised on financial asset designated at fair value through profit or loss	476,204	429,624
At end of the year	2,904,597	1,808,593
Financial assets classified as available-for-sale investments:		
At beginning of the year	–	–
Purchased during the year	1,112,041	–
Fair value gain recognised in other comprehensive income	6,065	–
At end of the year	1,118,106	–

	2017 HK$'000	2016 HK$'000
Financial liabilities designated at fair value through profit or loss:		
At beginning of the year	166,743	–
Net losses during the year	57,019	135,582
Contribution from second-tier limited partners of consolidated investment fund during the year	–	54,429
Disposed during the year	–	(23,268)
	223,762	166,743

43. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS (continued)

Fair value hierarchy (continued)

Reconciliation of Level 3 fair value measurements (continued)

Of the total gains or losses for the period included in profit or loss, HK$476,204,000 relates to financial assets designated as at fair value through profit or loss held at the end of the current reporting period. Fair value gains or losses on financial assets designated as at fair value through profit or loss are included in net gains on financial assets at fair value.

Included in other comprehensive income is an amount of HK$6,065,000 gain relating to unlisted preference shares and unlisted shares classified as available-for-sale investments held at the end of the current reporting period and is reported as changes of fair value gain on available-for-sale investments.

44. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments comprise available-for-sale investments, other long term assets, financial assets at fair value through profit or loss, other loans and advances, accounts receivable, deposit and other receivables, amount due from a joint venture, restricted bank balance, pledge bank deposits, cash and cash equivalents, accounts payable, amount due from an associate, amount due to an associate, interest-bearing borrowings, other payables and financial liabilities at fair value through profit or loss. Details of these financial instruments are disclosed in the respective notes.

The main risks arising from the Group's financial instruments are foreign currency risk, equity price risk, interest rate risk, credit risk and liquidity risk. The Board of Directors reviews and agrees policies for managing each of these risks and they are summarised below.

Foreign currency risk

Foreign currency risk is the risk that the value of an asset and liability denominated in foreign currency will fluctuate because of changes in foreign exchange rates. The Group's foreign currency risk primarily arises from sales purchases, loans and investments by operating entities in currencies other than the entities' functional currency.

The carrying amounts of the Group's foreign currency denominated monetary assets and monetary liabilities at the end of the reporting period are as follows:

	Foreign currency	2017 HK$'000	2016 HK$'000
Financial assets at FVTPL	USD	**4,715,521**	570,431
Accounts receivable	USD	**41,057**	668,900
	RMB	**1,197**	–
	JPY	**2**	–
Other loans and advances	USD	**1,220,999**	1,298,401
	RMB	**2,185,590**	–
Available-for-sale investments	USD	**11,187,663**	4,339,012

44. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Foreign currency risk (continued)

	Foreign currency	2017 HK$'000	2016 HK$'000
Restricted bank balances	USD	**104,072**	13,255
	RMB	**261**	403
Pledged bank deposits	USD	**1,898,063**	–
Cash and cash equivalents	USD	**2,030,432**	317,235
	RMB	**89,464**	12,670
	EUR	**6,214**	–
	GBP	**59**	–
	JPY	**8**	–
Other receivables	USD	**68,961**	332
	RMB	**4,264**	1,619
Accounts payable	USD	**(3,054,177)**	(3,618)
	RMB	**(289)**	(403)
Interest-bearing borrowings	USD	**(21,059,188)**	(12,254,480)
	RMB	**(1,637,039)**	–
Other payables	USD	**(244,225)**	(144,513)
	RMB	**(23,120)**	(156)
Financial liabilities at FVTPL	USD	**(223,762)**	(166,743)
Financial assets sold under repurchase agreement	USD	**(4,032,804)**	–

44. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Foreign currency risk (continued)

As USD is pegged to HK$, the Group does not expect any significant movement in the USD/HK$ exchange rate. The following table demonstrates the sensitivity at the end of the reporting period to a reasonably possible change in the RMB exchange rates, with all other variables held constant, of the Group's profit after tax.

As at 31 December 2017

	Decrease/ increase in profit after tax HK$'000
If Hong Kong Dollar strengthens/weakens against RMB by 5%	**25,899**

As at 31 December 2016

	Decrease/ increase in profit after tax HK$'000
If Hong Kong Dollar strengthens/weakens against RMB by 5%	590

Other price risk

The Group is exposed to other price changes arising from financial assets at fair value through profit or loss (see note 19) and available-for-sale investments (see note 20).

The following table demonstrates the sensitivity to 5% (2016: 5%) and 10% (2016: 10%) increase/decrease in the relevant stock price and quoted price of listed investments and unlisted investments respectively, with all other variables held constant, based on their carrying amounts at the end of the reporting period.

44. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Other price risk (continued)

As at 31 December 2017

	Increase (decrease) in prices of underlying instrument	Carrying amount HK$'000	Increase (decrease) in profit after tax HK$'000	Increase (decrease) in other comprehensive income HK$'000
Investments:				
Financial assets at FVTPL:				
– Held-for-trading listed equity investments	increase/ decrease 5%	705,662	29,461/ (29,461)	–
– Preference shares	increase/ decrease 5%	469,080	19,584/ (19,584)	–
– Held-for-trading debt investments	increase/ decrease 5%	101,209	4,225/ (4,225)	–
– Unlisted convertible bonds and convertible notes	increase/ decrease 10%	2,215,930	191,429/ (183,561)	–
– Held-for-trading unlisted put options on equity investment	increase/ decrease 10%	290,365	(63,093)/ 93,263	–
– Listed equity investments	increase/ decrease 5%	2,177,419	90,907/ (90,907)	–
– Unlisted convertible bonds with put option	increase/ decrease 10%	398,302	3,086/ (2,117)	–
– Fund investments, at fair value	increase/ decrease 10%	2,759,746	230,438/ (230,438)	–
Available-for-sale investments	increase/ decrease 10%	14,645,553	–	1,222,903/ (1,222,903)
Financial liabilities at fair value through profit or loss:				
– Payables to interest holders of unlisted consolidated investment funds	5% to 10%	418,743	69,761/ (70,071)	–

44. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Other price risk (continued)

As at 31 December 2016

	Increase (decrease) in prices of underlying instrument	Carrying amount HK$'000	Increase (decrease) in profit after tax HK$'000	Increase (decrease) in other comprehensive income HK$'000
Investments:				
Financial assets at FVTPL:				
– Held-for-trading listed equity investments	increase/ decrease 5%	545,705	22,783/ (22,783)	–
– Unlisted convertible bonds and convertible notes	increase/ decrease 10%	1,373,467	80,215/ (67,218)	–
– Unlisted put options on listed equity investment	increase/ decrease 10%	49,343	(5,301)/ 16,284	–
– Listed equity investments	increase/ decrease 5%	659,712	16,810/ (16,810)	–
– Unlisted convertible bonds with put option	increase/ decrease 10%	385,783	(38,413)/ (16,810)	–
Available-for-sale investments	increase/ decrease 10%	4,339,012	–	362,308/ (362,308)
Financial liabilities at fair value through profit or loss:				
– Payables to interest holders of unlisted consolidated investment funds	5% to 10%	423,477	(30,437)/ 30,073	–

44. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Interest rate risk

The Group is mainly exposed to cash flow interest rate risk in relation to advances to customers in margin financing accounts receivable, deposits with banks and accounts payable. The Group is also exposed to fair value interest rate risk in relation to fixed rate borrowings and fixed rate convertible bonds held by the Group. The Group currently does not have an interest rate hedging policy. However, the Group closely manages its exposure arising from margin financing and other lending activities undertaken by allowing an appropriate margin on the interest received and paid by the Group.

The Group prices these loans receivable strategically to reflect market fluctuations and achieve a reasonable interest-rate spread.

Cash flow interest rate risk

The Group's cash flow interest rate risk is mainly concentrated on the fluctuation of Hong Kong Prime Rate arising from the Group's variable interest rate instruments. As at 31 December 2017, if the interest rate had been 50 basis points (2016: 50 basis points) higher/lower, the Group's profit after tax would increase/decrease by HK$36,050,829 (2016: profit after tax would increase/decrease by HK$23,287,000).

The sensitivity analysis above is prepared assuming the financial instruments outstanding at the end of the reporting period were outstanding for the whole year. A 50 basis points (2016: 50 basis points) increase or decrease is used when reporting interest rate internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates.

Fair value interest rate risk

The Group's fair value interest rate risk that would affect profit or loss is mainly concentrated on the fluctuation of market interest rate arising from the Group's investment in fixed rate financial assets at FVTPL and available-for-sale investments.

As at 31 December 2017, if the interest rate had been 100 basis points (2016: 100 basis points) higher/lower with all other variables held constant, the Group's profit after tax would decrease/increase by HK$368,313,000/HK$307,692,000 (2016: decrease/increase by HK$146,634,000/HK$141,538,000).

Credit risk

The Group's maximum exposure to credit risk in the event of the counterparties' failure to perform their obligations in relation to each class of recognised financial assets is the carrying amount of those assets as stated in the consolidated statement of financial position. In order to minimise the credit risk, the Board of Directors of the Company has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual receivable at the end of each reporting period to ensure that adequate impairment provision for losses are made for irrecoverable amounts. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

44. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Credit risk (continued)

Further quantitative data in respect of the Group's exposure to credit risk arising from other loans and advances, advances to customers in margin financing and accounts receivable are disclosed in notes 22, 23 and 24 to the consolidated financial statements.

Bank balances are placed with various authorised institutions. Accordingly, the directors of the Company consider the credit risk on liquid funds is limited because the counterparties are banks with high credit ratings assigned by international credit-ratings agencies. The Group has exposure to the concentration of credit risk from one bank of approximately HK$2,221,412,000 (2016: approximately HK$287,950,000).

The Group invested in unlisted convertible bond and convertible notes, unlisted convertible bonds with put option and a put option of equity investment classified as financial assets at fair value through profit or loss. The credit risk of the issuers of these instruments are monitored by the Group regularly. The fair value of the convertible bonds and put options was estimated by an independent firm of professional valuer.

As at 31 December 2017, for amount due from an associate of HK$1,544,063,000 (2016: nil) and amount due from a joint venture of nil (2016: HK$660,000,000), credit revaluations are performed on the associate (2016: the joint venture) on individual basis. The evaluation focuses on the associate's and joint venture's current ability to pay and take into account information specific to the associate and joint venture as well as pertaining to the economic environment in which it operate. Concentration risk of these loans to joint venture and associates are managed by reference to individual borrowers in both years in view of its financial position and financial performance to evaluate its recoverability. There was no recent history of individual impairment allowance recognised for these loans in both years.

Apart from the exposures to the concentration of credit risk mentioned as above and note 22 "Other loan and advances", the Group does not have any other significant concentration of credit risk.

Liquidity risk

Internally generated cash flows, interest-bearing borrowings are the general sources of funds to finance the operations of the Group. Majority of the Group's banking facilities are subject to floating rates and are renewable annually. The Group regularly reviews its major funding positions to ensure it has adequate financial resources in meeting its financial obligations and compliance with the statutory requirements applying to various licenced activities. The Group aims to maintain flexibility in funding by keeping committed credit lines available and sufficient bank deposits to meet its short term cash requirements. The Group's liquidity risk management includes making available standby banking facilities and diversifying the funding sources.

44. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Liquidity risk (continued)

The maturity profile of the Group's financial liabilities at the end of the reporting period, based on the contractual undiscounted payments, is as follows:

As at 31 December 2017

	Weighted average effective interest rate	On demand HK$'000	Less than 3 months HK$'000	3 to less than 12 months HK$'000	1 to 5 years HK$'000	Over 5 years HK$'000	Total undiscounted cash flow HK$'000	Total carrying amount HK$'000
Accounts payable	–	3,639,813	118,994	–	–	–	3,758,807	3,758,807
Other payables and accruals	–	–	239,176	8,225	–	–	247,401	247,401
Interest-bearing borrowings	4.25%	13,835,491	–	2,910,674	16,221,645	3,421,620	36,389,430	33,037,977
Financial assets sold under repurchase agreement	–	–	705,460	3,327,344	–	–	4,032,804	4,032,804
Financial liabilities at fair value through profit or loss	–	–	–	194,981	223,762	–	418,743	418,743
		17,475,304	1,063,630	6,441,224	16,445,407	3,421,620	44,847,185	41,495,732
Loan commitment		–	–	–	–	–	–	–

As at 31 December 2016

	Weighted average effective interest rate	On demand HK$'000	Less than 3 months HK$'000	3 to less than 12 months HK$'000	1 to 5 years HK$'000	Over 5 years HK$'000	Total undiscounted cash flow HK$'000	Total carrying amount HK$'000
Accounts payable	–	2,932,765	9,693	–	–	–	2,942,458	2,942,458
Other payables and accruals	–	–	113,668	39,800	–	–	153,468	153,468
Interest-bearing borrowings	4.56%	5,798,324	–	–	10,469,229	1,772,820	18,040,373	17,254,480
Amount due to an associate	–	190	–	–	–	–	190	190
Financial liabilities at fair value through profit or loss	–	–	–	256,734	166,743	–	423,477	423,477
		8,731,279	123,361	296,534	10,635,972	1,772,820	21,559,966	20,774,073
Loan commitment	–	–	504,140	–	–	–	504,140	–

44. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Capital management

The primary objectives of the Group's capital management are to safeguard the Group's ability to continue as a going concern and to maintain healthy capital ratios in order to support its business and maximise shareholders' value. In addition, certain subsidiaries of the Group licenced by the SFC are obliged to meet the regulatory liquid capital requirements under the Securities and Futures (Financial Resources) Rules ("FRR").

The Group manages its capital structure to maintain a balance between the higher shareholder returns with higher levels of borrowings and the security afforded by a sound capital position, and make adjustments to the capital structure in light of changes in economic conditions. For licenced subsidiaries, the directors of the Company and the corresponding responsible officers closely monitors their liquidity position to ensure each of them maintain liquid capital level adequate to support the activities level with sufficient buffer to accommodate the increase in liquidity requirements arising from potential increases in business activities. No changes were made in the objectives, policies or processes for managing capital during the year ended 31 December 2017 and 2016.

The directors of the Company review the capital structure on a semi-annual basis. As part of this review, the directors consider the cost of capital and the risks associated with each class of capital. Based on recommendations of the directors, the Group will balance its overall capital structure through the payment of dividends, new share issues and share buy-backs as well as the issue of new debt or the redemption of existing debt.

45. FINANCIAL ASSETS AND FINANCIAL LIABILITIES OFFSETTING

The disclosures set out in the tables below include financial assets and financial liabilities that are subject to an enforceable master netting arrangement or similar agreement that covers similar financial instruments that are either:

- offset in the Group's consolidated statement of financial position; or
- not offset in the Group's consolidated statement of financial position as the offsetting criteria are not met.

Under the agreement of continuous net settlement made between the Group and Hong Kong Securities Clearing Company Limited ("HKSCC"), brokers and dealers, the Group has a legally enforceable right to set off the money obligations receivable and payable with HKSCC and brokers on the same settlement date and the Group intends to settle on a net basis.

In addition, the Group has a legally enforceable right to set off the accounts receivable and payable with its clients in the Group's brokerage business ("Clients") that are due to be settled on the same date with reference to the settlement method set by the HKSCC and the Group intends to settle these balances on a net basis.

45. FINANCIAL ASSETS AND FINANCIAL LIABILITIES OFFSETTING (continued)

Except for balances which are due to be settled on the same date which are being offset, amounts due from/to Clients, HKSCC, brokers and dealers that are not to be settled on the same date, financial collateral including cash and securities received by the Group, deposit placed with HKSCC, brokers and dealers do not meet the criteria for offsetting in the consolidated statement of financial position since the right of set-off of the recognised amounts is only enforceable following an event of default.

Financial assets subject to offsetting, enforceable master netting arrangements and similar agreements

As at 31 December 2017

	Gross amounts of recognised financial assets HK$'000	Gross amounts of recognised financial liabilities set off in the consolidated statement of financial position HK$'000	Net amounts of financial assets presented in the consolidated statement of financial position HK$'000	Related amounts not set off in the consolidated statement of financial position: Financial instruments HK$'000	Related amounts not set off in the consolidated statement of financial position: Collateral received HK$'000	Net amount HK$'000
Description						
Advances to customers in margin financing and accounts receivable	5,022,257	(58,707)	4,963,550	–	(4,953,820)	9,730

Financial liabilities subject to offsetting, enforceable master netting arrangements and similar agreements

As at 31 December 2017

	Gross amounts of recognised financial liabilities HK$'000	Gross amounts of recognised financial assets set off in the consolidated statement of financial position HK$'000	Net amounts of financial liabilities presented in the consolidated statement of financial position HK$'000	Related amounts not set off in the consolidated statement of financial position: Financial instruments HK$'000	Related amounts not set off in the consolidated statement of financial position: Collateral paid HK$'000	Net amount HK$'000
Description						
Accounts payable	3,815,499	(58,707)	3,756,792	(1,043)	–	3,755,749

45. FINANCIAL ASSETS AND FINANCIAL LIABILITIES OFFSETTING (continued)

Financial assets subject to offsetting, enforceable master netting arrangements and similar agreements

As at 31 December 2016

	Gross amounts of recognised financial assets HK$'000	Gross amounts of recognised financial liabilities set off in the consolidated statement of financial position HK$'000	Net amounts of financial assets presented in the consolidated statement of financial position HK$'000	Related amounts not set off in the consolidated statement of financial position		Net amount HK$'000
				Financial instruments HK$'000	Collateral received HK$'000	
Description						
Advances to customers in margin financing and accounts receivable	4,914,191	(39,364)	4,874,827	–	(4,245,112)	629,715

Financial liabilities subject to offsetting, enforceable master netting arrangements and similar agreements

As at 31 December 2016

	Gross amounts of recognised financial liabilities HK$'000	Gross amounts of recognised financial assets set off in the consolidated statement of financial position HK$'000	Net amounts of financial liabilities presented in the consolidated statement of financial position HK$'000	Related amounts not set off in the consolidated statement of financial position		Net amount HK$'000
				Financial instruments HK$'000	Collateral paid HK$'000	
Description						
Accounts payable	2,980,185	(39,364)	2,940,821	(561)	–	2,940,260

	2017 HK$'000	2016 HK$'000
Advances to customers in margin financing and accounts receivable		
Net amount of advances to customers in margin financing and accounts receivable as stated above	**4,963,550**	4,874,827
Amount not in scope of offsetting disclosure	**63,823**	46,213
Total amount of advances to customers in margin financing and accounts receivable stated in notes 23 and 24	**5,027,373**	4,921,040
Accounts payable		
Net amount of accounts payable as stated above	**(3,756,792)**	(2,940,821)
Amount not in scope of offsetting disclosure	**(2,015)**	(1,637)
Total amount of accounts payable stated in note 28	**(3,758,807)**	(2,942,458)

46. RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES

The table below details changes in the Group's liabilities arising from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are those for which cash flows were, or future cash flows will be, classified in the Group's consolidated statement of cash flows as cash flows from financing activities.

	Financial liabilities at fair value through profit or loss HK$'000 Note 19	Interest-bearing borrowings HK$'000 Note 30	Interest payables HK$'000 Note 29	Total HK$'000
At 1 January 2017	423,477	17,254,480	152,333	17,830,290
Financing cash flows				
Fair value loss	168,462	–	–	168,462
Proceeds from Interest-bearing borrowings	–	17,941,159	–	17,941,159
Repayment of Interest-bearing borrowings	–	(2,274,212)	–	(2,274,212)
Foreign exchange translation	–	116,550	1,270	117,820
Finance costs	–	–	1,158,237	1,158,237
Interest paid	–	–	(1,068,876)	(1,068,876)
Contribution from interest holders of unlisted consolidated investment funds	171,040	–	–	171,040
Withdrawal from second-tier limited partners of consolidated investment fund	(344,236)	–	–	(344,236)
At 31 December 2017	**418,743**	**33,037,977**	**242,964**	**33,699,684**

47. EVENTS AFTER THE END OF THE REPORTING PERIOD

The Group has entered several disclosable transactions after the year ended 31 December 2017 as defined in the Listing Rule, details of which are set out in the relevant announcements.

48. RECLASSIFICATION

Certain comparative figures have been reclassified or restated to conform to the current year presentation.

49. STATEMENT OF FINANCIAL POSITION AND RESERVES OF THE COMPANY

	2017 HK$'000	2016 HK$'000
Non-current assets		
Property and equipment	13,838	16,275
Investments in subsidiaries	133,756	16,516
Investment accounted for using the equity method	8,164	–
Available-for-sale investments	3,891,957	–
Amount due from an associate	1,563,600	–
Prepayments, deposits and other receivables	20,478	–
Total non-current assets	5,631,793	32,791
Current assets		
Due from subsidiaries	22,715,268	15,975,088
Financial assets at fair value through profit or loss	101,209	–
Amount due from an associate	11,735	–
Available-for-sale investments	6,819,842	994,676
Interest receivable	132,696	11,841
Prepayments, deposits and other receivables	93,083	55,820
Pledged bank deposits	1,898,063	–
Cash and cash equivalents	2,805,411	79,041
Total current assets	34,577,307	17,116,466
Current liabilities		
Due to subsidiaries	57,376	125,533
Account payable	2,950,110	–
Other payables and accruals	277,064	184,635
Tax payable	59,357	9,061
Financial assets sold under repurchase agreements	3,723,488	–
Interest-bearing borrowings	13,102,052	4,770,480
Total current liabilities	20,169,447	5,089,709
Net current assets	14,407,860	12,026,757
Total assets less current liabilities	20,039,653	12,059,548
Non-current liabilities		
Other payables and accruals	553	12
Interest-bearing borrowings	17,040,736	11,634,000
	17,041,289	11,634,012
Net assets	2,998,364	425,536
Equity		
Issued capital (note 33)	3,588	3,338
Perpetual capital securities classified as equity instruments	1,209,218	–
Share premium and reserves	1,785,558	422,198
Total equity	2,998,364	425,536

49. STATEMENT OF FINANCIAL POSITION AND RESERVES OF THE COMPANY (continued)

Movement in the Company's reserves

	Share premium account HK$'000	Contributed surplus HK$'000	Available-for-sale investment revaluation reserve HK$'000	Convertible notes equity reserve HK$'000	(Accumulated loss) retained profits HK$'000	Subtotal HK$'000	Perpetual capital investment HK$'000	Total HK$'000
At 1 January 2016	917,431	139,615	–	36,780	(598,524)	495,302	–	495,302
Loss for the year	–	–	–	–	(89,194)	(89,194)	–	(89,194)
Other comprehensive expense for the year:								
Fair value loss on available-for-sale investments	–	–	(10,297)	–	–	(10,297)	–	(10,297)
Total comprehensive expense for the year	–	–	(10,297)	–	(89,194)	(99,491)	–	(99,491)
Issue of shares upon conversion of convertible notes (note 33)	63,167	–	–	(36,780)	–	26,387	–	26,387
At 31 December 2016	980,598	139,615	(10,297)	–	(687,718)	422,198	–	422,198
Shares issued	651,782	–	–	–	–	651,782	–	651,782
Profit for the year	–	–	–	–	807,664	807,664	41,550	849,214
Other comprehensive expense for the year:								
Fair value loss on available-for-sale investments	–	–	(81,530)	–	–	(81,530)	–	(81,530)
Reclassification adjustment relating to disposal of available-for-sale investments during the period	–	–	(14,556)	–	–	(14,556)	–	(14,556)
Total comprehensive income for the year	–	–	(96,086)	–	807,664	711,578	41,550	753,128
Distribution relating to perpetual capital securities	–	–	–	–	–	–	(19,186)	(19,186)
Issuance of perpetual capital instruments	–	–	–	–	–	–	1,186,854	1,186,854
At 31 December 2017	1,632,380	139,615	(106,383)	–	119,946	1,785,558	1,209,218	2,994,776

Note:

(i) Pursuant to the Companies Act 1981 of Bermuda, a company may make distributions to its shareholders out of the contributed surplus in certain circumstances.

Five Year Financial Summary

A summary of the results and of the assets, liabilities and non-controlling interests of the Group for the last five financial periods, as extracted from the published audited consolidated financial statements.

RESULTS

	1.1.2017 to 31.12.2017 HK$'000	1.1.2016 to 31.12.2016 HK$'000	1.5.2015 to 31.12.2015 HK$'000 (Restated)	1.5.2014 to 30.4.2015 HK$'000 (Restated)	1.5.2013 to 30.4.2014 HK$'000
Turnover:					
Continuing operations	**2,834,890**	1,402,029	168,003	46,368	39,356
Discontinued operations	**–**	–	30,945	198,893	126,936
	2,834,890	1,402,029	198,948	245,261	166,292
Profit (loss) before tax:					
Continuing operations	**1,264,029**	696,853	175,905	(70,542)	(579,087)
Discontinued operations	**–**	–	(4,409)	20,195	(17,613)
	1,264,029	696,853	171,496	(50,347)	(596,700)
Income tax expense	**(258,386)**	(145,939)	(32,099)	(16,281)	(10)
Profit (loss) before non-controlling interests	**1,005,643**	550,914	139,397	(66,628)	(596,710)
Non-controlling interests classified as equity	**–**	–	–	–	–
Profit attributable to holder of perpetual capital securities	**(41,550)**	–	–	–	–
Profit (loss) attributable to owners of the parent	**964,093**	550,914	139,397	(66,628)	(596,710)

ASSETS AND LIABILITIES

	31.12.2017 HK$'000	31.12.2016 HK$'000	31.12.2015 HK$'000 (Restated)	30.4.2015 HK$'000 (Restated)	30.4.2014 HK$'000
Non-current assets	**19,271,737**	3,324,620	328,458	105,695	204,079
Current assets	**27,053,032**	18,960,107	5,040,813	1,666,348	1,544,774
Total assets	**46,324,769**	22,284,727	5,369,271	1,772,043	1,748,853
Current liabilities	**(24,619,927)**	(9,097,311)	(711,041)	(489,494)	(192,141)
Non-current liabilities	**(17,642,020)**	(11,900,475)	(3,923,075)	(26,378)	(266,992)
Total liabilities	**(42,261,947)**	(20,997,786)	(4,634,116)	(515,872)	(459,133)
	4,062,822	1,286,941	735,155	1,256,171	1,289,720

華融國際金融控股有限公司
HUARONG INTERNATIONAL FINANCIAL HOLDINGS LIMITED