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 2018

Contents

CORPORATE INFORMATION

Board of Directors

Executive Directors

Mr. Bai Junjie *(Chairman)*
Mr. Xu Yong *(Chief Executive Officer)*

Independent Non-executive Directors

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

Audit Committee

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

Remuneration Committee

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

Nomination Committee

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

Executive Committee

Mr. Bai Junjie *(Chairman)*
Mr. Xu Yong

Risk Management Committee

Mr. Ma Lishan *(Chairman)*
Mr. Bai Junjie
Mr. Xu Yong

Authorised Representatives

Mr. Xu Yong
Ms. Luo Xiao Jing

Company Secretary

Ms. Luo Xiao Jing

Registered Office

Clarendon House
2 Church Street
Hamilton HM 11
Bermuda

Head Office and Principal Place of Business

Level 29
One Pacific Place
88 Queensway
Hong Kong

Resident Representative

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

Principal Bankers

China CITIC Bank International Limited
Bank of Communications (Hong Kong) Limited
Shanghai Pudong Development Bank Co., Ltd. Hong Kong Branch
Bank of China (Hong Kong) Limited
CMB Wing Lung Bank Limited

Auditor

Deloitte Touche Tohmatsu
35/F One Pacific Place
88 Queensway
Hong Kong

Hong Kong Legal Adviser

King & Wood Mallesons
13/F, Gloucester Tower
The Landmark
15 Queen's Road Central
Central, 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

Dear Shareholders,

In 2018, Huarong International Financial Holdings Limited (the "Company", together with its subsidiaries, the "Group") went through an extraordinary year with strong support from China Huarong Asset Management Co., Ltd ("China Huarong"), our controlling shareholder, during this special period. Under the new leadership of our Group, all employees focused on their work and united in order to ensure the normal operation of the Company, and spared no effort to prevent and resolve risks. The Group has been sticking to the guidance of "Going Back to the Fundamental Purpose and Focusing on the Main Business". It adhered to sound and prudent principles while carrying out the businesses of asset management and direct investment, securities and corporate finance. We achieved a smooth transition and established a strong foundation for the quality development of the Group.

In 2018, global economic environment was complicated and rapidly changing while the securities market kept slumping. The Group adjusted its operating model and adopted a more prudent strategy, which focuses on steadying expectation and stabling operations. As at the end of the year ended 31 December 2018 (the "Year"), the Group's total assets amounted to approximately HK$35.024 billion and its net assets amounted to approximately HK$2.070 billion. The Group recorded a net loss of approximately HK$1.482 billion for the Year, which is mainly caused by the increase of the provisions for direct investment, accounts receivable, loans and advances in margin financing of debt instruments by the Group during the Year and the increase of the unrealised (non-cash) losses arising from the unfavorable fair value movements in financial assets at fair value through profit and loss.

Strengthening of risk control In 2018, the Group conducted several rounds of comprehensive inspections and carried out in-depth researches on the risks of its three major business segments in order to improve the credit risk assessment model and the measures of risk mitigation and further enhance the risk control system and risk management system.

Commencement of business transformation The Group proactively adjusted its operation strategies and plans, accelerated the revitalisation of stock assets and boosted its business transformation so as to explore its new business model. Thus, we can improve the profitability of the main licensed business and strive to realise the transformation from focusing on heavy assets to light assets and keep heading towards quality development.

Expected gradual market recovery Facing the complicated and ever-changing macro environment and strict regulatory environment, the Group, with the support from China Huarong through its brand strength and resources, coped with negative public opinions properly, strictly monitored the liquidity, stabilised customer and market base. It is expected that the market will gradually recover.

Gradual improvement of the employees The Group put effort into the reconstruction of our corporate culture, optimised the structure of internal organisations and departments so as to streamline the structure, allocate human resources effectively and improve operational efficiency. We created a low-key and pragmatic, legal, efficient, as well as motivated and creative working environment. Therefore, the staff can give full play of their strengths and improve the cohesion of the Group.

In 2019, the global economy is complex and austere and there might be change in steady economic operation, but China's development is still undergoing a period with important strategic opportunities. When developing its business, our Group will need to continuously cope with the major challenges. However, there will also be considerable opportunities ahead. In general, the Group will uphold the principle of seeking stable progress, actively utilise the advantages of being a listed company with multiple licences, adjust the operational structure, strengthen the business synergy, focus on the "investment + investment bank" business model, develop in accordance with "Professional, International and Market-oriented" guidance, take forward various operations and management works in a steady and orderly manner. Meanwhile, in order to achieve quality development of "highlighting principal business, sound finance, controllable risks, and effective collaboration", the Group will continue to spare no effort to refine our risk management and internal control, set up an efficient operating system, and facilitate the gradual improvement of Company's efficiency and effectiveness.

Looking back at 2018, I wish to express my heartfelt appreciation to our business partners and customers for their trust and to the shareholders of the Company (the "Shareholders") for their support. Meanwhile, I wish to express my most sincere gratitude to the members of the board of directors for their valuable advises and support during the past year and all of our staff for their steadfast dedication and hard work. The Group will strive to create greater value and higher return for the Shareholders, customers and staff.

Bai Junjie
Chairman
Hong Kong, 27 March 2019

BIOGRAPHIES OF DIRECTORS AND SENIOR MANAGEMENT

Board of Directors

Executive Directors

Mr. Bai Junjie

Mr. Bai Junjie, aged 51, was appointed as an executive Director and the Chairman of the Company on 1 November 2018. He is also the chairman of the Executive Committee and a member of each of the Nomination Committee and the Risk Management Committee of the Company. Mr. Bai has worked in the financial industry for years and accumulated extensive experience in banking, investment and asset management. From August 1990 to April 2000, Mr. Bai worked at International Business Department of Industrial and Commercial Bank of China Fujian Branch. In April 2000, Mr. Bai joined China Huarong and held various positions including the deputy general manager of Investment Business Department (International Business Department) of China Huarong, the secretary of Party Committee and the general manager of China Huarong Chongqing branch, the general manager of Asset Management Department of China Huarong, the general manager of Investment Development Department of China Huarong and the director of Huarong West-China Development and Investment Co., Ltd. Mr. Bai currently is the secretary of Party Committee, the chairman, the legal representative of Huarong Capital Management Co., Ltd. and the general manager of Investment Development Department of China Huarong. Mr. Bai graduated from Peking University majoring in international economics and obtained a bachelor's degree in economics.

Mr. Xu Yong, aged 38, was appointed as an executive Director and the chief executive officer of the Company (the "Chief Executive Officer") on 11 April 2018. He is also a member of each of the Executive Committee and the Risk Management Committee of the Company. Mr. Xu has accumulated years of experience in financial industry and has extensive experience in the business development of banking and securities industries. He worked at several banks and large state-owned securities firms. Mr. Xu joined China Huarong in 2015. Since August 2016, he successively served as assistant to general manager, director and deputy general manager of China Huarong International Holdings Limited ("CHIH"), a wholly-owned subsidiary of China Huarong. He is currently the legal representative and chairman of Huarong Construction and Investment Asset Management Co., Ltd. (華融建投資產管理有限公司), a non-wholly-owned subsidiary of CHIH, and the director of Huarong International Securities Limited, Huarong International Asset Management Limited, Huarong International Capital Limited, Skymart Global Limited and Huarong International Services Limited, the wholly-owned subsidiaries of the Company. He is also the executive director and legal representative of 華融天海(上海)投資管理有限公司, a wholly-owned subsidiary of the Company. Apart from this, he has resigned all his positions in China Huarong and CHIH or their respective subsidiaries prior to joining the Company. Mr. Xu obtained a master's degree in Economics from Fudan University, and an executive master of business administration degree from The Hong Kong University of Science and Technology.

Mr. Xu Yong

Independent Non-executive Directors


Dr. Wong Tin Yau Kelvin

Dr. Wong Tin Yau Kelvin, aged 58, 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, a company listed in The Stock Exchange of Hong Kong Limited (the "Stock Exchange" or "HKEx") (HKEx: 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. (HKEx: 3866 and SZSE: 002948);
- China ZhengTong Auto Services Holdings Limited (HKEx: 1728);
- I.T Limited (HKEx: 999);
- Shanghai Fosun Pharmaceutical (Group) Co., Ltd. (HKEx: 2196 and SHSE: 600196); and
- Xinjiang Goldwind Science & Technology Co., Ltd. (HKEx: 2208 and SZSE: 002202).

Dr. Wong also served as an independent non-executive director of Mingfa Group (International) Company Limited (HKEx: 846) from September 2018 to March 2019, an independent non-executive director of Asia Investment Finance Group Limited (HKEx: 33) from October 2016 to February 2018, an independent non-executive director of Xinjiang Goldwind Science & Technology Co., Ltd. (HKEx: 2208 and SZSE: 002202) from June 2011 to June 2016, and an independent non-executive director of AAG Energy Holdings Limited (HKEx: 2686) from June 2015 to April 2016.

Dr. Wong obtained his master degree in business administration 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 Chairman of Financial Reporting Council, the immediate past Chairman and was the Chairman (2009–2014) of The Hong Kong Institute of Directors, and a member of Operations Review Committee of Independent Commission Against Corruption. He was a non-executive director of Securities and Futures Commission (2012–2018), the Chairman of Investor Education Centre (now known as Investor and Financial Education Council) (2017–2018), a member of Main Board and GEM Listing Committees of the Stock Exchange (2007–2013), and a member of Standing Committee on Company Law Reform (2010–2016). 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

Mr. Ma Lishan, aged 67, 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. He 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 (HKEx: 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) (HKEx: 223). From March 2008 to present, he is an independent non-executive director of Silver Base Group Holdings Limited (HKEx: 886). From 2 August 2009 to present, he is an independent non-executive director of Sunac China Holdings Limited (HKEx: 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) (HKEx: 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 DIT Group Limited (formerly known as China Minsheng Drawin Technology Group Limited) (HKEx: 726) and an independent non-executive director of SRE Group Limited (HKEx: 1207) since 31 March 2016.

Mr. Guan Huanfei

Mr. Guan Huanfei, aged 61, 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 experiences 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.

Mr. Guan is now an independent non-executive director of China Shandong Hi-Speed Financial Limited (HKEx: 412), China Nonferrous Mining Corporation Limited (HKEx: 1258), Sunwah Kingsway Capital Holdings Limited (HKEx: 188) and HongDa Financial Holding Limited (HKEx: 1822). He has been appointed as the independent non-executive director of CMB Wing Lung Insurance Company Limited since 1 December 2017, the chairman emeritus of Culturecom Holdings Limited (HKEx: 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 (HKEx: 886) from March 2008 to January 2011. He was re-designated as an executive director and appointed as the chief executive officer of Silver Base Group Holdings Limited from January 2011 to December 2012 and has been engaged as a senior consultant since January 2013. Mr. Guan was a non-executive director of Ping An Securities Group (Holdings) Limited (HKEx: 231) from 1 December 2017 to 21 June 2018. From May 2015 to September 2017, Mr. Guan served as an executive director of CCT Land Holdings Limited (HKEx: 261).

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 doctoral 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 directors of the Company (the "Director(s)") and Information of Directors

Pursuant to Rule 13.51(B) of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules"), changes in Directors and information of Directors or chief executive of the Company subsequent to the date of the 2018 Interim Report of the Company are as follows:

(1) Mr. Wang Qiang resigned as an executive Director and the Chairman of the Company on 1 November 2018.

(2) Mr. Bai Junjie was appointed as an executive Director and the Chairman of the Company on 1 November 2018.

(3) Dr. Niu Shaofeng resigned as an executive Director of the Company on 16 November 2018.

(4) Mr. Xu Yong, an executive Director and Chief Executive Officer of the Company, was appointed as a director of Huarong International Services Limited and Skymart Global Limited with effect from 10 December 2018, and executive director and legal representative of 華融天海(上海)投資管理有限公司 with effect from 3 January 2019, all of which are wholly-owned subsidiaries of the Company.

(5) Dr. Wong Tin Yau Kelvin ("Dr. Wong"), an independent non-executive Director, was appointed as the Chairman of the Financial Reporting Council with effect from 15 December 2018.

(6) Dr. Wong resigned as a non-executive director of the Securities and Futures Commission with effect from 19 October 2018.

(7) Dr. Wong was appointed as an independent non-executive director of Mingfa Group (International) Company Limited (HKEx: 846) on 1 September 2018 and resigned on 6 March 2019.

Senior Management

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 23 years of experience in the commercial banking, funds 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 centre 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 centre of ICBC Credit Suisse Asset Management Co., Ltd. Ms. Ming is a director of Huarong International Asset Management Limited, a wholly-owned subsidiary of the Company. 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. Wang Xuejun was appointed as the Board Secretary of the Company on 26 January 2018. 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 is a director of Excel VIsion Development Limited, and executive director and legal representative of 華融國金(深圳)股權投資基金管理有限公司, all of which are wholly-owned subsidiaries of the Company. Mr. Wang graduated from New York Institute of Technology with a master's degree in Business Administration and is an economist.

Management
Discussion and Analysis


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Financial Highlights

For the Year, the Group recorded a revenue of approximately HK$2,271,555,000 (year ended 31 December 2017 (the "Last Year"): approximately HK$2,023,030,000), net loss on financial assets at fair value through profit or loss of approximately HK$1,347,321,000 (Last Year: net gains of approximately HK$756,502,000), net loss arising from disposal of financial assets at fair value through other comprehensive income of approximately HK$55,629,000 (Last Year: HK$ nil) and gain on disposal of available-for-sale investments was HK$ nil (Last Year: approximately HK$55,358,000). Therefore, total revenue and gains or losses described above decreased to approximately HK$868,605,000 as compared to approximately HK$2,834,890,000 for the Last Year. Loss attributable to Shareholders for the Year was approximately HK$1,548,222,000 as compared to the profit attributable to Shareholders of approximately HK$964,093,000 for the Last Year. The result is due to the decrease 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 loss per share was HK$43.14 cents for the Year as compared to basic earnings per share of HK$27.06 cents for the Last Year, and no diluted loss/earnings per share has been presented for the Year and the Last Year as there was no diluted financial instrument for the Year.

Market Review

In 2018, the global economy has experienced ups and downs. Financial markets and commodity prices fluctuated sharply, global investment plunged drastically, and international trade protectionism and unilateralism prevailed. The overall economic market underwent dramatic adjustments triggered by factors such as trade frictions, Fed hikes rate and geopolitical risks. Although China's economy was facing changes amid stability with worrying concerns and increased downward pressure, there were still favourable internal conditions to support stable development of China's economy. China's economy was still operating within a reasonable range. In the Year, the gross domestic product (GDP) of China, exceeding for the first time ever RMB90 trillion, grew by 6.6% as compared to the Last Year and its growth rate ranked first among the top five economies in the world.

The national economy of China has maintained steady progress. The stabilised macro-leverage ratio, remarkable success in poverty alleviation and the deepened reforms in structure of the supply-side provided guarantees for economic development. The capital market of Hong Kong had a standardised market system, advanced commercial infrastructure, a fair and transparent regulatory system and a low tax-rate environment. With the development of the Greater Bay Area of Guangdong, Hong Kong and Macao and the continuously deepening of the "One Belt, One Road" initiative, together with the opening up of Guangzhou-Shenzhen-Hong Kong High Speed Rail Hong Kong section and the Hong Kong-Zhuhai-Macao Bridge, the Hong Kong market gained new development momentum.

Business Review

In 2018, global economic environment became complex and rapidly changing while securities market in Hong Kong kept slumping. The Group increased its provision for project risks, and unrealised (non-cash) losses arising from the unfavorable fair value movements in financial assets at fair value through profit and loss also increased significantly. In response to various internal and external challenges, the Group took measures with proactive adjustment of the compressed business scale and optimization of the structure, strengthened risk management and controls, prevented and resolved risks, and promoted various operations and management progressively.

Asset Management and Direct Investment

The asset management and direct investment segment provides asset management services, direct investments in stocks, bonds, funds, derivative instruments and other financial products, as well as money lending services. During the year of 2018, the Group has adopted a more cautious approach to business operation in light of the current economic environment and the gradual implementation of the national "deleverage" policy. The Group continued to actively review various risks, prudently carried out relevant business, strengthened various risk management and control measures such as market risk and credit risk, enhanced post-investment management, continuously reviewed the operation of counterparties and the value of collaterals, and formulated corresponding risk prevention measures. For the Year, the segment revenue was approximately HK$1,754,596,000 as compared to approximately HK$1,307,439,000 for the Last Year; the net gains on financial assets at fair value through profit or loss decreased from gain of approximately HK$756,502,000 for the Last Year to loss of approximately HK$1,347,321,000 for the Year; the segment result was loss of approximately HK$1,247,067,000 as compared to profit of approximately HK$1,021,589,000 for the Last Year.

Securities

In 2018, in the face of global market turmoil, the stock market, the bond market and the crude oil market were responding to the ambient uncertainty and the financial market volatility caused by the normalisation of the US monetary policy. The Group adjusted and optimised its business strategy in margin financing business in order to further reduce business operation risk. Meanwhile, the Group put great efforts in expanding the brokerage and securities business, improving and optimizing the product platform, investing more resources to establish a quantitative trading pipeline, actively adjusting the existing operating mechanism, and focusing on customer service improvement and capital recovery. Leveraging on diversified client portfolio of China Huarong, the trading volume of securities has been improved. The Group has entered the securities dealer in Categories B from securities dealer in Categories C, and the brand of Huarong has been effectively upgraded. For the Year, the revenue from the securities segment was approximately HK$486,065,000 as compared to approximately HK$401,230,000 for the Last Year, representing an increase of approximately 21.1%; the segment result amounted to loss of approximately HK$166,468,000 as compared to profit of approximately HK$169,523,000 for the Last Year.

Corporate Finance

The corporate finance segment is devoted to providing institutional clients with comprehensive securities issuance and underwriting and financing advisory services. In 2018, the Group promoted several USD bonds issuance, and explored effective cooperation among different licensed businesses so as to promote steady business development. For the Year, revenue from the corporate finance segment amounted to approximately HK$30,894,000, representing a decrease as compared to approximately HK$314,361,000 for the Last Year; the segment result was approximately HK$22,560,000 as compared to approximately HK$298,604,000 for the Last Year.

Prospect

The global economy in 2019 remains uncertain. There are still many uncertainties in the geopolitical situation, trade disputes and global economic activities. The financial market may still fluctuate, but it is expected that there are opportunities amid the crisis. Facing the new situation of internal and external environment, the Group will adhere to the concept of quality development in line with the core connotation of “highlighting principal business, sound finance, controllable risks, and effective collaboration”. To order to seek stable progress, the Group will proactively expand our licensed business, persistently strengthen our principal business and stick to our origin. For assets management and direct investment, we will actively examine various risks and prudently carry out related business and strengthen various risk management measures such as market risk, credit risk and operational risk to improve customer access and risk control standards. For the securities business, the Group will capitalise on the advantages of platforms, focus on customer service improvement and capital recovery, and improve quality and implement risk control. Focusing on the “investment + investment bank” business model and in accordance with “Professional, International and Market-oriented” guidance, the Group will also cooperate with domestic and overseas customers and institutions so as to promote business transformation. With the continuous support of the controlling shareholder China Huarong, the Group will take forward various operations and management works in a steady and orderly manner with aim to build a “brand-new Huarong” to ensure the stable and sustainable development of the company, and strive to create greater value for shareholders.

Financial Review

Capital Structure

As at 31 December 2018, the total number of issued shares of the Company (with the par value of HK$0.001 each) was 3,588,466,011 and the total equity attributable to shareholders was approximately HK$2,070,447,000 as compared to approximately HK$4,062,822,000 as at 31 December 2017, representing a decrease of approximately 49.0%.

Liquidity and Financial Resources

The Group reviewed the liquidity position regularly and managed liquidity and financial resources actively according to the changes on economic environment and business development needs. As at 31 December 2018, the Group had total cash and cash equivalents amounting to approximately HK$2,401,797,000 as compared to HK$3,524,781,000 as at 31 December 2017, which has already excluded approximately HK$396,500,000 (as compared to HK$848,591,000 as at 31 December 2017) of client funds that were kept in separate designated bank accounts. The Group's gearing ratio as at 31 December 2018 was 1,230.6% as compared to 813.2% as at 31 December 2017, being calculated as borrowings over the Group's shareholders' equity. The increased gearing ratio is attributable to significant loss for the Year recorded by the Group. As at 31 December 2018, the Group obtained shareholder loans in an aggregate principal amount of approximately US$2,763,331,000 (equivalent to approximately HK$21,644,937,000) (31 December 2017: US$2,379,680,000) from CHIH and RMB1,569,000,000 (equivalent to approximately HK$1,790,687,000) (31 December 2017: RMB500,000,000) from China Huarong respectively, to support the business of the Group.

As at 31 December 2018, the Group has undrawn bank facilities of approximately HK$1,971,206,000 (31 December 2017: HK$1,963,232,000), and the Group utilised approximately HK$2,042,304,000 (31 December 2017: HK$13,835,491,000) of these banking facilities.

As at 31 December 2018, the Group has no bank borrowings that violate financial conditions or cross-default clauses.

For the subsidiaries licensed by the Securities and Futures Commission of Hong Kong, the Group ensures each of the subsidiaries maintains a liquidity level adequate to support the level of regulated activities with a sufficient buffer to accommodate increases in liquidity requirements arising from potential increases in the 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 2018, time deposits with carrying amount of HK$nil (31 December 2017: HK$1,898,063,000) were pledged to secure bank loan facilities of the Group.

Employee and Remuneration Policy

As at 31 December 2018, the Group employed a total of 96 employees (31 December 2017: 169 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 the PRC operations only represents a small fraction of that of the Group. Other foreign exchange risk 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, which was previously disclosed in the audited financial statements of the Group for the year 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 2018. The Group has sought legal advice on the alleged claims and the Directors consider that HISL has a good defense 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.

Significant Securities Investment

The Group is primarily engaged in the provision of financial services, including but not limited to asset management and direct investment, securities and corporate finance services. During the Year, the Group held securities investments such as listed preference shares, listed equity investments, listed bonds, unlisted convertible bonds and convertible notes and unlisted fund investments, etc. In particular, the major significant investments which constitute 5% or more of the total assets of the Group as at 31 December 2018 comprise of three unlisted fund ("Relevant Funds") investments held by the Group with aggregated carrying amount of approximately HK$2,340 million. The Group has fully redeemed its investments in the Relevant Funds subsequent to the end of the Year but before the date of this annual report. For further details of the background of the Relevant Funds, please refer to the announcements of the Company dated 14 May 2017 and 16 June 2017. The details of the financial assets of the Group during the Year are also set out in notes 19, 20 and 21 to the financial statements.

The Directors present their report and the audited consolidated financial statements of the Group for the Year.

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 and up to the date of this report, the Group operated its businesses by utilising its licences (Type 1, 2, 4, 6 and 9 licences) issued under the Securities and Futures Ordinance (the "SFO").

Results

The Group's results for the Year and the financial position of the Group as at 31 December 2018 are set out on pages 88 to 226 of the consolidated financial statements.

Dividends

The board of Directors (the "Board") does not recommend the payment of a final dividend for the Year (2017: HK1.70 cents per ordinary share).

Business Review

The business review of the Group for the Year 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 227 of this annual report. The summary does not form part of the audited consolidated financial statements.

Property, Plant and Equipment

Details of the movements in the property, plant and equipment of the Group during the year ended 31 December 2018 are set out in note 16 to the consolidated financial statements.

Share Capital

Details of the movements in the Company's share capital and perpetual capital securities classified as equity instruments during the year ended 31 December 2018 are set out in notes 33 and 36 to the consolidated financial statements respectively. During the Year, the Company did not issue any new shares in exchange for cash.

Debentures in Issue

Neither the Company nor any of its subsidiary issued any debentures during the Year.

Equity-linked Agreements

For the Year, the Company did not enter into any equity-linked agreement and there was no equity-linked agreement.

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 memorandum of association and 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 has purchased, sold or redeemed any of the Company's listed securities during the Year.

Reserves

Details of the 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 on page 92 of the consolidated statement of changes in equity, respectively.

Distributable Reserves

As at 31 December 2018, the Company has no reserves available for distribution (31 December 2017: HK$119,946,000), in accordance with the provisions of the Companies Act 1981 of Bermuda (as amended).

Tax Relief and Exemption

The Company is not aware that holders of securities of the Company are entitled to any tax relief or exemption by reason of their holding of such securities.

Charitable Donations

During the Year, the Group has made charitable donations amounted to approximately HK$1,205,000.

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 11.6% of the Group's total turnover and turnover attributable to the largest customer included therein represented approximately 2.9%. None of the Directors or any of their close associates or any Shareholder (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 mainly 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 risks that may arise when there is fluctuation of the price of assets invested by the Group; (ii) credit risks that may arise from possible default of the Group's business counterparties, including borrowers, trading counterparties and note issuers; and (iii) legal and compliance risks 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 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 56 to 80 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 recognises the unique position and value of its employees. Apart from market competitive remuneration, the Group also provides positive working environment and organises leisure activities such as birthday parties on a regular basis 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 56 to 80 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. Bai Junjie *(Chairman)* (appointed on 1 November 2018)
Mr. Wang Qiang *(Chairman)* (resigned on 1 November 2018)
Mr. Xu Yong *(Chief Executive Officer)* (appointed on 11 April 2018)
Mr. Lai Jinyu *(Chief Executive Officer)* (resigned on 11 April 2018)
Dr. Niu Shaofeng (appointed on 8 January 2018 and resigned on 16 November 2018)
Ms. Wang Wei (resigned on 8 January 2018)

Non-executive Director:

Ms. Fan Haibo (resigned on 16 March 2018)

Independent Non-executive Directors:

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

Please refer to pages 6 to 11 of this annual report for the biographical details of the Directors and senior management of the Company, including their senior management positions held (if any) at the controlling shareholders of the Company and those which had an interest or short position in the Company's shares and underlying shares which would fall to be disclosed to the Company under the provisions of Division 2 and 3 of Part XV of the SFO.

All Directors including the 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 subsequent annual general meetings in accordance with the Bye-laws.

Connected Transactions

During the Year, the Group has entered into the following connected transactions and continuing connected transactions which are required to be disclosed in accordance with Chapter 14A of the Listing Rules:

Connected Transactions

There are company loans provided by CHIH and China Huarong as set out in notes 42(b)(i) and (ii) to the consolidated financial statements. Since CHIH and China Huarong are an intermediate controlling shareholder and ultimate controlling shareholder of the Company respectively, CHIH and China Huarong are connected persons of the Company for the purpose of the Listing Rules. Accordingly, the company loans were connected transactions yet they were exempted from requirements of disclosure, reporting and shareholders' approval by virtue of these transactions being of commercial terms and no security made for the loans under Chapter 14A of the Listing Rules.

Continuing Connected Transactions

New Master Agreement in Relation to the Provision of Financial Services

(a) Background information of the transaction

On 9 May 2016, the Company and China Huarong entered into a master agreement (the "2016 Master Agreement") pursuant to which the Group has agreed to provide (a) brokerage services for securities, futures and options trading, and placing and underwriting and sub-underwriting services ("Category I Transactions"); (b) corporate finance advisory services ("Category II Transactions"); and (c) asset management services ("Category III Transactions") to China Huarong and its associates (as defined in the Listing Rules) (the "Connected Clients"), for the period commencing from 9 May 2016 to 31 December 2016.

On 28 September 2016, the Company and China Huarong entered into the 2016 New Master Agreement and revised the terms of the 2016 Master Agreement, inter alia, the duration of the 2016 New Master Agreement shall be extended and will cover the period from 9 May 2016 to 31 December 2018 (both days inclusive).

(b) Connected relationship of the parties to the transaction

China Huarong indirectly holds approximately 51% of the issued share capital of the Company, hence China Huarong is a connected person of the Company for the purpose of the Listing Rules. Accordingly, the transactions contemplated under the 2016 New Master Agreement constitute continuing connected transactions of the Company under the Listing Rules.

(c) Total consideration and other terms

Under the 2016 New Master Agreement, the cap amounts have been revised as follows:

	For the period from 9 May 2016 to 31 December 2016 *(HK$)*	For the year ended 31 December 2017 *(HK$)*	For the year ended 31 December 2018 *(HK$)*
(i) Category I Transactions	16,990,000	20,000,000	20,000,000
(ii) Category II Transactions	1,000,000	5,000,000	5,000,000
(iii) Category III Transactions	2,000,000	30,000,000	60,000,000
Total	19,990,000	55,000,000	85,000,000

The actual annual figures for the relevant periods are also set out below:

	For the period from 9 May 2016 to 31 December 2016 *(HK$)*	For the year ended 31 December 2017 *(HK$)*	For the year ended 31 December 2018 *(HK$)*
(i) Category I Transactions	14,651,000	5,952,000	4,496,849
(ii) Category II Transactions	–	–	–
(iii) Category III Transactions	–	–	–
Total	14,651,000	5,952,000	4,496,849

For the provision of services for Category I Transactions to the Connected Clients, the Group will charge underwriting commission as the service fee calculated by a fixed percentage of the amount of securities to be placed or underwritten. For the provision of services for the Category II Transactions to the Connected Clients, the Group will charge a fee for each advisory project fixed by reference to the nature, size, complexity and resources involved of each particular project. For the provision of services for Category III Transactions to the Connected Clients, the Group will charge management fee and performance fee to be determined based on a number of factors.

The determination of the service fee chargeable under the Category I Transactions will base on market comparable terms and rates. The underwriting commission rate is determined through arm's length negotiation among the Group, other syndicate underwriters, which are Individuals or companies independent of and not connected with (within the meaning of the Listing Rules) any Director, chief executive or substantial shareholder (within the meaning of the Listing Rules) of our Group ("Independent Third Party(ies)"), and one of the Connected Clients. The underwriting commission rate is applicable to the Group and other syndicate underwriters, and may be adjusted by taking into account the size of the fund raising exercise and hence its potential return. In such way, the Group will be able to ensure that the terms for provision of services under the 2016 New Master Agreement will be comparable to normal commercial terms on the market and no less favorable to the Group than the provision of such services to other Independent Third Parties.

The determination of the fees chargeable under Category II Transactions will base on the pricing range chargeable by the Group in providing similar Category II Transactions to existing Independent Third Party clients, which include (i) the urgency of the proposed transaction or project; (ii) the estimated resources to be utilised on providing the relevant services; (iii) the size and complexity of the proposed transaction or project; and (iv) the fees charged for historical transactions of similar nature and with reference to the prevailing market rate. The Group will then compare the determined fees with that chargeable to Independent Third Party clients in providing such services and check if it is comparable to the Group's estimation.

The management fee and performance fee to be charged under Category III Transactions by the Group will be determined based on a number of factors applicable to all customers, including but not limited to the size and nature of the fund, the fees charged for historical transactions of the Group of similar nature and the then prevailing market rates.

(d) Purpose of the transactions and the nature of the interests of the connected party in the transactions

China Huarong is a large financial asset management company in the PRC. It provides fully licensed, multi-functional, and comprehensive financial services, including asset management, banking, securities, trust, financial leasing, investment, futures and consumer finance. The Directors expect that more business opportunities will be brought to the Group through the engagement of the Group by China Huarong and the Connected Clients.

By entering into the 2016 New Master Agreement, the Group can continue to derive benefits from the continuing connected transactions which can capture significant synergic advantages of both the Group and China Huarong together with its associates.

For further information relating to the above transaction, please refer to the announcements of the Company dated 9 May 2016, 11 May 2016 and 28 September 2016.

For further information regarding the above connected transactions (if applicable), continuing connected transactions and the Group's significant transaction with related parties, please refer to note 42 to the consolidated financial statements. The Company confirms that certain significant transactions of the Group with related parties fall within the definitions of "connected transaction" and "continuing connected transaction" as set out in Chapter 14A of the Listing Rules (as the case may be) and the Company confirms that it had thus made relevant disclosures pursuant to the disclosure requirements under Chapter 14A of the Listing Rules.

(e) Internal Control Procedures

To ensure that the transactions contemplated under the 2016 New Master Agreement are conducted on normal commercial terms and in accordance with the terms of the 2016 New Master Agreement, and that the transactions comply with the pricing policies of the Group, the Group has implemented the following internal control procedures:

(i) the fees to be charged/paid for each individual transaction between the Group and Connected Clients are determined by the relevant responsible officers (within the meaning of the SFO) (the "Responsible Officers") according to the Group's pricing policies from time to time;

(ii) the compliance and legal department, the Responsible Officers and the senior management review the prevailing market rates, quotations or invoices issued to Independent Third Parties for comparison and as a reference to ensure that fees chargeable by our Group to Connected Clients is comparable to those transacted with Independent Third Parties; and

(iii) the external independent auditor of the Company also conducts annual review of the continuing connected transactions entered into by the Group to ensure compliance with the Group's pricing policies.

By implementing the above procedures, the Directors consider that the Company has established sufficient internal control measures to ensure the pricing basis of each of the continuing connected transaction agreements will be on normal commercial terms (or better to the Group), fair and reasonable, in accordance with the pricing policy of the Company and in the interests of the Company and its Shareholders as a whole.

(f) Annual Review of the Continuing Connected Transaction

The Directors, including the Independent Non-executive Directors, namely, Dr. Wong Tin Yau Kelvin, Mr. Ma Lishan and Mr. Guan Huanfei have reviewed the above continuing connected transactions and confirmed that these transactions have been entered into:

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

(2) on normal commercial terms or on terms no less favourable to the Company than terms available to or from (as appropriate) Independent Third Parties; and

(3) in accordance with the relevant agreement of the above continuing connected transactions governing them on terms that are fair and reasonable and in the interests of the Shareholders as a whole.

The Company's auditor, Messrs. Deloitte Touche Tohmatsu, were 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. For the purpose of Rule 14A.56 of the Listing Rules, the Board of Directors of the Company confirmed that they received an unqualified letter from the Company's auditor containing their findings and conclusions regarding the continuing connected transactions disclosed above that nothing has come to the auditor's attention that causes them to believe that:

1. the disclosed continuing connected transactions have not been approved by the Company's Board of Directors;

2. the transactions were not, in all material respects, in accordance with the pricing policies of the Company;

3. the transactions were not entered into, in all material respects, in accordance with the relevant agreements governing such transactions; and

4. the disclosed continuing connected transactions have exceeded the relevant annual cap amount disclosed in the previous announcements of the Company.

A copy of such letter from the Company's auditor had been provided by the Company to the Stock Exchange.

Continuing Disclosure Pursuant to Rule 13.18 and Rule 13.21 of the Listing Rules

As at 31 December 2018, details of existing banking facilities with covenants relating to specific performance of the Company's controlling shareholder which constitute disclosure obligation pursuant to Rule 13.18 and 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
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 2
29 June 2017	Revolving credit facility with a bank	US$40,000,000	No fixed term and repayable on demand by the bank	Note 3
23 March 2018	Revolving loan facility with a bank	HK$200,000,000	No fixed term and subject to the bank's annual review	Note 4
4 May 2018	Revolving loan facility with a bank	HK$60,000,000	No fixed term and repayable on demand by the bank	Note 5
8 October 2018	Revolving short term advance facility with a bank	US$40,000,000	No fixed term but subject to review by the bank on 30 June 2019 and thereafter to an annual review	Note 6
8 October 2018	Margin security facility	HK$500,000,000	Repayable on demand upon request by the bank or otherwise shall continue up to and including 30 June 2019	Note 7

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. 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.

3. 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 Ministry of Finance of the PRC (the "MOF") as its controlling shareholder. In addition, China Huarong shall maintain the absolute management control over the Company.

4. The availability of the facility is subject to the condition that China Huarong shall, during the term of the loan agreement, continue to hold no less than 51% of the beneficial interest of the Company.

5. The availability of the facility is subject to the Company's undertaking that it shall remain not less than 51% beneficially owned by China Huarong.

6. During the term of the facility, 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.

7. During the term of the facility, Huarong International Securities Limited, an indirectly wholly-owned subsidiary of the Company, shall be directly or indirectly wholly owned by the Company, which in turn shall be directly or indirectly at least 51% beneficially owned and controlled by China Huarong.

Details of the above mentioned banking facilities are set out in the announcements of the Company dated 23 September 2016, 28 November 2016, 29 June 2017, 23 March 2018, 4 May 2018 and 8 October 2018.

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 annual general meeting (the "AGM").

Emoluments of Directors and Senior Management

The emoluments of our Directors and senior management personnel are paid in the form of fees, salaries, allowances and benefits in kind, discretionary bonuses and retirement benefits. The details of the remuneration of the Directors and chief executive of the Company are set out in note 11 to the consolidated financial statements.

The emoluments paid to our Directors and senior management personnel are determined by such factors as his/her duties and responsibilities, the Company's performance and the prevailing market conditions and trends. During the Year, the emoluments of the senior management personnel of the Company (other than Directors) are set out as below:

Remuneration (HK$)	Number
1,000,000 – 1,500,000	2

The details of the emoluments of our Directors and the top five highest paid individuals of the Company are set out in the notes 11 and 12 to the consolidated financial statements, respectively.

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 (as defined in Appendix 16 to the Listing Rules), in which a Director or an entity connected with a Director is or was interest, directly or indirectly, subsisted during or at the end of 31 December 2018.

Contracts of Significance

Save as disclosed in note 11 to the consolidated financial statements and this annual report, at no time during the Year had the Company or any of its subsidiaries entered into any contract of significance with its controlling shareholder (as defined in the Listing Rules) or any of its subsidiaries, nor had any contract of significance been entered into for the services provided by its controlling shareholder or any of its subsidiaries to the Company or any of its subsidiaries.

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.

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

As at 31 December 2018, none of the Directors or chief executive of the Company had any interests or short positions in the shares, underlying shares or 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 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 and up to the date of this annual report.

Substantial Shareholders' Interests

As at 31 December 2018, so far as was known to the Directors and chief executive of the Company, the following persons or corporations (other than a Director or the chief executive of the Company) who had interests 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:

			As at 31 December 2018	
Name of Shareholder	**Capacity/ Nature of interest**	**Long position/ Short position**	**Number of shares held**	**Approximate percentage of the issued share capital of the Company**
China Huarong Asset Management Co., Ltd. ("China Huarong") *(Note 1)*	Interests in controlled corporation	Long position	1,830,117,664	51.00%
China Huarong International Holdings Limited ("CHIH") *(Note 1)*	Interests in controlled corporation	Long position	1,830,117,664	51.00%
Camellia Pacific Investment Holding Limited ("Camellia")	Beneficial owner	Long position	1,830,117,664	51.00%
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%
Mr. Jia Tianjiang *(Note 2)*	Interests in controlled corporation	Long position	775,220,529	21.60%
Ms. Dong Jufeng *(Note 2)*	Interests of spouse	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. China Huarong was beneficially owned as to 63.36% by the MOF and was deemed to be owned as to 4.39% by MOF controlled corporation. 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 by virtue of the SFO.

Saved as disclosed above, as at 31 December 2018, no other persons (other than a Director or chief executive of the Company) who had any interest or short position in any shares or underlying shares of the Company which would be disclosed to the Company under 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 or which have been notified to the Company and the Stock Exchange.

Corporate Governance

The Company is committed to maintaining a high standard of corporate governance practices. During the Year, the Company has complied with all the applicable code provisions of the Corporate Governance Code. A report on the principal corporate governance practices adopted by the Company is set out on pages 35 to 53 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 2018.

Events After the End of the Year

After the year ended 31 December 2018, the Company entered into a discloseable transaction as defined under the Listing Rules and an uncommitted revolving loan facility of up to US$200,000,000 and renewed another uncommitted revolving loan facility of up to US$100,000,000 to 28 November 2019. For further details, please refer to the announcements of the Company dated 3 March 2019, 14 January 2019 and 21 February 2019, respectively. Save as the disclosed herein, the Group has no significant events subsequent to the year ended 31 December 2018 to the date of this report.

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.

Auditor

The auditor appointed by the Company in the past three years is Messrs Deloitte Touche Tohmatsu.

On behalf of the Board
Huarong International Financial Holdings Limited
Bai Junjie
Chairman

Hong Kong, 27 March 2019

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 2018, the Company has adopted the principles and thus 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 2018 and up to the date of this report.

Board of Directors

Board Composition

The Board of Directors currently has five Directors comprising two 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 organisations 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 Stock Exchange. 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 and the senior management personnel has any relationship with one another (including financial, business, family or other material/relevant relationship(s)).

Director Nomination Policy

The Company has already adopted a director nomination policy (the "Director Nomination Policy") in December 2018 setting out the criteria and process in the nomination and appointment of Directors.

(a) Appointment of New Directors

The Nomination Committee and/or the Board may select candidates for directorship from various channels, including but not limited to internal promotion, re-designation, referral by other member of the management and external recruitment agents. In evaluating and selecting any candidate for directorship, the following criteria should be considered:

- Character and integrity;
- Qualifications including professional qualifications, skills, knowledge and experience and diversity aspects under the Board Diversity Policy that are relevant to the Company's business and corporate strategy;
- Any measurable objectives adopted for achieving diversity on the Board;
- Requirement for the Board to have independent Directors in accordance with the Listing Rules and whether the candidate would be considered independent with reference to the independence guidelines set out in the Listing Rules;
- Any potential contributions the candidate can bring to the Board in terms of qualifications, skills, experience, independence and gender diversity;
- Willingness and ability to devote adequate time to discharge duties as a member of the Board and/or Board committee(s) of the Company;
- Such other perspectives that are appropriate to the Company's business and succession plan and where applicable, may be adopted and/or amended by the Board and/or the Nomination Committee from time to time for nomination of Directors and succession planning.

The Nomination Committee should then recommend to the Board to appoint the appropriate candidate for directorship, as applicable.

For any person that is nominated by a shareholder for election as a Director at the general meeting of the Company, the Nomination Committee and/or the Board should evaluate such candidate based on the criteria as set out above to determine whether such candidate is qualified for directorship. Where appropriate, the Board should make recommendation to Shareholders in respect of the proposed election of Directors at the general meetings of the Shareholders.

(b) Re-election of Director at General Meetings of the Shareholders

The Nomination Committee and the Board should review the overall contribution and service to the Company of the retiring Director and the level of participation and performance on the Board. The Nomination Committee and the Board should also review and determine whether the retiring Director continues to meet the criteria as set out above.

The Board should then make recommendation to Shareholders in respect of the proposed re-election of Directors at the general meetings of the Shareholders.

Where the Board proposes a resolution to elect or re-elect a candidate as Director at the general meetings of the Shareholders, the relevant information of the candidate will be disclosed in the circular to Shareholders and/or explanatory statement accompanying the notice of the relevant general meetings of the Shareholders in accordance with the Listing Rules and/or applicable laws and regulations.

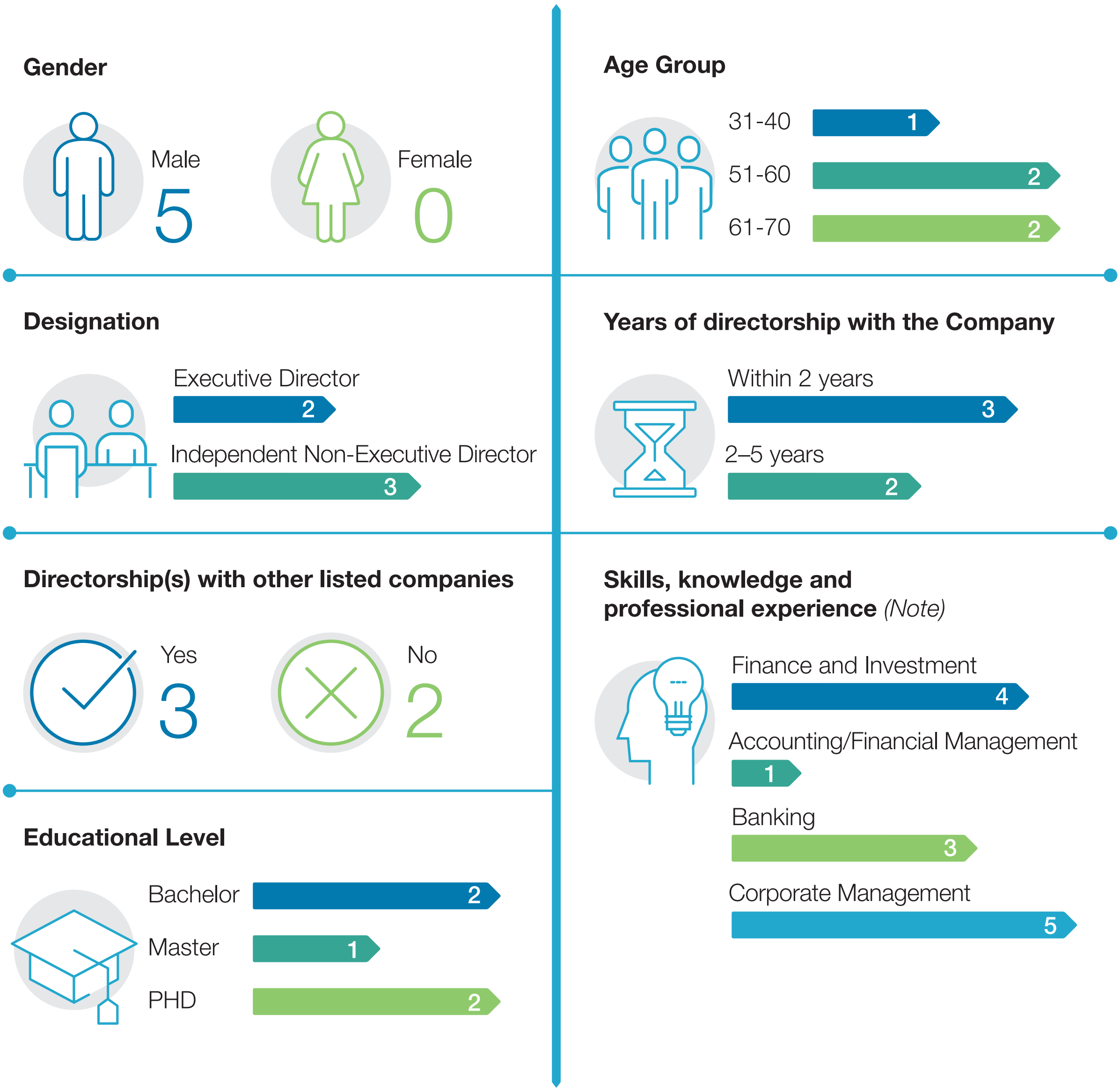
The Nomination Committee will conduct regular review on the structure, size and composition of the Board and the Director Nomination Policy and where appropriate, make recommendations on changes to the Board to complement the Company's corporate strategy and business needs.

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.

A diversity analysis of the existing Board composition is set out at the chart below:



Note: Directors may possess multiple skills, knowledge and professional experience.

The Nomination Committee of the Company will monitor the achievement of the 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, 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 2018, the Board has performed the corporate governance duties set out in paragraph 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 strategies, operations 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 the 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 2018, the Board held four regular meetings and seven 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

Directors	Attendance/ Number of Meetings Held
Executive Directors	
Bai Junjie (appointed on 1 November 2018)	1/(1)
Xu Yong (appointed on 11 April 2018)	9/(10)
Independent Non-executive Directors	
Wong Tin Yau Kelvin	11/(11)
Ma Lishan	11/(11)
Guan Huanfei	10/(11)
Former Directors	
Wang Qiang (resigned on 1 November 2018)	9/(10)
Niu Shaofeng (appointed on 8 January 2018 and resigned on 16 November 2018)	8/(11)
Lai Jinyu (resigned on 11 April 2018)	1/(1)
Fan Haibo (resigned on 16 March 2018)	0/(1)
Wang Wei (resigned on 8 January 2018)	N/A

During the year ended 31 December 2018, the former Chairman of the Board, Mr. Wang Qiang has also held one meeting with the Independent Non-executive Directors without the presence of the other Directors.

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 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 arise which the Board has determined to be material, the matters have been 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 have been present at the meetings to deal with such conflict issues.

The company secretary or assistant company secretary of the Company 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 or the assistant company secretary of the Company 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 of the Company are segregated. Mr. Bai Junjie is currently the Chairman and Mr. Xu Yong is the Chief Executive Officer 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 Chief Executive Officer, 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

For the Year, the Board has been in compliance with relevant requirements of the Listing Rules, and has appointed at least three Independent Non-executive Directors (representing at least one-third of the Board), with one of whom possessing appropriate professional qualifications or accounting or related financial management expertise.

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 trainings received by the Directors during the year ended 31 December 2018 and up to the date of this report is summarised as follows:

Directors Types of training

Directors	Types of training
Bai Junjie (appointed on 1 November 2018)	A, B
Xu Yong (appointed on 11 April 2018)	A, B
Wong Tin Yau Kelvin	A, B
Ma Lishan	A, B
Guan Huanfei	A, B
Wang Qiang (resigned on 1 November 2018)	A, B
Niu Shaofeng (appointed on 8 January 2018 and resigned on 16 November 2018)	B
Lai Jinyu (resigned on 11 April 2018)	B
Fan Haibo (resigned on 16 March 2018)	B
Wang Wei (resigned on 8 January 2018)	N/A

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

Ms. Cheung Yuet Fan ("Ms. Cheung), a director of Corporate Services Division of Tricor Services Limited, was appointed as the company secretary on 18 July 2018 following the resignation of Ms. Ng Yee Ping ("Ms. Ng") effective the same day. During the tenure of Ms. Cheung, her primary contact at the Company was Ms. Lau Siu Yee, Jessica, the assistant company secretary. On 18 January 2019, Ms. Cheung resigned as the company secretary and Ms. Luo Xiao Jing ("Ms. Luo") has been appointed as the company secretary. As an employee of the Company, Ms. Luo will be 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 2018, both Ms. Cheung and Ms. Ng have received not less than 15 hours of relevant professional training in accordance with the provisions under Rule 3.29 of the Listing Rules.

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. To comply with the new requirements of the CG code, the Board has revised and adopted the amended terms of reference of Audit Committee, Remuneration Committee, Nomination Committee and Risk Management Committee on 28 December 2018. The amended terms of reference of the respective Board committees are available on the websites of the Company and the Stock Exchange.

Audit Committee

The current composition of the Audit Committee consists of three Independent Non-executive Directors, namely Dr. Wong Tin Yau Kelvin, Mr. Ma Lishan, Mr. Guan Huanfei and is chaired by Dr. Wong Tin Yau Kelvin. No former partner of the Company's existing external independent auditor is or 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.

The Audit Committee held four meetings during the year ended 31 December 2018. Private session between the committee members and the external independent auditor 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	4/(4)

During the year ended 31 December 2018, the Audit Committee has mainly performed the following work:

- Reviewed the 2017 annual results and 2018 interim results of the Group and discussed and approved the relevant financial reports;
- Reviewed the Company's external independent auditor's 2018 annual audit plan;
- Reviewed the Company's external independent auditor's 2017 annual audit report and 2018 interim review report;
- Reviewed the Group's operating plan and budget prepared by management;
- Met with the Company's external independent auditor to discuss their audit work on the Group;
- Reviewed continuing connected transactions for 2017 and the external independent auditor's report on continuing connected transactions;
- Recommended to the Board on re-appointment of the external independent auditor;
- Reviewed the internal audit work plan and the internal audit reports covering the evaluation of the Group's internal control system of various operation and management aspects;
- Communicated with senior management on interim and annual accounting and financial reporting issues;
- Discussed matters raised by the internal auditor and external independent auditor to ensure that appropriate recommendations are implemented; and
- Communicated with an external professional firm on the effects of new accounting standards on the Group.

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 auditor.

Remuneration Committee

The current composition of the Remuneration Committee consists of three Independent Non-executive Directors, namely Mr. Guan Huanfei, Dr. Wong Tin Yau Kelvin, Mr. Ma Lishan and is chaired by Mr. Guan Huanfei.

The roles and responsibilities of the Remuneration Committee primarily 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 the determination of 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 also 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 2018, one Remuneration Committee meeting was 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 *(Chairman)*	1/(1)
Wong Tin Yau Kelvin	1/(1)
Ma Lishan	1/(1)

During the year ended 31 December 2018, the Remuneration Committee made recommendations to the Board on the Executive Directors and the senior management's incentive bonus and salaries and made recommendations to the Board for such to be approved, if thought fit.

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

Nomination Committee

The Nomination Committee of the Company currently comprises three Independent Non-executive Directors, namely Dr. Wong Tin Yau Kalvin, Mr. Ma Lishan, Mr. Guan Huanfei and the Chairman of the Company, Mr. Bai Junjie and is chaired by Dr. Wong Tin Yau Kelvin.

The roles and responsibilities of the Nomination Committee 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 2018, two 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)*	2/(2)
Bai Junjie (appointed on 1 November 2018)	N/A
Ma Lishan	2/(2)
Guan Huanfei	2/(2)
Former Committee members	
Wang Qiang (resigned on 1 November 2018)	2/(2)
Fan Haibo (resigned on 16 March 2018)	0/(1)

During the year ended 31 December 2018, the Nomination Committee considered and recommended to the Board the re-election of the Directors who were subject to retirement by rotation at the 2018 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 changes of several Directors and appointment of senior management personnel, 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 the two Executive Directors, namely Mr. Bai Junjie and Mr. Xu Yong and is chaired by Mr. Bai Junjie.

The major roles and functions of the Executive Committee are 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 2018, 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, namely Mr. Bai Junjie and Mr. Xu Yong and one Independent Non-executive Director, namely Mr. Ma Lishan 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 2018, 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)
Bai Junjie (appointed on 16 November 2018)	1/(1)
Xu Yong (appointed on 11 April 2018)	2/(2)
Former Committee members	
Niu Shaofeng (resigned on 16 November 2018)	1/(1)
Lai Jinyu (resigned on 11 April 2018)	N/A

During the year ended 31 December 2018, 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 2018 and for the year of 2019. In particular, the Risk Management Committee discussed with the management about the 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 of Directors is well aware of its responsibility for implementing risk management and internal control systems and reviewing their effectiveness. The Group establishes a governance structure comprised of general meeting, the Board and senior management in accordance with relevant regulatory requirements in Hong Kong. Pursuant to the related requirements under the CG Code, the Board is responsible for developing the general guideline for the Company's risk appetite in order to clarify the nature and the amount of risk that the Group can take in pursuit of strategic objectives, setting the general risk management and internal control framework for the Group to monitor the design and implementation of risk management and internal control system in order to maintain the overall healthiness and effectiveness of the Group's risk management and internal control system. The Risk Management Committee and Audit Committee under the Board are 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 day-to-day self-assessment of the internal control system. The management is responsible for leading the day-to-day operation of the Group's risk management and internal control system and providing confirmation to the Board in respect of the effectiveness of the system. Related management functions are responsible for day-to-day risk management and internal control. Internal audit functions are responsible for day-to-day supervision, review and assessment of the implementation of internal control, and report to the Audit Committee. The above supervision systems are designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable but not absolute assurance against material misstatements or losses.

With the general risk management concept, the Group keeps optimizing vertical risk management system and horizontal risk management process with prior inspection, advance warning, on-going monitoring and post-evaluation. Risk management is implemented in four areas according to related risks in business activities: firstly, the front line operation functions identify and evaluate the risks and develop corresponding measures; secondly, risk management, legal, compliance and supervisory functions conduct evaluation and inspection to reevaluate and review risk exposures; thirdly, the Investment Decision Committee is responsible for business review and project risk assessment and supervision; fourthly, the Internal Audit Department, as a leading function, to conduct independent inspection and supervision for the completeness, reasonability and effectiveness of the internal control system. Through the abovementioned level-specific management and control systems, the Group secures risk management and internal control are implemented across all levels of the Group.

Based on the guidelines of related regulatory institutions, annual review and self-assessment for the effectiveness of risk management and internal control system are conducted to review five elements in internal control, namely control environment, risk assessment, control activities, information and communication, and monitoring activities, which covers supervision and measures in various substantial fields, including financial, operational, compliance and risk management functions. The scope of review even includes the resources adequacy and staff's qualification, experience and training of the Group's internal control, accounting and financial report functions. Organised by the Group's internal audit function, such internal control review further involves an independent review and evaluation for the review process and result on the basis of the self-assessment conducted by each function. The Board considers that, based on the related review and assessment results confirmed by the management, the risk management and internal control system of the Group is effective and adequate.

In 2018, the Group confirmed to adapt corresponding measures to tackle identified issues necessary for enhancement. As such, we, on one hand, continued to make improvement in various aspects, such as organisational structure and segregation of duty, human resources management policy and business management process, and on the other, further strengthened risk management process and established guidelines including risk management matrix, on the basis of our general risk management policy, in order to further incorporate risk management and internal control into operation process to raise risk management capability and awareness of compliance among all functions of the Group.

The Company has implemented a whistle-blowing policy, which encourage its employees, customers, suppliers, Shareholders and other stakeholders who have concerns about any suspected misconduct or malpractice of the Company to come forward and raise those concerns. The Company will respond to the concerns fairly and properly. The Company treats all information received confidentially.

Given the changes in internal and external factors, including global economic environment, operation environment, regulatory requirement and business development, the Group will continuously review and improve the effectiveness of the control system in order to unceasingly revise and optimise prevailing risk management and internal control measures, further improve the implementation and execution of internal control system, keep ameliorating risk prevention capability and shape up internal control standard.

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 2018, and of the consolidated financial performance and the consolidated cash flow of the Group for the year ended 31 December 2018. In preparing the accounts for the year ended 31 December 2018, 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 auditor of the Company, Deloitte Touche Tohmatsu ("Deloitte"), in relation to their reporting responsibilities as set out in their auditor's report on pages 81 to 87 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 acting as the external independent auditor of the Company since November 2015. The financial statements of the Company for the year ended 31 December 2018 have been audited by Deloitte. For the year ended 31 December 2018, fees charged by Deloitte for audit services amounted to HK$3,090,000 and for interim review fee of HK$1,200,000. Non-audit services fee of HK$411,000 mainly included tax advisory fee of HK$357,000 and other professional services fee of HK$54,000.

Dividend Policy

The Company has adopted a dividend policy in December 2018 (the "Dividend Policy") setting out the principles and guidelines that the Company intends to apply in relation to the declaration, payment or distribution of its net profits as dividends to the shareholders of the Company.

The Board shall take into account the following factors of the Group when considering the declaration and payment of dividends:

- financial results;
- cash flow situation;
- business conditions and strategies;
- future operations and earnings;
- capital requirements and expenditure plans;
- interests of shareholders;
- any restrictions on payment of dividends; and
- any other factors that the Board may consider relevant.

The Company does not have any pre-determined dividend payout ratio and there is no assurance that a dividend will be proposed or declared in any given period. The Board has the sole discretion to declare and distribute dividends to the shareholders of the Company, subject to the Bye-laws of the Company and all applicable laws and regulations. The Board will review this Policy as appropriate from time to time.

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 the Stock Exchange on the day of the AGM.

During the year ended 31 December 2018, 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	
Bai Junjie (appointed on 1 November 2018)	N/A
Xu Yong	1/(1)
Independent Non-executive Directors	
Wong Tin Yau Kelvin	1/(1)
Ma Lishan	0/(1)
Guan Huanfei	1/(1)
Former Directors	
Wang Qiang (resigned on 1 November 2018)	1/(1)
Niu Shaofeng (resigned on 16 November 2018)	0/(1)
Lai Jinyu (resigned on 11 April 2018)	N/A
Wang Wei (resigned on 8 January 2018)	N/A
Fan Haibo (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 Chief Executive Officer. 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 the year ended 31 December 2018. The latest version of the Memorandum of Association and Bye-laws of the Company are available on both the websites of the Company and the Stock Exchange.

Environmental,
Social and Governance Report

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

About this Report

This is the third Environmental, Social and Governance ("ESG") report published by Huarong International Financial Holdings Limited (the "Company"). By reporting the ESG policies, measures and performances of the Company and its subsidiaries (together the "Group" or "HRIF"), the report allows stakeholders to learn more about the progress and development direction of the Group in sustainability issues. This report is available in Chinese and English versions.

Reporting Boundary

The report focuses on the operation of the core businesses of HRIF in Hong Kong, i.e. securities, corporate finance, asset management and direct investment during the financial year from 1 January 2018 to 31 December 2018 (the "Year"). The reporting scope continues to cover the environmental and social performances of the operation of the Head Office in Pacific Place, the Sheung Wan Branch and the Mong Kok Branch. While this report does not cover all operations of the Group, such as the Group's operation in the Mainland China, it is on its agenda to gradually expand the reporting scope in the future.

Reporting Standard

This report is prepared in accordance with the ESG Reporting Guide (the "Guide") under Appendix 27 of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited and adheres to the reporting principles of materiality, quantitative, balance and consistency. To allow stakeholders to gain a comprehensive understanding of the Group's performance in environmental, social and governance, this report not only discloses key performance indicators (KPIs) according to the 'comply or explain' provisions, but also certain KPIs according to the 'recommended disclosures' in the Guide.

Looking ahead, the Group will follow the reporting practice of its holding company, China Huarong Asset Management Co., Ltd ("China Huarong") by making reference to the reporting standards published by the Global Reporting Initiative (GRI) and the Chinese Academy of Social Sciences, to enhance the disclosure of environmental, social and governance information.

Data Preparation

The Group has established internal controls and formal review procedures to ensure the accuracy and reliability of the information presented in the report. The report was reviewed and approved by the Board of Directors (the "Board") on 27 March 2019.

Feedback Mechanism

The comments and suggestions of stakeholders can help the Group establish a more detailed and sound sustainability strategy. If you have any questions or suggestions regarding the content or format of this report, please contact the Company via ir@hrif.com.hk.

The Group's Sustainability Vision

In the Sustainable Development Summit held in 2015, all member states of the United Nations formally agreed to 17 Sustainable Development Goals, among which Goal 13 is 'Take urgent action to combat climate change and its impacts'. The 2018 United Nations Climate Change Conference in Poland formulated the Paris Agreement Rulebook to implement, measure and report the progress of each country in mitigating climate change. Facing this challenge which threatens human survival, there is no room for delay in response and mitigation. As China's international status in climate change increases and domestic attention to green finance grows, HRIF actively responds to the national development strategy to develop new energy and green finance businesses. In 2017, China Huarong, the holding company of HRIF, identified compliance management and green finance as its major social responsibility issues. In response, the Group will follow its steps and development direction to pay more attention to these two issues.

Rigorous risk management and internal control system help strengthen the Group's ability to adapt to a variety of risks arising from market changes. The Board of Directors is responsible for risk management and taking action to understand, analyse and address these risks. Main sustainability risks faced by the Group include regulatory and compliance risks specific to the financial industry. In this regard, the Group will continue to assess the environmental performance of its clienwwts, tighten client access standards, and strengthen its compliance and enforcement against financial crimes to create a corruption-free environment. If the society fails to switch to a low-carbon economy in a timely manner, the Group will not be immune from the impact. Therefore, it actively explores new energy and green finance businesses and avoids cooperation with high-pollution and energy-intensive businesses.

The Group values the professional skills training and development of its employees and expects them to grow and progress together with the Group to build a better society. We believe that continuous improvement of the skills of our employees is critical to creating value for customers and the community. In face of a rapidly changing market, we will continue to invest in strengthening our talent pool in order to meet new business opportunities.

To fully monitor the Group's sustainability strategies and affairs, the Group is going to establish an ESG Committee comprising of members of the Board and senior management. The ESG Committee leverages the expertise of its members to provide strategies and guidance for different business units, in relation to, in particular, compliance with environmental protection, socioeconomic issues and governance. At the same time, the Group will expand the scale of stakeholder engagement and look into the development of a long-term stakeholder engagement plan to better understand their needs and expectations in order to improve social and environmental performance of the Group in the long run. The Group will also explore various interactive means, such as interviews, focus group discussions and survey, to communicate with stakeholders.

Sustainability Governance

HRIF strives for a high standard of corporate governance and believes that good corporate governance practices are helpful to establish a long-term sustainability strategy, and guides the Group to seize and respond to the opportunities and risks brought about by sustainability. The Board of the Company, comprised of five Directors, is responsible for formulating and monitoring the development of strategy and targets, including policies and measures related to socioeconomic development and environmental conservation.

Under the Group's development direction towards a 'professional asset manager and an outstanding integrated financial services provider', the Board formally passed the Corporate Social Responsibility Policy (the "Policy") in early 2018 to promote sustainability and to ensure that the Group's businesses and operations create values for society and the environment. Implemented by the Board office, the Policy covers four major areas:

- Product responsibility
- Environmental protection
- Employment management
- Community investment

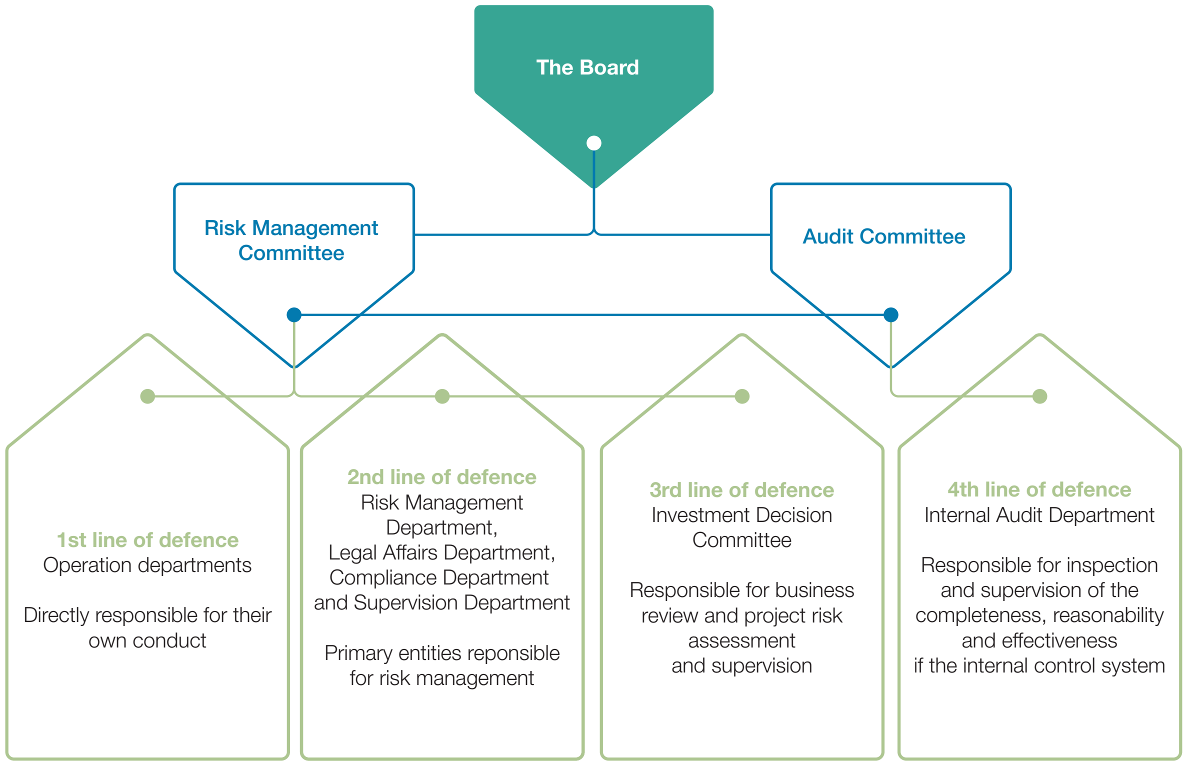
In addition, HRIF values its stakeholders. It is convinced that reliable information disclosure on one hand will help stakeholders understand the Group's efforts and performance in sustainability and on the other hand, it enables stakeholders to provide valuable feedback on the Group's long-term sustainability strategy in the future. The Policy also clearly sets out the Group's commitments and objectives in terms of stakeholder engagement and information disclosure.

Stakeholder engagement	Information disclosure
• Establish different channels to communicate with key stakeholders regularly • Communicate with internal and external stakeholders in a proactive and open manner to understand their concerns on environmental and social issues as well as their expectations of the Group	• Publish an environmental, social and governance report annually in an objective and easy-to-understand manner • Improve information transparency and accountability management to ensure accuracy of information • Announce the Group's effort and performance in sustainable development through electronic newsletters and group webpage columns regularly

To ensure that the Group can effectively implement its sustainability strategy, the Board is going to establish an ESG Committee and formulate its terms of reference to determine its powers, scope of work and resources. The ESG Committee will comprise of Board members and senior management of each core business for further formulation and implementation of the Group's strategies, objectives and actions in relation to product responsibility, environmental protection, employment management and community investment.

Risk Management

HRIF believes that risk management is a crucial constituent of sound day-to-day management and corporate governance. The Board acknowledges its responsibility of monitoring the Group's risk management and internal control systems, and reviewing their effectiveness regularly with the support of the Risk Management Committee and the Audit Committee of the Board. The Audit Committee helps the Board fulfil its role in resource management and corporate governance in relation to the Group's finance, operation, compliance, risk management and internal control, and financial and internal audit function.



During the year, the Group has noted the following major risks in relation to the operations and business of the Group, and has implemented relevant measures to reduce or minimise the Group's risks exposure accordingly:

Risk		The Group's response measures
Financial crime	Economic loss to customers, the Group and society due to corruption, bribery, extortion, fraud and money laundering.	• Establish a series of policy guidelines including the Compliance Manual, the Accepting or Offering Gifts and Benefits Guidelines and Policies and Procedures on Prevention of Money Laundering and Terrorist Financing • Establish reporting policies and procedures to encourage employees and others to report unethical behavior and protect them • Provide relevant training courses to employees

Vision: Improve the assessment and management of environmental and social risks

The Group notes that the current risk management and internal control systems do not fully cover sustainability issues comprehensively. Looking ahead, the Group will include potential environmental and social issues in the risk system in order to identify relevant risks and determine responses in a timely manner.

Encouraging Stakeholder Participation

Understanding and caring for the needs of stakeholders are essential to HRIF in advancing on the journey of sustainability. Stakeholders' feedback guides the Group to identify important environmental, social and governance issues, as well as to manage the relevant risks and opportunities.

HRIF's stakeholders include groups and individuals who have a significant impact on the Group's business or who are subject to the impact of the Group's business. The Group communicated with key stakeholders through a variety of channels, including meetings, workshops and other communicative events, to gather their feedback for continuous improvement of the Group's operation.

Employees

Established an intranet so that employees can access the intranet through computers or phones to learn about new moves of HRIF, such as press release, internal announcements or regulations anytime, anywhere.

Suppliers

Created a list of suppliers of which evaluation will be conducted regularly so that suppliers will adopt the HRIF standards as general guidelines for business operation.

Customers

Understood customers' financial background such as investment experience and investment goals and explained to the clients in the various potential risks of businesses.

Community

Encouraged and arranged employees to participate in volunteering service and understand the community needs.

As in the previous year, the Group commissioned a professional consultant to conduct an in-depth interview with the management during the preparation of this report. The consultant supported the Group to review and confirm three material issues to be the focus of the report as well as the Group's route towards sustainable development.

As stipulated in the Policy, stakeholder engagement helps the Group understand the environmental and social issues of their concern and their expectations of the Group sustainability efforts and performance. In the Year, the Group organised the Chairman's Reception for the first time, in which our chairman held an open discussion with our internal stakeholders to discuss about our Group's operations. Through different forms of meetings, the management took the opportunity to discuss operation strategies, working environment, employee benefits and team activities with employees of different employee ranks.

Vision: Collect the views and suggestions of a broad range of stakeholders

To gain a broader understanding of the opinions of different internal and external stakeholders, HRIF will continuously rejuvenate its engagement strategy to promote interactive exchange with stakeholders via means such as face-to-face interview, focus group discussion and online questionnaire.

Achieve Employee Development

The Group strives to create a pleasant and safe working environment for its employees, to support their development and ensure the protection of fundamental labour rights. The Employee Handbook stipulates the Group's arrangements in compensation and dismissal, recruitment and promotion, working hours, rest periods and other benefits and welfare so that employees are aware of their rights and responsibilities.

Employment and Labour Standards

Compensation and dismissal	Recruitment	Working hours and rest periods
The Group enters into employment contracts with its employees. The contract stipulates the terms of employment, including remuneration, probation period and termination of employment contracts, so that employees are aware of their rights and responsibilities. + During the Year, the Group reviewed the remuneration structure and amended the relevant management policies to provide clearer guidance for employees in terms of remuneration and incentive schemes.	The Group mainly recruits through open recruitment and internal appointments, and has established the relevant recruitment and promotion procedures to prevent conflicts of interest.	The Employee Handbook stipulates the days and hours of work of general staff and full-time staff (including staff of branches and the Securities Support Department). Apart from statutory holidays, all staff are entitled to additional paid leaves depending on their ranks or years of service.

\+ New measures and performance of the Group in the Year

Benefits and welfare	Promotion	Labour standards
The Group annually distributes non-contractual bonuses based on overall performance and profits to reward employees' contributions. In addition, the Group organises monthly birthday parties and various leisure activities to encourage employees to balance work and life.	The Group adopts a ranking system which sets out the rank structure. Promotion is based on staff performance, ethics, ethics, conduct and qualifications.	The Group has in place an internal employment procedure to require the Human Resources Department to review the applicant's identification documents and other age verification records to prevent child labour. The Group enters into employment contracts with its employees with clear employment terms to ensure that all employees are voluntarily employed. The Employee Handbook stipulates the working hours of employees and arrangement of overtime work.
+ During the Year, the Group increased the amount of transportation allowance to improve employee welfare protection. Besides, the Group organised leisure activities such as visit to Lion's Nature Education Centre in Sai Kung and hiking to Victoria Peak.	++ The Group will include review of the promotion procedure in the working plan of next year to improve the rank structure and optimise the human resources structure.	++ The Group will review the effectiveness of the relevant measures comprehensively and provide employees with a detailed policy guidelines on the prevention of child labour and forced labour.
Anti-discrimination	**Equal opportunities**	**Diversity**
The Employee Handbook stipulates the legal definition of sexual harassment and the handling procedures. The Group has formulated the reporting policies to allow employees to report any suspected misconduct.	The Group adopts the compensation system of equal pay for equal work.	The Board Diversity Policy sets out the approach to achieve diversity of the Board. + During the Year, the Group reviewed its performance in relation to anti-discrimination, equal opportunities and diversity to ensure the effectiveness and execution of the policies. ++ Looking ahead, the Group will further provide employees with clear guidance and appropriate courses to continuously maintain a harmonious, equal and inclusive work atmosphere.

\+ New measures and performances of the Group in the Year

++ Future plan of the Group

Total workforce	Male to female ratio	Employee turnover rate
2018 — 87 2017 — 142	2018 — 0.98:1 2017 — 1.18:1	2018 — 62% 2017 — 29%

During the Year, HRIF hired 87 employees. The male to female employee ratio reduced to 0.98:1, which reflects the effective execution of the Group's policies on diversity and equal opportunities. In terms of employee turnover, upholding its goal of building an elite and efficient team, the Group will continue to improve the human resource management system to enhance its competitiveness to attract and retain talents and establish a stable and sufficient pool of professional talents.

Development and Training

HRIF actively invests in the establishment of a quality training and learning environment in order to support employees in continuous development at different stages of their careers. The Staff Training Management Methods stipulates that the Group must establish a sound training system based on the operation and the needs of its employees. The Group provides a series of training courses for employees, including new employee training, professional training and management training. In addition, the Group provides additional study allowances for employees, to encourage them to enroll in degree programs and various professional qualification training to obtain professional qualifications. During the year, the Group provided the following training programs to its staff:

New Employee Training

The Group organised new employee training, where the Chairman made an introduction of the Group and its corporate culture. The Chairman also conducted teaching on career planning and development to help new employees adapt to the work environment and be engaged in their jobs.

Professional Training

The Group arranged a variety of specific internal training for employees, including training seminars on policies and procedures of employee transactions and proprietary trading, as well as training seminars on new regulations for asset management to help employees improve their professional skills and capabilities.

The Group also invited the directors of Guotai Junan Securities (Hong Kong) Co., Ltd. to discuss business opportunities for overseas investment banking opportunities under the new regulations to enhance the professional knowledge of the relevant business department.

Management Training

For senior management and middle-level employees, the Group arranged training on the governance of listed companies during the Year to ensure clear understanding of the relevant requirements to improve the level of governance within the Group.

To ensure that employees have sufficient room for development and support from their immediate supervisors, the Employee Handbook provides that the Group regularly conducts performance evaluations with employees. By assessing employees' performance in the Year, department heads and staff can discuss the difficulties and career development opportunities at work in an open and sincere attitude.

Health and Safety

HRIF focuses on employee safety and health management. To create a safety-friendly working environment, the Group deploys quality and safe office equipment and provides safety training courses to its employees. The Employee Handbook stipulates that the Group purchases employee compensation insurance and medical insurance for all employees to provide protection for treatment of work-related injuries and illness. In the Year, management of the Group decided to further enhance the employee medical insurance scheme and select the most suitable plan for employees by considering factors such as price, service and scope of protection.

To improve employees' health, the Group conducted regular health checkups, health talks and recreational activities so that employees are aware of their health statuses and develop enhanced health awareness. In addition to physical health, the Group also pays attention to employees' mental health. During the Year, the holding company of HRIF, China Huarong hired a professor of the Faculty of Psychology from Beijing Normal University to give a lecture on mental health knowledge. HRIF employees also participated in the event.

During the Year, the Group has complied with the relevant laws and regulations that have a significant impact on the Group, including but not limited to the Employment Ordinance, the Occupational Safety and Health Ordinance and the Employees' Compensation Ordinance. There were no cases of non-compliance in relation to employment, health and safety, child labour, forced labour and other labour standards. There was also no work-related injury or fatality or lost days due to work injury recorded.

Vision: Understand employees' need for development

Looking ahead, the Group will regularly review the implementation of the Employee Handbook to ensure its relevance and effective execution. At the same time, to understand employees' need for development and training more comprehensively, the Group will collect employee opinion for future training planning through public research and opinion collection.

Responsible Operation

HRIF treats every customer, supplier and other partners with integrity, respect and accountability. As a provider of financial services, the Group attaches great importance to the observance of business ethics and the quality of the financial products and services provided. Therefore, it formulated a range of policies in relation to anti-corruption, product responsibility and supply chain management. It is dedicated to establishing a sound and effective internal control system to ensure a high standard of business ethics in the Group's operations and to maintain a fair and just market environment at the same time.

Anti-corruption

To maintain a fair, ethical and efficient business and working environment, HRIF prohibits any form of corruption, bribery, extortion, fraud and money laundering.

During the year, the Group revised and improvised relevant policies, reporting mechanisms and provided training to employees to enhance the Group's control and compliance with anti-corruption rules and regulations.

Policy formulation

- The Group formulated policies including the Compliance Manual and the Accepting or Offering Gifts and Benefits Guidelines, which list the basic standards and guidelines adopted by the Group to prohibit, identify and handle any actual or suspectedbribery or corruption. All employees of the Group must abide by and implement these policies.
- The Group's Employee Handbook also stipulates that employees must abide by basic disciplinary standards including the prevention of conflict of interests. Where conflict of interests may result, employees should notice the Company's directors in writing with the Application for Gift-Giving Form.

Reporting mechanism

- The Group has adopted a specific reporting mechanism in the Whistleblowing Policy to encourage internal and external individuals to report any suspected inappropriate behaviour or misconduct to the Internal Audit Department.
- The Internal Audit Department informs the Regulatory Director or the Audit Committee the commencement of investigation. It will regularly summarise cases reported and submit them to the Audit Committee for quarterly review.
- The Group established a whistleblower protection mechanism to keep the identify of whistleblowers confidential. It undertakes to protect the whistleblower from inappropriate treatment as a result of the whistleblowing.

Communication and training

- To improve employees' anti-corruption awareness, the Group's Compliance Department held a total of three anticorruption internal trainings for all employees this year.
- The Group established internal communication channels to inform employees of cases of non-compliance discovered by China Huarong's subsidiaries in mainland China and provide relevant information such as updates and amendments to the laws and regulations.

The Group is also committed to combating money laundering and terrorist financing, and actively cooperates with local and international standards and requirements. It formulated the Policies and Procedures on Prevention of Money Laundering and Terrorist Financing to strengthen the internal system and monitoring measures of the Group and provide employees with policy guidance. On this basis, during the Year, HRIF established an online reporting procedure to guide employees to report suspicious activities, large cash deposits and third party transactions in a timely manner with the Suspicious, Large Transaction, Third Party Transaction Deposit and Withdrawal Procedure. The Group further emphasises protection and support of the whistleblower in the online reporting procedure.

Any employee who is found to be in violation of the Company's disciplinary code and policies is subject to disciplinary action and could be dismissed. If the Group suspects that the violation involves corruption or other criminal offences, the case will be reported to the Independent Commission Against Corruption or the relevant authorities. The Group complies with the relevant laws and regulations with respect to anti-corruption including the Anti-Money Laundering and Counter-Terrorist Financing Ordinance and the Prevention of Bribery Ordinance. During the Year, the Group and its employees were not brought or investigated against any litigation of bribery, financial crime or corruption.

Product Responsibility

To maintain the trust and support of customers, HRIF is committed to providing reliable and high-quality financial products and services, and offering sufficient information in an accurate and open manner to enable customers to make informed choices. The Group developed the Compliance Manual to require all employees to abide by the Code of Conduct for Persons Licensed by or Registered with the Securities and Futures Commission in conducting regulated financial businesses. Employees are also obliged to remind the senior management to pay attention to behaviour that actually or potentially violates the laws and regulations and internal policy procedures. The Compliance Manual also stipulates that, in conducting any advertising activities promoting activities, employees must obtain the approval of the head of licensing, the Compliance Department and the Internal Audit Department, to make sure that no false, fraudulent or misleading information is contained.

The Group complies with the Personal Data (Privacy) Ordinance, and will only collect and use customer personal data in a reasonable manner when needed and in accordance with the procedures required by the Removal Date (Privacy) Ordinance. The collection is mainly restricted to legal purposes, which will be communicated to the data provider during the collection. The Group also signed confidentiality agreements with customers to protect their business secrets, and provide guidelines to employees in the Employee Handbook, to state the importance of protecting customer privacy and the security of personal data.

In order to further strengthen the Group's information security and properly protect the personal data of customers, HRIF adopts professional terminal security protection systems to continuously strengthen technical protection. At the same time, the Group formulated the Information Technology Risk and Information Security Management Methods to regulate the application management of information security systems and related facilities, and provide employees with guidance on operation. The Group has also set up an Information Technology Management Committee to lead the Information Technology, Risk Management and Audit departments to implement the Group's information technology risk assessment, security review and operational maintenance measures to strengthen information security protection and protect customer rights.

In addition, in response to information security incidents and to ensure business continuity, the Group regulates the monitoring, reporting, warning, handling and rectification processes of incidents, establishes the Information Technology Continuity Management System and formulates the Information Technology Continuity Plan to strengthen the continuity management of the information system.

HRIF complies with the relevant laws and regulations with respect to product responsibility including the Personal Data (Privacy) Ordinance and other relevant laws and regulations relating to the Groups' regulated financial businesses as licensed or registered with the Securities and Futures Commission including the Securities and Futures Ordinance. During the Year, there were no cases of non-compliance in relation to product responsibility.

Supply Chain Management

HRIF values the risk management of suppliers and actively encourages suppliers to be environmentally and socially responsible. The Group has formulated the Procurement Management Methods that prescribes the standards and process of procurement of office resources. Checks on suppliers' conflict of interests will be conducted to prevent corruption and misconduct in the process of procurement. HRIF created a list of suppliers and conduct annual performance review of key suppliers. Suppliers that fail to meet the expectations and requirements of the Group will be removed from the list.

Vision: Enhance supply chain risk management

In the future, the Group will continue to enhance supply chain management and establish a risk assessment process covering environmental, social and governance issues such as environmental management, use of resources, occupational health, child labour and forced labour, ethical standards and business integrity, to identify the environmental and social risks of suppliers. Those issues, where applicable, will also be covered in the contract to ensure the suppliers understand the Group's requirements and expectations.

Environmental Management

As a responsible financial institution, environmental sustainability is one of the key concerns of the Group in fulfiling its corporate social responsibility. HRIF began with itself to reduce negative environmental impacts of its business operations through the implementation of the Policy. At the same time, guided by the Equator Principles, the Group also intends to utilise its financial expertise and influence to assist in transforming and upgrading the industry to reduce environmental risks.

Energy Use and Greenhouse Gas Emissions

In recent years, global warming leads to rising risks of climate anomalies, which pose a negative impact on the global ecological environment and economy. In face of the issue of climate change, 17 Sustainable Development Goals were passed by the United Nations in 2015, one of which focuses on climate actions to call for global and corporate adoption of emergency actions to mitigate climate change and its impact.

Greenhouse Gas Emissions
326 tonnes of CO_2-e
(-10.3%)

Energy Consumption
376,000 kWh
(-13.0%)

HRIF began to record its greenhouse gas emissions since 2017 and was active in formulating and launching multiple energy saving and emission reducing initiatives. During the Year, HRIF reduced greenhouse gas emissions by 10% compared to last year by reducing electricity consumption in office and managing business travel. Greenhouse gas produced by the consumption of gasoline and electricity reduced by 23% and 9% respectively. Scope 1 and 2 greenhouse gas emissions also reduced accordingly. Besides, the Group reduced its business travel by air during the Year and thus the corresponding greenhouse gas emissions also dropped by 15% compared to last year.

Greenhouse Gas Emissions

Scope	2018 total emissions	2017 total emissions
Scope 1: Direct greenhouse gas emissions *(tonnes of CO_2-e)*	41	53
Scope 2: Energy indirect greenhouse gas emissions *(tonnes of CO_2-e)*	180	196
Scope 3: Other indirect greenhouse gas emissions *(tonnes of CO_2-e)*	105[1]	114[2]
Total *(tonnes of CO_2-e)*	326	363
Greenhouse Gas Intensity *(tonnes of CO_2-e/square feet floor area)*	0.01	0.01
Greenhouse Gas Intensity *(tonnes of O_2-e/number of employees)*	3.74	2.56

Notes:

1 Includes greenhouse gases indirectly generated by waste paper disposal and employee business travel of the Group's Head Office in Pacific Place, Sheung Wan Branch and Mong Kok Branch, as well as the water use and sewage discharge of the Sheung Wan Branch.

2 Includes greenhouse gases indirectly generated by waste paper disposal and employee business travel of the Group's Head Office in Pacific Place, Sheung Wan Branch and Mong Kok Branch.

Air pollutant emissions

Type	2018 total emissions *(kg)*	2017 total emissions *(kg)*
Nitrogen Oxides (NO_x)	0.22	0.29
Sulphur Oxides (SO_x)	3.20	10.44[3]
Respirable Suspended Particulates (RSP)	0.24	0.77[3]

Note:

3 Emissions of SOx and RSP during the reporting period are calculated with the mileage estimated according to Transport — Energy Utilisation Index of the Electrical and Mechanical Services Department.

Environmental management measures

Record environmental data	• The Group continued to commission a professional sustainability consultant to conduct carbon assessment during the Year to quantify its greenhouse gas emissions produced by its operations. The quantification was carried out according to the Guidelines[4] compiled by the Environmental Protection Department and Electrical and Mechanical Services Department of Hong Kong, and with reference to international standards such as ISO14064-1 and the Greenhouse Gas Protocol. • The assessment results showed that 55% of the Group's greenhouse gas emissions were generated from the electricity consumption in Scope 2.
Formulate and implement measures	• The Group promotes the use of environmental technologies such as LED lights and automatic light switch devices at the Head Office in Pacific Place, and plans to expand the scope of installation to other branches in the next year. • Promote electronic and mobile office to reduce paper consumption. • Encourage car sharing to reduce emission of greenhouse gases in vehicle use; at the same time, reduction in mileage also helps reduce emission of air pollutants.
Review results and set objectives	• Compared with 2017, in the Year, the Group saved 13% of energy and reduced its greenhouse gas emissions by 10%. In terms of air pollution, it reduced Sulphur Oxides (SO_x) emissions by 24%, and Nitrogen Oxides (NO_x) and respirable suspended particulates emissions by 69%. • The Group will continue to assess, record and annually disclose its greenhouse gas emissions and other environmental data, review the effectiveness of existing measures to facilitate the development of carbon reduction targets and work plans in the future.

Note:

4 Guidelines to Account for and Report on Greenhouse Gas Emissions and Removals for Buildings (Commercial, Residential or Institutional Purposes) in Hong Kong.

Resource Use and Waste Management

The Group is committed to waste reduction by reducing resource consumption, reuse and recycling. At the same time, the Group also implemented measures such as water conservation and paper saving to improve environmental performance.

Non-hazardous waste^	Use of water resources*	Paper consumption
0.15 tonnes	13,980 cubic metres	5.01 tonnes

Notes:

^ Includes waste paper recycled in the Sheung Wan Branch only.

* Includes water consumption of the Sheung Wan Branch only.

The Group's operation involves heavy use of documents. To reduce the use of paper, the Group adopts an electronic office system, and announces environmental protection initiatives to employees from time to time to improve employees' awareness of paper saving and encourage them to opt for electronic communication whenever possible, reduce printing, and control the number of paper documents to a reasonable level.

In order to reduce waste, the Group has started an office recycling program during the Year to guide employees in sorting and recycling of waste paper, batteries and plastic bottles, and plans to quantify the recycling results in the future to review the effectiveness of the measures. The key source of HRIF's emission of waste was office waste produced by the Head Office and branches. HRIF hired a property management company to collect and handle non-hazardous office waste in standardised procedures. The small amount of hazardous waste generated in office operations, such as waste ink cartridge, was handled by a qualified recycling company commissioned by the Group.

For the use of water resources, HRIF promotes water-saving habits to employees through internal communication, and regularly evaluates water devices to prevent dripping. In the Year, an independent water metre was installed in the Group's Sheung Wan office to record and monitor water consumption. The Group plans to take measures to review the water consumption data of the Head Office and the Mong Kok Branch in the next reporting year to set a water saving target.

The Group complies with the relevant laws and regulations with respect to environmental emissions and waste management including the Air Pollution Control Ordinance and the Waste Disposal Ordinance. There were no cases of non-compliance in relation to waste management, emissions and environment in the Year. Detailed year-to-year analysis and review of generation of hazardous waste will be conducted next year with the aim of enhancing the Group's overall environmental management.

Green Finance Development Plan

HRIF understands that its day-to-day office operation does not have significant direct impact to the environment and the natural resources. Nevertheless, as a financial institution, the Group can promote the development of green finance and reduce the negative impact of the business value chain on the environment and natural resources.

To combat the severe challenges of climate change, the Chinese government encourages the development of green industries and the elimination of backward production capacity. In response to the national policies on production capacity adjustment and green development, HRIF established the Project Entry Assess Guidelines which reduces the scale of credits of traditional manufacturing industries with high energy consumption, high pollution and overcapacity, as well as industries that are subject to the dual constraints of the environment and resources or greatly affected by industrial upgrading and environmental protection policies. While strictly controlling lendings to industries burdened with high pollution, high energy consumption and overcapacity, HRIF actively promotes green finance and invests in emerging green industries such as new energy.

Vision: Promote sustainable financial services

Looking forward, the Group will regularly review and update the Project Entry Assess Guidelines to continue to enhance the assessment of client environmental and social risks during the credit granting procedure, in order to include various sustainability standards in investment decisions more comprehensively.

Community Investment

Enterprises are rooted in society, and giving back to society is the responsibility of the Company. HRIF fulfils its social responsibilities by stating the Group's commitment to community investment in the Policy. They include paying attention to people's livelihood and the economic development in poverty-stricken areas, continuously encouraging and arranging employees to contribute to the communities in need through volunteer services and charitable fundraising activities.

The Group's holding company China Huarong began its fixed-location poverty relief project in Xuanhan County of Sichuan since 2002 and established an agriculture poverty relief fund to assist the agricultural development in poverty-stricken villages. HRIF actively participated in the sector-specific poverty relief project of its holding company. During the Year, the Group arranged employees to purchase agricultural produce from Xuanhan County. About 25 employees spent RMB7,500 on local produce (rice, walnut, herbal medicine and pork) in contribution towards poverty relief.

Vision: Continue to support community development

Looking ahead, the Group will continue to pay attention to the needs of the communities where it operates, focusing on its own financial services and technologies, and organising diversified community investment projects to bring positive impacts to social development.

KPI Summary

Environmental Performance

Air emissions

Type	Annual Emissions in 2018 *(kg)*	Annual Emissions in 2017 *(kg)*
Nitrogen Oxides (NO_x)	0.22	0.29
Sulphur Oxides (SO_x)	3.20	10.44[5]
Respirable Suspended Particulates (RSP)	0.24	0.77[5]

Greenhouse gas emissions

Scope	Annual Emissions in 2018 *(tonnes of CO2-e)*	Annual Emissions in 2017 *(tonnes of CO2-e)*
Scope 1: Direct emissions	41	53
Scope 2: Energy indirect emissions	180	196
Scope 3: Other indirect emissions	105[6]	114[7]
Greenhouse gas emissions in total	326	363
Greenhouse gas intensity (tonnes of CO_2-e/square feet floor area)	0.01	0.01
Greenhouse gas intensity (tonnes of CO_2-e/number of employees)	3.74	2.56

Non-hazardous waste

Type	Annual Emissions in 2018 *(tonnes)*	Annual Emissions in 2017 *(tonnes)*
Non-hazardous waste[8]	0.15	3.8
Non-hazardous waste intensity *(tonnes/square feet floor area)*	0.00003	0.00013
Non-hazardous waste intensity[9] *(tonnes/number of employees)*	0.002	0.027

Notes:

5 Emissions of SOx and RSP during the reporting period are calculated with the mileage estimated according to Transport-Energy Utilisation Index of the Electrical and Mechanical Services Department.

6 Includes greenhouse gases indirectly produced by the waste paper disposal and employee business travel in the Head Office in Pacific Place, the Sheung Wan Branch and Mong Kok Branch and water use and sewage discharge of the Sheung Wan Branch.

7 Includes greenhouse gases indirectly produced by the waste paper disposal and employee business travel in the Head Office in Pacific Place, the Sheung Wan Branch and Mong Kok Branch.

8 Data of the reporting period includes the paper recycled in the Sheung Wan Branch; data of 2017 includes the domestic waste produced in the Head Office in Pacific Place, the Central Branch (until May 2017 before moving to Sheung Wan), the Sheung Wan Branch and the Mong Kok Branch.

9 Due to staff adjustment in the Head Office in Pacific Place, the Sheung Wan Branch and Mong Kok Branch, notwithstanding that data of non-hazardous waste and total water consumption only cover the Sheung Wan Branch, the intensity is calculated with the total number of employees.

Energy

Type	Annual Consumption in 2018 *(1,000kWh)*	Annual Consumption in 2017 *(1,000kWh)*
Gasoline	138	171
Electricity	238	261
Total energy consumption	376	432
Energy intensity *(1,000 kWh/square metre floor area)*	0.01	0.01
Energy intensity *(1,000 kWh/number of employees)*	4.32	3.04

Water consumption

Type	Annual Consumption in 2018 *(cubic metre)*[10]	Annual Consumption in 2017 *(cubic metre)*[11]
Total water consumption	36,859	Data unavailable
Water intensity *(cubic metre/square feet floor area)*	2.74	–
Water intensity[9] *(cubic metre/number of employees)*	160.69	–

Social Performance

Total workforce

Gender	Rank	Age group: Below 30	30–50	Over 50	Total	Male to female ratio in 2018	Male to female ratio in 2017
Male	Senior managerial level	0	2	2	87	0.98:1	1.18:1
	General staff	4	32	3			
Female	Senior managerial level	0	1	0			
	General staff	14	23	6			

Notes:

9 Due to staff adjustment in the Head Office in Pacific Place, the Sheung Wan Branch and Mong Kok Branch, notwithstanding that data of non-hazardous waste and total water consumption only cover the Sheung Wan Branch, the intensity is calculated with the total number of employees.

10 Since a separate water metre is not installed in the Head Office in Pacific Place and Mong Kok Branch, and the property management company was unable to provide information, the relevant data was unavailable.

11 Since a separate water metre is not installed in the Head Office in Pacific Place, Sheung Wan Branch and Mong Kok Branch, and the property management company was unable to provide information, the relevant data was unavailable.

Number of new employees

Gender	Rank	Age group Below 30	30–50	Over 50	Total	New employee rate in 2018	New employee rate in 2017
Male	Senior managerial level	0	2	1	16	18%	41%
	General staff	0	4	0			
Female	Senior managerial level	0	1	0			
	General staff	5	3	0			

Employee turnover

Gender	Rank	Age group Below 30	30–50	Over 50	Total	Employee turnover rate in 2018	Employee turnover rate in 2017
Male	Senior managerial level	0	2	2	71	62%	29%
	General staff	9	27	5			
Female	Senior managerial level	0	0	1			
	General staff	9	16	0			

Employee salary ratio

Rank	Female to male salary ratio in 2018		Female to male salary ratio in 2017
Senior managerial level	0.8:1	0.7:1	0.7:1
General staff	0.7:1		

ESG Reporting Guide Content Index

Material Aspect	Content	Page Index/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.	70–73
A1.1	The types of emissions and respective emissions data	75
A1.2	Greenhouse gas emissions in total and intensity	75
A1.3	Total hazardous waste produced and intensity	The Group did not regularly measure the production of hazardous waste during the Year. The data will be disclosed in the next Year.
A1.4	Total non-hazardous waste produced and intensity	75
A1.5	Description of measures to mitigate emissions and results achieved	70, 72
A1.6	Description of how hazardous and non-hazardous wastes are handled, reduction initiatives and results achieved	73
A2 Use of Resources		
General Disclosure	Policies on the efficient use of resources, including energy, water and other raw materials.	70–73
A2.1	Direct and/or indirect energy consumption by type in total and intensity	76
A2.2	Water consumption in total and intensity	76
A2.3	Description of energy use efficiency initiatives and results achieved	72
A2.4	Description of whether there is any issue in sourcing water that is fit for purpose, water efficiency initiatives and results achieved	No issue in sourcing water that is fit for purpose in operations.
A2.5	Total packaging material used for finished products and with reference to per unit produced	No packaging material was used in operations.

Material Aspect	Content	Page Index/Remark
A3 The Environment and Natural Resources		
General Disclosure	Policies on minimising the issuer's significant impact on the environment and natural resources.	74
A3.1	Description of the significant impacts of activities on the environment and natural resources and the actions taken to manage them	74
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.	63–64
B1.1	Total workforce by gender, employment type, age group and geographical region	76
B1.2	Employee turnover rate by gender, age group and geographical region	77
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.	66
B2.1	Number and rate of work-related fatalities	66
B2.2	Lost days due to work injury	66
B2.3	Description of occupational health and safety measures adopted, how they are implemented and monitored	66
B3 Development and Training		
General Disclosure	Policies on improving employees' knowledge and skills for discharging duties at work. Description of training activities.	65–66
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.	64

Material Aspect	Content	Page Index/Remark
B5 Supply Chain Management		
General Disclosure	Policies on managing environmental and social risks of the supply chain.	69
B5.2	Description of practices relating to engaging suppliers, number of suppliers where the practices are being implemented, how they are implemented and monitored	69
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.	68–69
B6.5	Description of consumer data protection and privacy policies, how they are implemented and monitored	68–69
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.	67–68
B7.1	Number of concluded legal cases regarding corrupt practices brought against the issuer or its employees during the Year and the outcomes of the cases	68
B7.2	Description of preventive measures and whistle-blowing procedures, how they are implemented and monitored	67–68
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.	74
B8.1	Focus areas of contribution	74

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 88 to 226, which comprise the consolidated statement of financial position as at 31 December 2018, and the consolidated statement of profit or loss, and the 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 2018, 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">Adoption of HKFRS 9 "Financial Instruments" ("HKFRS 9") on the application of Expected Credit Loss ("ECL") Model on advances to customers in margin financing, other loans and receivables, amount due from an associate (collectively referred to "Loans and Advances") and debt investments classified as financial assets at fair value through other comprehensive income ("Debt Investment Securities")</td></tr>
<tr><td>We identified the impairment of Loans and Advances and Debt Investment Securities arising from the application of the ECL Model upon the adoption of HKFRS 9 as a key audit matter due to the significant judgement and estimation by management to determine the ECL amount at the reporting date.

As detailed in note 4 to the consolidated financial statements, the ECL measurement involves significant management judgement in (i) the selection of appropriate models and key inputs used in the ECL model, including the probability of default ("PD") and loss given default ("LGD"), and (ii) the selection and use of reasonable and supportable forward-looking information without undue cost or effort in the ECL model to estimate the future movement of different economic drivers and how these drivers will affect each other and the correlation with the key inputs, including PD and LGD.

The management further assesses whether there has been a significant increase in credit risk ("SICR") for exposures since initial recognition. If there has been a SICR, the Group will measure the loss allowance based on lifetime ECL rather than 12-month ECL. In assessing whether the credit risk of an asset has significantly increased, the Group takes into account qualitative and quantitative reasonable and supportable forward-looking information with significant judgments involved.</td><td>Our procedures in relation to the impairment of Loans and Advances and Debt Investment Securities arising from the application of the ECL Model upon the adoption of HKFRS 9, included:

• Understanding the Group's established credit risk policies and procedures for impairment assessment in relation to the application of ECL model under HKFRS 9, including model set up and approval and selection and application of assumptions and key inputs into the model;

• Assessing the reasonableness and appropriateness of the management's judgement on staging criteria for determining if SICR has occurred (stage 1 or 2) or the financial asset is credit-impaired (stage 3) and the basis for classification of exposures into the 3 stages as required by HKFRS 9 and examining supporting documents on a sample basis to assess the appropriateness of the classification of loan exposures as at the end of the reporting period;

• Evaluating, together with our internal valuation experts, the reasonableness and appropriateness of the ECL models and assumptions, information and parameters used in the model in establishing the forward looking factors, and the relationship between the forward looking factors and the key inputs, including PD and LGD, in the ECL model to determine the impairment loss of Loans and Advances and Debt Investment Securities in stages 1 or 2; and

• Testing the accuracy and completeness of key data sources applied in the ECL computation on a sample basis by checking to the Group's supporting documents, such as the relevant loan files and external data sources, as applicable.</td></tr>
</table>

Key audit matter	How our audit addressed the key audit matter
In assessing the lifetime ECL on credit-impairment financial assets classified as stage 3, the Group performs the assessment based on (i) the Group's historical credit loss experience, adjusted for factors that are specific to the debtors or borrowers which include any significant financial difficulty of the debtors or borrowers, breach of contract or probability that the debtors or borrowers will enter bankruptcy and the status and progress of financial restructuring, (ii) general economic conditions and (iii) both the current conditions at the reporting date as well as the forecast of future conditions with significant judgments involved. The Group also reviews the fair value of the collateral received from the customers in determining the impairment. 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. The total gross amount of (i) debt investments classified as financial assets at fair value through other comprehensive income, (ii) amount due from an associate, (iii) other loans and receivables and (iv) advances to customers in margin financing as at 31 December 2018 are HK$5,625 million, HK$330 million, HK$6,614 million, and HK$4,471 million less impairment loss of HK$21.4 million, HK$9.8 million, HK$343 million and HK$399 million respectively. Please see notes 21, 22, 23, 24 and 45 to the consolidated financial statements.	For the Loans and Advances classified as stage 3, our procedures included: • Corroborating and challenging management's assessment and expectation of reasonably possible outcomes on the recoverability of the loan to the borrower and the estimated fair value and future cash flows from the collaterals against our understanding of the circumstances and our industry knowledge from reading public announcements and other externally available information on a sample basis; • Assessing the reasonableness and appropriateness of the management's key estimations and assumptions used in the individual impairment assessment for the estimated future cash flows from borrowers on a sample basis. • Examining the estimated future cash flows and the fair value of collaterals together with our own internal experts, where necessary, including: — Obtaining the appraisal reports and assessing the competence and independence of the third party professional valuers and their experience in conducting valuation of similar financial instruments or assets. — Assessing whether the selection of the valuation methodology is appropriate for the collaterals; — Assessing the reasonableness of the assumptions and judgements used by management in determining the current status and future development of the collaterals against publicly available information and other information from related external parties, if any; and — Evaluating the appropriateness of key inputs used in the valuation of the collateral by independently checking to the external data.

Key audit matter	How our audit addressed the key audit matter
Valuation of Level 3 financial instruments	
We identified the valuation of Level 3 financial instruments as a key audit matter due to the significance of the judgement and estimates made by management and the subjectivity in the determination of Level 3 fair value given the lack of availability of market-based data. In particular, areas such as credit risk of the counterparties, which include any (i) significant financial difficulty of the borrower, (ii) breach of contract or probability that the borrower will enter bankruptcy and (iii) the status and progress of financial restructuring, required management to make significant estimates and judgment when determining the fair value. The total fair value of financial assets at fair value through profit or loss classified as Level 3 HK$7,286 million as at 31 December 2018 as disclosed in note 44 to the consolidated financial statements.	Our procedures in relation to the 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; • Understanding the valuation techniques and the processes performed by the management or third party qualified valuers and the management's review process of the work of the third party qualified valuers; • Discussing with management, together with our own internal valuation experts, where necessary, the valuation of the Level 3 financial instruments, and: (i) obtaining the appraisal reports and assessing the competence and independence of the third party professional valuers; and their experience in conducting valuation of similar financial instruments; (ii) Evaluating the appropriateness of the valuation methodologies and assumptions based on the industry knowledge; or (iii) Evaluating the appropriateness of the key inputs by independently checking to the external data; or by evaluating the rationale of management's judgement on the key inputs by considering the publicly available information and other available information from related external parties; or by performing sensitivity analysis with reference to available market information, to evaluate the reasonableness of the valuation, where appropriate.

Key audit matter	How our audit addressed the key audit matter
The structure of certain fund investments and loan arrangements, and their valuation and related recoverability	
We identified the above matter which is described in note 2 to the consolidated financial statements as a key audit matter due to its potential impact on the consolidated financial statements.	In relation to this matter, we obtained audit evidence to support our conclusions including by reviewing the procedures and the results of the internal investigation, assessing the Company's protective measures and evaluating the Company's assessment of the impact of this matter on the consolidated financial statements.

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 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 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.

- 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 Chong Kwok Shing.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong

27 March 2019

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the year ended 31 December 2018

	NOTES	2018 HK$'000	2017 HK$'000
Revenue			
Commission and fee income	7	**201,413**	472,900
Interest income	7	**1,714,942**	1,340,733
Investment income	7	**355,200**	209,397
		2,271,555	2,023,030
Net (losses) gains on financial assets at fair value through profit or loss		**(1,347,321)**	756,502
Net loss arising from disposal of financial assets at fair value through other comprehensive income		**(55,629)**	–
Gain on disposal of available-for-sale investments		**–**	55,358
Other income and gains or losses, net	7	**(4,345)**	(144,210)
Brokerage and commission expenses		**(15,953)**	(10,375)
Administrative and other operating expenses		**(225,845)**	(288,907)
Net gain on deemed disposal of a joint venture entity	22	**–**	200,705
Net gain (loss) on disposal of subsidiaries	39	**5,435**	(292)
Impairment losses, net of reversal	8	**(522,042)**	(170,671)
Finance costs	10	**(1,683,892)**	(1,158,237)
Share of result of associates	22	**19,444**	1,126
(Loss) profit before tax	9	**(1,558,593)**	1,264,029
Income tax credit (expense)	13	**76,454**	(258,386)
(Loss) profit for the year		**(1,482,139)**	1,005,643
(Loss) profit for the year attributable to:			
Owners of the Company		**(1,548,222)**	964,093
Holder of perpetual capital securities		**66,083**	41,550
		(1,482,139)	1,005,643
Basic (loss) earnings per share	15	**HK$(43.14) cents**	HK27.06 cents

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2018

	NOTES	2018 HK$'000	2017 HK$'000
(Loss) profit for the year		**(1,482,139)**	1,005,643
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)
Reclassification adjustments relating to disposal of available-for-sale investments during the year	20	**–**	(55,358)
Fair value loss on financial assets at fair value through other comprehensive income	21	**(426,153)**	–
Reclassification adjustments relating to disposal of financial assets at fair value through other comprehensive income during the year	21	**55,629**	–
Exchange differences on translation of foreign operations:			
Exchange differences arising from subsidiaries during the year		**(6,421)**	10,458
Exchange differences on translation of financial statements of associates		**(938)**	477
Other comprehensive expense for the year, net of tax		**(377,883)**	(49,462)
Total comprehensive (expense) income for the year		**(1,860,022)**	956,181
Total comprehensive (expense) income for the year attributable to:			
Owners of the Company		**(1,926,105)**	914,631
Holder of perpetual capital securities		**66,083**	41,550
		(1,860,022)	956,181

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2018

	NOTES	2018 HK$'000	2017 HK$'000
Non-current assets			
Property and equipment	16	**13,301**	22,027
Other long term assets	17	**4,327**	5,250
Intangible assets	18	**3,316**	3,316
Financial assets at fair value through profit or loss	19	**1,719,076**	4,896,282
Available-for-sale investments	20	**–**	7,611,244
Financial assets at fair value through other comprehensive income	21	**2,716,175**	–
Other loans and receivables	23	**291,434**	5,153,625
Investments accounted for using the equity method	22	**36,694**	18,665
Amount due from an associate	22	**318,838**	1,532,328
Deferred tax assets	32	**110,990**	8,522
Prepayments, deposits and other receivables	26	**11,417**	20,478
Total non-current assets		**5,225,568**	19,271,737
Current assets			
Advances to customers in margin financing	24	**4,072,424**	4,948,219
Accounts receivable	25	**160,347**	79,154
Interest receivable	26	**16,872**	184,435
Prepayments, deposits and other receivables	26	**88,240**	152,779
Contract assets		**9,808**	–
Financial assets at fair value through profit or loss	19	**13,697,120**	4,221,431
Available-for-sale investments	20	**–**	7,034,309
Financial assets at fair value through other comprehensive income	21	**2,908,508**	–
Other loans and receivables	23	**5,979,776**	4,149,535
Amount due from an associate	22	**1,720**	11,735
Tax recoverable		**65,164**	–
Restricted bank balances	27	**396,500**	848,591
Pledged bank deposits	28	**–**	1,898,063
Cash and cash equivalents	28	**2,401,797**	3,524,781
Total current assets		**29,798,276**	27,053,032

	NOTES	2018 HK$'000	2017 HK$'000
Current liabilities			
Accounts payable	29	**2,269,848**	3,758,807
Other liabilities, payables and accruals	30	**401,108**	454,578
Contract liabilities		**38,511**	–
Interest-bearing borrowings	31	**12,456,782**	15,997,241
Repurchase agreements	35	**4,125,976**	4,032,804
Tax payable		**135,973**	181,516
Financial liabilities at fair value through profit or loss	19	**401,429**	194,981
Total current liabilities		**19,829,627**	24,619,927
Net current assets		**9,968,649**	2,433,105
Total assets less current liabilities		**15,194,217**	21,704,842
Non-current liabilities			
Other liabilities, payables and accruals	30	**39,022**	211,420
Deferred tax liabilities	32	**63,602**	166,102
Interest-bearing borrowings	31	**13,021,146**	17,040,736
Financial liabilities at fair value through profit or loss	19	**–**	223,762
Total non-current liabilities		**13,123,770**	17,642,020
Net assets		**2,070,447**	4,062,822
Capital and reserves			
Equity attributable to owners of the Company			
Share capital	33	**3,588**	3,588
Perpetual capital securities classified as equity investments	36	**1,208,369**	1,209,218
Share premium and reserves		**858,490**	2,850,016
Total equity		**2,070,447**	4,062,822

The consolidated financial statements on pages 88 to 226 were approved by the Board of Directors on 27 March 2019 and are signed on its behalf by:

Bai Junjie
DIRECTOR

Xu Yong
DIRECTOR

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2018

	Attributable to owners of the Company										
	Issued capital HK$'000	Share premium account HK$'000	Contributed surplus HK$'000	AFS investment revaluation reserve HK$'000	Statutory reserve HK$'000	Currency translation reserve HK$'000	FVTOCI investment revaluation reserve HK$'000	Retained profits (accumulated losses) HK$'000	Subtotal HK$'000	Perpetual capital securities HK$'000	Total equity HK$'000
At 1 January 2017	3,338	987,751	139,615	(25,347)	–	(228)	–	181,812	1,286,941	–	1,286,941
Profit for the year	–	–	–	–	–	–	–	964,093	964,093	41,550	1,005,643
Fair value gain on available-for-sale investments	–	–	–	(5,039)	–	–	–	–	(5,039)	–	(5,039)
Reclassification adjustment relating to disposal of available-for-sale investments during the year	–	–	–	(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 (expenses) income for the year	–	–	–	(60,397)	–	10,935	–	964,093	914,631	41,550	956,181
Shares issued (note 33(a))	250	651,782	–	–	–	–	–	–	652,032	–	652,032
Appropriation to reserve	–	–	–	–	1,433	–	–	(1,433)	–	–	–
Distribution relating to perpetual capital securities (note 36)	–	–	–	–	–	–	–	–	–	(19,186)	(19,186)
Issuance of perpetual capital securities (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
HKFRS 9 adjustment (note 3)	–	–	–	85,744	–	–	(39,145)	(51,016)	(4,417)	–	(4,417)
At 1 January 2018 (restated)	3,588	1,639,533	139,615	–	1,433	10,707	(39,145)	1,093,456	2,849,187	1,209,218	4,058,405
Loss for the year	–	–	–	–	–	–	–	(1,548,222)	(1,548,222)	66,083	(1,482,139)
Fair value loss on financial assets at fair value through other comprehensive income (note 21)	–	–	–	–	–	–	(426,153)	–	(426,153)	–	(426,153)
Reclassification adjustment relating to disposal of financial assets at fair value through other comprehensive income during the year (note 21)	–	–	–	–	–	–	55,629	–	55,629	–	55,629
Exchange differences on translation of foreign operations	–	–	–	–	–	(7,359)	–	–	(7,359)	–	(7,359)
Total comprehensive (expenses) income for the year	–	–	–	–	–	(7,359)	(370,524)	(1,548,222)	(1,926,105)	66,083	(1,860,022)
Distribution relating to perpetual capital securities (note 36)	–	–	–	–	–	–	–	–	–	(66,932)	(66,932)
Dividends to shareholder (note 14)	–	–	–	–	–	–	–	(61,004)	(61,004)	–	(61,004)
At 31 December 2018	3,588	1,639,533	139,615	–	1,433	3,348	(409,669)	(515,770)	862,078	1,208,369	2,070,447

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 Bermuda Companies Act, the Company's contributed surplus is distributable to shareholders under certain circumstances.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2018

	NOTES	2018 HK$'000	2017 HK$'000
Cash flows from operating activities			
(Loss) profit before tax		**(1,558,593)**	1,264,029
Adjustments for:			
Finance costs		**1,683,892**	1,158,237
Interest income		**(1,754,183)**	(1,367,780)
Net loss arising from disposal of financial assets at fair value through other comprehensive income		**55,629**	–
Gain on disposal of available-for-sale investments		**–**	(55,358)
Dividend income		**(355,200)**	(209,397)
Net loss on financial liabilities at fair value through profit or loss		**25,881**	168,462
Depreciation		**8,935**	7,543
Provision for long service payments, net		**94**	126
Provision for unused annual leaves		**298**	1,096
Loss (gain) on disposal of items of property and equipment		**244**	(45)
Net (gain) loss on disposal of subsidiaries	39	**(5,435)**	292
Net gain on deemed disposal of a joint venture entity		**–**	(200,705)
Share of result of associates	22	**(19,444)**	(1,126)
Net provision for (reversal of) impairment of advances to customers in margin financing and accounts receivable		**397,150**	(374)
Net reversal of impairment of financial assets at fair value through other comprehensive income		**(4,495)**	–
Net (reversal of) provision for impairment of amount due from an associate		**(21,127)**	30,916
Net provision for impairment of other loans and receivables		**150,514**	140,129
Provision for reinstatement		**1,095**	2,281
		(1,394,745)	938,326
Operating cash flows before movements in working capital:			
Decrease (increase) in other loans and receivables		**2,771,829**	(3,954,433)
Increase in contract assets		**(9,808)**	–
Decrease in advances to customers in margin financing and accounts receivable		**397,452**	252,673
Decrease (increase) in prepayments, deposits and other receivables		**73,600**	(111,720)
Decrease (increase) in financial assets at fair value through profit or loss		**1,583,398**	(5,767,510)
Decrease in restricted bank balances		**452,091**	2,466,998
(Decrease) increase in accounts payable		**(1,488,959)**	816,349
Decrease in contract liabilities		**(33,784)**	–
(Decrease) increase in other liabilities, payables and accruals		**(140,580)**	96,273
Increase in repurchase agreements		**93,172**	4,032,804
Cash generated from (used in) operations		**2,303,666**	(1,230,240)
Tax paid		**(214,755)**	(94,988)
Interest received		**1,253,783**	713,042
Net cash from (used in) operating activities		**3,342,694**	(612,186)

Consolidated Statement of Cash Flows

For the year ended 31 December 2018

	NOTES	2018 HK$'000	2017 HK$'000
Cash flows from investing activities			
Interest received from amount due from an associate		**10,015**	55,892
Dividend received		**355,200**	209,397
Proceeds from disposal of available-for-sale investments		**–**	5,764,696
Proceeds from disposal of financial assets at fair value through other comprehensive income	21	**1,935,773**	–
Purchase of financial assets at fair value through other comprehensive income		**(1,261,457)**	–
Proceeds from disposal of items of property and equipment		**1,581**	45
Purchases of available-for-sale investments		**–**	(15,893,017)
Decrease (increase) in other long term assets		**923**	(725)
Purchases of items of property and equipment		**(2,034)**	(11,058)
Repayment from in amount due from an associate		**1,297,365**	–
Addition in amount due from an associate		**–**	(1,563,244)
Repayment from a joint venture entity		**–**	142,000
Acquisition of associates		**–**	(17,062)
Proceeds from disposal of subsidiaries	39	**703,300**	1,149
Net cash from (used in) investing activities		**3,040,666**	(11,311,927)
Cash flows from financing activities			
Issuance of share capital		**–**	658,442
Share capital issuing cost paid		**–**	(6,410)
Dividend paid		**(61,004)**	–
Contribution from interest holders of unlisted consolidated investment funds		**223,226**	171,040
Distribution to interest holders of unlisted consolidated investment funds		**(266,421)**	–
Withdrawal from second-tier limited partners of consolidated investment funds		**–**	(344,236)
Interest paid		**(1,698,372)**	(1,068,876)
Placement of pledged bank deposits		**–**	(1,898,063)
Withdrawal of pledged bank deposits		**1,898,063**	–
Drawdown of interest-bearing borrowings		**4,521,239**	17,941,159
Repayment of interest-bearing borrowings		**(11,961,995)**	(2,274,212)
Issuance of perpetual capital securities		**–**	1,190,323
Perpetual capital securities issuing cost paid		**–**	(3,469)
Distribution to perpetual capital securities holder	36	**(66,932)**	(19,186)
Net cash (used in) from financing activities		**(7,412,196)**	14,346,512
Net (decrease) increase in cash and cash equivalents		**(1,028,836)**	2,422,399
Cash and cash equivalents at beginning of year as stated in the consolidated statement of financial position		**3,524,781**	956,675
Effect of foreign exchange rate changes, net		**(94,148)**	145,707
Cash and cash equivalents at end of year		**2,401,797**	3,524,781

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 which is incorporated in British Virgin Islands and is a wholly-owned subsidiary of China Huarong International Holdings Limited ("CHIH") 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 2018 Direct	2018 Indirect	2017 Direct	2017 Indirect	Principal activities
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	HK$141,750,000	–	100%	–	100%	Provision of asset management services
Huarong International Securities Limited 華融國際證券有限公司	Hong Kong	HK$3,620,000,000	–	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

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 2018 Direct	2018 Indirect	2017 Direct	2017 Indirect	Principal activities
Linewear Assets Limited	British Virgin Islands/ Hong Kong	US$1	**100%**	**–**	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
Grand Shine International Holdings Limited 崇曦國際有限公司	Hong Kong	HK$100	**–**	**100%**	–	100%	Investment holding
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 a)	Cayman Islands	US$40,000,000 capital contribution	**–**	**90%**	–	90%	Investment in equities

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 2018 Direct	2018 Indirect	2017 Direct	2017 Indirect	Principal activities
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
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 永晉投資有限公司	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

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
			2018		2017		
			Direct	Indirect	Direct	Indirect	
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%	Investment holding
Bridge Rock Industry Fund Limited	Cayman Islands	US$1	–	100%	–	100%	Investment in fund
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
Vigorous Plan Investments Limited	British Virgin Islands/ Hong Kong	US$1	–	100%	–	100%	Investment holding
Paragon Resort Fund L.P. ("PRF Fund") (note b)	Cayman Islands/ Hong Kong	–	–	65%	–	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
華融國金(深圳)股權投資基金管理有限公司	PRC	Registered capital US$2,000,000	–	100%	–	100%	Advisory services for equity investment

1. Corporate and Group Information (continued)

Note (a): 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 (b): 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.

None of the subsidiaries had issued any debt securities during the current and prior year.

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).

Significant events in the current year

As was disclosed in the notes to the interim financial report for the six months ended 30 June 2018, in light of the disciplinary investigation instigated by certain authorities in Mainland China against the former Chairman of China Huarong, the Company was taking proactive measures to protect the interests of the Group and, also, initiated an internal investigation, including into the structure of certain fund investments and loan arrangements, and their valuation and related recoverability. The internal investigation has been completed and the implications taken into account in preparing the consolidated financial statements.

The consolidated financial statements have been prepared on the historical cost basis except for available-for-sale ("AFS") investments, financial assets and liabilities at fair value through profit or loss ("FVTPL") (including derivative financial instruments) and financial assets at fair value through other comprehensive income ("FVTOCI"), which are measured at fair values, 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.

2. Basis of Preparation (continued)

Significant events in the current year (continued)

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 "Share-based Payment", leasing transactions that are within the scope of HKAS 17 "Leases", and measurements that have some similarities to fair value but are not fair value, such as value in use in HKAS 36 "Impairment of Assets".

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 Amendments to HKFRSs

New and Amendments to HKFRSs that are mandatorily effective for the current year

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

HKFRS 9	Financial Instrument
HKFRS 15	Revenue from Contracts with Customers and the related Amendments
HK(IFRIC)-Int 22	Foreign Currency Transactions and Advance Consideration
Amendments to HKFRS 2	Classification and Measurement of Share-based Payment Transactions
Amendments to HKFRS 4	Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts
Amendments to HKAS 28	As part of the Annual Improvements to HKFRSs 2014–2016 Cycle
Amendments to HKAS 40	Transfers of Investment Property

Except as described below, the application of the new and 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.

3.1 HKFRS 9 "Financial Instruments"

In the current year, the Group has applied HKFRS 9 "Financial Instruments" ("HKFRS 9") and the related consequential amendments to other HKFRSs. HKFRS 9 introduces new requirements for (1) the classification and measurement of financial assets and financial liabilities, (2) expected credit losses ("ECL") for financial assets and other items (for example, contract assets (if any)) and (3) general hedge accounting.

The Group has applied HKFRS 9 in accordance with the transition provisions set out in HKFRS 9, i.e. applied the classification and measurement requirements (including impairment under ECL model) retrospectively to instruments that have not been derecognised as at 1 January 2018 (date of initial application) and has not applied the requirements to instruments that have already been derecognised as at 1 January 2018. The difference between carrying amounts as at 31 December 2017 and the carrying amounts as at 1 January 2018 are recognised in the opening retained profits and other components of equity, without restating comparative information.

Accordingly, certain comparative information may not be comparable as comparative information was prepared under HKAS 39 "Financial Instruments: Recognition and Measurement".

Accounting policies resulting from application of HKFRS 9 are disclosed in note 4.

3. Application of New and Amendments to HKFRSs (continued)

3.1 HKFRS 9 "Financial Instruments" (continued)

3.1.1 Summary of effects arising from initial application of HKFRS 9

The table below illustrates the classification and measurement of financial assets and financial liabilities and other items subject to ECL under HKFRS 9 and HKAS 39 at the date of initial application, 1 January 2018.

	Notes	Financial assets at FVTOCI HK$'000	Advances to customers in margin financing, at amortised cost HK$'000	Other loans and receivables at amortised cost HK$'000	Financial assets at FVTPL required by HKAS 39/ HKFRS 9 HK$'000	AFS investments HK$'000	AFS investment revaluation reserve HK$'000	FVTOCI investment revaluation reserve HK$'000	Retained profits HK$'000
At 31 December 2017 – HKAS 39		–	4,948,219	9,303,160	9,117,713	14,645,553	(85,744)	–	1,144,472
Effect arising from initial application of HKFRS 9:									
Reclassification									
From AFS investments	(a)	6,863,409	–	–	7,782,144	(14,645,553)	85,744	(65,005)	(20,739)
Remeasurement									
Impairment under ECL model	(b)	–	(517)	(3,900)	–	–	–	25,860	(30,277)
At 1 January 2018		6,863,409	4,947,702	9,299,260	16,899,857	–	–	(39,145)	1,093,456

Notes:

(a) AFS investments

From AFS equity investments to financial assets at FVTPL

At the date of initial application of HKFRS 9, the Group's listed preference share investments of HK$1,537 million, unlisted equity investments of HK$903 million and unlisted fund investments of HK$2,816 million were reclassified from AFS investments to financial assets at FVTPL. For the classification of equity investments and listed preference shares, the Group did not elect to present in other comprehensive income for the fair value changes previously classified as AFS investments. The unlisted fund investments did not meet the SPPI criteria and classified as FVTPL. The net fair value gains of approximately HK$10 million relating to those investments previously carried at fair value were transferred from AFS investment revaluation reserve to retained profits.

From AFS equity investments to financial assets at FVTOCI

The Group elected to present in other comprehensive income for the fair value changes of an equity investment of HK$214 million previously classified as AFS investments under HKAS 39. This investment is not held for trading and not expected to be sold in the foreseeable future. At the date of initial application of HKFRS 9, HK$214 million were reclassified from AFS investments to equity instruments at FVTOCI. The fair value gains of approximately HK$2 million relating to this investment previously carried at fair value was reclassified from AFS investment revaluation reserve to FVTOCI investment revaluation reserve.

3. Application of New and Amendments to HKFRSs (continued)

3.1 HKFRS 9 "Financial Instruments" (continued)

3.1.1 Summary of effects arising from initial application of HKFRS 9 (continued)

Notes: (continued)

(a) AFS investments (continued)

From AFS debt investments to financial assets at FVTOCI

Listed bonds with a fair value of HK$6,649 million were reclassified from AFS investments to debt instruments at FVTOCI, as these investments are held within a business model whose objective is achieved by both collecting contractual cash flows and selling of these assets and the contractual cash flows of these investments are solely payments of principal and interest on the principal amount outstanding. Related fair value losses of HK$67 million was reclassified from AFS investment revaluation reserve to FVTOCI investment revaluation reserve as at 1 January 2018.

From AFS debt investments to financial assets at FVTPL

Listed bonds with a fair value of HK$2,526 million were reclassified from AFS investments to financial assets at FVTPL. This is because 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 were measured at FVTPL upon the application of HKFRS 9. The net fair value losses of approximately HK$31 million relating to these AFS investments were transferred from AFS investment revaluation reserve to retained profits at 1 January 2018.

(b) Impairment under ECL model

Such amount represents the impairment under 12-month ECL ("12m ECL") and lifetime ECL upon application of HKFRS 9 as detailed in 3.1.1.

As at 1 January 2018, the additional credit allowance of HK$30,277,000 has been recognised against the retained profits. The additional loss allowance is charged against the respective asset. Based on the assessment performed on the date of initial application of HKFRS 9, the directors of the Company considered that the additional credit allowances in relation to other long term assets, contract assets, deposits and other receivables, accounts receivable, interest receivable, amount due from an associate, restricted bank balances, pledged bank deposits and cash and cash equivalents are insignificant to the financial performance and position of the Group and hence have not been recorded due to being immaterial.

3. Application of New and Amendments to HKFRSs (continued)

3.1 HKFRS 9 "Financial Instruments" (continued)

3.1.1 Summary of effects arising from initial application of HKFRS 9 (continued)

Notes: (continued)

(b) Impairment under ECL model (continued)

The following table reconciles the impairment allowance measured in accordance with HKAS 39 (under incurred loss model) as at 31 December 2017 to the new impairment allowance measured with HKFRS 9 (under ECL model) at 1 January 2018:

	Impairment allowance under HKAS 39	**Additional impairment allowance under re-measurement**	**Impairment allowance under HKFRS 9**
	HK$'000	HK$'000	HK$'000
Advances to customers in margin financing (note 45)	929	517	1,446
Other loans and receivables (note 45)	190,206	3,900	194,106
Financial assets at FVTOCI (note 45)	–	25,860	25,860
Total	191,135	30,277	221,412

Loss allowances for advances to customers in margin financing, other loans and receivables and financial assets at FVTOCI are measured on 12m ECL basis ("Stage 1") for those with no significant increase in credit risk since initial recognition, and measured on lifetime ECL basis for those with credit risk increased significantly ("Stage 2") or assessed to be credit-impaired ("Stage 3") since initial recognition.

3.2 HKFRS 15 "Revenue from Contracts with Customers"

The Group has applied HKFRS 15 for the first time in the current year. HKFRS 15 superseded HKAS 18 "Revenue", HKAS 11 "Construction Contracts" and the related interpretations.

The Group has applied HKFRS 15 retrospectively with the cumulative effect of initially applying this Standard recognised at the date of initial application, 1 January 2018. Any difference at the date of initial application is recognised in the opening retained profits (or other components of equity, as appropriate) and comparative information has not been restated. Furthermore, in accordance with the transition provisions in HKFRS 15, the Group has elected to apply the Standard retrospectively only to contracts that are not completed at 1 January 2018. Accordingly, certain comparative information may not be comparable as comparative information was prepared under HKAS 18 "Revenue" and HKAS 11 "Construction Contracts" and the related interpretations.

3. Application of New and Amendments to HKFRSs (continued)

3.2 HKFRS 15 "Revenue from Contracts with Customers" (continued)

The Group recognises revenue from the following major sources:

- Commission income on securities dealing and broking;
- Commission income on underwriting and placing;
- Consultancy and financing advisory fee income;
- Fund subscription and management fee income;
- Interest income from financial assets (under HKFRS 9 as detailed previously); and
- Dividend income (under HKFRS 9 as detailed previously).

Information about the Group's performance obligations and the accounting policies resulting from application of HKFRS 15 are disclosed in notes 7 and 4 respectively.

3. Application of New and Amendments to HKFRSs (continued)

3.2 HKFRS 15 "Revenue from Contracts with Customers" (continued)

Summary of effects arising from initial application of HKFRS 15

At the date of initial application, included in other liabilities, payables and accruals are receipt in advance from customers of non-current portion and current portion of HK$13 million and HK$59 million respectively for consultancy and financing advisory fee income. These balances were reclassified to non-current portion and current portion contract liabilities upon application of HKFRS 15. Other than that, the application of HKFRS 15 in current year has had no material effect on the Group's financial performance and positions for the current year and prior years and/or disclosures set out in these consolidated financial statements.

The following adjustment were made to the consolidated statement of financial position at 1 January 2018. Line items that were not affected by the changes have not been included.

	Carrying amounts previously reported at 31 December 2017	Adjustments	Carrying amounts under HKFRS 15 at 1 January 2018
	HK$'000	HK$'000	HK$'000
NON-CURRENT LIABILITIES			
Other liabilities, payables and accruals	211,420	(13,333)	198,087
Contract liabilities	–	13,333	13,333
CURRENT LIABILITIES			
Other liabilities, payables and accruals	454,578	(58,962)	395,616
Contract liabilities	–	58,962	58,962

3. Application of New and Amendments to HKFRSs (continued)

3.2 HKFRS 15 "Revenue from Contracts with Customers" (continued)

Summary of effects arising from initial application of HKFRS 15 (continued)

The following tables summarise the impacts of applying HKFRS 15 on the Group's consolidated statement of financial position as at 31 December 2018 and its consolidated statement of cash flows for the current year for each of the line items affected. Line items that were not affected by the changes have not been included.

	Notes	As reported HK$'000	Adjustments HK$'000	Amounts without application of HKFRS 15 Total HK$'000
CURRENT ASSETS				
Accounts receivable	(a)	160,347	9,808	170,155
Contract assets	(a)	9,808	(9,808)	–
CURRENT LIABILITIES				
Other liabilities, payables and accruals	(b)	401,108	38,511	439,619
Contract liabilities	(b)	38,511	(38,511)	–

Impact on the consolidated statement of cash flows

	Notes	As reported HK$'000	Adjustments HK$'000	Amounts without application of HKFRS 15 Total HK$'000
Decrease in advances to customers in margin financing and accounts receivable		397,452	(9,808)	387,644
Decrease in other liabilities, payables and accurals		(140,580)	(33,784)	(174,364)
Increase in contract assets		(9,808)	9,808	–
Decrease in contract liabilities		(33,784)	33,784	–

3. Application of New and Amendments to HKFRSs (continued)

3.2 HKFRS 15 "Revenue from Contracts with Customers" (continued)

Summary of effects arising from initial application of HKFRS 15 (continued)

(a) Contract assets represent the Group's rights to consideration for the provision of financing advisory services. The amount is conditional on the payment from the customers, accordingly, is classified as contract assets under HKFRS 15. Under HKAS 18, it would be included in accounts receivable as unbilled revenue.

(b) Contract liabilities represent the Group's obligation to provide financing advisory services for which the Group has received consideration from customers. Under HKAS 18, it would be included in other liabilities, payables and accurals as receipt in advance.

New and amendments to HKFRSs in issue but not yet effective

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

HKFRS 16	Leases[1]
HKFRS 17	Insurance Contracts[3]
HK(IFRIC)-Int 23	Uncertainty over Income Tax Treatments[1]
Amendments to HKFRS 3	Definition of a Business[4]
Amendments to HKFRS 9	Prepayment Features with Negative Compensation[1]
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[2]
Amendments to HKAS 1 and HKAS 8	Definition of Material[5]
Amendments to HKAS 19	Plan Amendment, Curtailment or Settlement[1]
Amendments to HKAS 28	Long-term Interests in Associates and Joint Ventures[1]
Amendments to HKFRSs	Annual improvements to HKFRSs 2015–2017 Cycle[1]

3. Application of New and Amendments to HKFRSs (continued)

New and amendments to HKFRSs in issue but not yet effective (continued)

[1] Effective for annual periods beginning on or after 1 January 2019
[2] Effective for annual periods beginning on or after a date to be determined
[3] Effective for annual periods beginning on or after 1 January 2021
[4] Effective for business combinations and asset acquisitions for which the acquisition date is on or after the beginning of the first annual period beginning on or after 1 January 2020
[5] Effective for annual periods beginning on or after 1 January 2020

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. In addition, HKFRS 16 requires sales and leaseback transactions to be determined based on the requirements of HKFRS 15 as to whether the transfer of the relevant asset should be accounted as a sale. HKFRS 16 also includes requirements relating to subleases and lease modifications.

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. 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 and operating cash flows respectively by the Group.

Furthermore, extensive disclosures are required by HKFRS 16.

As at 31 December 2018, the Group has non-cancellable operating lease commitments of HK$57 million as disclosed in note 41. 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.

3. Application of New and Amendments to HKFRSs (continued)

HKFRS 16 "Leases" (continued)

In addition, the Group currently considers refundable rental deposits paid of HK$16,182,000 as obligations 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. Adjustments to refundable rental deposits paid would be considered as additional lease payments and included in the carrying amount of right-of-use assets.

The application of new requirements may result in changes in measurement, presentation and disclosure as indicated above. The Group intends to elect the practical expedient to apply HKFRS 16 to contracts that were previously identified as leases applying HKAS 17 and HK(IFRIC) — Int 4 "Determining whether an Arrangement contains a Lease" and not apply this standard to contracts that were not previously identified as containing a lease applying HKAS 17 and HK(IFRIC) — Int 4. Therefore, the Group will not reassess whether the contracts are, or contain a lease which already existed prior to the date of initial application. Furthermore, the Group intends to elect the modified retrospective approach for the application of HKFRS 16 as lessee and will recognise the cumulative effect of initial application to opening retained earnings without restating comparative information.

Except for the new HKFRS above, the directors of the Company anticipate that the application of all other new and amendments to HKFRSs will have no material impact on the consolidated financial statements in the foreseeable future.

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.

4. Summary of Significant Accounting Policies (continued)

Basis of consolidation (continued)

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.

When the Group, which is acting as a fund manager, manages and has an investment in a fund, it may determine that its decision-making powers over the relevant activities of the fund are exercised in the capacity of an agent of the investors as a group and, therefore, it does not control the fund as a principal.

An agent is a party primarily engaged to act on behalf and for the benefit of another party or parties (the principal(s)) and therefore does not control the investee when it exercises its decision-making authority. In determining whether it is an agent to the fund, the Group would assess:

- the scope of its decision-making authority over the investee;
- the rights held by other parties;
- the remuneration to which it is entitled in accordance with the remuneration agreement(s); and
- the decision maker's exposure to variability of returns from other interests that it holds in the investee.

4. Summary of Significant Accounting Policies (continued)

Basis of consolidation (continued)

Different weightings shall be applied by the Group to each of the factors on the basis of particular facts and circumstances unless a single party holds substantive rights to remove the decision maker (removal rights) and can remove the decision maker without cause.

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 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 in 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.

Loss of control of a subsidiary

When the Group loses control of a subsidiary, a gain or loss is recognised in profit or loss and is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the carrying amount of the assets (including goodwill), and liabilities of the subsidiary attributable to the owners of the Company. All amounts previously recognised in other comprehensive income in relation to that subsidiary are accounted for as if the Group had directly disposed of the related assets or liabilities of the subsidiary (i.e. reclassified to profit or loss or transferred to another category of equity as specified/permitted by applicable HKFRSs). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under HKFRS 9/HKAS 39, or when applicable, the cost on initial recognition of an investment in an associate or a joint venture.

4. Summary of Significant Accounting Policies (continued)

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 venture

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.

The results and assets and liabilities of associates and joint venture are incorporated in these consolidated financial statements using the equity method of accounting. The financial statements of associates and joint venture 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 or a joint venture 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 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 a 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.

4. Summary of Significant Accounting Policies (continued)

Investments in associates and joint venture (continued)

The Group assesses whether there is an objective evidence that the interest in an associate or a joint venture may be impaired. When any objective evidence exists, 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.

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 HKFRS 9/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 joint venture and the fair value of any retained interest and any proceeds from disposing the relevant interest in the associate or joint venture is included in the determination of the gain or loss on disposal of the associate or joint venture. In addition, the Group accounts for all amounts previously recognised in other comprehensive income in relation to that associate or joint venture on the same basis as would be required if that associate or 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 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/partial disposal of the relevant associate or 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 joint venture are recognised in the Group's consolidated financial statements only to the extent of interests in the associate or 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.

4. Summary of Significant Accounting Policies (continued)

Property and equipment and depreciation (continued)

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.

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.

An intangible asset is derecognised on disposal, or when no future economic benefits are expected from use or disposal. Gains and losses arising from derecognition of an intangible asset, measured as the difference between the net disposal proceeds and the carrying amount of the asset, are recognised in profit or loss when the asset is derecognised.

Impairment on tangible and intangible assets

At the end of the reporting period, the Group reviews the carrying amounts of its tangible assets to determine whether there is any indication that these assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the relevant asset is estimated in order to determine the extent of the impairment loss (if any). Intangible assets with indefinite useful lives are tested for impairment at least annually, and whenever there is an indication that they may be impaired.

The recoverable amount of tangible and intangible assets are estimated individually, when it is not possible to estimate the recoverable amount individually, 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.

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.

4. Summary of Significant Accounting Policies (continued)

Impairment on tangible and intangible assets (continued)

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.

Leases

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.

Financial instruments

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

Financial assets and financial liabilities are initially measured at fair value except for trade receivables arising from contracts with customers which are initially measured in accordance with HKFRS 15 since 1 January 2018. 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 FVTPL) 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 FVTPL are recognised immediately in profit or loss.

4. Summary of Significant Accounting Policies (continued)

Financial instruments (continued)

The effective interest method is a method of calculating the amortised cost of a financial asset or financial liability and of allocating interest income and interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts and 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 asset or financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Interest/dividend income which are derived from the Group's ordinary course of business are presented as revenue.

Financial assets

Classification and subsequent measurement of financial assets (upon application of HKFRS 9 in accordance with transitions in note 3)

Financial assets that meet the following conditions are subsequently measured at amortised cost:

- the financial asset is held within a business model whose objective is to collect contractual cash flows; and
- the contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets that meet the following conditions are subsequently measured at FVTOCI:

- the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling; and
- the contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

All other financial assets are subsequently measured at FVTPL, except that at the date of initial application/initial recognition of a financial asset the Group may irrevocably elect to present subsequent changes in fair value of an equity investment in other comprehensive income if that equity investment is neither held for trading nor contingent consideration recognised by an acquirer in a business combination to which HKFRS 3 "Business Combinations" applies.

4. Summary of Significant Accounting Policies (continued)

Financial instruments (continued)

Financial assets (continued)

Classification and subsequent measurement of financial assets (upon application of HKFRS 9 in accordance with transitions in note 3) (continued)

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.

In addition, the Group may irrevocably designate a financial asset that are required to be measured at the amortised cost or FVTOCI as measured at FVTPL if doing so eliminates or significantly reduces an accounting mismatch.

(i) Amortised cost and interest income

Interest income is recognised using the effective interest method for financial assets measured subsequently at amortised cost and debt instruments/receivables subsequently measured at FVTOCI. Interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset, except for financial assets that have subsequently become credit-impaired (see below). For financial assets that have subsequently become credit-impaired, interest income is recognised by applying the effective interest rate to the amortised cost of the financial asset from the next reporting period with the amortised cost being the gross carrying amount less the impairment allowance. If the credit risk on the credit-impaired financial instrument improves so that the financial asset is no longer credit-impaired, interest income is recognised by applying the effective interest rate to the gross carrying amount of the financial asset from the beginning of the reporting period following the determination that the asset is no longer credit impaired.

(ii) Debt instruments classified as at FVTOCI

Subsequent changes in the carrying amounts for debt instruments classified as at FVTOCI as a result of interest income calculated using the effective interest method, and foreign exchange gains and losses are recognised in profit or loss. All other changes in the carrying amount of these debt instruments are recognised in other comprehensive income and accumulated under the heading of FVTOCI investment revaluation reserve. Impairment allowances are recognised in profit or loss with corresponding adjustment to other comprehensive income without reducing the carrying amounts of these debt instruments. The amounts that are recognised in profit or loss are the same as the amounts that would have been recognised in profit or loss if these debt instruments had been measured at amortised cost. When these debt instruments are derecognised, the cumulative gains or losses previously recognised in other comprehensive income are reclassified to profit or loss.

4. Summary of Significant Accounting Policies (continued)

Financial instruments (continued)

Financial assets (continued)

Classification and subsequent measurement of financial assets (upon application of HKFRS 9 in accordance with transitions in note 3) (continued)

(iii) Equity instruments designated as at FVTOCI

Investments in equity instruments at FVTOCI are subsequently measured at fair value with gains and losses arising from changes in fair value recognised in other comprehensive income and accumulated in the FVTOCI investment revaluation reserve; and are not subject to impairment assessment. The cumulative gain or loss will not be reclassified to profit or loss on disposal of the equity investments, and will be transferred to retained profits.

Dividends from these investments in equity instruments are recognised in profit or loss when the Group's right to receive the dividends is established, unless the dividends clearly represent a recovery of part of the cost of the investment. Dividends are included in the "revenue" line item in profit or loss.

(iv) Financial assets at FVTPL

Financial assets that do not meet the criteria for being measured at amortised cost or FVTOCI or designated as FVTOCI are measured at FVTPL.

Financial assets at FVTPL are measured at fair value at the end of each reporting period, with any fair value gains or losses recognised in profit or loss. The net gain or loss recognised in profit or loss excludes any interest income earned on the financial asset and is included in the "Net (losses) gains on financial assets at fair value through profit or loss" line item in profit or loss.

Impairment of financial assets (upon application HKFRS 9 with transitions in accordance with note 3)

The Group recognises a loss allowance for ECL on financial assets which are subject to impairment under HKFRS 9 (including advances to customers in margin financing, other loans and receivables, financial assets at FVTOCI, accounts receivable, deposits and other receivables, amount due from an associate, restricted bank balances, pledged bank deposits, cash and cash equivalents, contract assets, long term assets and interest receivable). The amount of ECL is updated at each reporting date to reflect changes in credit risk since initial recognition.

Lifetime ECL represents the ECL that will result from all possible default events over the expected life of the relevant instrument. In contrast, 12m ECL represents the portion of lifetime ECL that is expected to result from default events that are possible within 12 months after the reporting date. Assessment are done based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current conditions at the reporting date as well as the forecast of future conditions.

4. Summary of Significant Accounting Policies (continued)

Financial instruments (continued)

Financial assets (continued)

Impairment of financial assets (upon application HKFRS 9 with transitions in accordance with note 3) (continued)

The Group always recognises lifetime ECL for accounts receivables and contract assets that result from transactions within the scope of HKFRS 15 and the ECL on these assets are assessed individually for debtors with significant balances and/or collectively using a provision matrix with debtors having similar credit rating.

For all other instruments, the Group measures the loss allowance equal to 12m ECL, unless when there has been a significant increase in credit risk since initial recognition, the Group recognises lifetime ECL. The assessment of whether lifetime ECL should be recognised is based on significant increases in the likelihood or risk of a default occurring since initial recognition.

(i) Significant increase in credit risk

In assessing whether the credit risk has increased significantly since initial recognition, the Group compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition. In making this assessment, the Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort.

In particular, the following information is taken into account when assessing whether credit risk has increased significantly:

- an actual or expected significant deterioration in the financial instrument's external (if available) or internal credit rating;
- significant deterioration in external market indicators of credit risk, e.g. a significant increase in the credit spread, the credit default swap prices for the debtor;
- existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant decrease in the debtor's ability to meet its debt obligations;
- an actual or expected significant deterioration in the operating results of the debtor;
- an actual or expected significant adverse change in the regulatory, economic, or technological environment of the debtor that results in a significant decrease in the debtor's ability to meet its debt obligations.

4. Summary of Significant Accounting Policies (continued)

Financial instruments (continued)

Financial assets (continued)

Impairment of financial assets (upon application HKFRS 9 with transitions in accordance with note 3) (continued)

(i) Significant increase in credit risk (continued)

Irrespective of the outcome of the above assessment, the Group presumes that the credit risk has increased significantly since initial recognition when contractual payments are more than 30 days past due, unless the Group has reasonable and supportable information that demonstrates otherwise.

Despite the aforegoing, the Group assumes that the credit risk on a debt instrument has not increased significantly since initial recognition if the debt instrument is determined to have low credit risk at the reporting date. A debt instrument is determined to have low credit risk if (i) it has a low risk of default, (ii) the borrower has a strong capacity to meet its contractual cash flow obligations in the near term and (iii) adverse changes in economic and business conditions in the longer term may, but will not necessarily, reduce the ability of the borrower to fulfil its contractual cash flow obligations. The Group considers a debt instrument to have low credit risk when it has an internal or external credit rating of 'investment grade' as per globally understood definitions.

The Group regularly monitors the effectiveness of the criteria used to identify whether there has been a significant increase in credit risk and revises them as appropriate to ensure that the criteria are capable of identifying significant increase in credit risk before the amount becomes past due.

(ii) Definition of default

For internal credit risk management, the Group considers an event of default occurs when information developed internally or obtained from external sources indicates that the debtor is unlikely to pay its creditors, including the Group, in full (without taking into account any collaterals held by the Group).

Irrespective of the above, the Group considers that default has occurred when a financial asset is more than 90 days past due unless the Group has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

4. Summary of Significant Accounting Policies (continued)

Financial instruments (continued)

Financial assets (continued)

Impairment of financial assets (upon application HKFRS 9 with transitions in accordance with note 3) (continued)

(iii) Credit-impaired financial assets

A financial asset is credit-impaired when one or more events of default that have a detrimental impact on the estimated future cash flows of that financial asset have occurred. Evidence that a financial asset is credit-impaired includes observable data about the following events:

(a) significant financial difficulty of the issuer or the borrower;

(b) a breach of contract, such as a default or past due event;

(c) the lender(s) of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession(s) that the lender(s) would not otherwise consider;

(d) it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation; or

(e) the disappearance of an active market for that financial asset because of financial difficulties.

(iv) Write-off policy

The Group writes off a financial asset when there is information indicating that the counterparty is in severe financial difficulty and there is no realistic prospect of recovery, for example, when the counterparty has been placed under liquidation or has entered into bankruptcy proceedings. Financial assets written off may still be subject to enforcement activities under the Group's recovery procedures, taking into account legal advice where appropriate. A write-off constitutes a derecognition event. Any subsequent recoveries are recognised in profit or loss.

(v) Measurement and recognition of ECL

The measurement of ECL is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data adjusted by forward-looking information. Estimation of ECL reflects an unbiased and probability-weighted amount that is determined with the respective risks of default occurring as the weights.

Generally, the ECL is the difference between all contractual cash flows that are due to the Group in accordance with the contract and the cash flows that the Group expects to receive, discounted at the effective interest rate determined at initial recognition.

4. Summary of Significant Accounting Policies (continued)

Financial instruments (continued)

Financial assets (continued)

Impairment of financial assets (upon application HKFRS 9 with transitions in accordance with note 3) (continued)

(v) Measurement and recognition of ECL (continued)

Where ECL is measured on a collective basis to cater for cases where evidence at the individual instrument level may not yet be available, the financial instruments are grouped on the following basis:

- Nature of financial instruments (i.e. the Group's other long term assets, accounts receivable, interest receivable, deposits and other receivables, contract assets are each assessed as a separate group. Advances to customers in margin financing, other loans and receivables, financial assets at FVTOCI, restricted bank balances, pledged bank deposits, cash and cash equivalents and amount due from an associate are assessed for ECL on an individual basis);

- Past-due status;

- Nature, size and industry of debtors; and

- External credit ratings where available.

The grouping is regularly reviewed by management to ensure the constituents of each group continue to share similar credit risk characteristics.

Interest income is calculated based on the gross carrying amount of the financial asset unless the financial asset is credit impaired, in which case interest income is calculated based on amortised cost of the financial asset.

Except for investments in debt instruments that are measured at FVTOCI, the Group recognises an impairment gain or loss in profit or loss for all financial instruments by adjusting their carrying amount, with the exception of advances to customers in margin financing, other loans and receivables, amount due from an associate, contract assets and accounts receivable where the corresponding adjustment is recognised through a loss allowance account. For investments in debt instruments that are measured at FVTOCI, the loss allowance is recognised in other comprehensive income and accumulated in the FVTOCI investment revaluation reserve without reducing the carrying amount of these debt instruments.

4. Summary of Significant Accounting Policies (continued)

Financial instruments (continued)

Financial assets (continued)

Classification and subsequent measurement of financial assets (before application of HKFRS 9 on 1 January 2018)

Financial assets are classified into the following specified categories: financial assets at FVTPL, 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.

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.

4. Summary of Significant Accounting Policies (continued)

Financial instruments (continued)

Financial assets (continued)

Financial assets at FVTPL (continued)

A financial asset other than a financial asset held for trading 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 44.

AFS financial assets

AFS financial assets are non-derivatives that are either designated as AFS 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.

Equity and debt securities held by the Group that are classified as AFS financial assets 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 AFS investment revaluation reserve. When the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously accumulated in the AFS investment revaluation reserve is reclassified to profit or loss.

4. Summary of Significant Accounting Policies (continued)

Financial instruments (continued)

Financial assets (continued)

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 receivables, other long term assets, amount due from an associate, 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.

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 (before application of HKFRS 9 on 1 January 2018)

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.

Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments and observable changes in national or local economic 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.

4. Summary of Significant Accounting Policies (continued)

Financial instruments (continued)

Financial assets (continued)

Impairment of financial assets (before application of HKFRS 9 on 1 January 2018) (continued)

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 receivables, 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 receivables, 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 AFS investment revaluation reserve. In respect of AFS debt investments, impairment losses are subsequently reversed through profit or loss if an increase in the fair value of the investment can be objectively related to an event occurring after the recognition of the impairment loss.

4. Summary of Significant Accounting Policies (continued)

Financial instruments (continued)

Classification as debt or equity

Debt and equity instruments 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 securities 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.

Financial liabilities at FVTPL

The payables to interest holders of unlisted the 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 HKFRS 9/HKAS 39 permits the entire combined contract (asset or liability) to be designated as at FVTPL.

Upon application of HKFRS 9, for financial liabilities that are designated as at FVTPL, 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 recognised 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. For financial liabilities that contain embedded derivatives, the changes in fair value of the embedded derivatives are excluded in determining the amount to be presented in other comprehensive income. Changes in fair value attributable to a financial liability's credit risk that are recognised in other comprehensive income are not subsequently reclassified to profit or loss; instead, they are transferred to retained profits upon derecognition of the financial liability.

4. Summary of Significant Accounting Policies (continued)

Financial instruments (continued)

Classification as debt or equity (continued)

Financial liabilities at FVTPL (continued)

Prior to application of HKFRS 9 on 1 January 2018, financial liabilities at FVTPL are measured 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 excludes any interest expense on the financial liabilities. Fair value is determined in the manner described in note 44.

Financial liabilities at amortised cost

Financial liabilities including accounts payable, other payables and interest-bearing borrowings are subsequently measured at amortised cost, using the effective interest method.

Deferred income

Deferred income arises when the fair value of the financial asset at initial recognition differs from the transaction price (fair value of the consideration given), the Group shall adjusted to defer the difference between the fair value at initial recognition and the transaction price. After initial recognition, the Group shall recognise that deferred difference as a gain or loss only to the extent that it arises from a change in a factor (including time) that market participants would take into account when pricing the asset or liability.

Repurchase agreements

Financial assets sold under repurchase agreements continue to be recognised do not result in derecognition of the financial assets, and continue to be classified as “financial assets at FVTPL” and “financial assets at FVTOCI”. 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 “repurchase agreements” and included in the consolidated statement of financial position. 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.

4. Summary of Significant Accounting Policies (continued)

Financial instruments (continued)

Derecognition of financial instruments

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 in its entirety, 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/loss before tax 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 venture, 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.

4. Summary of Significant Accounting Policies (continued)

Taxation (continued)

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.

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.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

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 from contracts with customers (upon application of HKFRS 15 in accordance with transitions in note 3)

Under HKFRS 15, the Group 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.

A performance obligation represents a good or service (or a bundle of goods or services) that is distinct or a series of distinct goods or services that are substantially the same.

Control is transferred over time and revenue is recognised over time by reference to the progress towards complete satisfaction of the relevant performance obligation if one of the following criteria is met:

- the customer simultaneously receives and consumes the benefits provided by the Group's performance as the Group performs;
- the Group's performance creates or enhances an asset that the customer controls as the Group performs; or
- the Group's performance does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.

Otherwise, revenue is recognised at a point in time when the customer obtains control of the distinct good or service.

4. Summary of Significant Accounting Policies (continued)

Revenue from contracts with customers (upon application of HKFRS 15 in accordance with transitions in note 3) (continued)

The revenue from consultancy fees, financing advisory fee, custodian fee and asset management fee are recognised over time and other types of revenue are recognised at point in time.

A contract asset represents the Group's right to consideration in exchange for goods or services that the Group has transferred to a customer that is not yet unconditional. It is assessed for impairment in accordance with HKFRS 9. In contrast, a receivable represents the Group's unconditional right to consideration, i.e. only the passage of time is required before payment of that consideration is due.

A contract liability represents the Group's obligation to transfer goods or services to a customer for which the Group has received consideration (or an amount of consideration is due) from the customer.

A contract asset and a contract liability relating to the same contract are accounted for and presented on a net basis.

Over time revenue recognition: measurement of progress towards complete satisfaction of a performance obligation

Output method

The progress towards complete satisfaction of a performance obligation is measured based on output method, which is to recognise revenue on the basis of direct measurements of the value of the goods or services transferred to the customer to date relative to the remaining goods or services promised under the contract, that best depict the Group's performance in transferring control of goods or services.

Variable consideration

For contracts that contain variable consideration, such as performance fee income, the Group estimates the amount of consideration to which it will be entitled using either (a) the expected value method or (b) the most likely amount, depending on which method better predicts the amount of consideration to which the Group will be entitled.

The estimated amount of variable consideration is included in the transaction price only to the extent that it is highly probable that such an inclusion will not result in a significant revenue reversal in the future when the uncertainty associated with the variable consideration is subsequently resolved.

At the end of each reporting period, the Group updates the estimated transaction price (including updating its assessment of whether an estimate of variable consideration is constrained) to represent faithfully the circumstances present at the end of the reporting period and the changes in circumstances during the reporting period.

4. Summary of Significant Accounting Policies (continued)

Revenue from contracts with customers (upon application of HKFRS 15 in accordance with transitions in note 3) (continued)

Variable consideration (continued)

Description of the Group's performance obligation in respect of the main sources of income under the scope of HKFRS 15 are as follows:

(1) Brokerage

The Group provides broking and dealing services for securities, futures and options contracts. Commission income is recognised at a point in time on the execution date of the trades at a certain percentage of the transaction value of the trades executed. The Group provides custodian and handling services for securities, futures and options customer accounts. Fee income is recognised when the transaction is executed and service is completed except for custodian fee are recognised over time, other fees are recognised at a point in time.

(2) Corporate finance

The Group provides placing, underwriting or sub-underwriting services to customers for their fund raising activities in equity and debt capital markets, and also financial products advisory services. Revenue is recognised when the relevant placing, underwriting, sub-underwriting or financial products advisory activities are completed. Accordingly, the revenue is recognised at a point in time.

(3) Asset management

The Group provides asset management services to customers. The customers simultaneously receives and consumes the benefit provided by the Group, hence the revenue is recognised over time. Asset management fee income is charged at a fixed percentage per month of the net asset value of the managed accounts under management of the Group.

The Group is also entitled to a performance fee when there is a positive performance for the relevant performance period and it is recognised at the end of the relevant performance period, when it is highly probable that a significant reversal in the amount of cumulative revenue recognised will not occur when the uncertainty associated with the variable consideration is subsequently resolved.

The Group also provides consultancy and financing advisory fee to customers. The customers simultaneously receives and consumes the benefit provided by the Group, hence the revenue is recognised over time based on the services transferred to customers up to date.

4. Summary of Significant Accounting Policies (continued)

Revenue recognition (prior to 1 January 2018)

Revenue is measured at the fair value of the consideration received or receivable. 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) Fee 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, financing 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.

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).

4. Summary of Significant Accounting Policies (continued)

Share-based payment arrangements (continued)

Equity-settled share-based payment transactions (continued)

Share options granted to employees (continued)

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

Short-term employee benefits

Short-term employee benefits are recognised at the undiscounted amount of the benefits expected to be paid as and when employees rendered the services. All short-term employee benefits are recognised as an expense unless another HKFRS requires or permits the inclusion of the benefit in the cost of an asset.

A liability is recognised for benefits accruing to employees (such as wages and salaries, annual leave and sick leave) after deducting any amount already paid.

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 PRC 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, which are not eligible for capitalisation, 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 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. Critical Accounting Judgements and Key Sources of Estimation Uncertainty

In the application of the Group's accounting policies, which are described in note 4, the directors of the Company are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources.

The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

Key sources of estimation uncertainty

Impairment of financial assets at amortised cost and financial assets at FVTOCI

The directors of the Company estimate the amount of loss allowance for ECL on financial assets at amortised cost and financial assets at FVTOCI based on the credit risk of the respective financial instrument. The loss allowance amount is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows with the consideration of expected future credit loss of the respective financial instrument. The assessment of the credit risk and therefore expected cash flows of the respective financial instrument involves a high degree of estimation and uncertainty. When the actual future cash flows are less than expected or more than expected, a material impairment loss or a material reversal of impairment loss may arise, accordingly. The information about the ECL and the financial assets at amortised cost and financial assets at FVTOCI are disclosed in respective notes to the consolidated financial statements.

Upon adoption of HKFRS 9, the risk management department is responsible in developing and maintaining the processes for measuring ECL including monitoring of credit risk, incorporation of forward looking information and the method used to measure ECL; and ensuring that the Group has policies and procedures in place to appropriately maintain and validate models used to assess and measure ECL.

Incorporation of forward-looking information

The Group adopts external and internal information to generate scenario of future forecast of relevant economic variables. The internal and external information used includes the historical data of the Group and economic data and forecasts published by governmental bodies and monetary authorities respectively. Accordingly, when measuring ECL the Group selects and uses reasonable and supportable forward-looking information without undue cost or effort in its assessment by judgements, which is based on assumptions and estimates for the future movement of different economic drivers and how these drivers will affect each other as well as the correlation.

5. Critical Accounting Judgements and Key Sources of Estimation Uncertainty (continued)

Key sources of estimation uncertainty (continued)

Impairment of financial assets at amortised cost and financial assets at FVTOCI (continued)

Measurement of ECL

Probability of default ("PD") constitutes a key input in measuring ECL. PD is an estimate of the likelihood of default over a given time horizon, the calculation is based on reasonable and appropriate statistical rating models selected by the management with judgements. These statistical models are based on market data (where available), as well as internal data comprising both quantitative and qualitative factors which includes historical data, assumptions and expectations of future conditions. The management gathers this information and adjust the data to reflect probability-weighted forward-looking information that is reasonable supportable and available without undue cost or effort.

Loss Given Default ("LGD") is an estimate of the loss arising on default. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, taking into account cash flows from collateral and integral credit enhancements with significant judgments involved. The LGD models for secured assets consider forecasts of future collateral valuation taking into account sale discounts, transaction volume of the secured assets and seniority of claim. For unsecured loans, the calculation of LGD includes the judgments in determining the proportion of loan recovered after default and the duration of recovery.

In assessing the lifetime ECL on credit-impairment financial assets classified as stage 3, the Group performs the assessment based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors or borrowers, which include any (i) significant financial difficulty of the debtors or borrowers, (ii) breach of contract or probability that the debtors or borrowers will enter bankruptcy and (iii) the status and progress of financial restructuring, general economic conditions and both the current conditions at the reporting date as well as the forecast of future conditions with significant judgments involved. Moreover, the Group also reviews and assesses the fair value of the collateral received from the customers in determining the impairment with the involvement of third party qualified valuers, if necessary.

The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly by the Group to reduce material differences between loss estimates and actual loss experience.

Relevant information with regard to the exposure of credit risk and ECL are set out in respective notes to the consolidated financial statements.

5. Critical Accounting Judgements and Key Sources of Estimation Uncertainty (continued)

Key sources of estimation uncertainty (continued)

Fair value of derivatives and financial instruments

The Group selects appropriate valuation techniques for financial instruments, with the involvement of third party qualified valuers, if necessary, which are classified as Level 2 and 3 investments in accordance with the Group's significant accounting policies as disclosed in note 4 to the consolidated financial statements.

In estimating the fair value of an asset or a liability, the Group uses market-observable data to the extent it is available. However, areas such as credit risk of the counterparties, which include any (i) significant financial difficulty of the borrower, (ii) breach of contract or probability that the borrower will enter bankruptcy and (iii) the status and progress of financial restructuring, required management to make significant estimates and judgment when determining the fair value. Changes in assumption about these factors could affect the estimate fair value of the financial instruments. The finance department would report the valuation findings to the Board of Directors of the Company periodically 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. Note 44 to the consolidated financial statements provides detailed information about the key assumptions used in the determination of the fair value of material financial instruments.

Income taxes

As at 31 December 2018, a deferred tax asset of HK$101,723,000 (2017: nil) in relation to unused tax losses has been recognised in the Group's consolidated statement of financial position. No deferred tax asset has been recognised on the tax losses of HK$1,284,790,000 (2017: HK$268,034,000) 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. In cases where the actual future taxable profits generated are less or more than expected, or change in facts and circumstances which result in revision of future taxable profits estimation, a material reversal or further recognition of deferred tax assets may arise, which would be recognised in profit or loss for the period in which such a reversal or further recognition takes place.

Critical judgements in applying accounting policies

Determination of consolidation scope of certain investments

The Group invested in certain investment funds, listed and unlisted equity investments (collectively referred to as "Investments" for the purpose of this note as well as note 19) which have been formed so that voting or similar rights may not be the dominant factor in deciding who controls these Investments, such as when any voting rights relate to administrative tasks only, and the relevant activities are directed by means of contractual arrangements.

5. Critical Accounting Judgements and Key Sources of Estimation Uncertainty (continued)

Critical judgements in applying accounting policies (continued)

Determination of consolidation scope of certain investments (continued)

All facts and circumstances must be taken into consideration in the assessment of whether the Group, as an investor, controls the Investments. The principle of control sets out the following three elements of control: (a) power over the Investments; (b) exposure, or rights, to variable returns from involvement with the Investments; and (c) the ability to use power over the Investments to affect the amount of the investor's returns.

An investor's initial assessment of control or its status as a principal or an agent would not change simply because of a change in market conditions (e.g. a change in the investee's returns driven by market conditions), unless the change in market conditions changes one or more of the three elements of control listed above or changes the overall relationship between a principal and an agent.

In conducting the assessment to determine the consolidated scope, the directors of the Company considers among others whether the Group has power to remove or control over the party having the ability to direct the relevant activities of the Investments based on the facts and circumstances and that whether the Group has material exposure to variable returns of the Investments or not. Detailed accounting policy on assessment of control are set out in "basis of consolidation" in note 4.

Significant increase in credit risk in measurement of ECL

As explained in note 4, the Group monitors all financial assets that are subject to impairment requirements to assess whether there has been a significant increase in credit risk since initial recognition. If there has been a significant increase in credit risk, the Company will measure the loss allowance based on lifetime rather than 12m ECL. In assessing whether the credit risk of an asset has significantly increased the Group takes into account qualitative and quantitative reasonable and supportable forward-looking information with significant judgments involved. Information that will be taken into account when assessing whatever there is significant increase in credit risks are set out in "Impairment of financial assets" in note 4 and note 45.

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 and financing advisory 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 (loss) 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.

(a) Operating segments

The following tables present the revenue and results for the years ended 31 December 2018 and 2017 and certain assets, liabilities and expenditure information for the Group's operating segments as at 31 December 2018 and 2017 and for the years then ended.

6. Operating Segment Information (continued)

(a) Operating segments (continued)

For the year ended 31 December 2018

	Securities HK$'000	Corporate finance HK$'000	Asset management and direct investment HK$'000	Total HK$'000
Segment revenue				
Commission and fee income	59,602	30,894	110,917	201,413
Interest income	426,463	–	1,288,479	1,714,942
Investment income	–	–	355,200	355,200
	486,065	30,894	1,754,596	2,271,555
Net losses on financial assets at FVTPL	–	–	(1,347,321)	(1,347,321)
Net loss arising from disposal of financial assets at FVTOCI	–	–	(55,629)	(55,629)
Share of result of associates	–	–	19,444	19,444
Gain on disposal of a subsidiary	–	–	5,435	5,435
Other income and gains or losses, net	12,312	(11)	5,292	17,593
	498,377	30,883	381,817	911,077
Segment results	(166,468)	22,560	(1,247,067)	(1,390,975)
Other unallocated income and gains or losses, net				(21,938)
Other unallocated expenses, net				(145,680)
Loss before tax				(1,558,593)
Amounts included in measurement of segment profit or loss:				
Finance costs	(234,892)	–	(1,449,000)	(1,683,892)
Net provision for impairment of advances to customers in margin financing and accounts receivable	(397,150)	–	–	(397,150)
Net provision for impairment of other loans and receivables	–	–	(150,514)	(150,514)
Net reversal of impairment of amount due from an associate	–	–	21,127	21,127
Net reversal of impairment of financial assets at FVTOCI	–	–	4,495	4,495

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$'000	Total HK$'000
Segment revenue				
Commission and fee income	42,598	314,361	115,941	472,900
Interest income	358,632	–	982,101	1,340,733
Investment income	–	–	209,397	209,397
	401,230	314,361	1,307,439	2,023,030
Gain on disposal of AFS investments	–	–	55,358	55,358
Net gains on financial assets at FVTPL	–	–	756,502	756,502
Net loss arising from disposal of subsidiaries	–	–	(292)	(292)
Net gain on deemed disposal of a joint venture entity	–	–	200,705	200,705
Share of result of associates	–	–	1,126	1,126
Other income and gains or losses, net	6,085	357	(121,527)	(115,085)
	407,315	314,718	2,199,311	2,921,344
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
Amounts included in measurement of segment profit or loss:				
Finance costs	(196,291)	–	(947,787)	(1,144,078)
Net reversal of impairment of advances to customers in margin financing and accounts receivable	374	–	–	374
Net provision for impairment of other loans and receivables	–	–	(140,129)	(140,129)
Net Provision for impairment of amount due from an associate	–	–	(30,916)	(30,916)

6. Operating Segment Information (continued)

(a) Operating segments (continued)

As at 31 December 2018

	Securities HK$'000	Corporate finance HK$'000	Asset management and direct investment HK$'000	Total HK$'000
Total segment assets	5,748,615	90,540	28,649,172	34,488,327
Other unallocated assets (note i)				535,517
Total assets				35,023,844
Total segment liabilities	901,501	7,133	8,574,169	9,482,803
Other unallocated liabilities (note ii)				23,470,594
Total liabilities				32,953,397

For the year ended 31 December 2018

	Securities HK$'000	Corporate finance HK$'000	Asset management and direct investment HK$'000	Unallocated HK$'000	Total HK$'000
Other segment information:					
Income tax (expense) credit	(2,840)	(5,460)	(16,795)	101,549	76,454
Net loss on financial liabilities at FVTPL	–	–	(25,881)	–	(25,881)
Depreciation	(1,333)	–	(634)	(6,968)	(8,935)
Additions of property and equipment	136	–	1,198	700	2,034
Investments accounted for using the equity method	–	–	36,694	–	36,694

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
Total segment assets	5,993,311	120,534	35,328,280	41,442,125
Other unallocated assets (note i)				4,882,644
Total assets				46,324,769
Total segment liabilities	1,537,260	363,556	9,870,681	11,771,497
Other unallocated liabilities (note ii)				30,490,450
Total liabilities				42,261,947

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:					
Income tax expenses	(91,000)	(9,419)	(103,845)	(54,122)	(258,386)
Net loss on financial liabilities at FVTPL	–	–	(168,462)	–	(168,462)
Depreciation	(663)	(19)	(826)	(6,035)	(7,543)
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)

Note i: The balance comprises bank balances of HK$421,621,000 (2017: HK$4,749,514,000), prepayments, deposits and other receivables of HK$30,519,000 (2017: HK$116,572,000), tax recoverable of HK$57,440,000 (2017: nil) deferred tax assets of HK$16,418,000 (2017: nil) and property and equipment of HK$9,519,000 (2017: HK$16,558,000).

Note ii: The balance comprises other payables and accruals of HK$242,353,000 (2017: HK$290,539,000), tax payables of nil (2017: HK$57,123,000) and interest-bearing borrowings of HK$23,228,241,000 (2017: HK$30,142,788,000). 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	
	2018	2017	**2018**	2017
	HK$'000	HK$'000	**HK$'000**	HK$'000
Hong Kong	**2,165,838**	1,860,163	**26,106**	56,040
PRC	**105,717**	162,867	**38,622**	13,696
	2,271,555	2,023,030	**64,728**	69,736

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 2018 (2017: nil).

7. Revenue and Other Income and Gains or Losses, Net

	2018 HK$'000	2017 HK$'000
Revenue (note (i))		
Commission and fee income (note (ii)):		
Fee and commission income on securities dealing and broking	**27,637**	23,228
Placing and underwriting fee income	**4,497**	33,678
Consultancy and financing advisory fee income	**152,994**	338,807
Fund subscription and management fee income	**16,050**	54,495
Other service income	**235**	22,692
	201,413	472,900
Interest income:		
Interest income from other loans and receivables	**430,831**	537,439
Interest income from loan to an associate	**62,748**	67,677
Interest income from financial assets at FVTPL	**460,773**	72,764
Interest income from financial assets at FVTOCI	**334,128**	–
Interest income from margin financing activities	**426,462**	358,632
Interest income from AFS investments	**–**	304,221
	1,714,942	1,340,733
Investment income:		
Dividend income	**355,200**	209,397
	2,271,555	2,023,030
Other income and gains or losses, net		
Bank interest income	**39,241**	27,047
Foreign exchange differences, net	**(29,560)**	(45,851)
Net loss on financial liabilities at FVTPL	**(25,881)**	(168,462)
Others	**11,855**	43,056
	(4,345)	(144,210)

Notes:

(i) To better reflect the major revenue sources of the Group and its proportion to the total revenue, the Group has decided to classify revenue items into three major categories: "Commission and fee income", "Interest income" and "Investment income" for the purpose of preparing the consolidated financial statements for the year ended 31 December 2018. Accordingly, comparative information has been reclassified to conform to the current year's presentation.

(ii) The commission and fee income is the only revenue arising under the scope of HKFRS 15, while interest income and investment income are under the scope of HKFRS 9.

Included in revenue, revenue arising from contract with customers recognised at a point in time and over time were HK$32,369,000 and HK$169,044,000, respectively.

All services provided to customers are for periods of one year or less. As permitted under HKFRS 15, the transaction price allocated to these unsatisfied contracts is not disclosed.

8. Impairment Losses, Net of Reversal

	2018 HK$'000	2017 HK$'000
Net provision for impairment of other loans and receivables	**150,514**	140,129
Net (reversal of) provision for impairment of amount due from an associate	**(21,127)**	30,916
Net provision for (reversal of) impairment of advances to customers in margin financing and accounts receivable	**397,150**	(374)
Net reversal of impairment of financial assets at FVTOCI	**(4,495)**	–
	522,042	170,671

9. (Loss) Profit Before Tax

	2018 HK$'000	2017 HK$'000
The Group's (loss) profit before tax is arrived at after charging (crediting):		
Depreciation (note 16)	**8,935**	7,543
Loss (gain) on disposal of items of property and equipment	**244**	(45)
Minimum lease payments under operating leases:		
Office premises	**44,140**	42,803
Office equipment	**207**	216
	44,347	43,019
Provision for reinstatement	**1,095**	2,281
Auditor's remuneration	**4,290**	3,205
Legal and professional fees	**12,206**	10,169
Directors' and chief executive's remuneration (note 11)	**3,623**	8,743
Employee benefit expenses (excluding directors' and chief executive's remuneration (note 11)):		
Salaries and other benefits*	**90,347**	117,249
Retirement benefits (defined contribution scheme)	**2,228**	2,469
Provision for long service payments, net	**94**	126
Provision for unused annual leaves	**298**	1,096

* Approximately HK$197,000 (2017: HK$114,000) was included in "Brokerage and commission expenses" in the consolidated statement of profit or loss.

10. Finance Costs

	2018 HK$'000	2017 HK$'000
Interest on bank borrowings	**571,496**	277,318
Interest on repurchase agreements and other activities	**128,487**	19,284
Interest on borrowings from an intermediate holding company	**934,856**	814,555
Interest on borrowings from the ultimate holding company	**49,053**	47,080
	1,683,892	1,158,237

11. Directors' and Chief Executive's Remuneration

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

	2018 HK$'000	2017 HK$'000
Fees	**930**	894
Other emoluments:		
Salaries and other benefits	**1,444**	2,330
Discretionary bonuses	**1,219**	5,460
Retirement benefits	**30**	59
	2,693	7,849
	3,623	8,743

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)

2018

(a) *Executive directors*

	Chief Executive Officer			Chief Executive Officer			
	Ms. Wang Wei (resigned on 8 January 2018) HK$'000	Mr. Lai Jinyu (resigned on 11 April 2018) HK$'000	Mr. Wang Qiang (resigned on 01 November 2018) HK$'000	Mr. Niu Shaofeng (appointed on 8 January 2018 and resigned on 16 November 2018) HK$'000	Mr. Xu Yong (appointed on 11 April 2018) HK$'000	Mr. Bai Junjie (appointed on 01 November 2018) HK$'000	Total 1 January to 31 December 2018 HK$'000
Fees	–	–	–	–	–	–	–
Other emoluments:							
Salaries, allowances and benefits in kind	–	53	594	91	587	119	1,444
Discretionary bonuses	–	–	233	83	692	211	1,219
Retirement benefits	–	3	15	–	12	–	30
Sub-total	–	56	842	174	1,291	330	2,693

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*

	Ms. Fan Haibo (resigned on 16 March 2018) HK$'000	Total 1 January 2018 to 31 December 2018 HK$'000
Fees	–	–
Other emoluments:		
Salaries, allowance and benefits in kind	–	–
Discretionary bonuses		
Retirement benefits	–	–
Sub-total	–	–

11. Directors' and Chief Executive's Remuneration (continued)

2018 (continued)

(c) Independent non-executive directors

	Dr. Wong Tin Yau Kelvin HK$'000	Mr. Ma Li Shan HK$'000	Mr. Guan Huanfei HK$'000	Total 1 January 2018 to 31 December 2018 HK$'000
Fees	320	310	300	930
Other emoluments:				
Salaries, allowances and benefits in kind	–	–	–	–
Discretionary bonuses	–	–	–	–
Retirement benefits	–	–	–	–
Sub-total	320	310	300	930

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

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$'000	Total 1 January 2017 to 31 December 2017 HK$'000
Fees	–	–	–	–	–	–
Other emoluments:						
Salaries, allowances and benefits in kind	327	217	576	704	506	2,330
Discretionary 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.

11. Directors' and Chief Executive's Remuneration (continued)

2017 (continued)

(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	Ms. Fan Haibo (appointed on 27 September 2017) HK$'000	Total 1 January 2017 to 31 December 2017 HK$'000
Fees	–	–	–	–
Other emoluments:				
Salaries, allowance and benefits in kind	–	–	–	–
Discretionary bonuses	–	–	–	–
Retirement benefits	–	–	–	–
Sub-total	–	–	–	–

(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 bonuses	–	–	–	–	–
Retirement benefits	–	–	–	–	–
Sub-total	306	108	298	182	894

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

There was no arrangement under which a director or the chief executive waived or agreed to waive any remuneration during the year (2017: nil).

12. Five Highest Paid Employees

Details of the remuneration for the year ended 31 December 2018 of the five (2017: five) highest paid employees who are non-directors of the Company are as follows:

	2018 HK$'000	2017 HK$'000
Salaries and other benefits	**8,504**	8,523
Retirement benefits	**87**	122
	8,591	8,645

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

	2018 Number of employees	2017 Number of employees
HK$1,000,001 to HK$1,500,000	**–**	1
HK$1,500,001 to HK$2,000,000	**5**	3
HK$2,000,001 to HK$2,500,000	**–**	1
HK$2,500,001 to HK$3,000,000	**–**	–
	5	5

13. Income Tax (Credit) Expense

	2018 HK$'000	2017 HK$'000
Current tax:		
Hong Kong	**128,458**	186,384
PRC	**221**	13,412
	128,679	199,796
Overprovision in prior year:		
— Hong Kong	**(165)**	(39)
Deferred tax (note 32)	**(204,968)**	58,629
	(76,454)	258,386

13. Income Tax (Credit) Expense (continued)

On 21 March 2018, the Hong Kong Legislative Council passed The Inland Revenue (Amendment) (No. 7) Bill 2017 (the "Bill") which introduces the two-tiered profits tax rates regime. The Bill was signed into law on 28 March 2018 and was gazetted on the following day. Under the two-tiered profits tax rates regime, the first HK$2 million of profits of the qualifying group entity will be taxed at 8.25%, and profits above HK$2 million will be taxed at 16.5%. The profits of group entities not qualifying for the two-tiered profits tax rates regime will continue to be taxed at a flat rate of 16.5%.

The directors of the Company considered the amount involved upon implementation of the two-tiered profits tax rates regime as insignificant to the consolidated financial statements. Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profit for both years.

Hong Kong Profits Tax has been provided at the rate of 16.5% (2017: 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.

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

	2018 **HK$'000**	2017 HK$'000
(Loss) profit before tax	**(1,558,593)**	1,264,029
Tax at the statutory tax rate of 16.5% (2017: 16.5%)	**(257,168)**	208,565
Tax effect of income not taxable for tax purpose	**(9,238)**	(6,813)
Tax effect of share of profit of associates	**(3,208)**	–
Tax effect of expenses not deductible for tax purpose	**4,255**	30,724
Tax effect of deductible temporary differences not recognised	**16,807**	11,015
Overprovision in respect of prior years	**(165)**	(39)
Utilisation of tax losses previously not recognised	**(23,425)**	(27,234)
Tax effect of tax losses not recognised	**191,189**	41,780
Effect of different tax rates of subsidiaries	**4,499**	1,102
Others	**–**	(714)
Income tax (credit) expense	**(76,454)**	258,386

14. Dividends

	2018 HK$'000	2017 HK$'000
Dividends for ordinary shareholders of the Company recognised as distribution during the year:		
2017 Final — HK1.7 cents per share	61,004	–
	61,004	–

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. The final dividend was paid on 20 June 2018, with a total of approximately HK$61 million.

The directors of the Company do not recommend the payment of any dividend for the year.

15. (Loss) Earnings Per Share Attributable to Owners of the Company

The calculation of basic (loss) earnings per share attributable to the owners of the Company are based on the following data:

	2018 HK$'000	2017 HK$'000
(Loss) earnings		
(Loss) profit for the year attributable to owners of the Company used as (loss) earnings for the purpose of basic (loss) earnings per share	(1,548,222)	964,093

	Number of shares 2018 '000	2017 '000
Number of shares		
Weighted average number of ordinary shares for the purpose of basic (loss) earnings per share	3,588,466	3,563,335

No diluted (loss) earnings per share was presented for both years because there were no potential dilutive ordinary shares during both the current and prior years.

16. Property and Equipment

	Leasehold improvements HK$'000	Furniture, equipment and motor vehicles HK$'000	Total HK$'000
31 December 2018			
COST			
At 1 January 2018	24,428	20,111	44,539
Additions	87	1,947	2,034
Disposals	–	(3,532)	(3,532)
Exchange difference	51	(24)	27
At 31 December 2018	24,566	18,502	43,068
ACCUMULATED DEPRECIATION AND IMPAIRMENT			
At 1 January 2018	(10,290)	(12,222)	(22,512)
Depreciation provided during the year	(5,720)	(3,215)	(8,935)
Eliminated on disposal	–	1,664	1,664
Exchange difference	–	16	16
At 31 December 2018	(16,010)	(13,757)	(29,767)
CARRYING VALUES			
At 31 December 2018	8,556	4,745	13,301

16. Property and Equipment (continued)

	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

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

	2018 HK$'000	2017 HK$'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	**316**	1,044
Deposit with the Reserve Fund of SEHK Options Clearing House Limited	**1,718**	1,874
Deposit with the Reserve Fund of Hong Kong Futures Exchange Clearing Corporation Limited	**1,500**	1,539
	4,327	5,250

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 39)	–	(1,462)	(1,462)
At 31 December 2017 and 31 December 2018	20,171	966	21,137
ACCUMULATED IMPAIRMENT			
At beginning and end of year	17,821	–	17,821
CARRYING VALUES			
At 31 December 2017 and 31 December 2018	2,350	966	3,316

18. Intangible Assets (continued)

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 2018 and 2017.

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 2018 and 2017.

19. Financial Assets (Liabilities) at Fair Value Through Profit or Loss

	2018 HK$'000	2017 HK$'000
Assets		
Non-current:		
— Unlisted convertible bonds and convertible notes (notes (i))	–	2,136,536
— Unlisted fund investments (note (iii))	1,719,076	2,759,746
	1,719,076	4,896,282
Current:		
— Listed preference shares	3,173,540	469,080
— Unlisted preference shares (note (iv))	360,000	–
— Unlisted convertible bonds and convertible notes (notes (i))	1,675,555	79,394
— Unlisted convertible bonds with put option (notes (ii))	192,500	398,302
— Unlisted fund investments (note (iii))	5,341,891	–
— Listed equity investments	2,247,212	2,883,081
— Listed debt investments	474,693	101,209
— Unlisted put options on listed equity investments, at fair value (note (iv))	231,729	272,852
— Unlisted put options on unlisted equity investments, at fair value (note (iv))	–	17,513
	13,697,120	4,221,431
Liabilities		
Current:		
Payables to interest holders of unlisted consolidated investment funds, measured at FVTPL (note (v))	401,429	194,981
Non-current:		
Payables to interest holders of unlisted consolidated investment fund, measured at FVTPL (note (v))	–	223,762

19. Financial Assets (Liabilities) at Fair Value Through Profit or Loss (continued)

(i) The unlisted convertible notes with the principal amount of US$30,000,000 or equivalent to HK$233,625,000 (2017: US$40,000,000 or equivalent to HK$310,660,000) with fixed interest rate of 4.5% per annum payable semi-annually and conversion price of HK$3.00 (2017: HK$3.00) per share, was issued by a listed company in Hong Kong with the due date on 10 March 2019 (the "Convertible Note 1"). During the current year, the Convertible Note 1 with principal amount of US$10,000,000 (2017: nil) were converted into shares. As at 31 December 2018, the fair value of the Convertible Note 1 is HK$310,178,000 (2017: HK$557,775,000), which was estimated by an independent firm of professional valuers.

Subsequent to the current year end, the Group has entered the sales and purchases agreement with an independent individual on 3 March 2019 to dispose of the Convertible Note 1 with the consideration of US$52,000,000 or equivalent to HK$405,600,000, subject to the completion condition of (i) obtaining the consent of the issuer of Convertible Note 1 and (ii) the purchaser's fulfilment of the obligations under the payment arrangement letter entered into between the purchaser and the Group. Up to the date of this report, the transaction has been completed and fully settled.

The unlisted convertible notes with the principal amount of HK$500,000,000 (2017: HK$500,000,000) with a fixed interest rate of 7% per annum payable semi-annually and initial contractual conversion price of HK$3.476 (2017: HK$3.476) per share, was issued by a listed company in Hong Kong with the due date on 20 May 2019 (the "Convertible Note 2"). The conversion price of Convertible Note 2 has been subsequently adjusted to HK$0.6952 per share due to the corporation action of shares subdivision conducted by the listed issuer. As at 31 December 2018, the fair value of the Convertible Note 2 is HK$523,149,000 (2017: HK$757,472,000), which was estimated by an independent firm of professional valuers.

The unlisted convertible notes with the principal amount of HK$75,000,000 (2017: HK$75,000,000) with the fixed interest rate of 5% per annum payable semi-annually and conversion price of HK$0.675 (2017: HK$0.675) per share, was issued by a listed company in Hong Kong with the due date on 25 October 2018 (the "Convertible Note 3") and it has not yet been settled. The convertible option expired on the due date. As at 31 December 2018, the fair value of the instrument amounted to approximately HK$52,500,000 (2017: HK$79,394,000), which was determined based on discounted cash flow by taking into account of the credit risk of the issuer and the management judgement on the debt restructuring status and future development.

The unlisted convertible bonds with the principal amount of HK$800,000,000 (2017: HK$800,000,000) with a fixed interest rate of 7% per annum for the first year and 8% per annum for the second year up to maturity date and payable semi-annually with conversion price of HK$3.27 (2017: HK$3.27) per share, was issued by a listed company in Hong Kong with the due date on 31 December 2019 (the "Convertible Note 4"). As at 31 December 2018, the fair value of the Convertible Note 4 is HK$789,728,000 (2017: HK$821,289,000), which was estimated by an independent firm of professional valuers.

19. Financial Assets (Liabilities) at Fair Value Through Profit or Loss (continued)

(ii) As at 31 December 2018, the unlisted convertible bonds with principal amount of HK$275,000,000 (2017: HK$275,000,000) with the fixed interest rate of 4% per annum payable quarterly and initial contractual conversion price of HK$0.77 (2017: HK$ $0.77) per share, was issued by a listed company in Hong Kong with the due date on 12 November 2018 (the "Convertible Note 5") and it has yet been settled. The conversion price of Convertible Note 5 has been subsequently changed to HK$3.85 per share due to the revised investment agreement. Put option in relation to the convertible bonds was granted by an independent third party to the Group and was expired as at 31 December 2018. As at 31 December 2018, the fair value of the put option amounted to nil (2017: HK$83,270,000). As at 31 December 2018, the fair value of the Convertible Note 5 amounted to approximately HK$192,500,000 (2017: HK$315,032,000), which was determined based on discounted cash flow by taking into account of the credit risk of the issuer and the management judgement on the debt restructuring status and future development.

(iii) As at 31 December 2018, included in financial assets at FVTPL are unlisted fund investments of approximately HK$7,060,967,000 (2017: HK$2,759,746,000) 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 to transfer the unlisted fund investment of approximately HK$1,719,076,000 to third parties within the next twelve months and has accordingly classified them as non-current assets. Subsequent to the current year end but before the reporting date, there are distribution and redemption of capital investment totally of approximately HK$3,690,996,000 from four investment funds managed by independent fund managers.

(iv) In the prior year, the Group purchased listed securities together with a put option ("Put Option 1") 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 have not been sold till then, at a price determined in accordance with the put option agreement. As at 31 December 2018, Put Option 1 has been expired and the fair value of the Put Option 1 amounted to nil as at 31 December 2018 (2017: HK$49,213,000).

As at 31 December 2018, the principal amount of the unlisted preferences shares with a put option ("Put Option 2") at an aggregate consideration was approximately HK$900,000,000 (2017: 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. The fair value of Put Option 2 amounted to approximately HK$17,513,000 as at 31 December 2017, which was estimated by an independent firm of professional valuer. As at 31 December 2017, the preference shares have been presented in available-for-sale investments in note 20. As at initial application date of HKFRS 9, it has been classified as financial assets at FVTPL as set out in note 3.

19. Financial Assets (Liabilities) at Fair Value Through Profit or Loss (continued)

(iv) (continued)

During the current year, the issuer has failed to pay the first annual preferential dividends of HK$54,000,000 which was due and payable to the Group on 9 June 2018. On 21 June 2018, the Group delivered a put option notice to the issuer according to the event of default put option stated in the relevant agreements with a total put price of HK$976,500,000. According to the relevant agreement, the transaction is required to be settled within 7 business days after the date of the put notice is delivered and the preference shares will be transferred only when it is settled. As at 31 December 2018, the transaction was not settled and the preference shares are not transferred. Accordingly, the transaction is considered not yet completed. The fair value of the unlisted preferences shares amounted to approximately HK$360,000,000, which was determined based on discounted cash flow by taking into account of the credit risk of the issuer.

In the prior year, the Group purchased listed securities together with a put option ("Put Option 3") at an aggregate consideration of approximately HK$181,073,000. 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 have not been sold till then, at a price determined in accordance with the put option agreement. The fair value of the Put Option 3 amounted to approximately HK$75,380,000 as at 31 December 2018 (2017: HK$84,461,000), which was estimated by an independent firm of professional valuers.

In the prior year, the Group purchased listed securities together with a put option ("Put Option 4") at an aggregated consideration of approximately HK$728,671,000. 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 have not been sold till then, at a price determined in accordance with the put option agreement. The fair value of the Put Option 4 amounted to approximately HK$119,410,000 as at 31 December 2018 (2017: HK$135,622,000), which was estimated by an independent firm of professional valuers.

As at 31 December 2018, the Group held two put option contracts in relation to listed securities with the fair value of HK$36,939,000 (2017: HK$3,556,000), which was estimated by an independent firm of professional valuers.

The day 1 gain arising from the relevant put option investments with the underlying assets of listed securities have been amortised in accordance with the terms of instruments as disclosed in Note 30 (iii).

19. Financial Assets (Liabilities) at Fair Value Through Profit or Loss (continued)

(v) As at 31 December 2018 and 31 December 2017, included in financial liabilities at FVTPL are the payables to interest holders of unlisted consolidated investment funds.

As at 31 December 2018 and 31 December 2017, a wholly-owned subsidiary of the Group held 65% interests in Paragon Resort Fund L.P. (the "PRF Fund") as a limited partner (the "First-Tier Limited Partner of the PRF Fund"). According to the limited partnership agreement, at the end of the term of the PRF Fund, the First-Tier Limited Partner of the PRF Fund will be entitled to a priority return of its own capital contribution and a 8% preferred return; thereafter the second-tier limited partner is entitled to return of its own capital contribution. Thereafter, 60% and 40% of the residual amount of the consolidated investment fund will be distributed to First-Tier Limited Partner of the PRF Fund and second-tier limited partner, respectively. Accordingly, the interests of the second-tier limited partner in the consolidated investment fund are classified as financial liabilities measured at FVTPL of approximately HK$95,727,000 as at 31 December 2018 (2017: HK$51,121,000).

As at 31 December 2018 and 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 measured at FVTPL of approximately HK$226,726,000 as at 31 December 2018 (2017: HK$143,860,000).

As at 31 December 2018 and 31 December 2017, a wholly-owned subsidiary of the Group held 90% interests in Growth Fund mentioned in note (i) 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 its investment, i.e. a convertible note mentioned in note (i), 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 measured at FVTPL of approximately HK$78,976,000 as at 31 December 2018 (2017: HK$223,762,000).

The Group did not provide any financial support to the above unlisted consolidated investment funds during the years ended 31 December 2018 and 2017.

20. Available-For-Sale Investments

	2018 HK$'000	2017 HK$'000
Non-current:		
Listed debt investments, at fair value	–	3,891,956
Unlisted fund investments, at fair value	–	2,815,649
Unlisted equity investment, at fair value	–	903,639
	–	7,611,244
Current:		
Listed equity investments, at fair value	–	1,537,308
Listed debt investments, at fair value	–	5,282,534
Unlisted equity investment, at fair value	–	214,467
	–	7,034,309
	–	14,645,553

During the year ended 31 December 2017, the loss in respect of changes in fair value of the Group's AFS investments recognised in other comprehensive income amounted to approximately HK$5,039,000. During the year ended 31 December 2017, the Group disposed of AFS investments with proceeds of approximately HK$5,764,696,000 to independent third parties, a gain of approximately HK$55,358,000 was reclassified from other comprehensive income to profit or loss upon disposal.

Upon application of HKFRS 9 on 1 January 2018, the Group's listed preference share investments, listed debt investments, unlisted equity investments and unlisted fund investments of HK$7,782 million were reclassified from AFS investments to financial assets at FVTPL.

In addition, listed debt investments and unlisted equity investments amounting to HK$6,863 million were reclassified from AFS investments to financial assets at FVTOCI. Details of the reclassification are set out in note 3.

Details of disclosure for fair value measurement are set out in note 44.

21. Financial Assets at Fair Value Through Other Comprehensive Income

	2018 HK$'000	2017 HK$'000
Non-current:		
Listed debt investments, at fair value	2,716,175	–
Current:		
Listed debt investments, at fair value	2,908,508	–
	5,624,683	–

During the year, the loss in respect of changes in fair value of the Group's financial assets at FVTOCI recognised in other comprehensive income amounted to approximately HK$426,153,000. During the year, the Group disposed of financial assets at FVTOCI with proceeds of approximately HK$1,935,773,000 to independent third parties, and a loss of approximately HK$55,629,000 was reclassified from other comprehensive income to profit or loss upon disposal.

Interest income derived from financial assets at FVTOCI was recognised as "interest income from financial assets at FVTOCI" within "revenue".

Details of credit risk, analysis of the gross carrying amount financial assets at FVTOCI and movements in the provision for impairment are set out in note 45.

22. Investments Accounted for Using the Equity Method and Amount Due from an Associate

	2018 **HK$'000**	2017 HK$'000
Associates:		
Cost of unlisted investments in associates	**17,062**	17,062
Share of result of associates	**20,570**	1,126
Exchange differences	**(938)**	477
	36,694	18,665

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

Name of entity	Country of incorporation	Interest held by the Group As at 31 December 2018	As at 31 December 2017	Principal activities
Hua Rong Bo Run International Investment Holdings Limited	HK	**40%**	40%	Investment holding
華融柏潤(珠海)資產管理有限公司	PRC	**40%**	40%	Asset management and advisory services for mergers and acquisitions

The share of (loss) profit arisen from Hua Rong Bo Run International Investment Holdings Limited and 華融柏潤(珠海)資產管理有限公司 for the year ended 31 December 2018 was loss of HK$8,164,000 (2017: profit of HK$164,000), and profit of HK$27,608,000 (2017: profit of HK$962,000) respectively.

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

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 an AFS 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 loan provided by Concept Pioneer Limited, a subsidiary of the company, to Gold Brilliant Investment Limited has been reclassified to "Other loans and receivables" with the balance of HK$497,542,000 as at the prior year end. During the year, the Group has disposal of Concept Pioneer Limited to an external third party. Details have been set out in note 39.

The carrying amount of amount due from an associate, Hua Rong Bo Run International Investment Holdings Limited, was approximately HK$318,838,000 (2017: HK$1,532,328,000) as at 31 December 2018 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$1,720,000 (2017: HK$11,735,000) which are expected to be received within the next twelve months. The gross carrying amount of amount due from associate was HK$330,347,000 (2017: HK$1,574,979,000) as at 31 December 2018. During the year, there is a reversal of impairment of amount due from an associate amounting to HK$21,127,000 (2017: provision for impairment of HK$30,916,000) due to the repayment from an associate. The carrying amount of amount due from an associate was net of provision for impairment of HK$9,789,000 (2017: HK$30,916,000).

23. Other Loans and Receivables

	2018 HK$'000	2017 HK$'000
Other loans and receivables	**6,614,053**	9,493,366
Less: Provision for impairment	**(342,843)**	(190,206)
	6,271,210	9,303,160
Secured	**6,032,149**	8,463,519
Unsecured	**239,061**	839,641
	6,271,210	9,303,160
Analysed as:		
Current	**5,979,776**	4,149,535
Non-current	**291,434**	5,153,625
	6,271,210	9,303,160

As at 31 December 2018, other loans and receivables included loans to independent third parties which are secured and/or backed by guarantees and collaterals, with contractual interest rates ranging from 5% to 14% per annum (2017: 2% to 11% per annum) with contractual maturity date up to two years from 31 December 2018 (2017: up to three years).

As at 31 December 2018, other loans and receivables with carrying amount of approximately HK$6,032,149,000 (2017: HK$8,463,519,000) are 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. Subsequent to the current year end but before the reporting date, there are subsequent settlement of approximately HK$531,833,000 from borrowers.

As at 31 December 2018, unsecured other loans and receivables included a redeemable fixed coupon notes with carrying amount of HK$239,061,000 (2017: HK$334,013,000) and other loans and receivables with personal or corporate guarantees with carrying amount of nil (2017: HK$505,628,000). The contractual maturity date is up to six months from 31 December 2018 (2017: six months). The contractual interest rate is 8.5% per annum (2017: ranging from 3.6% to 8.5% per annum).

23. Other Loans and Receivables (continued)

As at 31 December 2018, the Group has concentration of credit risk as 58% (2017: 47%) of the total other loans and receivables was due from the Group's five largest borrowing customers. Interest income derived from other loans and receivables was recognised as "interest income from other loans and receivables" within "revenue".

Regular reviews on these loans are conducted by the risk management department based on the latest status of these loans, and the latest announced or available information about the borrowers and the underlying collateral held. Apart from collateral monitoring, the Group seeks to maintain effective control over its loans in order to minimise credit risk by regularly reviewing the borrowers' and/or guarantors' financial positions.

As at 31 December 2018, included in the Group's loan receivables balance are borrowers with aggregate carrying amount of HK$1,016,379,000 which are past due as at the reporting date, of which HK$1,004,637,000 has been past due 90 days or more. The directors of the Company considers those past due more than 90 days are considered as credit impaired. Subsequent to the current year end but before the reporting date, there are subsequent settlement of approximately HK$11,742,000 from borrower which are past due as at reporting date. As at 31 December 2017, there are no loans and receivables that are past due but not impaired.

31 December 2017

	Total HK$'000
As at 1 January 2017	50,077
Provision for impairment losses	140,129
As at 31 December 2017	190,206

Details of credit risk, analysis of the gross carrying amount of other loans and receivables and movements in the provision for impairment are set out in note 45.

23. Other Loans and Receivables (continued)

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

	2018 HK$'000	2017 HK$'000
Hong Kong Dollar	**3,032,459**	5,896,571
United States Dollar ("USD")	**1,480,310**	1,220,999
Chinese Yuan Renminbi ("RMB")	**1,758,441**	2,185,590
	6,271,210	9,303,160

24. Advances to Customers in Margin Financing

	2018 HK$'000	2017 HK$'000
Loans to customers in margin financing	**4,470,932**	4,949,148
Less: provision for impairment	**(398,508)**	(929)
	4,072,424	4,948,219

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

Movements in provision

31 December 2017

	Total HK$'000
As at 1 January 2017	1,323
Reversal of impairment losses, net	(394)
As at 31 December 2017	929

24. Advances to Customers in Margin Financing (continued)

Details of credit risk, analysis of the gross carrying amount of advances to customers and movements in the provision for impairment are set out in note 45.

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.

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 2018 and 2017. The loans are repayable on demand subsequent to settlement date and normally carry interest at Hong Kong Prime Rate + 1% to Hong Kong Prime Rate + 15% per annum (2017: Hong Kong Prime Rate + 2.5% to Hong Kong Prime Rate + 7.25% 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 61% (2017: 54%) of the total loans to securities margin clients due from the Group's five largest securities margin clients.

25. Accounts Receivable

	2018 HK$'000	2017 HK$'000
Accounts receivable from:		
— securities, futures and options dealing services		
— clients	**4,832**	7,653
— brokers, dealers and clearing houses	**135,262**	7,845
— corporate finance	**20,264**	56,368
— asset management	**320**	7,531
	160,678	79,397
Provision for impairment	**(331)**	(243)
	160,347	79,154

Accounts receivable from clients, brokers, dealers and clearing houses arising from the business of dealing in securities are repayable on demand subsequent to settlement date and bear varible interests at commercial rates. The normal settlement terms of accounts receivable arising from the business of dealing in securities are two days after trade date or at specific terms agreed with clients, brokers, dealers and accounts receivable arising from the business of dealing in futures and options are one day after trade date.

Normal settlement terms of accounts receivable arising from the business corporate finance and asset management are determined in accordance with the agreed terms, usually within 3 months after the service was provided.

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

	2018 HK$'000	2017 HK$'000
0–30 days	**154,975**	75,199
31–90 days	**444**	1,734
91–365 days	**4,066**	2,158
Over 365 days	**862**	63
	160,347	79,154

25. Accounts Receivable (continued)

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

	2018 HK$'000	2017 HK$'000
At beginning of year	243	223
Provision for impairment losses, net	88	20
At end of year	331	243

As at 31 December 2018, included in the Group's accounts receivable balance are debtors with aggregate carrying amount of HK$21,028,000 which are past due as at the reporting date. Subsequent to the current year end but before the reporting date, there are subsequent settlement of approximately HK$12,153,000 from debtors. Out of the past due balances, HK$4,928,000 has been past due 90 days or more and is considered as in default.

As at 31 December 2018, accounts receivable amounted to HK$20,584,000 are arising from corporate finance and assets management business which is under the scope of HKFRS 15. The Group performs impairment assessment under lifetime ECL upon application of HKFRS 9 (2017: incurred loss) on these balances individually for debtors. No allowance for ECL is made as the amount involved is insignificant.

For remaining accounts receivable, ECL assessments have been performed by considering the historical credit loss experience, general economic conditions, status of subsequent settlement, probability of default, forward-looking information and future cash flow of each project individually. Included in the above provision for impairment of accounts receivable is the provision for individually impaired accounts receivable of approximately HK$331,000 (2017: HK$243,000).

The ageing analysis of the accounts receivable that are past due but not impaired is as follows:

	2017 HK$'000
Less than 30 days past due	34,137
31–90 days past due	1,734
91–365 days past due	2,158
Over 365 days past due	63
	38,092

25. Accounts Receivable (continued)

For accounts receivable from clients that are overdue as at 31 December 2017, 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 Group has concentration of credit risk of a broker included in accounts receivable balance which is deposited with a financial institution that represents 57% (2017: nil) of the Group's accounts receivable balance.

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

	2018 **HK$'000**	2017 HK$'000
Hong Kong Dollar	**53,114**	42,168
United States Dollar ("USD")	**106,087**	35,789
Chinese Yuan Renminbi ("RMB")	**1,146**	1,197
	160,347	79,154

26. Prepayments, Deposits and Other Receivables and Interest Receivable

	2018 **HK$'000**	2017 HK$'000
Non-current portion:		
Deposits	**11,417**	11,417
Other receivables (Note (a))	**–**	9,061
	11,417	20,478
Current portion:		
Prepayments	**30,362**	46,551
Deposits	**14,373**	48,389
Other receivables (Note (a))	**43,505**	57,839
	88,240	152,779
	99,657	173,257
Interest receivable (Note (b))	**16,872**	184,435

26. Prepayments, Deposits and Other Receivables and Interest Receivable (continued)

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"), one of the existing owners of the Company, 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 14 of the annual report for the year ended 31 December 2015.

As at 31 December 2017 and 2018, the directors of the Company considered the recoverability of the amount due from Mr. Cui is satisfactory.

(b) Interest receivable represents interest income receivable from bank deposits (2017: interest receivable represents the interest income receivable from bank deposits, financial assets at FVTPL and AFS investments.). The interest receivable from financial assets at FVTPL has been reclassified to financial assets at FVTPL in current year.

27. 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.

28. Cash and Cash Equivalents and Pledged Bank Deposits

	2018 **HK$'000**	2017 HK$'000
Cash and balances with financial institutions	**2,401,797**	3,524,781
Pledged bank deposits	**–**	1,898,063
	2,401,797	5,422,844
Less: Pledged deposits for bank loans (note 31)	**–**	(1,898,063)
Cash and cash equivalents	**2,401,797**	3,524,781

At the end of the reporting period, the cash and balances with financial institutions of the Group denominated in RMB amounted to approximately HK$21,183,000 (2017: HK$77,440,000) 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.

29. Accounts Payable

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

	2018 **HK$'000**	2017 HK$'000
Current to 1 month	**2,269,848**	3,758,807

As at 31 December 2018, included in the accounts payable is the accounts payable to financial institutions of approximately HK$1,869,089,000 (2017: HK$2,950,110,000) which is maintained for investment trading. The balance is interest bearing at the rates ranging from 2.8% to 3.9% per annum (2017: 2.1% to 2.8%).

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 2018, accounts payable with carrying amount of approximately HK$398,402,000 (2017: HK$686,662,000) are interest-bearing at bank savings deposit rates.

30. Other Liabilities, Payables and Accruals

	2018 HK$'000	2017 HK$'000
Current portion:		
Other payables	**2,381**	4,437
Interest payables (note (i))	**228,484**	242,964
Accruals (note (ii))	**35,550**	54,444
Receipt in advance	**31,417**	88,402
Deferred income (note (iii))	**103,276**	64,331
	401,108	454,578
Non-current portion:		
Other payables	**3,618**	1,322
Deferred income (note (iii))	**35,404**	210,098
	39,022	211,420

Notes:

(i) Included in interest payables are the interest payables of HK$205,866,000 (2017: HK$201,741,000) in relation to the loan from the intermediate holding company of an aggregate amount of US$2,763,331,000 (2017: US$2,379,680,000) at annual interest rates of ranging from 3.85% to 7.98% (2017: 3.85% to 6.02%) and interest payables of HK$7,209,000 (2017: HK$2,981,000) in relation to the loan from the ultimate holding company of an aggregate amount of RMB1,569,000,000 (2017: RMB500,000,000) at annual interest rates of ranging from 6.87% to 6.97% (2017: 5.7% to 6.1%) and HK$15,409,000 (2017: HK$38,242,000) interest payable in relation to bank borrowings.

(ii) Accruals mainly represent HK$22,183,000 (2017: HK$30,140,000) salaries and bonus payable.

(iii) As at 31 December 2018, 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 in 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 deferred gain and amortised to the profit or loss in accordance with the manner consistent with the nature of the key unobservable input of expected volatility. A reconciliation of day 1 gain is set out as follows:

	HK$'000
Aggregate differences to be recognised in profit or loss at the beginning of the period	274,429
Credited to profit or loss (note)	(135,749)
Aggregate differences to be recognised in profit or loss at the end of the period	138,680

Note: The Group has recognised HK$135,749,000 in profit or loss during the year due to the amortisation of day 1 gain, the exercise and expiry of options.

31. Interest-Bearing Borrowings

	2018 HK$'000	2017 HK$'000
Bank loans	**2,042,304**	13,835,491
	2,042,304	13,835,491
Loan from the ultimate holding company	**1,790,687**	598,150
Loan from an intermediate holding company	**21,644,937**	18,604,336
	25,477,928	33,037,977
Secured	**159,000**	1,997,039
Unsecured	**25,318,928**	31,040,938
	25,477,928	33,037,977
The carrying amounts of the above borrowings are repayable*:		
Within one year	**12,456,782**	14,360,202
Within a period of more than one year but not exceeding two years	**2,238,964**	5,871,071
Within a period of more than two years but not exceeding five years	**7,739,009**	10,011,216
Within a period of more than five years	**3,043,173**	2,795,488
	25,477,928	33,037,977
The carrying amounts of bank loans that contain a repayment on demand clause (shown under current liabilities) but repayable:		
Within one year	**2,042,304**	12,198,452
Within a period of more than two years but not exceeding five years	**–**	1,637,039
	2,042,304	13,835,491
Amounts due within one year shown under current liabilities	**10,414,478**	2,161,750
Amounts shown under current liabilities	**12,456,782**	15,997,241
Amounts shown under non-current liabilities	**13,021,146**	17,040,736
	25,477,928	33,037,977

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

31. Interest-Bearing Borrowings (continued)

As at 31 December 2018, the Group had loans (the "Company Loans") amounting to approximately US$2,763,331,000 (equivalent to approximately HK$21,644,937,000) (2017: US$2,379,680,000 (equivalent to approximately HK$18,604,336,000)) from its intermediate holding company, CHIH and RMB1,569,000,000 (equivalent to approximately HK$1,790,687,000) (2017: RMB500,000,000 (equivalent to approximately HK$598,150,000)) from the ultimate holding company, China Huarong for the operation of the Group's business. The Company Loans bear interest at fixed interest rates ranging from 3.85% to 7.98% per annum (2017: 3.85% to 6.1% per annum) and are repayable in one month to nine years (2017: one month to ten years) from the end of the reporting period.

As at 31 December 2018, the Group has utilised bank loan facilities amounting to nil (2017: RMB1,368,417,000 (equivalent to approximately HK$1,637,039,000)) which are secured by pledge of the Group's time deposits with carrying amount of approximately nil (2017: HK$1,898,063,000) and repayable on demand.

In addition, bank borrowings of HK$159,000,000 (2017: HK$360,000,000) are secured by the listed shares (held by the Group as security for advances to customers in margin financing with the customers' consent) as at 31 December 2018. The Company had provided corporate guarantees in respect of the Group's utilised banking facilities to the extent of HK$459,000,000 (2017: HK$660,000,000). 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 nil (2017: US$40,000,000 (equivalent to approximately HK$312,720,000)).

As at 31 December 2018, the Group has undrawn bank facilities of approximately HK$2,845,975,000 (2017: HK$1,963,232,000), and the Group utilised approximately HK$2,042,304,000 (2017: HK$13,835,491,000) of these banking facilities.

The bank borrowings as at 31 December 2018 carry variable interest at Hong Kong Interbank Offered Rate ("HIBOR") plus 1.70% to 2.40% and London Interbank Offered Rate ("LIBOR") plus 1.55% to 2.40% per annum (2017: HIBOR plus 1.70% to 2.40%, LIBOR plus 1.55% to 2.40% per annum and fixed rate ranging from 4.90% to 5.39%).

32. Deferred Taxation

	2018 **HK$'000**	2017 HK$'000
Deferred tax assets	**110,990**	8,522
Deferred tax liabilities	**(63,602)**	(166,102)
	47,388	(157,580)

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

	Temporary difference on provision for impairment of advances to customers in margin financing, other loans and receivables and accounts receivable HK$'000	**Tax losses** HK$'000	**Temporary difference on net unrealised gain on financial assets/ liabilities at FVTPL** HK$'000	**Total** HK$'000
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)
At 1 January 2018	**8,522**	**–**	**(166,102)**	**(157,580)**
Credit to profit or loss	**745**	**101,723**	**102,500**	**204,968**
At 31 December 2018	**9,267**	**101,723**	**(63,602)**	**47,388**

At the end of the reporting period, the Group has unused tax losses of approximately HK$1,901,290,000 (2017: HK$268,034,000) available indefinitely for offsetting against future taxable profits of the companies in which the losses arose. A deferred tax asset has been recognised in respect of HK$616,500,000 (2017: nil) of such losses. No deferred tax asset has been recognised in respect of the remaining HK$1,284,790,000 (31 December 2017: HK$268,034,000) due to the unpredictability of future profit streams. The Group does not have tax losses arising in the PRC as at 31 December 2018 (2017: nil).

32. Deferred Taxation (continued)

At 31 December 2018, the Group has deductible temporary differences of HK$218,697,000 (2017: HK$116,835,000). 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 2018, 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 PRC 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 2018, 31 December 2017 and 1 January 2017	1,000,000,000	1,000,000
Issued and fully paid:		
At 1 January 2017	3,338,108	3,338
Shares issued upon rights issue (note (a))	250,358	250
At 31 December 2017, 1 January 2018 and 31 December 2018	3,588,466	3,588

Note:

(a) 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.

33. Share Capital (continued)

Shares (continued)

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 prior 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;

34. Share Option Scheme (continued)

(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.

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 2018 and 2017. As at the date of this report, the number of share options available for issue under the Scheme was 327,810,791, representing approximately 9.14% of the total 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. Repurchase Agreements

	2018 HK$'000	2017 HK$'000
Analysed by collateral type:		
Bonds	**2,304,648**	3,209,716
Preference shares	**1,821,328**	823,088
	4,125,976	4,032,804
Analysed by market:		
Inter-bank market	**4,125,976**	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 2018, the Group entered into repurchase agreements with different financial institutions to sell bonds and preference shares recognised as financial assets at FVTPL and FVTOCI with carrying amount of approximately HK$3,493,730,000 and HK$2,690,379,000 (2017: AFS investments of HK$6,366,176,000), respectively, 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
Profit attributable to holder of perpetual capital securities	–	66,083	66,083
Distribution relating to perpetual capital securities	–	(66,932)	(66,932)
Balance at 31 December 2018	**1,186,854**	**21,515**	**1,208,369**

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 of 4.98% and 5.80% (2017: 4.98% and 5.80%) as set out in the subscription agreement.

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 92 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 31.

39. Disposal of Subsidiaries

(a) On 25 April 2018, the Group entered into the sale and purchase agreement with an independent third party ("Purchaser") under which the Group agreed to sell and the Purchaser agreed to purchase the shares of Concept Pioneer Limited ("Concept Pioneer"), a wholly-owned subsidiary of the Company, and the shareholders' loan from the Group to Concept Pioneer at the total consideration of HK$703.3 million ("Disposal"). The Disposal has been fully settled and completed on 29 June 2018.

As at 29 June 2018, the shareholders' loan from the Group to Concept Pioneer was HK$585.3 million. Accordingly, the consideration for the sales of shares of Concept Pioneer is HK$118 million.

Analysis of assets and liabilities over which control was lost:

Concept Pioneer

	29 June 2018 HK$'000
Loan and receivables	507,934
Financial assets at FVTOCI (equity investment)	214,397
Shareholder's loan	(585,326)
Tax payable	(24,466)
Net assets disposed of	112,539

	HK$'000
Consideration received:	
Cash received	703,300
Settlement of shareholder loan from the purchaser	(585,326)
Total consideration received	117,974
Gain on disposal of a subsidiary	
Consideration received	117,974
Net assets disposed of	(112,539)
	5,435

39. Disposal of Subsidiaries (continued)

(b) 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

	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)

39. Disposal of Subsidiaries (continued)

(b) (continued)

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

40. 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 2018. 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 an outflow of resources embodying economic benefits will be required to settle these alleged claims.

Save as disclosed above, the Group had no other material contingent liabilities at 31 December 2018 and 2017.

41. 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 four years (2017: one to three years), and those for office equipment are for terms of four years (2017: four 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:

	2018 **HK$'000**	2017 HK$'000
Within one year	**38,198**	50,849
In the second to fifth years, inclusive	**18,907**	66,072
	57,105	116,921

42. 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 2018.

During the years ended 31 December 2018 and 2017, the Group had the following material transactions with related parties.

	2018		2017	
	Underwriting fee income HK$'000	**Finance costs HK$'000**	Underwriting fee income HK$'000	Finance costs HK$'000
Intermediate holding company (i)	**–**	**934,856**	–	814,555
Ultimate holding company (ii)	**–**	**49,053**	–	47,080
Fellow subsidiary (iii)	**4,497**	**–**	5,952	–
	4,497	**983,909**	5,952	861,635

(i) As at 31 December 2018, the intermediate holding company CHIH provided an aggregate amount of US$2,763,331,000 (equivalent to HK$21,644,937,000) (2017: US$2,379,680,000 (equivalent to HK$18,604,336,000)) company loans. The loans bear annual interest rates ranging from 3.85% to 7.98% (2017: 3.85% to 6.02%) and repayable in 1 month to 9 years (2017: 1 to 10 years). During the year ended 31 December 2018, the Group incurred arrangement fee expense to CHIH in respect of the issue of these loans from CHIH. Approximately HK$205,866,000 (2017: HK$201,741,000) interest payables are accrued from the company loans as at 31 December 2018.

42. Related Party Transactions (continued)

(b) (continued)

(ii) As at 31 December 2018, the ultimate holding company China Huarong provided an aggregate amount of RMB1,569,000,000 (equivalent to HK$1,790,687,000) (2017: RMB500,000,000 (equivalent to HK$598,150,000)) company loans. The loans bear annual interest rates ranging from 6.87% to 6.97% (2017: 5.7% to 6.1%) and repayable in 2 months to 1 year (2017: 1 month). Approximately HK$7,209,000 (2017: HK$2,981,000) interest are accrued from the company loans during the year.

(iii) During the year ended 31 December 2018, the Group earned underwriting income of US$573,300 (equivalent to approximately HK$4,497,000) (2017: US$764,000 (equivalent to approximately HK$5,952,000)) 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. The MOF is the major shareholder of China Huarong as at 31 December 2018. 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.

43. 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 2018

Financial assets

	Financial assets at FVTPL HK$'000	Financial assets at amortised cost HK$'000	Financial assets at FVTOCI HK$'000	Total HK$'000
Other long term assets	–	4,327	–	4,327
Advances to customers in margin financing	–	4,072,424	–	4,072,424
Accounts receivable	–	160,347	–	160,347
Interest receivable	–	16,872	–	16,872
Deposits and other receivables	–	69,295	–	69,295
Other loans and receivables	–	6,271,210	–	6,271,210
Amount due from an associate	–	320,558	–	320,558
Financial assets at FVTPL	15,416,196	–	–	15,416,196
Financial assets at FVTOCI	–	–	5,624,683	5,624,683
Restricted bank balances	–	396,500	–	396,500
Cash and cash equivalents	–	2,401,797	–	2,401,797
	15,416,196	13,713,330	5,624,683	34,754,209

43. Financial Instruments by Category (continued)

As at 31 December 2018 (continued)

Financial liabilities

	Financial liabilities at FVTPL HK$'000	Financial liabilities at amortised cost HK$'000	Total HK$'000
Accounts payable	–	2,269,848	2,269,848
Other payables	–	230,865	230,865
Interest-bearing borrowings	–	25,477,928	25,477,928
Repurchase agreements	–	4,125,976	4,125,976
Financial liabilities at FVTPL	401,429	–	401,429
	401,429	32,104,617	32,506,046

43. Financial Instruments by Category (continued)

As at 31 December 2017

Financial assets

	Financial assets designated at FVTPL HK$'000	Held for trading HK$'000	Loans and receivables HK$'000	AFS financial assets HK$'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 and other receivables	–	–	126,706	–	126,706
Other loans and receivables	–	–	9,303,160	–	9,303,160
Amount due from an associate	–	–	1,544,063	–	1,544,063
Financial assets at FVTPL	8,020,477	1,097,236	–	–	9,117,713
AFS 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

43. Financial Instruments by Category (continued)

As at 31 December 2017 (continued)

Financial liabilities

	Financial liabilities designated at FVTPL 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
Repurchase agreements	–	4,032,804	4,032,804
Financial liabilities at FVTPL	418,743	–	418,743
	418,743	41,076,989	41,495,732

44. Fair Value and Fair Value Hierarchy of Financial Instruments

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

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

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active market for identical assets or liabilities;

- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and

- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

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

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

An analysis of the Group's financial assets (liabilities) measured at fair value as at 31 December 2018 and 31 December 2017 are as follows:

		Fair value as at 31 December 2018 '000	Fair value as at 31 December 2017 '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 at FVTPL	**Listed equity investments: – HK$2,247,212**	Listed equity investments: – HK$2,883,081	Level 1	Note (a)	N/A	N/A	N/A
(2)	Financial assets at FVTPL	**Unlisted put option: – HK$231,729**	Unlisted put option: – HK$290,365	Level 3	Note (j)	Expected volatility of ranging from 40.08% to 43.91% (2017: 27.46% to 53%)	10% (volatility ranging from 36.07% to 48.3% (2017: 24.71% to 58.30%))	Increase/decrease in volatility: HK$18,860,622 HK$(19,041,763) (2017: HK$23,989,211 HK$(24,327,158))
(3)	Financial assets at FVTPL	**Listed debt investments – HK$474,693**	Listed debt investments – HK$101,209	Level 2	Note (b)	N/A	N/A	N/A
(4)	Financial assets at FVTPL	**Listed preference shares – HK$3,173,540**	Listed preference shares – HK$469,080	Level 2	Note (b)	N/A	N/A	N/A
(5)	Financial assets at FVTPL	**Unlisted convertible bonds and convertible notes: – HK$1,623,055**	Unlisted convertible bonds and convertible notes: – HK$2,215,930	Level 3	Note (c)	Expected volatility of ranging from 56.33% to 124.60% (2017: 21.05% to 56.77%)	10% (volatility ranging from 50.88% to 137.06% (2017: 18.95% to 62.44%))	Increase/decrease in volatility: HK$1,696,000/ HK$(2,033,000) (2017: HK$19,009,000/ HK$(19,191,000))
						Discount rates ranging from 10.91% to 26.42% (2017: 16.45% to 27.88%)	10% (discount rate ranging from 9.82% to 29.06% (2017: 14.81% to 30.67%))	Decrease/increase in discount rate: HK$11,988,000 HK$(11,719,000) (2017: HK$27,695,000/ HK$(27,218,000))
(6)	Financial assets at FVTPL	**Unlisted convertible bonds and convertible notes: – HK$52,500**	Unlisted convertible bonds and convertible notes: – nil	Level 3	Note (d)	Discount rate of 35.35% (2017: N/A)	10% (discount ranging from 31.82% to 38.89%) (2017: N/A)	Decrease/increase in discount rate: HK$2,013,000/ HK$(2,096,000) (2017: N/A)

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

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

		Fair value as at 31 December 2018 '000	Fair value as at 31 December 2017 '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
(7)	Financial assets at FVTPL	**Unlisted convertible bonds with put option: – HK$192,500**	Unlisted convertible bonds with put option: – HK$398,302	Level 3	Note (d) (2017: note (c))	N/A (2017: expected volatility of 25.5%)	N/A (2017: volatility ranging from 22.95% to 28.05%)	N/A (2017: Increase/decrease in volatility: HK$5,010,000/ HK$(1,530,000))
						Discount rate 33.70% (2017: 20.64%)	10% (discount ranging from 30.33% to 37.07%) (2017: discount rate ranging from 18.58% to 22.70%)	Decrease/increase in discount rate: HK$7,117,000/ HK$(7,424,000) (2017: HK$5,817,000/ HK$(5,637,000))
(8)	Financial assets at FVTPL	**Unlisted fund investments – nil**	Unlisted fund investments – HK$2,759,746	Level 2	Note (k)	N/A	N/A	N/A
(9)	Financial assets at FVTPL	**Unlisted fund investments – HK$2,235,124**	Unlisted fund investments – nil	Level 2	Note (g)	N/A	N/A	N/A
(10)	Financial assets at FVTPL	**Unlisted fund investments – HK$4,825,843**	Unlisted fund investments – nil	Level 3	Note (i)	Net asset value (2017: N/A)	10% (2017: N/A)	Increase/decrease in net asset value of HK$402,874,000/ (HK$402,874,000) (2017: N/A)
(11)	Financial assets at FVTPL	**Unlisted preference shares – HK$360,000**	Unlisted preference shares – nil	Level 3	Note (d)	Discount rate of 73.32% (2017: N/A)	10% (discount ranging from 65.98% to 80.66%) (2017: N/A)	Decrease/increase in discount rate: HK$32,507,000/ HK$(28,630,000) (2017: N/A)
(12)	Financial assets classified as AFS investments	**Listed bond securities and preferences shares – nil**	Listed bond securities and preferences shares – HK$10,711,798	Level 2	Note (b)	N/A	N/A	N/A
(13)	Financial assets classified as AFS investments	**Unlisted preference shares – nil**	Unlisted preference shares – HK$903,639	Level 3	Note (d)	N/A (2017: discount rate of 12.5%)	N/A (2017: discount rate from 11.25% to 13.75%))	N/A (2017: Increase/decrease in discount rate: HK$(151,744,000)/ HK$199,071,000)
(14)	Financial assets classified as AFS investments	**Unlisted equity shares – nil**	Unlisted equity shares – HK$214,467	Level 3	Note (h)	Liquidity discount	10%	Increase/decrease in discount rate: nil (2017: HK$(21,447,000)/ HK$21,447,000)
(15)	Financial assets classified as AFS investments	**Unlisted fund investments – nil**	Unlisted fund investments – HK$475,865	Level 2	Note (g)	N/A	N/A	N/A

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

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

	Fair value as at 31 December 2018 '000	Fair value as at 31 December 2017 '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
(16) Financial assets classified as AFS investments	**Unlisted fund investments – nil**	Unlisted fund investments – HK$2,339,784	Level 2	Note (k)	N/A	N/A	N/A
(17) Financial assets classified as FVTOCI investments	**Listed bond securities – HK$5,624,683**	Listed bond securities – nil	Level 2	Note (b)	N/A	N/A	N/A
Financial liabilities							
(1) Payables to interest holders of unlisted consolidated investment funds, measured at FVTPL	**Non-controlling interests in consolidated investment fund: – HK$322,453**	Non-controlling interests in consolidated investment fund: – HK$194,981	Level 2	Note (e)	N/A	N/A	N/A
(2) Payables to interest holders of unlisted consolidated investment funds, measured at FVTPL	**Non-controlling interests in consolidated investment fund: – HK$78,976**	Non-controlling interests in consolidated investment fund: – HK$223,762	Level 3	Note (f)	Expected volatility of 56.53% (2017: 31.23%)	10% (volatility ranging from 50.88% to 62.18% (2017: 28.11% to 34.35%))	Increase/decrease in volatility: HK$1,656,000/HK$(868,000) (2017: HK$206,000/ HK$(111,000))
					Discount rate of 18.52% (2017: 16.45%)	10% (discount ranging from 16.67% to 20.38% (2017: 14.81% to 18.10%))	Decrease/increase in discount rate: HK$180,000/ HK$(178,000) (2017: HK$505,000/HK$(501,000))

Notes:

(a) Quoted bid price in an active market.

(b) The fair value was determined with reference to quoted price provided by brokers/financial institutions.

(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. Future cash flows are estimated based on expected cash flows discounted at rate taking into account of the credit risk of the issuer and the management estimate on the debt restructuring status and development.

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

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

Notes: (continued)

(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) The fair value is determined with reference to the net asset value of the unlisted equity and partnership investments which are the deemed resale price of the investments provided by the external counter-parties. The directors have determined that the reported net asset values represent fair value of these investments. Subsequent to the current year end but before the reporting date, there are redemptions of fund investments approximately to HK$4,474,287,000 which is approximate to the net asset value as at 31 December 2018.

(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.

(k) The fair value was determined with reference to the recent transaction price of the investments.

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

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

44. 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 2018

	Fair value measurement			
	(Level 1) HK$'000	(Level 2) HK$'000	(Level 3) HK$'000	Total HK$'000
Financial assets at FVTPL	2,247,212	5,883,357	7,285,627	15,416,196
Financial assets at FVTOCI	–	5,624,683	–	5,624,683
	2,247,212	11,508,040	7,285,627	21,040,879
Financial liabilities at FVTPL	–	322,453	78,976	401,429

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 FVTPL	2,883,081	3,330,035	2,904,597	9,117,713
AFS 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 FVTPL	–	194,981	223,762	418,743

44. 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:

	2018 HK$'000	2017 HK$'000
Financial assets at FVTPL:		
At beginning of the year	2,904,597	1,808,593
Reclassified from AFS investments at 1 January 2018 upon application of HKFRS 9	903,639	–
Transfer into level 3 (note i)	4,161,193	–
Purchased during the year	951,151	800,000
Disposed during the year	(66,727)	(180,200)
Total (losses) gain in profit or loss (note ii)	(1,568,226)	476,204
At end of the year	7,285,627	2,904,597
Financial assets at FVTOCI:		
At beginning of the year	–	–
Reclassified from AFS investments at 1 January 2018 upon application of HKFRS 9	214,467	–
Fair value loss recognised on financial assets at FVTOCI upon application of HKFRS 9	(70)	–
Disposed through disposal of subsidiaries during the year	(214,397)	–
At end of the year	–	–
Financial assets classified as AFS investments:		
At beginning of the year	1,118,106	–
Reclassified to financial assets at FVTOCI at 1 January 2018 upon application of HKFRS 9	(214,467)	–
Reclassified to financial assets at FVTPL at 1 January 2018 upon application of HKFRS 9	(903,639)	–
Purchased during the year	–	1,112,041
Fair value gain recognised in other comprehensive income (note ii)	–	6,065
At end of the year	–	1,118,106

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

Fair value hierarchy (continued)

Reconciliation of Level 3 fair value measurements (continued)

	2018 HK$'000	2017 HK$'000
Financial liabilities at FVTPL:		
At beginning of the year	**223,762**	166,743
Total (losses) gain in profit or loss (note ii)	**(74,640)**	57,019
Settled during the year	**(70,146)**	–
	78,976	223,762

Notes:

(i) The fair value of unlisted investments including financial assets at FVTPL of HK$1,821 million and financial assets classified as AFS investments of HK$2,340 million was determined with reference to the recent transaction price and discount cash flow and therefore classified as Level 2 investments for the year ended 31 December 2017. During the current year, the valuation technique in determining the fair value of unlisted investments has been changed due to the lack of recent transaction price of the financial assets. The fair value of these investments are determined based on significant unobservable inputs and involved significant judgment made by the management. Thus, the instruments were transferred from Level 2 to Level 3 category.

(ii) For the year ended 31 December 2018, of the total gains or losses for the year included in profit or loss, loss of HK$1,568,226,000 and HK$74,640,000 relates to unrealised gains or loss on financial assets at FVTPL and financial liabilities at FVTPL held at year end respectively. Fair value gains or losses on financial assets at FVTPL are included in "Net losses on financial assets at FVTPL" and Fair value gains or losses on financial liabilities at FVTPL are included in "Other income and gains or losses, net" as set out in note 7.

For the year ended 31 December 2017, of the total gains or losses for the year included in profit or loss, gain of HK$476,204,000 and HK$57,019,000 relates to unrealised gains and loss on financial assets at FVTPL and financial liabilities at FVTPL held at year end respectively.

For the year ended 31 December 2017, included in other comprehensive income is an amount of HK$6,065,000 gain relating to unlisted preference shares, unlisted shares and unlisted shares classified as AFS investments held at the end of the reporting period and is reported as unrealised gain on AFS investments.

45. Financial Risk Management Objectives and Policies

The Group's principal financial instruments comprise AFS investments, other long term assets, financial assets at FVTPL, advances to customers in margin financing, other loans and receivables, accounts receivable, interest receivables, deposit and other receivables, restricted bank balance, pledge bank deposits, cash and cash equivalents, accounts payable, amount due from an associate, interest-bearing borrowings, other payables and financial liabilities at FVTPL. 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, other 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 or purchases, loans and investments by operating entities in currencies other than the entities' functional currency.

45. Financial Risk Management Objectives and Policies (continued)

Foreign currency risk (continued)

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	2018 HK$'000	2017 HK$'000
Financial assets at FVTPL	USD	**10,803,994**	4,715,521
Accounts receivable	USD	**106,087**	35,789
	RMB	**1,146**	1,197
Other loans and receivables	USD	**1,480,310**	1,220,999
	RMB	**1,758,441**	2,185,590
AFS investments	USD	**–**	11,187,663
Financial assets at FVTOCI	USD	**5,624,683**	–
Restricted bank balances	USD	**249,858**	104,072
	RMB	**414**	261
Pledged bank deposits	USD	**–**	1,898,063
Cash and cash equivalents	USD	**667,673**	2,030,432
	RMB	**29,678**	89,464
	EUR	**5,959**	6,214
	GBP	**56**	59
	JPY	**8**	8
Other receivables	USD	**22,184**	68,961
	RMB	**802**	4,264
Accounts payable	USD	**(2,118,955)**	(3,054,177)
	RMB	**(383)**	(289)
Interest-bearing borrowings	USD	**(22,193,241)**	(21,059,188)
	RMB	**(1,790,687)**	(1,637,039)
Other payables	USD	**(228)**	(244,225)
	RMB	**(213,339)**	(23,120)
Financial liabilities at FVTPL	USD	**78,976**	(223,762)
Repurchase agreements	USD	**(4,125,976)**	(4,032,804)

45. 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 2018

	Increase/ decrease in loss after tax HK$'000
If Hong Kong Dollar strengthens/weakens against RMB by 5%	**8,931**

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

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), available-for-sale investments (see note 20) and financial assets at fair value through other comprehensive income (see note 21).

The following table demonstrates the sensitivity to 5% (2017: 5%) and 10% (2017: 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.

45. Financial Risk Management Objectives and Policies (continued)

Other price risk (continued)

As at 31 December 2018

	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:				
— Listed equity investments	increase/ decrease 5%	2,247,212	93,821/ (93,821)	–
— Listed preference shares	increase/ decrease 5%	3,173,540	132,495/ (132,495)	–
— Unlisted preference shares	increase/ decrease 10%	360,000	30,060/ (30,060)	–
— Listed debt investments	increase/ decrease 5%	474,693	19,818/ (19,818)	–
— Unlisted convertible bonds and convertible notes	increase/ decrease 10%	1,675,555	29,744/ (26,921)	–
— Unlisted convertible bonds with put option	increase/ decrease 10%	192,500	16,074/ (16,074)	–
— Unlisted put options on listed equity investments	increase/ decrease 10%	231,729	(37,142)/ 44,691	–
— Unlisted fund investments, at fair value	increase/ decrease 10%	7,060,967	589,591/ (589,591)	–
Financial assets at FVTOCI	increase/ decrease 10%	5,624,683	–	469,661/ (469,661)
Financial liabilities at FVTPL:				
— Payables to interest holders of unlisted consolidated investment funds	5% to 10%	401,429	28,626/ (25,759)	–

45. 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)	–
AFS investments	increase/ decrease 10%	14,645,553	–	1,222,903/ (1,222,903)
Financial liabilities at FVTPL:				
— Payables to interest holders of unlisted consolidated investment funds	5% to 10%	418,743	69,761/ (70,071)	–

45. 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 and variable rate interest-bearing borrowings. The Group is mainly also exposed to fair value interest rate risk in relation to fixed rate financial assets at FVTPL, financial assets at FVTOCI and AFS investments. 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. The directors of the Company consider the cash flow interest rate risks in relation to variable rate restricted bank balances, cash and cash equivalents, accounts receivable, deposit and accounts payable are insignificant and are excluded from sensitivity analysis. As at 31 December 2018, if the interest rate had been 50 basis points (2017: 50 basis points) higher/lower, the Group's loss after tax would decrease/increase by HK$8,476,000 (2017: profit after tax would decrease/increase by HK$30,270,000).

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 (2017: 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, financial assets at FVTOCI and AFS investments.

As at 31 December 2018, if the interest rate had been 100 basis points (2017: 100 basis points) higher/lower with all other variables held constant, the Group's loss after tax would increase/decrease by HK$45,469,000/HK$45,789,000 (2017: profit after tax would decrease/increase by HK$32,196,000/HK$32,744,000) and FVTOCI investment revaluation reserve would decrease/increase by approximately HK$159,362,000/HK$167,612,000 (2017: AFS investment revaluation reserve would decrease/increase by HK$264,607,000/HK$286,571,000) respectively.

45. Financial Risk Management Objectives and Policies (continued)

Credit risk and impairment assessment

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.

Further quantitative data in respect of the Group's exposure to credit risk arising from other loans and receivables, advances to customers in margin financing and accounts receivable are disclosed in notes 23, 24 and 25 to the consolidated financial statements, respectively.

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$1,972,126,000 (2017: approximately HK$2,221,412,000).

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 FVTPL. 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 2018, for amount due from an associate of HK$320,558,000 (2017: HK$1,544,063,000), credit evaluations are performed on the associate on individual basis. The evaluation focuses on the associate's current ability to pay and take into account information specific to the associate as well as pertaining to the economic environment in which it operates. Concentration risk of the loan to an associate is managed by reference to individual borrower in both years in view of its financial position and financial performance to evaluate its recoverability.

Apart from the exposures to the concentration of credit risk mentioned as above, note 23 "Other loan and receivables" and note 24 "Advances to customers in margin financing", the Group does not have any other significant concentration of credit risk.

45. Financial Risk Management Objectives and Policies (continued)

Credit risk and impairment assessment (continued)

The Group's internal credit risk grading assessment comprises the following categories:

Internal credit rating	Key description	Accounts receivable from HKFRS 15/ contract assets	Other financial assets/ other items
Pass	Loans or receivables where borrowers or debtors are current in meeting commitments and full repayment of interest and principal is not in doubt.	Lifetime ECL — not credit-impaired	12m ECL
Watch list	Debtor frequently repays after due dates but usually settle after due date.	Lifetime ECL — not credit-impaired	12m ECL
Special Mention — low risk	There have been significant increases in credit risk since initial recognition through information developed internally or external resources or payments have been overdue for more than 30 days (Advance to customers in margin financing: for any margin shortfall where a shorter period of "past due" has been applied by the directors in view of the nature of business operation and practice in managing the credit risk).	Lifetime ECL — not credit-impaired	Lifetime ECL — not credit-impaired
Special Mention — high risk	There is evidence indicating the asset is credit-impaired or payment has been overdue for more than 90 days (Advance to customers in margin financing: for any margin shortfall where a shorter period of "past due" has been applied by the directors in view of the nature of business operation and practice in managing the credit risk) and the management expects no substantial loss of principal or interest is possible after taking account of the "net realisable value" of security or in the case of unsecured or partially secured loans that there are executable settlement plans of the borrowers.	Lifetime ECL — credit-impaired	Lifetime ECL — credit-impaired
Substandard	There is evidence indicating the asset is credit-impaired or payment has been overdue for more than 90 days (Advance to customers in margin financing: for any margin shortfall where a shorter period of "past due" has been applied by the directors in view of the nature of business operation and practice in managing the credit risk) and/or the management expects some loss of principal or interest is possible after taking account of the "net realisable value" of security or in the case of unsecured or partially secured loans that there are significant deficiencies of the borrowers.	Lifetime ECL — credit-impaired	Lifetime ECL — credit-impaired
Doubtful	There is evidence indicating the asset is credit-impaired or payment has been overdue for more than 90 days (Advance to customers in margin financing: for any margin shortfall where a shorter period of "past due" has been applied by the directors in view of the nature of business operation and practice in managing the credit risk) and/or the management expects to sustain a loss of principal and/or interest after taking account of the net realisable value of security or in the case of unsecured or partially secured loans that there are serious deficiencies of the borrowers.	Lifetime ECL — credit-impaired	Lifetime ECL — credit-impaired
Loss	There is evidence indicating that the debtor is in severe financial difficulty and the Group has no realistic prospect of recovery.	Amount is written off	Amount is written off

45. Financial Risk Management Objectives and Policies (continued)

Credit risk and impairment assessment (continued)

The tables below detail the credit risk exposures of the Group's financial assets, which are subject to ECL assessment:

2018	Notes	External credit rating	Internal credit rating	12m or lifetime ECL	Gross carrying amount HK$'000	HK$'000
Financial assets at FVTOCI	21	B3 and above (Moody's)	Pass	12m ECL	5,577,648	
		B3 to C (Moody's)	Special Mention – low risk	Lifetime ECL – not credit impaired	47,035	5,624,683
Financial assets at amortised cost						
Other long term assets (note)	17	N/A	Pass	12m ECL	4,327	4,327
Amount due from associate (note)	22	N/A	Pass	12m ECL	330,347	330,347
Contract assets (note)		NA	Pass	Lifetime ECL – not credit impaired	9,808	9,808
Other loans and receivables	23	N/A	Pass	12m ECL	3,968,432	
			Special Mention – high risk	Lifetime ECL – credit impaired	2,023,819	
			Substandard	Lifetime ECL – credit impaired	541,802	
			Doubtful	Lifetime ECL – credit impaired	80,000	6,614,053
Advance to customers in margin financing	24	N/A	Pass	12m ECL	3,566,820	
			Substandard	Lifetime ECL – credit impaired	904,112	4,470,932
Accounts receivable (note)	25	N/A	Pass	12m ECL	139,650	
			Special Mention – low risk	Lifetime ECL – not credit impaired	15,769	
			Substandard	Lifetime ECL – credit impaired	5,259	160,678
Interest receivable (note)	26	N/A	Pass	12m ECL	16,872	16,872
Deposits and other receivable (note)	26	N/A	Pass	12m ECL	69,295	69,295
Restricted bank balances (note)	27	Above Aa3 (Moody's)	Pass	12m ECL	396,500	396,500
Cash and cash equivalents (note)	28	Above Bal (Moody's)/BB+(S & P)	Pass	12m ECL	2,401,797	2,401,797

Note: The directors of the Company consider the impacts of the ECL are immaterial to the Group and no reconciliation of gross carrying amount and loss allowances have been prepared.

The estimated loss rates for each class of financial assets are estimated based on historical observed default rates over the expected life of the respective class of financial assets and are adjusted for forward-looking information that is available without undue cost or effort, include macroeconomic data such as GDP growth, unemployment rate and inflation rate. The identification of internal credit rating for individual financial assets regularly reviewed by management to ensure relevant information about specific financial assets is updated.

45. Financial Risk Management Objectives and Policies (continued)

Credit risk and impairment assessment (continued)

The following tables show reconciliation of gross carrying amount and loss allowances that has been recognised for financial assets at FVTOCI, other loans and receivables and advances to customers in margin financing.

Financial assets at FVTOCI — gross carrying amount

	12m ECL HK$'000	Lifetime ECL (not credit-impaired) HK$'000	Lifetime ECL (credit-impaired) HK$'000	Total HK$'000
Gross carrying amount as at 1 January 2018	6,863,409	–	–	6,863,409
Changes in the gross carrying amount of financial assets as at 1 January 2018				
— Transfer to from 12m ECL to lifetime ECL	(83,923)	83,923	–	–
New financial assets purchased	1,261,457	–	–	1,261,457
Financial assets that have been derecognised	(2,150,170)	–	–	(2,150,170)
Fair value changes and foreign exchange	(313,125)	(36,888)	–	(350,013)
Gross carrying amount as at 31 December 2018	**5,577,648**	**47,035**	**–**	**5,624,683**

Financial assets at FVTOCI — loss allowances

	12m ECL HK$'000	Lifetime ECL (not credit-impaired) HK$'000	Lifetime ECL (credit-impaired) HK$'000	Total HK$'000
Loss allowance as at 1 January 2018 (Note a)	25,860	–	–	25,860
Changes in the loss allowance due to financial assets as at 1 January 2018				
— Transfer from 12m ECL to lifetime ECL	(661)	661	–	–
— Net remeasurement of ECL due to change in credit risk without transfer of stage	(2,725)	–	–	(2,725)
— Net remeasurement of ECL arising from financial assets transferred from 12m ECL to lifetime ECL	–	3,572	–	3,572
New financial assets originated or purchased	1,864	–	–	1,864
Financial assets that have been derecognised	(7,206)	–	–	(7,206)
As at 31 December 2018	**17,132**	**4,233**	**–**	**21,365**

45. Financial Risk Management Objectives and Policies (continued)

Credit risk and impairment assessment (continued)

Other loans and receivables — gross carrying amount

	12m ECL HK$'000	Lifetime ECL (not credit-impaired) HK$'000	Lifetime ECL (credit-impaired) HK$'000 (Note b)	Total HK$'000
Gross carrying amount as at 1 January 2018	9,303,160	–	190,206	9,493,366
Changes in the gross carrying amount of financial assets as at 1 January 2018				
— Transfer from 12m ECL to lifetime ECL	(2,253,273)	–	2,253,273	–
New financial assets originated or purchased	817,048	–	–	817,048
Transfer of new financial assets originated or purchased from 12m ECL to lifetime ECL	(585,055)	–	585,055	–
Financial assets that have been derecognised	(3,292,880)	–	(369,200)	(3,662,080)
Foreign exchange	(20,568)	–	(13,713)	(34,281)
Gross carrying amount as at 31 December 2018	**3,968,432**	**–**	**2,645,621**	**6,614,053**

45. Financial Risk Management Objectives and Policies (continued)

Credit risk and impairment assessment (continued)

Other loans and receivables — loss allowance

	12m ECL HK$'000	Lifetime ECL (not credit-impaired) HK$'000	Lifetime ECL (credit-impaired) HK$'000 (Note b)	Total HK$'000
Loss allowance as at 1 January 2018 (Note a)	3,900	–	190,206	194,106
Changes in the loss allowance due to financial assets as at 1 January 2018 other loans and receivables				
— Transfer from 12m ECL to lifetime ECL	(667)	–	667	–
— Net remeasurement of ECL arising from financial assets transferred from 12m ECL to lifetime ECL	–	–	134,692	134,692
— Net remeasurement of ECL due to change in credit risk without transfer of stage	6,106	–	–	6,106
New financial assets originated or purchased	59	–	–	59
Transfer of new financial assets originated or purchased from 12m ECL to lifetime ECL	(29)	–	29	–
Net remeasurement of ECL arising from new financial assets originated or purchased transferred from 12m ECL to lifetime ECL	–	–	11,384	11,384
Financial assets that have been derecognised	(1,715)	–	(12)	(1,727)
Foreign exchange	(39)	–	(1,738)	(1,777)
As at 31 December 2018	**7,615**	**–**	**335,228**	**342,843**

Advances to customers in margin financing — gross carrying amount

	12m ECL HK$'000	Lifetime ECL (not credit-impaired) HK$'000	Lifetime ECL (credit-impaired) HK$'000 (Note c)	Total HK$'000
Gross carrying amount as at 1 January 2018	4,948,219	–	929	4,949,148
Changes in the gross carrying amount of financial assets as at 1 January 2018				
— Transfer from 12m ECL to lifetime ECL	(852,299)	–	852,299	–
New financial assets originated or purchased	227,020	–	–	227,020
Transfer of new financial assets originated or purchased from 12m ECL to lifetime ECL of new financial assets originated or purchased	(54,554)	–	54,554	–
Financial assets that have been derecognised	(701,566)	–	(3,670)	(705,236)
Gross carrying amount as at 31 December 2018	**3,566,820**	**–**	**904,112**	**4,470,932**

45. Financial Risk Management Objectives and Policies (continued)

Credit risk and impairment assessment (continued)

Loss allowance as at 31 December 2018

Advances to customers in margin financing — loss allowances

	12m ECL HK$'000	Lifetime ECL (not credit-impaired) HK$'000	Lifetime ECL (credit-impaired) HK$'000 (Note c)	Total HK$'000
Loss allowance as at 1 January 2018 (Note a)	517	–	929	1,446
Changes in the loss allowance due to financial assets as at 1 January 2018				
— Transfer from 12m ECL to lifetime ECL	(134)	–	134	–
— New remeasurement of ECL arising from financial assets transferred from 12m ECL to lifetime ECL	–	–	373,474	373,474
— Net remeasurement of ECL due to change in credit risk without transfer of stage	1,534	–	–	1,534
New financial assets originated or purchased	1,095	–	–	1,095
Transfer of new financial assets originated or purchased from 12m ECL to lifetime ECL	(132)	–	132	–
Net remeasurement of ECL arising from new financial assets originated or purchased transferred from 12m ECL to lifetime ECL	–	–	22,112	22,112
Financial assets that have been derecognised	(529)	–	(624)	(1,153)
As at 31 December 2018	**2,351**	**–**	**396,157**	**398,508**

Notes:

(a) Details of the reconciliation of impairment allowance measured in accordance with HKAS 39 as at 31 December 2017 to HKFRS 9 as at 1 January 2018 has included in summary of effects arising from initial application of HKFRS 9, please refer to note 3.1.1.

(b) As at 31 December 2018, credit impaired loan receivables of HK$2,645,621,000 is secured by either properties in the PRC, listed equity or unlisted equity. In determining the allowances for credit impaired loans receivables, the management of the Group also takes into account the fair value of collateral and the outstanding balance of loan receivables individually taking into account of executable settlement plan and restructuring arrangements. In the opinion of the directors of the Company, the impairment provision for the current year is sufficient.

(c) As at 31 December 2018, 80% (2017: 99%) of the outstanding balances in gross carrying amount were secured by sufficient collateral. In determining the allowances for credit impaired loans to margin clients, the management of the Group also takes into account shortfall by comparing the fair value of securities pledged as collateral and the outstanding balance of loan to margin clients individually taking into account of subsequent settlement or executable settlement plan and restructuring arrangements. In the opinion of the directors of the Company, the impairment provision for the current year is sufficient.

45. Financial Risk Management Objectives and Policies (continued)

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.

The maturity profile of the Group's financial liabilities at the end of the reporting period, based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. Specifically, bank loans with a repayment on demand clause are included in the earliest time band regardless of the probability of the banks choosing to exercise their rights. The maturity dates for other financial liabilities are based on the agreed settlement dates.

As at 31 December 2018

	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	–	2,267,491	2,357	–	–	–	2,269,848	2,269,848
Other payables and accruals	–	–	167,301	63,564	–	–	230,865	230,865
Interest-bearing borrowings (note)	4.31%	2,042,304	5,385,013	5,293,918	11,301,506	4,502,734	28,525,475	25,477,928
Repurchase agreements	–	–	4,125,976	–	–	–	4,125,976	4,125,976
Financial liabilities at FVTPL	–	–	–	401,429	–	–	401,429	401,429
		4,309,795	9,680,647	5,758,911	11,301,506	4,502,734	35,553,593	32,506,046

45. Financial Risk Management Objectives and Policies (continued)

Liquidity risk (continued)

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 (note)	4.25%	13,835,491	–	2,910,674	16,221,645	3,421,620	36,389,430	33,037,977
Repurchase agreement	–	–	705,460	3,327,344	–	–	4,032,804	4,032,804
Financial liabilities at FVTPL	–	–	–	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

Note: Bank loans with a repayment on demand clause are included in the "on demand" time band in the above maturity analysis. As at 31 December 2018, the aggregate carrying amounts of these bank loans amounted to HK$2,042,304 (31 December 2017: HK$13,835,491). Taking into account the Group's financial position, the directors do not believe that it is probable that the banks will exercise their discretionary rights to demand immediate repayment. The directors believe that such bank loans will be repaid within one year after the end of the reporting period (2017: within three years) in accordance with the scheduled repayment dates set out in the loan agreements.

During the current year, the Group did not fulfil certain financial covenants, primarily those relating to interest coverage, imposed by the bank. On discovery of the breach, the directors of the Company commenced a negotiation with the bank and agreed with the bank to waive the unfulfilled covenants at the end of reporting period, hence no demand immediate payment at the end of the reporting period. In the opinion of the directors of the Company, there are different sources of finance available to the Group to fund its operations, including internal resources, available unutilised banking facility or additional financing obtainable from financial institutions.

45. 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.

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 years ended 31 December 2018 and 2017.

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.

46. 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.

46. Financial Assets and Financial Liabilities Offsetting (continued)

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.

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 2018

	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	4,505,911	(293,724)	4,212,187	–	(3,555,377)	656,810

46. Financial Assets and Financial Liabilities Offsetting (continued)

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

As at 31 December 2018

	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 received HK$'000	Net amount HK$'000
Description						
Accounts payable	2,562,102	(293,724)	2,268,378	–	–	2,268,378

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

46. Financial Assets and Financial Liabilities Offsetting (continued)

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 received HK$'000	Net amount HK$'000
Description						
Accounts payable	3,815,499	(58,707)	3,756,792	(1,043)	–	3,755,749

	2018 HK$'000	2017 HK$'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	**4,212,187**	4,963,550
Amount not in scope of offsetting disclosure	**20,584**	63,823
Total amount of advances to customers in margin financing and accounts receivable stated in notes 24 and 25	**4,232,771**	5,027,373
Accounts payable		
Net amount of accounts payable as stated above	**(2,268,378)**	(3,756,792)
Amount not in scope of offsetting disclosure	**(1,470)**	(2,015)
Total amount of accounts payable stated in note 29	**(2,269,848)**	(3,758,807)

47. Reconciliation of Liabilities and Related Assets Arising from Financing Activities

The table below details changes in the Group's liabilities and related assets 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.

	Pledged bank deposits HK$'000 Note 28	Financial liabilities at FVTPL HK$'000 Note 19	Interest-bearing borrowings HK$'000 Note 31	Interest payables HK$'000 Note 30	Total HK$'000
At 1 January 2018	(1,898,063)	418,743	33,037,977	242,964	31,801,621
Financing cash flows					
Withdrawal of pledged bank deposits	1,898,063	–	–	–	1,898,063
Drawdown of interest-bearing borrowings	–	–	4,521,239	–	4,521,239
Repayment of interest-bearing borrowings	–	–	(11,961,995)	–	(11,961,995)
Interest paid	–	–	–	(1,698,372)	(1,698,372)
Contribution from interest holders of unlisted consolidated investment funds	–	223,226	–	–	223,226
Distribution to interest holders of unlisted consolidated investment funds	–	(266,421)	–	–	(266,421)
Foreign exchange translation	–	–	(119,293)	–	(119,293)
Finance costs	–	–	–	1,683,892	1,683,892
Fair value loss	–	25,881	–	–	25,881
At 31 December 2018	–	401,429	25,477,928	228,484	26,107,841

47. Reconciliation of Liabilities and Related Assets Arising from Financing Activities (continued)

	Pledged bank deposits HK$'000 Note 28	Financial liabilities at FVTPL HK$'000 Note 19	Interest-bearing borrowings HK$'000 Note 31	Interest payables HK$'000 Note 30	Total HK$'000
At 1 January 2017	–	423,477	17,254,480	152,333	17,830,290
Financing cash flows					
Placement of pledged bank deposits	(1,898,063)	–	–	–	(1,898,063)
Drawdown of interest-bearing borrowings		–	17,941,159	–	17,941,159
Repayment of interest-bearing borrowings	–	–	(2,274,212)	–	(2,274,212)
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 funds	–	(344,236)	–	–	(344,236)
Foreign exchange translation	–	–	116,550	1,270	117,820
Finance costs	–	–	–	1,158,237	1,158,237
Fair value loss	–	168,462	–	–	168,462
At 31 December 2017	(1,898,063)	418,743	33,037,977	242,964	31,801,621

48. Events After the End of the Reporting Period

The Group has entered several discloseable transactions after the year ended 31 December 2018 as defined in the Listing Rule, details of which are set out in the relevant announcements.

49. Reclassification

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

50. Statement of Financial Position and Reserves of the Company

	2018 HK$'000	2017 HK$'000
Non-current assets		
Property and equipment	**8,122**	13,838
Investments in subsidiaries	**133,756**	133,756
Investment accounted for using the equity method	**–**	8,164
Financial assets at fair value through other comprehensive income	**2,716,175**	–
Available-for-sale investments	**–**	3,891,957
Amount due from an associate	**328,983**	1,563,600
Deferred tax assets	**83,638**	–
Prepayments, deposits and other receivables	**11,417**	20,478
Total non-current assets	**3,282,091**	5,631,793
Current assets		
Due from subsidiaries	**21,123,277**	22,715,268
Financial assets at fair value through other comprehensive income	**2,908,508**	–
Financial assets at fair value through profit or loss	**3,648,233**	101,209
Amount due from an associate	**1,720**	11,735
Accounts receivable	**101,947**	–
Available-for-sale investments	**–**	6,819,842
Interest receivable	**16,872**	132,696
Prepayments, deposits and other receivables	**53,791**	93,083
Tax recoverable	**53,745**	–
Pledged bank deposits	**–**	1,898,063
Cash and cash equivalents	**404,847**	2,805,411
Total current assets	**28,312,940**	34,577,307
Current liabilities		
Due to subsidiaries	**161,740**	57,376
Accounts payable	**1,870,089**	2,950,110
Other payables and accruals	**244,434**	277,064
Tax payable	**–**	59,357
Repurchase agreements	**4,125,976**	3,723,488
Interest-bearing borrowings	**1,583,304**	13,102,052
Total current liabilities	**7,985,543**	20,169,447
Net current assets	**20,327,397**	14,407,860
Total assets less current liabilities	**23,609,488**	20,039,653
Non-current liabilities		
Other payables and accruals	**1,179**	553
Interest-bearing borrowings	**21,644,937**	17,040,736
	21,646,116	17,041,289
Net assets	**1,963,372**	2,998,364
Equity		
Issued capital (note 33)	**3,588**	3,588
Perpetual capital securities classified as equity instruments	**1,208,369**	1,209,218
Share premium and reserves	**751,415**	1,785,558
Total equity	**1,963,372**	2,998,364

50. 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	AFS investment revaluation reserve HK$'000	FVTOCI investment revaluation reserve HK$'000	(Accumulated loss) retained profits HK$'000	Subtotal HK$'000	Perpetual capital securities HK$'000	Total HK$'000
At 1 January 2017	980,598	139,615	(10,297)	–	(687,718)	422,198	–	422,198
Profit for the year	–	–	–	–	807,664	807,664	41,550	849,214
Fair value loss on AFS investments	–	–	(81,530)	–	–	(81,530)	–	(81,530)
Reclassification adjustment relating to disposal of AFS investments during the year	–	–	(14,556)	–	–	(14,556)	–	(14,556)
Total comprehensive (expense) income for the year	–	–	(96,086)	–	807,664	711,578	41,550	753,128
Shares issued	651,782	–	–	–	–	651,782	–	651,782
Distribution relating to perpetual capital securities	–	–	–	–	–	–	(19,186)	(19,186)
Issuance of perpetual capital securities	–	–	–	–	–	–	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
HKFRS 9 adjustment	–	–	106,383	(49,589)	(56,794)	–	–	–
At 1 January 2018	1,632,380	139,615	–	(49,589)	63,152	1,785,558	1,209,218	2,994,776
Loss for the year	–	–	–	–	(602,615)	(602,615)	66,083	(536,532)
Fair value loss on financial assets at FVTOCI	–	–	–	(426,153)	–	(426,153)	–	(426,153)
Reclassification adjustment relating to disposal of financial assets at FVTOCI	–	–	–	55,629	–	55,629	–	55,629
Total comprehensive (expense) income for the year	–	–	–	(370,524)	(602,615)	(973,139)	66,083	(907,056)
Distribution relating to perpetual capital securities	–	–	–	–	–	–	(66,932)	(66,932)
Dividends to shareholder	–	–	–	–	(61,004)	(61,004)	–	(61,004)
At 31 December 2018	**1,632,380**	**139,615**	**-**	**(420,113)**	**(600,467)**	**751,415**	**1,208,369**	**1,959,784**

Note:

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

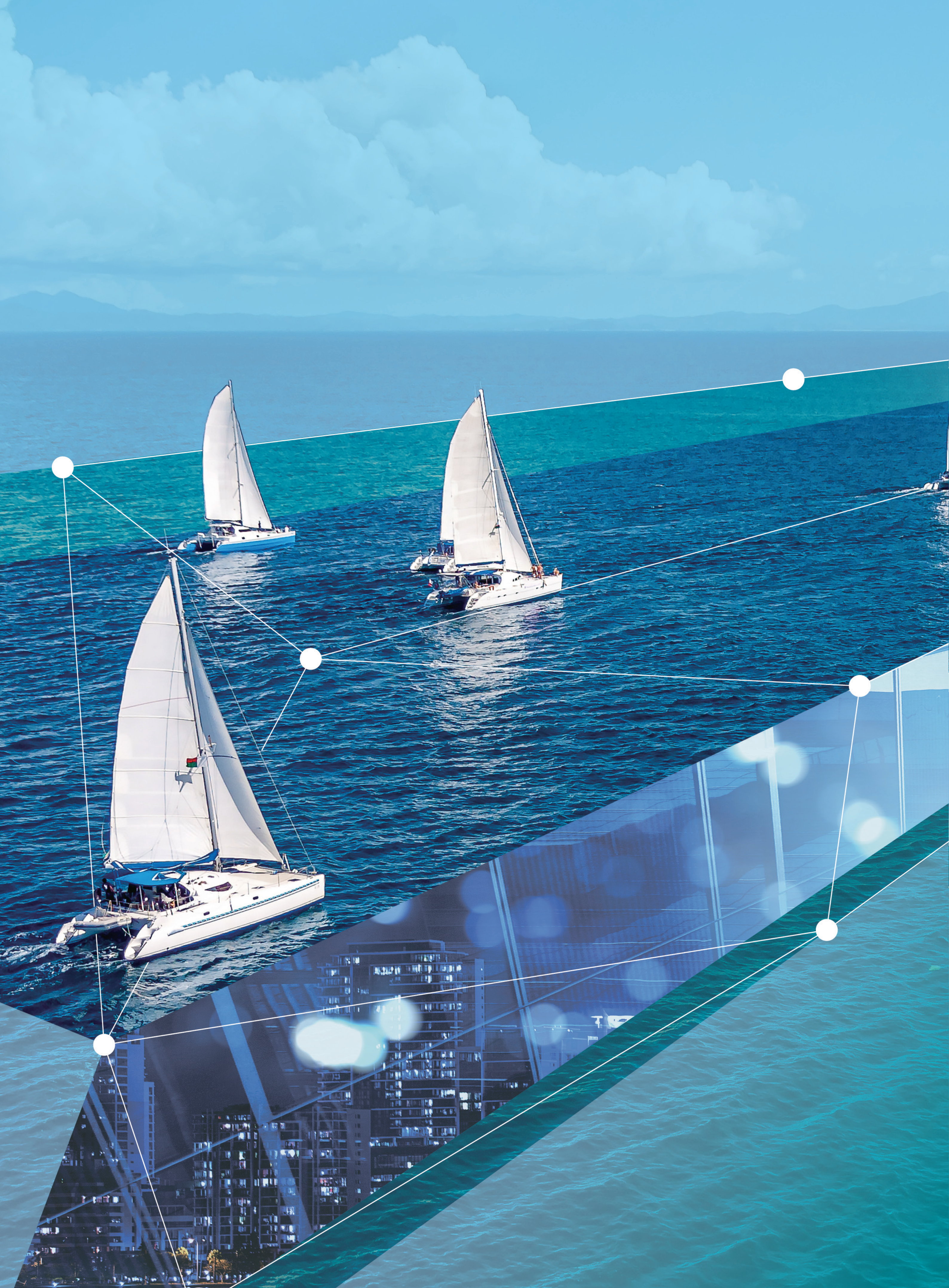
A summary of the results and of the assets, liabilities and non-controlling interests of the Group for the last five financial periods, as extracted from the published audited consolidated financial statements.

Results

	1.1.2018 to 31.12.2018 HK$'000	1.1.2017 to 31.12.2017 HK$'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)
Turnover:					
Continuing operations	**2,271,555**	2,834,890	1,402,029	168,003	46,368
Discontinued operations	**–**	–	–	30,945	198,893
	2,271,555	2,834,890	1,402,029	198,948	245,261
(Loss) profit before tax:					
Continuing operations	**(1,558,593)**	1,264,029	696,853	175,905	(70,542)
Discontinued operations	**–**	–	–	(4,409)	20,195
	(1,558,593)	1,264,029	696,853	171,496	(50,347)
Income tax credit (expense)	**76,454**	(258,386)	(145,939)	(32,099)	(16,281)
(Loss) profit before non-controlling interests	**(1,482,139)**	1,005,643	550,914	139,397	(66,628)
Non-controlling interests classified as equity	**–**	–	–	–	–
Profit attributable to holder of perpetual capital securities	**(66,083)**	(41,550)	–	–	–
(Loss) profit attributable to owners of the parent	**(1,548,222)**	964,093	550,914	139,397	(66,628)

Assets and Liabilities

	31.12.2018 HK$'000	31.12.2017 HK$'000	31.12.2016 HK$'000	31.12.2015 HK$'000 (Restated)	30.4.2015 HK$'000 (Restated)
Non-current assets	**5,225,568**	19,271,737	3,324,620	328,458	105,695
Current assets	**29,798,276**	27,053,032	18,960,107	5,040,813	1,666,348
Total assets	**35,023,844**	46,324,769	22,284,727	5,369,271	1,772,043
Current liabilities	**(19,829,627)**	(24,619,927)	(9,097,311)	(711,041)	(489,494)
Non-current liabilities	**(13,123,770)**	(17,642,020)	(11,900,475)	(3,923,075)	(26,378)
Total liabilities	**(32,953,397)**	(42,261,947)	(20,997,786)	(4,634,116)	(515,872)
	2,070,447	4,062,822	1,286,941	735,155	1,256,171



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