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 2019

Contents

CORPORATE INFORMATION

Board of Directors

Executive Directors

Mr. Yu Meng *(Chairman)*
Mr. Wang Junlai *(Chief Executive Officer)*

Independent Non-executive Directors

Mr. Hung Ka Hai Clement
Mr. Ma Lishan
Mr. Guan Huanfei

Audit Committee

Mr. Hung Ka Hai Clement *(Chairman)*
Mr. Ma Lishan
Mr. Guan Huanfei

Remuneration Committee

Mr. Guan Huanfei *(Chairman)*
Mr. Hung Ka Hai Clement
Mr. Ma Lishan

Nomination Committee

Mr. Hung Ka Hai Clement *(Chairman)*
Mr. Yu Meng
Mr. Ma Lishan
Mr. Guan Huanfei

Executive Committee

Mr. Yu Meng *(Chairman)*
Mr. Wang Junlai

Risk Management Committee

Mr. Ma Lishan *(Chairman)*
Mr. Yu Meng
Mr. Wang Junlai

Authorised Representatives

Mr. Wang Junlai
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

Unit A, 16/F & Unit A, 17/F
Two 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
Shanghai Pudong Development Bank Co., Ltd. Hong Kong Branch
Bank of China (Hong Kong) Limited
Standard Chartered Bank (Hong Kong) Limited
Bank of Communications (Hong Kong) Limited
Tai Fung 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
4th floor North Cedar House
41 Cedar Avenue
Hamilton HM 12
Bermuda

Hong Kong Branch Share Registrar and Transfer Office

Tricor Tengis Limited
Level 54, Hopewell Centre
183 Queen's Road East
Hong Kong

Stock Code

993

Website

www.hrif.com.hk

CHAIRMAN'S STATEMENT

Dear Shareholders,

2019 is a critical year for Huarong International Financial Holdings Limited to realise business transformation. Under the strong support of China Huarong Asset Management Co., Ltd., our controlling shareholder, and the direct leadership of the management, the Group maintained its realistic approach, on the back of concerted and united efforts to overcome difficulties and hardships. We have achieved effective results in business structure realignment, prevention and resolution of operational risks and recovery of risk assets. The Group has been adhering to the general principle of making steady progress while carrying out the businesses of asset management, direct investment, corporate finance and securities transaction in a sound and prudent manner, laying solid foundation for the Group's sustainable development.

In 2019, amid complicated and rapidly changing domestic and overseas macro-economic environment, the global economy continued to be disrupted by uncertainties arising from trade disputes and geopolitical tensions. The escalation of social events in Hong Kong coupled with the slowdown of global economic growth exerted pressure on the market as a whole. Looking back on the Year, the Group responded to the ever challenging business environment by making adjustment to the direction of business transformation proactively and achieving the expected goal of "maintaining steadiness in the general conditions, minds, teams, businesses and expectations" in general. As at the end of the Year, the Group's total assets amounted to approximately HK$16.667 billion and its net assets amounted to approximately HK$1.329 billion. The Group recorded a net loss of approximately HK$1.480 billion for the Year, which was mainly caused by the increase in the provisions for direct investment, account receivables, loans and advances in margin financing of debt instruments by the Group during the Year and the increase in the unrealised (non-cash) losses arising from the adverse fair value change of financial assets at fair value through profit or loss.

Continual optimisation of business structure In order to optimise the Group's investment portfolio and further relieve financial pressure, the Group carried out internal reorganisation in the second half of 2019 and in turn disposed of the investment projects held by two wholly-owned subsidiaries (including certain project companies controlled by them) which overall performance had fallen short of expectation. The disposal enabled the Group to reallocate financial resources and manpower to other existing and new businesses, thereby facilitating the realisation of the Group's prudent business development strategy.

Strategic transformation starting to take effect The Group proactively adjusted its business development strategies to return to its core licenced business. While disposing of risky projects and revitalising stock assets, we continued to establish a synergic business development model of "investment + corporate finance" by taking advantages of the brand value of China Huarong and achieved breakthroughs in the acquisition and reorganisation of distressed assets business. With a focus on its licenced business supported by forming business teams comprised of professionals with respective strengths, the Group continued to explore new business opportunities in the market, laying solid foundation for the expansion of its licenced business in future.

Steady expansion of financing channels The Group organised and made greater efforts in marketing while properly addressing public sentiment in the market so as to further enhance market confidence and corporate image. We proactively strengthened the management of external financing and banking facilities, effectively optimised the maturity structure of proceeds from bond issuance, continued to improve our debt structure, and ensured safe, stable and highly-efficient management of liquidity.

Prominent outcome of risk management and control The Group made incessant efforts in improving its risk management and internal control mechanism throughout the Year. Capabilities in risk management and control was further enhanced by emphasising risk prevention and resolution of projects, recovery of assets and collection of cash, as well as compliance with new regulations. Through a combination of means including stepping up bargaining efforts, strengthening post-investment management, reorganising assets and debts, and initiating legal proceedings, the pressure on risk assets was effectively reduced and breakthroughs were made in risk prevention and resolution.

Continual improvement of the employees The Group further optimised the structure of internal organisation and staff deployment and established a positive assessment and incentive system and a risk accountability system. We also created a low-key, pragmatic and composed corporate culture, together with a dutiful, diligent and creative working environment. As such, the internal operating efficiency was further enhanced while the cohesion and unity of employees were constantly strengthened, ensuing stable and orderly business operation.

Outlook

2020 will mark a critical year for the Group to reinforce its main businesses and expedite business transformation. Under the influence of stagnant global economic growth, the market will face a more complicated and austere economic environment. The adverse impact of the outbreak of novel coronavirus pandemic (hereafter referred to as the "COVID-19") may also further increase the downside risk of mainland China, Hong Kong and globally. On one hand, the Group is closely monitoring the adverse impact of the pandemic on the Company's customers, and has taken timely measures to mitigate risks to minimise the impact of the pandemic on the Group's business. On the other hand, the Group will stick to its origin, putting unswerving focus on its licenced business under the "investment + corporate finance" business model. Leveraging on the support from China Huarong in terms of brand strength, industry experience and service network, we will seek steady progress in strict compliance with laws and regulations, monitor and control risks as well as enhance efficiency through streamlining in accordance with the development principle of "professional, international and market-oriented". With the full play of the advantages of multiple licences, we will actively develop overseas business opportunities of the operation of distressed assets and reorganisation of non-performing enterprises and implement a differentiated operation strategy. The Group will strengthen and improve its risk management and internal control systems through reinforcing all-process risk management and control including risk identification, control, monitoring and reporting. Adopting the scientific development perspective on the basis of compliance and risk management, the Group seeks to build up a working mechanism with effective check and balance, laying a sound foundation for the realisation of the Group's professional operation and further development of light assets operation.

I wish to express my heartfelt appreciation to our business partners and customers for their trust and to the shareholders of the Company for their support. Meanwhile, I wish to express my most sincere gratitude to the members of the board of Directors for their valuable advices and support during the past year and all of our staff for their long standing dedication, professionalism and enthusiasm. The Group will strive to create greater value and higher return for the Shareholders, customers and staff.

Yu Meng
Chairman
30 March 2020

BIOGRAPHIES OF DIRECTORS AND SENIOR MANAGEMENT

Board of Directors

Executive Directors

Mr. Yu Meng, aged 42, was appointed as an executive Director and the Chairman of the Company on 8 July 2019. He is also the chairman of the Executive Committee and a member of each of the Nomination Committee and the Risk Management Committee. Mr. Yu possesses extensive experience in business management, asset management and risk management. He is currently a director and the general manager of CHIH, which is the indirect controlling shareholder of the Company. He is also currently the chairman of the board and an executive director of Huarong Investment Stock Corporation Limited, a company listed in the Stock Exchange (stock code: 2277) ("**Huarong Investment**"), which is an indirect non-wholly owned subsidiary of CHIH. In 2002, Mr. Yu joined China Huarong and held various positions including assistant to the general manager of asset management department, deputy general manager and risk director of Henan provincial branch; deputy general manager (in-charge of work) of branch of Shanghai Pilot Free Trade Zone; deputy director of listing office; deputy general manager of business audit department, deputy general manager (general manager level) of international business management department and managing deputy director (director level) of overseas business management headquarters, etc.. Mr. Yu graduated from China University of Political Science and Law with a master degree in laws in 2002, and is currently a Senior Economist.

Mr. Wang Junlai, aged 49, was appointed as an executive Director and the Chief Executive Officer of the Company on 20 November 2019. He is also a member of the Executive Committee and the Risk Management Committee. Mr. Wang has worked in the financial industry for years and possesses extensive experience in different fields such as banking, assets management, capital market and capital finance. He has been a director of CHIH since 18 December 2019. From August 1995 to April 2000, Mr. Wang worked at the corporate business department and risk management department of the Bank of China, Jiangsu Branch. From April 2000 to May 2008, he served as the manager and senior manager successively in the China Orient Asset Management Company ("**Orient Asset Management**"). From May 2008 to May 2011, he served as the investment director in Dong Yin Development (Holdings) Limited, a wholly-owned subsidiary of Orient Asset Management. From May 2011 to September 2016, he acted as the chief financial officer of China Orient Asset Management (International) Holding Limited and successively held the positions of assistant general manager and deputy general manager. From September 2016 to March 2019, Mr. Wang worked as the chief financial officer and managing director in China Securities (International) Finance Holding Company Limited. Mr. Wang holds the professional qualification of the Certified Management Accountant and obtained a Bachelor of Economics degree from the Nanjing University in July 1995, a Master of Banking and Finance degree from the University of Southampton, England in January 2005 and a Master of Science in Real Estate degree from the University of Hong Kong in November 2011.

Independent Non-executive Directors

Mr. Hung Ka Hai Clement, aged 64, was appointed as an independent non-executive Director of the Company on 13 December 2019. He is also the chairman of each of the Audit Committee and Nomination Committee as well as a member of the Remuneration Committee. He obtained a bachelor of arts degree from the University of Huddersfield, United Kingdom in 1980. Mr. Hung had served Deloitte China for 31 years where he had assumed various leadership roles before he took up the chairman role of Deloitte China from 2014 to 2016. He retired from Deloitte China with effect from June 2016. When Mr. Hung was working with Deloitte China, he had assumed various leadership roles, including the managing partner of Deloitte Shenzhen office and Guangzhou office. He was also a member of the China management team of Deloitte China. Mr. Hung had also assumed the role of the southern audit leader and the deputy managing partner of the southern region of China (including Hong Kong, Macau, Shenzhen, Guangzhou, Xiamen and Changsha). He was also a board member of Deloitte Global.

Mr. Hung served as the Guangzhou Institute of Certified Public Accountants consultant from 2004 to 2014. During the period between 2006 to 2011, he also served as a member of the Political Consultative Committee of Luohu District, Shenzhen. After his retirement as the chairman of Deloitte China, he was appointed as an expert consultant of The Ministry of Finance in the PRC. Mr. Hung is a life member of The Institute of Chartered Accountants in England and Wales.

Mr. Hung has, in the past three years, served or is serving as a director of each of the following listed companies whose shares are listed on the Stock Exchange:

- an independent non-executive director of Gome Finance Technology Company Limited (formerly known as Sino Credit Holdings Limited) (stock code: 628) since 31 October 2016;
- an independent non-executive director of Sheng Ye Capital Limited (stock code: 8469, the listing of the shares of which has been transferred to the Main Board (stock code: 6069) from the GEM of the Stock Exchange from 24 October 2019) since 19 June 2017;
- a non-executive director of High Fashion International Limited (stock code: 608) since 1 December 2017;
- an independent non-executive director of Zhongchang International Holdings Group Limited (formerly known as Henry Group Holdings Limited) (stock code: 859) since 12 January 2018;
- an independent non-executive director of Aoyuan Healthy Life Group Company Limited (stock code: 3662) since 22 February 2019;
- an independent non-executive director of China East Education Holdings Limited (stock code: 667) since 12 June 2019;

- an independent non-executive director of Tibet Water Resources Ltd. (stock code: 1115) since 31 December 2019;

- an independent non-executive director of Skyworth Group Limited (stock code: 751) since 18 March 2020;

- an independent non-executive director of Lerthai Group Limited (formerly known as LT Commercial Real Estate Limited) (stock code: 112) from 24 February 2017 to 3 March 2017 and a non-executive director of the company from 3 March 2017 to 30 June 2017. He was re-designated as an independent non-executive director of the company on 30 June 2017 and subsequently resigned with effect from 30 September 2018; and

- an independent non-executive director of SMI Holdings Group Limited (stock code: 198) from 16 January 2017 to 15 March 2017 and re-designated as a non-executive director of the company on 15 March 2017. He subsequently resigned with effect from 28 February 2019.

Mr. Ma Lishan, aged 68, 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. Mr. Ma has extensive experience in operation and management of modern large-scale corporations and listed companies. Mr. Ma graduated from Beijing Foreign Studies University in the PRC in 1975. He served in various positions such as chairman, executive director, general manager in certain large-scale joint ventures 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 vice president of China Foods Import and Export (Group) Co., Ltd. From June 2008 to January 2009, Mr. Ma was an executive director of Sino Resources Group Limited (currently 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 (currently 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, aged 62, 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. 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 an independent non-executive director of China Shandong HiSpeed Financial Limited (HKEx: 412), China Nonferrous Mining Corporation Limited (HKEx: 1258), Sunwah Kingsway Capital Holdings Limited (HKEx: 188), HongDa Financial Holding Limited (HKEx: 1822) and Solis Holdings Limited (HKEx: 2227). 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 nonexecutive 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 (currently known as Greater Bay Area Investments Group Holdings Limited) (HKEx: 261).

Mr. Guan has been a part-time researcher of the Insurance Research Centre of Fudan University since 2004 and has also been appointed as a part-time lecturer of professional degree of the University since 2013. Mr. Guan has been appointed as a visiting professor of Jilin University of Finance and Economics since September 2019. Mr. Guan obtained a doctoral degree in Economics in 2000 from Wuhan University and was a postdoctoral researcher in Theoretical Economics with Fudan University from 2000 to 2002.

Changes in Directors and Information of Directors

Pursuant to Rule 13.51B of the Listing Rules, changes in Directors and information of Directors or chief executive of the Company subsequent to the date of the 2019 interim report of the Company are as follows:

(1) Mr. Xu Yong resigned as an executive Director and the chief executive officer of the Company on 20 November 2019.

(2) Mr. Wang Junlai was appointed as an executive Director and the chief executive officer of the Company on 20 November 2019.

(3) Dr. Wong Tin Yau Kelvin resigned as an independent non-executive Director on 13 December 2019.

(4) Mr. Hung Ka Hai Clement was appointed as an independent non-executive Director on 13 December 2019.

(5) Mr. Guan Huanfei, an independent non-executive Director, has been appointed as a visiting professor of Jilin University of Finance and Economics since September 2019.

(6) Mr. Wang Junlai, an executive Director and the chief executive officer of the Company, was appointed as a director of CHIH with effect from 18 December 2019.

(7) Mr. Hung Ka Hai Clement, an independent non-executive Director, was appointed as an independent non-executive director of Tibet Water Resources Ltd. (HKEx: 1115) and Skyworth Group Limited (HKEx: 751) with effect from 31 December 2019 and 18 March 2020 respectively.

Senior Management

Mr. Liu Xiguang, aged 57, was appointed as the deputy chief executive officer of the Company on 7 August 2019. He has worked in securities, banking and energy investment groups. From May 2017 to July 2019, Mr. Liu was an executive director, the deputy chief executive officer and the chief risk officer of Huarong Investment. Mr. Liu obtained a bachelor's degree in economics from Renmin University of China in 1985.

Ms. Ming Mei, aged 47, was appointed as the deputy chief executive officer of the Company on 26 January 2018. Ms. Ming has been working in the financial field including banking, fund and asset management for 24 years. Before joining the Company, Ms. Mei served successively in the human resources department, the online banking management section, the retail banking section, the corporate banking department of the head office and Xidan Branch of the business department of the head office of CITIC Bank as deputy manager, assistant to general manager and principal of the departments and the branch. She has accumulated sound business foundation and comprehensive management capability throughout the career progression from the human resources department to the business department, from head office management to branch operation, and from middle and back office to frontline. She also served as co-director of the sales department in the pension investment centre of ICBC Credit Suisse Asset Management Co., Ltd. Ms. Ming is currently 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 Huazhong University of Science and Technology with a master's degree in industrial engineering.

Mr. Wang Xuejun, aged 47, 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, a wholly-owned subsidiary 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

MANAGEMENT DISCUSSION AND ANALYSIS

Financial Highlights

For the Year, the Group recorded a revenue of approximately HK$1,667,189,000 (Last Year: approximately HK$2,271,555,000), net loss on financial assets at fair value through profit or loss of approximately HK$9,802,000 (Last Year: approximately HK$1,347,321,000), and net loss arising from disposal of financial assets at fair value through other comprehensive income of approximately HK$18,715,000 (Last Year: approximately HK$55,629,000). Therefore, total revenue and gains or losses described above increased to approximately HK$1,638,672,000 as compared to approximately HK$868,605,000 for the Last Year. Loss attributable to Shareholders for the Year was approximately HK$1,545,885,000 as compared to the loss attributable to Shareholders of approximately HK$1,548,222,000 for the Last Year. Basic loss per share was HK$43.08 cents for the Year as compared to basic loss per share of HK$43.14 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 2019, the pace of global economic trade growth weakened while growth rate of major developed economies continued to decrease and emerging economies sustained increasing downward pressure. With tightening of financial environment, intensification of protectionism, and escalation of geopolitical tensions, global capital markets experienced significant fluctuation. Global economic growth rate dropped to 2.3% in 2019. Trade disputes caused disruption to global value chain, which in turn resulted in considerable uncertainties that posed tremendous challenges to global economic development. In order to address economic downward pressure, major economies adjusted their monetary policies from interest rate hikes and contraction of balance sheets to interest rate cuts and expansion of balance sheets. A new round of easing cycle has commenced as various emerging and developed countries started interest rate cuts.

Faced with complicated global economic environment, China's economy maintained stable growth with a year-on-year GDP growth rate of 6.1% for the Year, achieving stable progress in national economy. China effected three cuts of reserve requirement ratio (RRR) during the Year and implemented tax and fee reduction policies to relieve the hardships of enterprises and optimise the business environment in China. Under the combined impact of social events in Hong Kong and slackened global economic growth, Hong Kong's economy experienced remarkable contraction. Nevertheless, opportunities in the market came along with challenges. With further progress in the building of the Guangdong-Hong Kong-Macau Greater Bay Area, Hong Kong consolidated its position as an international financial centre and an international asset management centre, attracting more domestic and overseas investors.

Business Review

The market faced pressure in 2019 as a result of the complicated and rapidly changing domestic and overseas macro-economic environment and the adverse impacts brought by social movements in Hong Kong. The Group made adjustment to the direction of business transformation proactively and further optimised its business structure by disposing of projects with greater risk exposure during the Year. The Group also made greater efforts in risk management and control, prevented and resolved risks effectively, and carried out various operational management tasks in a stable and orderly manner.

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. In 2019, taking into account the current economic environment and the guiding principles for preventing and resolving financial risks of the PRC, the Group adopted a cautious approach to review its investment portfolio, strengthened various risk management and control measures such as that for market risks and credit risks, reviewed the operation of counterparties and the value of collaterals on a continuous basis, formulated corresponding risk prevention measures and enhanced post-investment management. In addition, the Group proactively divested and disposed of risk assets, so as to further improve the company's investment portfolio and business structure. The segment revenue was approximately HK$1,242,570,000 for the Year as compared to approximately HK$1,754,596,000 for the Last Year; the net losses on financial assets at fair value through profit or loss decreased from approximately HK$1,347,321,000 for the Last Year to approximately HK$9,802,000 for the Year; the segment result was loss of approximately HK$739,256,000 for the Year as compared to loss of approximately HK$1,247,067,000 for the Last Year.

Securities

Securities business segment includes provision of brokerage services, margin financing and stocks, futures and options trading services. Due to the Sino-US trade war and economic downturn, investors were concerned about economic prospects while the securities business of the Group was under the profound impact of stagnant market in 2019. During the Year, the Group continued to adjust and optimise its business strategy in margin financing business in order to further reduce business operation risks. Meanwhile, leveraging on the diversified client portfolio of China Huarong, we further enhanced our sales and expanded product offerings. For the Year, the revenue from the securities segment was approximately HK$415,712,000 as compared to approximately HK$486,065,000 for the Last Year; the segment result amounted to loss of approximately HK$575,230,000 as compared to loss of approximately HK$166,468,000 for the Last Year, due to the increase in provisions.

Corporate Finance

The corporate finance segment is devoted to providing institutional clients with comprehensive securities issuance and underwriting and financing advisory services. In 2019, the Group made several USD bond issuances and promoted steady business development. For the Year, revenue from the corporate finance segment amounted to approximately HK$8,907,000 as compared to approximately HK$30,894,000 for the Last Year; the segment result was loss of approximately HK$5,064,000 as compared to gain of approximately HK$22,560,000 for the Last Year.

Prospects

Looking into 2020, economic recovery will face enormous challenges resulted from negative factors such as the intensified trade and investment war, Brexit, presidential election of the United States, geopolitical issues such as the turmoil in the Middle East, complicated and ever-changing trade issues between the United States and China, as well as political risks and trade disputes. The global outbreak of the COVID-19 has accelerated global economic downturn and the resultant panic chain effect has led to a slump in global stock markets, causing tremendous shock to financial markets. Nonetheless, central banks are taking proactive initiatives to minimise the possibility of a global recession in 2020. In respect of China, despite the impact on its economy by the pandemic, the sizable consumer market in China lays a sound foundation for the economy, which shows an upward development trend and is expected to recover gradually.

The Group will realise its transformational development by observing legal compliance, eagerly seizing hold of opportunities and conquering difficulties and hardships. The Group will also continue to adhere to the general principle of making steady progress with an emphasis on quality improvement and efficiency enhancement. Sticking to its origin, the Group will follow the “investment + corporate finance” business model and make greater marketing and expansion efforts in the market and among customers to enhance market opportunities and broaden its customer base. Under the principle of “professional, international and market-oriented”, the Group will persist on compliance with laws and regulations, risk prevention and control, as well as healthy business operation in a bid to gradually increase its scale of asset management. Furthermore, with a focus on the principal businesses of China Huarong, the Group will seek the business opportunities arising from the operation of overseas distressed assets and the reorganisation of non-performing enterprises, while giving full play to the advantages of its financial licensed business and synergic business as well as conducting asset management, direct investment, securities and corporate finance businesses in a sound and cautious approach. With the continuous support of our controlling shareholder, China Huarong, the Group will take forward various operations and management works in a steady and orderly manner with the aim to build a sustainable operation model, striving to create greater value for shareholders.

Financial Review

Capital Structure

As at 31 December 2019, the total number of issued shares of the Company (with par value of HK$0.001 each) was 3,588,466,011 and the total equity attributable to shareholders was approximately HK$1,329,097,000 as compared to approximately HK$2,070,447,000 as at 31 December 2018, representing a decrease of approximately 35.8%.

Liquidity and Financial Resources

The Group reviews its liquidity position regularly and manages liquidity and financial resources actively according to the changes in economic environment and business development needs. As at 31 December 2019, the Group had total cash and cash equivalents amounting to approximately HK$3,069,944,000 as compared to HK$2,401,797,000 as at 31 December 2018, excluding client funds that were kept in separate designated bank accounts of approximately HK$389,202,000 (as compared to HK$396,500,000 as at 31 December 2018). The Group's gearing ratio as at 31 December 2019 was 879.6% as compared to 1,230.6% as at 31 December 2018, being calculated as borrowings over the Group's shareholders' equity. The decrease in gearing ratio was attributable to the decrease in shareholder loans in the Year. As at 31 December 2019, the Group obtained shareholder loans in an aggregate principal amount of approximately US$1,161,685,000 (equivalent to approximately HK$9,048,335,000) (31 December 2018: approximately US$2,763,331,000 (equivalent to approximately HK$21,644,937,000)) from CHIH to support the business of the Group and none was taken from China Huarong (31 December 2018: RMB1,569,000,000 (equivalent to approximately HK$1,790,687,000)).

As at 31 December 2019, the Group had undrawn bank facilities of approximately HK$1,625,500,000 (31 December 2018: approximately HK$2,845,975,000) and the Group utilised approximately HK$2,642,528,000 (31 December 2018: approximately HK$2,042,304,000) of the relevant banking facilities.

As at 31 December 2019, the Group had no bank borrowings that violated 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 complied with the liquidity requirements under the Securities and Futures (Financial Resources) Rules.

Charges on Group Assets

As at 31 December 2019, no assets of the Group (31 December 2018: none) were pledged to secure bank loan facilities of the Group.

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 risks because Hong Kong dollars are pegged to United States dollars and the revenue from the PRC operations only represents a small fraction of the Group's revenue. Other foreign currency exposure is relatively minimal when compared 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 HISL, an indirectly wholly owned subsidiary of the Company, that was previously disclosed in the audited financial statements of the Group in between 1 May 2015 and 31 December 2015, the plaintiff has not taken any further action since August 2013 but HISL has instead pursued its counterclaim against the plaintiff as the Directors consider that HISL has good defence and a strong case. In early March 2020, the plaintiff and HISL reached a settlement in respect with such proceeding and the consent order made by the Court of First Instance of the High Court of the Hong Kong Special Administrative Region became effective on 9 March 2020 subsequently.

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. As at 31 December 2019, the Group did not hold any significant investments which constitute 5% or more of its total assets.

Disposal of Subsidiaries

In October 2019, the Group entered into deeds of transfer to dispose of all its equity interests in two subsidiaries Huarong Tianhai (Shanghai) Investment Management Company Limited* (華融天海（上海）投資管理有限公司) ("**Huarong Tianhai**") and Wide Trend Global Limited ("**Wide Trend**"), which were mainly engaged in investment management and which investment projects involve the provision of loan facilities and the subscription of financial instruments, to Huarong Overseas Investment Holdings Co., Limited, a fellow subsidiary of China Huarong. Through the disposals, the Group was able to optimise its investment portfolio, mitigate its financial pressure, reduce the balance of its interest-bearing borrowings, and therefore lower its gearing ratio. Furthermore, the Group was able to reallocate its resources to other existing businesses, optimise its business structure and realise its development strategy of adopting a more cautious approach in business operation. The disposals were completed in December 2019.

Employee and Remuneration Policy

As at 31 December 2019, the Group employed a total of 71 employees (31 December 2018: 96 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 situation, are competitive and performance based. For further details of the Group's policy relating to its employees, please refer to the section headed "Environmental, Social and Governance Report – A People-Oriented Culture" in this Report.

* *For identification purpose only*

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 annual report, the Group operated its businesses by utilising its licences (Type 1, 2, 4, 6 and 9 licences) issued under the SFO.

Results

The Group's results for the Year and the financial position of the Group as at 31 December 2019 are set out on pages 92 to 228 of the consolidated financial statements.

Dividends

The Board does not recommend the payment of a final dividend for the Year (2018: Nil).

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 229 of this annual report. The summary does not form part of the audited consolidated financial statements.

Property and Equipment

Details of the movements in the property and equipment of the Group during the Year 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 are set out in notes 34 and 37 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 subsidiaries 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 35 to the consolidated financial statements.

Pre-Emptive Rights

There are no provisions for pre-emptive rights under the memorandum of association and 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 50 to the consolidated financial statements and on page 96 of the consolidated statement of changes in equity, respectively.

Distributable Reserves

As at 31 December 2019, the Company has no reserves available for distribution (31 December 2018: Nil) 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$142,000.

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 15.4% of the Group's total turnover and turnover attributable to the largest customer included therein represented approximately 4.7% of the Group's total turnover during the Year. 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. As the Group is engaged in the provision of financial services, the Directors are of the view that, it is of no value to disclose details of the Group's major 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) credit risks that may arise from possible default of the Group's business counterparties, including but not limited to borrowers, trading partners and note issuers; (ii) market risks that may arise when there is fluctuation of the price of assets invested by the Group; 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 credit and market risks through the risk management department which is independent from the business department, and relevant assessment result is reported to relevant business teams of the Group on a timely manner. After receiving the assessment and report, the relevant business teams will prepare credit and market risk mitigation plans. Upon obtaining clearance from the legal department, the compliance department and the risk management department in relation to such risk mitigation plans, they will be submitted to the management of the Group 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 advisors to provide professional 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 62 to 84 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 advisors 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 62 to 84 of this annual report.

Relationship with Customers

The Group is committed to providing excellent services to its 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 annual report are:

Executive Directors:

Mr. Yu Meng *(Chairman)* (appointed on 8 July 2019)
Mr. Bai Junjie *(Chairman)* (resigned on 8 July 2019)
Mr. Wang Junlai *(Chief Executive Officer)* (appointed on 20 November 2019)
Mr. Xu Yong *(Chief Executive Officer)* (resigned on 20 November 2019)

Independent Non-executive Directors:

Mr. Hung Ka Hai Clement (appointed on 13 December 2019)
Dr. Wong Tin Yau Kelvin (resigned on 13 December 2019)
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 AGM in accordance with the Bye-laws.

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.

Directors' Service Contracts

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

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

Directors' Interests in Transactions, Arrangements or Contracts of Significance

Save as disclosed in note 11 to the consolidated financial statements, no transactions, arrangements or contract of significance (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 the Year.

Directors' Interests in Competing Business

During the Year, save as disclosed in this annual report, none of the Directors (excluding the independent non-executive Directors) had any competing interests in any business that constitutes or may constitute direct or indirect competition with the Group's businesses.

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.

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
500,000 – 1,000,000	3

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

As at 31 December 2019, 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.

Substantial Shareholders' Interests

As at 31 December 2019, 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:

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 as at 31 December 2019
China Huarong (Note 1(a))	Interests in controlled corporation	Long position	1,830,117,664	51.00%
China Huarong (Note 1(b))	Interests in controlled corporation	Long position	775,220,529	21.60%
CHIH (Note 1(a))	Interests in controlled corporation	Long position	1,830,117,664	51.00%
Camellia Pacific Investment Holding Limited ("**Camellia**") (Note 1(a))	Beneficial owner	Long position	1,830,117,664	51.00%
Shinning Rhythm Limited ("**Shinning Rhythm**") (Note 1(b))	Security interest	Long position	775,220,529	21.60%
Huarong Huaqiao Asset Management Co., Ltd. ("**Huarong Huaqiao**") (Note 1(b))	Interests in controlled Corporation	Long position	775,220,529	21.60%
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. (a) 1,830,117,664 shares of the Company were beneficially owned by Camellia which is wholly owned by CHIH. CHIH was directly owned as to 84.84% by China Huarong, and in turn owned as to 1.80% by Huarong Zhiyuan Investment & Management Co., Ltd. ("**Huarong Zhiyuan**") and 13.36% by Huarong Real Estate Co., Ltd., (currently known as Huarong Shiye Investment Management Company Limited* 華融實業投資管理有限公司), both of which were wholly owned by China Huarong. China Huarong was beneficially owned as to 57.02% by the MOF and was deemed to be owned as to 4.39% by MOF through 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.

   (b) Shinning Rhythm held direct security interest in 775,220,529 underlying shares of the Company and is a wholly-owned subsidiary of China Huarong Overseas Investment Holdings Co., Ltd. ("**Huarong Overseas**"), which in turn a wholly-owned subsidiary of Huarong Huaqiao. Huarong Huaqiao is owned as to 91% by Huarong Zhiyuan. Huarong Zhiyuan is a wholly-owned subsidiary of China Huarong. Accordingly, Huarong Overseas, Huarong Huaqiao, Huarong Zhiyuan and China Huarong are deemed to be interested in the underlying shares of the Company held by Shinning Rhythm 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. Such interest in the 775,220,529 Shares deemed or taken to be interested by Tian Yuan Int'l, Tian Yuan Group, Mr. Jia Tianjiang and Ms. Dong Jufeng has also been granted as security to a person other than a qualified lender.

Saved as disclosed above, as at 31 December 2019, 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.

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

On 18 October 2019, the Company and Huarong Overseas, an indirect subsidiary of China Huarong and therefore a connected person of the Company, entered into the Master Deed and the Huarong Tianhai Transfer Agreement, while Linewear Assets Limited, a direct wholly-owned subsidiary of the Company, and Huarong Overseas entered into the Wide Trend Transfer Deed. Pursuant to the aforesaid transfer documents, the Company agreed to sell all its 100% equity interest in Huarong Tianhai and Linewear Assets Limited agreed to sell all the 100% of the issued shares of Wide Trend it held, for an aggregate cash consideration of HK$11.23 million (the "**Disposals**"). Immediately prior to the completion of the Disposals, both Huarong Tianhai and Wide Trend were wholly-owned subsidiaries of the Company. The investment projects of Huarong Tianhai and Wide Trend involve the provision of loan facilities to Independent Third Parties or the subscription of financial instruments including debt securities, preferred shares or trust products issued by Independent Third Parties. Immediately prior to the Disposals, the repayment under such investment projects had become overdue or tended to be extended. Accordingly, the Company entered into the Disposals to optimize its investment portfolio, reduce its financial pressure, lower its gearing ratio and reallocate financial and human resources to other existing businesses of the Group, thereby facilitating the realization of the Group's development strategy.

The Disposals has been approved by independent Shareholders at a special general meeting convened by the Company on 9 December 2019. As at the date of this annual report, the Disposals have completed. Thereafter, Huarong Tianhai and Wide Trend would not be a subsidiary of the Company and their financial results would no longer to consolidated into the financial statements of the Group.

For further details of the Disposals, please refer to the announcement of the Company dated 20 October 2019 and the circular dated 22 November 2019.

Continuing Connected Transactions

New Master Agreement in Relation to the Provision of Financial Services

(a) Background information of the transactions

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 under 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 a new master agreement (the "**2016 New Master Agreement**") and revised the terms of the 2016 Master Agreement, inter alia, the duration of the 2016 New Master Agreement was extended to cover the period from 9 May 2016 to 31 December 2018 (both days inclusive).

On 22 May 2019, the Company entered into a new master agreement (the "**2019 Master Agreement**") with China Huarong, pursuant to which the Group has agreed to provide Categories I, II and III Transactions to the Connected Clients for a term of three years commencing from 22 May 2019 and ending on 21 May 2022.

(b) Connected relationship of the parties to the transactions

China Huarong is a controlling Shareholder and indirectly and beneficially 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 2019 Master Agreement constitute continuing connected transactions of the Company under the Listing Rules.

(c) Annual cap and total consideration

Under the 2019 Master Agreement, the annual cap amounts for the three years ending 21 May 2022 are as follows:

		For the period between 22 May 2019 and 21 May 2020 *(HK$'000)*	For the period between 22 May 2020 and 21 May 2021 *(HK$'000)*	For the period between 22 May 2021 and 21 May 2022 *(HK$'000)*
(i)	Category I Transactions	20,000	20,000	20,000
(ii)	Category II Transactions	15,000	15,000	15,000
(iii)	Category III Transactions	25,000	25,000	25,000
Total		60,000	60,000	60,000

For the period from 22 May 2019 to 31 December 2019, the Group has provided corporate finance advisory services (Category II Transactions) to its fellow subsidiary and earned underwriting income of US$70,825 (equivalent to approximately HK$555,000).

(d) Pricing Policies

The transactions under the 2019 Master Agreement shall be conducted on normal commercial terms and at rates that are no less favourable to the Group than rates at which the Connected Clients pay Independent Third Parties for the relevant services. Detailed payment terms will be specified in the individual contracts governing each particular transaction. The Company would consider the following basis to determine the payment terms.

Category I Transactions

For the provision of services under 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. The determination of the service fee charged for services under the Category I Transactions will be based on the prevailing market terms and rates for transactions of similar nature. The underwriting commission rate shall be determined through arm's-length negotiation among the Group, other syndicate underwriters who are Independent Third Parties, and the Connected Client(s). The underwriting commission rate shall be applicable to the Group and other syndicate underwriters, and may be adjusted by taking into account the size of the fund-raising exercise and its potential return. As such, the Group will be able to ensure that the terms for the provision of services under the 2019 Master Agreement to the Connected Clients will be comparable to the normal commercial terms on the market and no less favourable to the Group than the provision of such services to Independent Third Parties. The Group expects that, in general, the fee percentage for securities brokerage services will be between 0.07% to 0.5% and the fee percentage for placing and underwriting services will be between 0.2% to 5%.

Category II Transactions

For the provision of services under 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 in each particular project. The determination of the fees charged for services under Category II Transactions will be based on the price range charged for similar services provided by the Group to existing Independent Third Parties clients, taking into account (i) the urgency of the proposed transaction or project; (ii) the resources estimated to be utilized in providing the relevant services; (iii) the size and complexity of the proposed transaction or project; (iv) the fees charged for historical transactions of similar nature; and (v) the prevailing market rate. By comparing the determined fees with that chargeable to Independent Third Parties, the Group shall ensure that the determined fees shall be no less favourable to the Group than that charged to the Independent Third Parties clients.

Category III Transactions

For the provision of services under 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 fees charged for services under Category III Transactions will be 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 prevailing market rates at the material time. The Group expects, in general, the range of management fee will be between 0.5% to 2% per annum and the range of performance fees will be between 0% to 25% of the return of funds with reference to the prevailing market rates. The fee percentage for actively managed fund will be in the upper half of the range, while the fee percentage for passively managed funds will be in the lower half of the range.

(e) 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, leasing, investment, funds, futures, and real estate. 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.

The entering into of the 2019 Master Agreement enables the Group to rely on the extensive client network of China Huarong and its associates, allowing the Group to expand the scale of its existing securities business, in particular seeking business opportunities in the PRC market.

For further information relating to the transactions contemplated under the 2019 Master Agreement, please refer to the announcement of the Company dated 22 May 2019.

For further information regarding the above mentioned connected transactions, 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 and the Company confirms that it had made relevant disclosures pursuant to the disclosure requirements under Chapter 14A of the Listing Rules.

(f) Internal Control Procedures

To ensure that the transactions contemplated under the 2019 Master Agreement are conducted on normal commercial terms and in accordance with the terms of the 2019 Master Agreement, and that the transactions comply with the pricing policies of the Group, the Group has implemented the following internal control procedures:

- Prior to entering into any transaction contemplated under the 2019 Master Agreement, the relevant agreement (including the pricing terms for each transaction between the Group and the Connected Clients) shall be reviewed and approved by the compliance and legal department, senior management and responsible officers (within the meaning of the SFO) of the Group to ensure that the fees charged by the Group will be (i) in compliance with the Group's internal pricing policy; and (ii) on normal commercial terms and at rates no less favourable to the Group than the rates charged by the Group to Independent Third Parties for transactions of similar nature.

- Detailed payment terms will be specified in the individual agreement governing the particular transaction. The auditors of the Company will also conduct annual review of the continuing connected transactions entered into by the Group such that the Group could be able to ensure compliance with the Listing Rules.

- The Company will periodically review the transactions with China Huarong to identify any transactions that may be at risk of exceeding the proposed annual cap(s), and any measures to be taken in respect of such transactions. The Group has established a series of measures and policies to ensure that the transactions will be conducted in accordance with the terms of the 2019 Master Agreement.

By implementing the above mentioned procedures, the Directors consider that the Company has established adequate and effective internal control measures in monitoring the continuing connected transactions to ensure that the requirements under the Listing Rules are complied with.

(g) Annual Review of the Continuing Connected Transaction

The Directors, including the independent non-executive Directors, namely, Mr. Hung Ka Hai Clement, 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 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.

Disclosure pursuant to Rule 13.18 and Rule 13.21 of the Listing Rules

As at 31 December 2019, 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
21 February 2019	Uncommitted revolving loan facility with a bank	US$100,000,000	Extended to 20 January 2021	Note 1
21 May 2019	Revolving loan facilities with a bank	HK$600,000,000	No fixed term and are repayable on demand by the bank	Note 2
2 September 2019	Revolving short term advance facility with a bank	US$40,000,000	Subject to review on 30 June 2020 and thereafter to an annual review	Note 3
2 September 2019	Margin security facility with a bank	HK$500,000,000	Subject to review on 30 June 2020 and thereafter to an annual review	Note 4
10 December 2019	Term loan facility with a bank	HK$800,000,000	Repayable in full on the final maturity date falling twelve months from the first utilisation date	Note 5
16 December 2019	Revolving credit facility with a bank	US$40,000,000	The facility has interest periods of one, two or three month(s) each to be agreed by the Company and the lender (the "**Interest Period**") and each drawdown or rollover of each drawing shall be repaid on the last day of the applicable Interest Period which shall not extend beyond 20 September 2020	Note 6

Notes:

1. China Huarong has undertaken to maintain its status as the Company's controlling shareholder as long as the facility remains outstanding. In addition, under the facility letter, the Company shall be directly or indirectly at least 51% beneficially owned and controlled by China Huarong throughout the life of the facility.

2. China Huarong has undertaken to continuously maintain control over HISL as long as the facilities remain outstanding. In addition, under the facility letter, China Huarong shall maintain, directly or indirectly, majority and beneficial ownership of HISL at all times.

3. 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.

4. During the term of the facility, HISL 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.

5. Under the terms of the facility agreement, if China Huarong ceases to be the beneficial owner directly or indirectly holding 51% or more of the issued share capital of the Company, the Company shall promptly notify the bank and the bank may cancel the facility and declare all outstanding loans, together with accrued interest and all other amounts accrued under the facility agreement, to be immediately due and payable. Moreover, China Huarong has undertaken to continuously maintain control over the Company as long as the facility remains outstanding.

6. During the term of the facility, China Huarong shall maintain not less than 51% shareholdings of the Company, and the MOF shall remain as the controlling shareholder of China Huarong.

Details of the above mentioned banking facilities are set out in the announcements of the Company dated 21 February 2019, 21 May 2019, 2 September 2019, 10 December 2019, and 16 December 2019.

Contracts of Significance

Save as disclosed in note 11 to the consolidated financial statements and under the sub-section "Connected Transactions" of 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.

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 CG Code. A report on the principal corporate governance practices adopted by the Company is set out on pages 38 to 59 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.

Events After the End of the Year

After the end of the Year, the Group has the following subsequent events:

(1) HISL entered into a facility letter with a bank to renew facilities in an aggregate principal amount not exceeding HK$600,000,000. For further details, please refer to the announcement of the Company dated 17 March 2020.

(2) HISL reached a settlement with the plaintiff in relation to a legal proceeding claimed against it as disclosed in the announcement of the Company dated 4 October 2012, which was subsequently effected by a consent order granted by the Court of First Instance of the High Court of the Hong Kong Special Administrative Region on 9 March 2020. For further details, please refer to the announcement of the Company dated 20 March 2020.

(3) The Company entered into a discloseable transaction in relation to the disposal of shares in a listed company. For further details, please refer to the announcement of the Company dated 23 March 2020.

(4) Since early January 2020, COVID-19 has spread globally, causing disruption to businesses and economic activities and shock to financial markets. This may result in significant fluctuation in the fair value of the financial assets and impairment losses of loans and advances to customers of the Group. The degree of the impact depends on the duration of the pandemic, the implementation of preventive measures and fiscal easing policies posted by the impacted countries and regions. As the situation is rapidly evolving, we do not consider it practicable to provide a quantitative estimate of the potential impact of this outbreak on the Group. Such impact is a non-adjusting event after the financial year end and does not result in any adjustments to the consolidated financial information for the year ended 31 December 2019. The Group and the management will continue to monitor the situation closely and actively respond to the impacts on the Group's financial position and operating results.

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 Mr. Hung Ka Hai Clement (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. As the Company intends to align its appointment of auditor with that of its controlling shareholder, China Huarong, Deloitte Touche Tohmatsu will retire as the auditor of the Company at the conclusion of the forthcoming AGM. On 30 March 2020, the Board has resolved, with the recommendation of the Audit Committee, to propose the appointment of Ernst & Young as the new auditor of the Company after the retirement of Deloitte Touche Tohmatsu and to hold office until the conclusion of the next AGM, subject to the approval by the Shareholders at the forthcoming AGM. For further details, please refer to the announcement of the Company in respect of proposed change of auditor dated 30 March 2020.

On behalf of the Board
Huarong International Financial Holdings Limited
Yu Meng
Chairman

Hong Kong, 30 March 2020

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, the Company has adopted the principles and thus has complied with all the applicable code provisions of the CG Code as set out in Appendix 14 of the Listing Rules.

Directors' Securities Transactions

The Company has adopted 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 Model Code throughout the Year and up to the date of this annual 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 Directors disclose to the Company the number and nature of offices held in public companies or organisations and other significant commitments on a biannual basis.

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 relevant material 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.

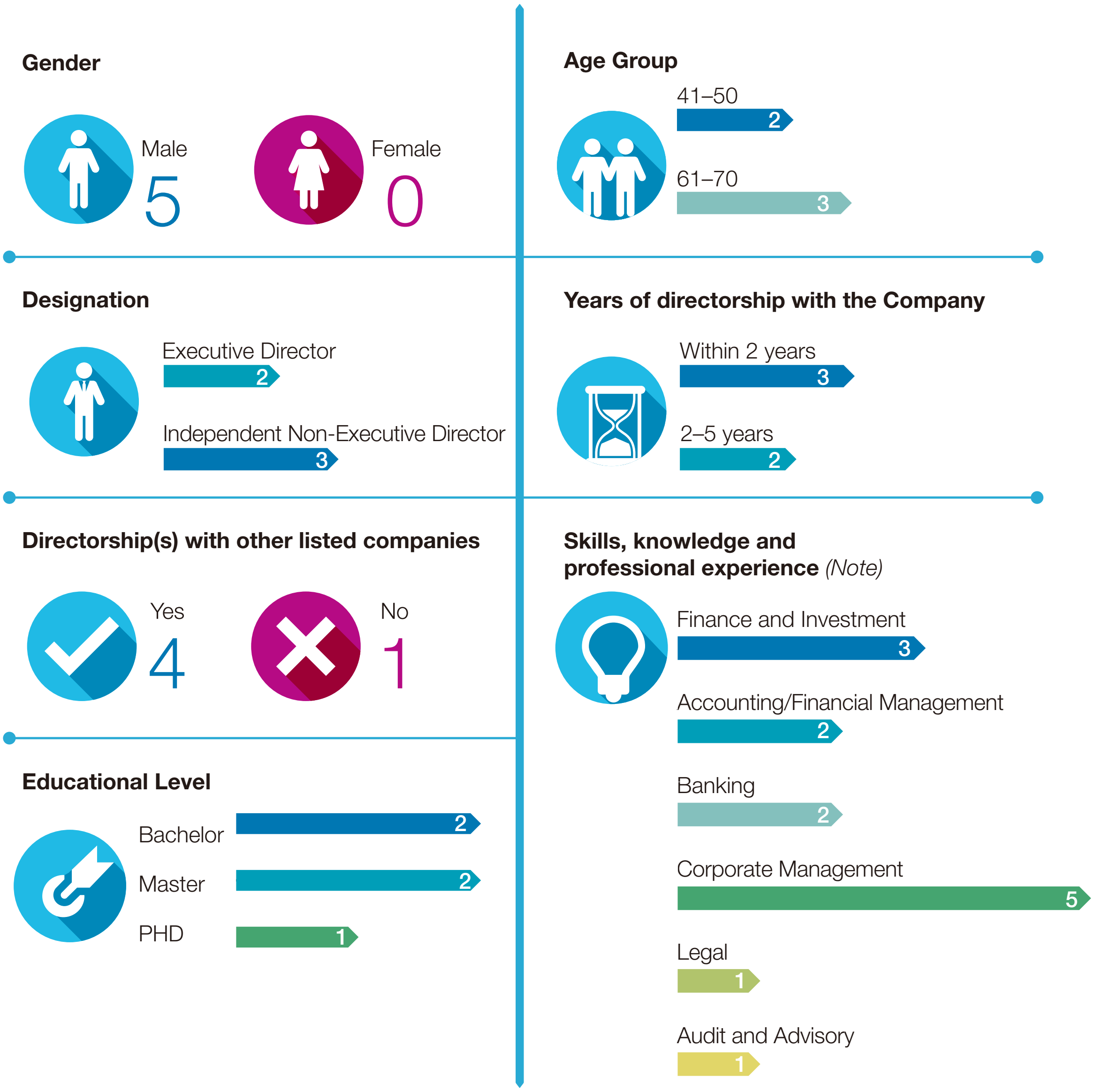
The Nomination Committee conducts regular review on the structure, size and composition of the Board and the Director Nomination Policy and where appropriate, make recommendations on changes to the Board to complement the Company's corporate strategy and business needs.

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. Matters reserved for the Board are those affecting the Company's overall strategic policies, finances and shareholders. These include, but not limited to the following:

- deliberation of business plans, risk management, internal control;
- preliminary announcements of interim and final results, and interim and annual reports;
- dividend policy;
- annual budgets;
- major corporate activities such as material acquisitions and disposals, and connected transactions; and
- Directors' appointment, re-election and recommendations.

The Board may delegate part of its functions and duties to Executive Committee and day-to-day operational responsibilities are specifically delegated to the management, specifying matters which require approval by the Board. 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, 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 are given for all regular Board meetings and an agenda with supporting Board papers are given no less than 3 days prior to the meeting such that all Directors are given the opportunity to include matters for discussion in the agenda. The Chairman of the Board 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 management 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, the Board held four regular meetings and five ad-hoc meetings. The attendance record of individual Directors is set out below. Figures in brackets indicates the total number of meetings held during the period in which the individual was a Director.

Directors Attendance

Directors	Attendance/ Number of Meetings Held
Executive Directors	
Yu Meng (appointed on 8 July 2019)	5/(5)
Wang Junlai (appointed on 20 November 2019)	1/(1)
Independent Non-executive Directors	
Hung Ka Hai Clement (appointed on 13 December 2019)	N/A
Ma Lishan	8/(9)
Guan Huanfei	9/(9)
Former Directors	
Bai Junjie (resigned on 8 July 2019)	4/(4)
Xu Yong (resigned on 20 November 2019)	8/(8)
Wong Tin Yau Kelvin (resigned on 13 December 2019)	7/(9)

During the Year, the Chairman of the Board, Mr. Yu Meng 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 of the Company (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.

Where 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 is responsible for compiling minutes of the Board meetings and meetings of the Board Committees. The minutes record in sufficient details the matters considered and decisions reached by the Board and the Board Committees, including any concerns raised by the Directors or dissenting views expressed. Draft and final versions of the minutes of meetings of the Board and/or the Board Committees are sent to all Directors and/or respective Board Committees members for their comment and records within a reasonable period after the meetings were held. All such minutes are kept by the Company Secretary and are available for inspection by the Directors upon request.

Chairman and Chief Executive Officer

In order to reinforce their respective independence, accountability and responsibility, the roles of Chairman and Chief Executive Officer of the Company are segregated. Mr. Yu Meng is currently the Chairman and Mr. Wang Junlai is currently 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 Board Committee meetings of which they are members. The Chairman holds at least one meeting annually with the 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 the AGM 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 confirmations of independence pursuant to the independence guidelines set out in Rule 3.13 of the Listing Rules from all independent non-executive Directors (including the newly appointed independent non-executive Director) and considers that they are independent. None of them has served the Company for more than nine years. In view of the amendments to the Listing Rules which came into effect on 1 January 2019, the written annual confirmation of independence also covered the immediate family members (as defined under Rule 14A.12(1)(a) of the Listing Rules) in the assessment of the independence of each independent non-executive Director.

Any further re-election of an independent non-executive Director who holds/will be holding his seventh (or more) listed company directorship, the Board will explain in the circular reasons that such Director will still be able to devote sufficient time to handing matters of the Board.

Directors' Continuous Professional Development

Every newly appointed Director is provided with a comprehensive induction and information to ensure that he has a proper understanding of the Company's operations and businesses as well as his 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 and up to the date of this report is summarised as follows:

Directors	**Types of training**
Yu Meng (appointed on 8 July 2019)	A, B
Wang Junlai (appointed on 20 November 2019)	A, B
Hung Ka Hai Clement (appointed on 13 December 2019)	B
Ma Lishan	A, B
Guan Huanfei	A, B
Bai Junjie (resigned on 8 July 2019)	A, B
Xu Yong (resigned on 20 November 2019)	A, B
Wong Tin Yau Kelvin (resigned on 13 December 2019)	A, B

A — attending seminars/conferences/forums/briefings/workshops/programmes relevant to the business or director's duties
B — reading articles relevant to corporate governance, regulatory updates and directors' duties and responsibilities

Company Secretary

On 18 January 2019, Ms. Luo Xiao Jing ("**Ms. Luo**") was appointed as the Company Secretary is responsible for facilitating the Board's processes and communications among Board members, with the Shareholders and with the management. During the Year, Ms. Luo has 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. The updated 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 Mr. Hung Ka Hai Clement, Mr. Ma Lishan, Mr. Guan Huanfei and is chaired by Mr. Hung Ka Hai Clement. No member of the Audit Committee is a former partner/principal of the existing auditing firm of the Company during the two years after he ceases to be a partner/principal of the auditing firm.

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. 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. Figures 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
Hung Ka Hai Clement *(Chairman)* (appointed on 13 December 2019)	N/A
Ma Lishan	4/(4)
Guan Huanfei	4/(4)
Former Committee members	
Wong Tin Yau Kelvin (resigned on 13 December 2019)	4/(4)

During the Year, the Audit Committee has mainly performed the following work:

- Reviewed the 2018 annual results and 2019 interim results of the Group and discussed and approved the relevant financial reports;
- Reviewed the Company's external independent auditor's 2018 annual audit report and 2019 interim review report;
- Reviewed the Company's external independent auditor's 2019 annual audit plan;
- 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 2018 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;
- Reviewed the adequacy of resources, staff qualifications and experience, training programmes of the Group's financial reporting and internal audit functions; and
- Reviewed the Company's compliance with the CG Code and disclosure in the Corporate Governance Report.

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. The financial results of the Group for the Year have been reviewed with no disagreement by the Audit Committee.

Remuneration Committee

The current composition of the Remuneration Committee consists of three independent non-executive Directors, namely Mr. Guan Huanfei, Mr. Hung Ka Hai Clement, 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, one Remuneration Committee meeting was held. The attendance record of individual members is set out below. Figures in brackets indicates the total number of meetings held in the period in which the individual was a member of the Remuneration Committee. Remuneration Committee also considered and approved resolutions by way of written resolutions.

Committee members	**Attendance**
Guan Huanfei *(Chairman)*	1/(1)
Hung Ka Hai Clement (appointed on 13 December 2019)	N/A
Ma Lishan	1/(1)
Former Committee members	
Wong Tin Yau Kelvin (resigned on 13 December 2019)	1/(1)

During the Year, the Remuneration Committee made recommendations to the Board on the director's fee of one proposed independent non-executive Director, 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 currently comprises three independent non-executive Directors, namely Mr. Hung Ka Hai Clement, Mr. Ma Lishan, Mr. Guan Huanfei and the Chairman of the Company, namely Mr. Yu Meng and is chaired by Mr. Hung Ka Hai Clement.

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, two Nomination Committee meetings were held. The attendance record of individual members is set out below. Figures in brackets indicates the total number of meetings held in the period in which the individual was a member of the Nomination Committee. Nomination Committee also considered and approved resolutions by way of written resolutions.

Committee members	Attendance
Hung Ka Hai Clement *(Chairman)* (appointed on 13 December 2019)	N/A
Yu Meng (appointed on 8 July 2019)	N/A
Ma Lishan	2/(2)
Guan Huanfei	2/(2)
Former Committee members	
Wong Tin Yau Kelvin (resigned on 13 December 2019)	2/(2)
Bai Junjie (resigned on 8 July 2019)	2/(2)

During the Year, the Nomination Committee considered and recommended to the Board the re-election of the Directors who were subject to retirement by rotation at the 2019 AGM, reviewed the structure, size and composition (including the skills, knowledge and experience) of the Board and the independence of the independent non-executive Directors, 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. Yu Meng and Mr. Wang Junlai and is chaired by Mr. Yu Meng.

The major roles and functions of the Executive Committee are to make investment decisions 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, the Executive Committee considered and approved investment projects under their delegated authority and other day-to-day matters 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. Yu Meng and Mr. Wang Junlai 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, two Risk Management Committee meetings were held. The attendance record of individual members is set out below. Figures 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)
Yu Meng (appointed on 8 July 2019)	2/(2)
Wang Junlai (appointed on 20 November 2019)	1/(1)
Former Committee members	
Bai Junjie (resigned on 8 July 2019)	N/A
Xu Yong (resigned on 20 November 2019)	1/(1)

During the Year, 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 2019 and for the year of 2020. 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

In compliance with relevant laws and as required by relevant regulations of the regulatory authorities, the Group makes continuous improvement in its corporate governance standards and continues to enhance its governance structure in relation to general meetings, the Board and senior management. It has also established a risk management structure with distinct responsibilities and reporting procedures with an aim to identify, prevent and mitigate risks that will affect the achievement of the Group's objectives.

– The Board acknowledges its responsibilities for risk management and internal control systems and the assessment of the effectiveness of such systems. The Board is responsible for assessing and determining the nature and extent of risks that the Group is willing to take in pursuit of its strategic objectives, and overseeing the design, implementation and monitoring of risk management and internal control systems by the management, so as to ensure that appropriate and effective risk management and internal control systems are in place and maintained.

– The Risk Management Committee and the Audit Committee established under the Board are responsible for the review of risk management and internal control systems and the supervision of the effective implementation of such systems, as well as the self-assessment of internal control system.

– The management of the Group is responsible for the daily operation of the Group's risk management and internal control systems, and the confirmation of the effectiveness of such systems to the Board. Related management functions are responsible for the specific implementation and daily tasks of risk management and internal control.

– Internal audit personnel are responsible for regular evaluation of the operation of internal control system and report to the Audit Committee.

The Group has established and gradually optimised various risk management and internal control systems by constantly revamping risk management and internal control processes and making continuous improvements in risk management and internal control structure. 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 an 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. Meanwhile, the Group has been upholding the concept of general risk management with the formation of a risk management system featuring prior inspection and advance warning, on-going monitoring and post-evaluation and rectification. Through identification, evaluation, treatment as well as monitoring and control of risk exposures from time to time, the possible impact of such risks is prevented, mitigated and reduced.

During the Year, the Group has further improved and optimised the risk management and internal control mechanism on the basis of its internal control target. By benchmarking company management requirements with external regulatory policies and requirements, various business and management systems have been streamlined and modified, covering corporate governance, risk management, information technology, legal compliance, financial management, comprehensive management and others. The appropriateness of internal control process framework, the reasonableness of organisational structure, as well as the effectiveness of monitoring and control measures have been re-evaluated. The "Internal Control Process Framework", the "Internal Control Manual" and its accompanying "Risk Control Matrix" have been revised with internal control processes further improved, delineation of responsibilities determined and internal control measures enhanced. Relevant techniques and expertise are developed through measures including training, examination, rectification and assessment, so as to further strengthen the Group's risk management culture and staff's attitude towards risk management.

Based on the guidelines of relevant regulatory institutions, the Group conducts annual review and self-assessment on the effectiveness of risk management and internal control systems 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 and compliance management functions. The scope of review also includes the resources adequacy and staff's qualification, experience and training of the Group's internal control, accounting and financial report functions. Such internal control review further involves a review and evaluation by the internal audit personnel on the review process and result on the basis of the self-assessment conducted by each internal function of the Group. The management confirms that, based on the related review and assessment results, the risk management and internal control systems of the Group are effective and adequate, and report to the Risk Management Committee, the Audit Committee and the Board.

During the Year, the Group's internal audit personnel have adopted a risk-oriented audit approach. According to the internal audit plan as approved by the Audit Committee of the Board, independent reviews have been carried out on key internal control processes and activities at company level, business level and management level, with reports submitted to the Audit Committee directly. Also, the Group's internal audit personnel have followed up items that require attention and improvement in a systematic way and reported to the management and the Audit Committee in a timely manner.

In addition, the "Administrative System for Information Disclosure" of the Group sets out procedures governing the dissemination of inside information and internal control measures in order to strengthen the confidentiality of inside information, ensuring strict compliance with obligation of confidentiality by the directors, senior management and other related staff of the Group in the course of preparing regular reports and provisional announcements as well as organising significant events.

The Board has reviewed various reports on risk management and internal control systems through the Risk Management Committee and the Audit Committee, respectively. An annual review on the effectiveness of the Company's risk management and internal control systems, including financial control, operational control and compliance control, has been conducted and confirmation has been sought from the management as to the effectiveness of the Group's risk management and internal control systems. The aforesaid risk management and internal control systems aim at providing reasonable assurance rather than eliminating the risk of failure to achieve business objectives. Accordingly, such systems can only provide reasonable assurance but not absolute guarantee against material misstatement or loss.

Given the changes in internal and external factors, including global economic environment, operation environment, regulatory requirements and business development, the Group will continuously review and improve the effectiveness of the internal 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 standards.

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 2019, and of the consolidated financial performance and the consolidated cash flow of the Group for the Year. In preparing the accounts for the Year, 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 reasonable, 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, 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 consolidated financial statements are prepared 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 have been audited by Deloitte.

For the two years ended 31 December 2019, fees charged by Deloitte are summarised as below:

	2019 **HK$**	2018 HK$
audit services	**1,525,000**	3,090,000
interim review services	**860,000**	1,200,000
tax advisory services	**508,000**	357,000
other professional services	**538,000**	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), AGMs 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 general meetings 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 general meeting proposes separate resolutions for each issue to be considered. General meeting proceedings are reviewed from time to time to ensure that the Company follows good corporate governance practices. The notice of general meeting is distributed to all shareholders at least 20 clear business days (for AGM) or at least 10 clear business days (for special general meeting) prior to the meeting 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 general meeting 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 general meeting.

During the Year, the Company held one AGM and one special general meeting. The attendance record of individual Directors is set out below. Figures 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	Special General Meeting
Executive Directors		
Yu Meng (appointed on 8 July 2019)	N/A	1/(1)
Wang Junlai (appointed on 20 November 2019)	N/A	1/(1)
Independent Non-executive Directors		
Hung Ka Hai Clement (appointed on 13 December 2019)	N/A	N/A
Ma Lishan	1/(1)	1/(1)
Guan Huanfei	1/(1)	1/(1)
Former Directors		
Bai Junjie (resigned on 8 July 2019)	1/(1)	N/A
Xu Yong (resigned on 20 November 2019)	1/(1)	N/A
Wong Tin Yau Kelvin (resigned on 13 December 2019)	1/(1)	1/(1)

Shareholders' Rights

The general meetings of the Company provide an opportunity for communication between shareholders and the Board. An AGM shall be held in each year at the time and place determined by the Board.

Procedure for shareholders to convene a special general meeting

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, 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.

Procedure for shareholders to send enquiries to the Board

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 Unit A, 16/F & Unit A, 17/F, Two Pacific Place, 88 Queensway, Hong Kong by post or email to comsec@hrif.com.hk for the attention of the Company Secretary.

The Company Secretary is 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.

Procedure for shareholders to put forward proposals at Shareholders' meeting

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.

Procedure for shareholders to propose a person for election as a Director

Shareholders may also propose a person for election as a 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. 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

Huarong International Financial Holdings Limited (the "Company") recognises that sustainable development is increasingly valued by all sectors of society. Through annual publication of the Environment, Social and Governance ("ESG") report, it allows stakeholders to better understand the Company and its subsidiaries (together the "Group" or "HRIF") in terms of development directions, work and progress in ESG, with a view to gradually improving the level of disclosure and transparency.

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 Year. The reporting scope of this report aligns with the previous report and the Group's operating boundary, covering the operation of the Head Office in Pacific Place, the Sheung Wan Branch and the Mong Kok Branch.

Reporting Standards

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 ESG, this report not only discloses environmental key performance indicators ("KPIs") according to the 'company or explain' provisions, but also discloses social KPIs according to the 'recommended disclosures' in the Guide.

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 30 March 2020.

Feedback Mechanism

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

Sustainability Performance

Protecting the ecological environment, coping with climate change, and promoting sustainable development are the common challenges facing the world today. Recognised as the world's leading international financial center, Hong Kong is particularly important for the global development of green finance. To better align with the global market and regulatory developments, the Securities and Futures Commission of Hong Kong ("SFC") announced the Strategic Framework for Green Finance proposing to enhance listed companies' environmental disclosures, conduct a survey of asset managers and asset owners on their sustainable investment practices, and facilitate the development of green financial products.

HRIF, as a Hong Kong listed licensed company under China Huarong, earnestly fulfils its social responsibilities as a financial institution. It adapts to the diverse needs of clients in order to provide tailored financial services. At the same time, in response to the national regulation on production capacity adjustment and green development policies, HRIF continued to review its project access to restrict investment in traditional manufacturing industries with high energy consumption, high pollution, and excess production capacity. HRIF will enhance support for environmental protection and clean energy sectors in the future.

HRIF improved its sustainable development governance structure during the Year. All departments continue to review their performance in environmental protection and community care, which laid an important foundation for establishing HRIF's sustainable development strategy and setting goals in the future.

Improve sustainability governance structure

Formulate the 'Triple Fixed' human resources management system

Provide full employee training

Reduce greenhouse gas emissions

Sustainability Governance

HRIF strives to maintain an effective and transparent governance structure to seize and respond to the opportunities and risks brought about by sustainability, laying a solid foundation to achieve its long-term strategy and goals.

Environmental, Social and Governance Working Group

The Board of Directors is the Group's decision-making body for corporate social responsibility, and the Environmental, Social and Governance Working Group (the "Working Group") is responsible for coordinating and supervising work of departments in environmental protection and community care, and conducting work summary and review on a regular basis, and reporting regularly to the Board of Directors on the performance and work progress.

Board of Directors
- Review sustainability strategy and performance
- Review sustainability risk management system to ensure effectiveness

Working Group
- Formulate and implement sustainability strategies, policies and concrete actions
- Coordinate business units to identify and manage sustainability risks
- Review the Group's sustainability performance and report to the Board of Directors and propose improvement suggestions
- Prepare the annual ESG reports

The Working Group is chaired by the Chief Executive Officer of the Group, and the secretary of the Board of Directors serves as the vice chairman. As the wide range of sustainable development issues are relevant to the daily operations of various departments, members are represented by different departments, including the Board of Directors office, the Human Resources Department, the Information Technology Department, the Compliance Department, and the Risk Management Department, to ensure the smooth implementation of the relevant measures. With the establishment of the Working Group, HRIF will gradually improve its sustainability governance, and through the formulation of long-term strategies, work with employees and external stakeholders to build a cohesive, sustainable and adaptable future.

Risk Management

The Board of Directors oversees the Group's risk management and internal control systems and regularly reviews its effectiveness with the support of the Risk Management Committee and the Audit Committee. The Group ensures that all operations are in compliance with the relevant laws and regulations with the enhanced internal control structure and system processes, including regularly review of the implementation of the customer access standards and assessment of customers' environmental performance.

In addition to considering sustainability factors when making investment decisions, HRIF understands that investors are paying more attention to the risks to the Group's operations caused by environmental and social issues, such as extreme weather caused by climate change. In response to investors' expectations for the Group's management of environmental and social risks, the Board of Directors will review and identify environmental and social risks that have a significant impact on the Group's operations and business strategies in the future, and gradually incorporate these risks into the Group's risk management system and formulate the relevant strategies in response.

HRIF regards legal compliance as the basis of its day-to-day operations. Listed here are the relevant laws and regulations that have a significant impact on its operations, as well as compliance during the Year. The Group understands that noncompliance may lead to regulatory enforcement actions. HRIF complied with the mentioned relevant laws and regulations with significant impact during the Year. There were no cases of noncompliance.

Aspect	Relevant laws and regulations	Compliance
Environment	Air Pollution Control Ordinance, Waste Disposal Ordinance, Water Pollution Control Ordinance, Motor Vehicle Idling (Fixed Penalty) Ordinance	No noncompliance
Employment	Employment Ordinance, Minimum Wage Ordinance, Employees' Compensation Ordinance	No noncompliance
Health and safety	Occupational Safety And Health Ordinance	No noncompliance
Product responsibility	Trade Descriptions Ordinance	No noncompliance
Anticorruption	Prevention of Bribery Ordinance, Anti-Money Laundering and Counter-Terrorist Financing Ordinance, Anti-Money Laundering And Counter-Terrorist Financing (Financial Institutions) (Amendment) Ordinance 2018	No corruption litigation in relation to the Group nor its employees; no noncompliance

Stakeholder Engagement

HRIF is convinced that companies must understand how stakeholders are affected by the Group's business on various sustainability issues in order to fully consider their opinions when making operational decisions and balance the interests of all parties. The Corporate Social Responsibility Policy also stipulates that the Group should provide stakeholders with fair and timely information and collect their opinions in a proactive and open manner. During the Year, the Group communicated with stakeholders such as employees, customers, investors, suppliers, regulators and community groups through multiple channels. Stakeholders can reflect their opinions through the following different communication methods so as to assist the Group to review its potential risks and opportunities in sustainable development, identify priorities for different issues, and formulate corresponding policies and measures.

Employees	Customers	Regulators
Employees can access the intranet to learn about new moves of HRIF, such as press release, internal announcements or regulations anytime, anywhere. They can also express their opinion through platforms such as assessment, employee assembly, social media and reporting mechanisms.	Employees must understand customers' investment experience and goals in accordance with the established procedures and guidelines, and explain to them the potential risks involved. Customers can also refer to the Group's website and publications for its latest development.	The Group pays attention to the release of information to regulatory bodies such as the Stock Exchange of Hong Kong and the SFC, and disclose the Company's operating data, major transactions and insider information, to ensure transparency.
Investors	**Suppliers**	**Community Groups**
The Group provides investors with relevant information and maintains communication through channels such as general meetings, announcements, financial reports and circulars.	HRIF explains its standards to suppliers and makes it a general guide to business operations. The Group also conducts regular supplier integrated assessment to understand their performance and opinions.	Employees help people in need in the community through volunteer activities and donations.

Materiality assessment helps companies systematically review the operating environment and analyse and organise stakeholder opinions to identify environmental and social issues that are critical to the business and stakeholders and to ensure consistency with its sustainability management approach. During the Year, HRIF commissioned a professional sustainability consultancy to conduct a questionnaire survey. Members of the Board and the Working Group were invited to assess environmental and social issues and give comments. The issues below were confirmed to be key areas of the Group's sustainability disclosure and governance:

- Employment and Labour Standards
- Employee Development and Training
- Employee Health and Safety
- Anti-Corruption
- Product Responsibility

A People-Oriented Culture

HRIF adheres to a people-oriented principle, striving to establish equal and mutual trust relationship, and to build an inclusive and diverse work culture. The Group's Employee Handbook stipulates its commitment to employees. The Group endeavours to protect labour rights to allow each employee to fully realise their development potential freely.

Improve human resources management

Launch the electronic information system

Formulate training management guideline

Male to female ratio
1.06:1

Employee turnover rate
50%

Training hours per employee
11.6 hours

Employment Management and Labour Standards

The Group has formulated the relevant policies and management systems in relation to recruitment and dismissal, remuneration and welfare, promotion, anti-discrimination, equal opportunities, diversity, prevention of child labour and forced labour. Employees can refer to them to learn about their rights and duties.

Employment and labour system			
Aspect	**Description**	**Work during the Year/future plan**	
Recruitment and dismissal	The Group formulates recruitment management procedures, standardising the work and guidelines for job applicant interview arrangements and comprehensive ability analysis. The hired employee should sign an employment contract, which specifies the probation period and termination of the contract so that both parties can determine their rights and responsibilities.	During the Year, the Group reviewed the grading system and set up a "Triple Fixed" system to emphasise the management of fixed posts, fixing grades and fixed duties to improve the efficiency of human resource management.	
		Fixed posts	Identify the roles the Group needs and provide the relevant post to avoid overlap of duties
		Fixed grades	Determine the number of employees in each grade to ensure alignment with the Group's human resources management approach
		Fixed duties	Determine the duties of each role for clear division of labour
		During the Year, employee turnover rate was down compared to the previous year, but still high. The Group will improve its human resources system and regularly review the effectiveness of measures to continue to provide employees with a good working environment.	

Employment and labour system		
Aspect	**Description**	**Work during the Year/future plan**
Remuneration, working hours and welfare	The Group has a remuneration structure and related management systems. It is stipulated that employees' remuneration and benefits policies are formulated with reference to market standards and individual performance indicators. The Employee Handbook sets out the working hours and leave system of general employees and full-time employees (including employees of branches and securities support departments). In addition to statutory holidays, all employees enjoy extra paid annual leave, wedding leave and other holidays according to their rank and service years.	During the Year, the Group amended the Remuneration Management Methods to further regulate remuneration, employee performance management and arrangement of bonus distribution. In addition to the existing transport allowance, hot weather allowance, festive welfare and other welfare, the Group enhanced the labour protection allowance to protect employee wellbeing.
Promotion	The Group focuses on employee development and employs a graded system, which bases promotion decisions on employee capability.	The Group conducts employee assessment every year to give appropriate employees opportunities for promotion.
Training	The Group formulates the Staff Training Management Methods to ensure suitable and timely training is provided to employees.	The Group's Human Resources Department planned a series of training courses according to the needs of each department. Employees of other departments can also participate in training according to their career planning and needs. During the Year, the average training hours was 11.6 hours. For details please refer to p. 70.
Equal opportunities	The Group values equal opportunities, and earnestly implements the equal pay system for equal work, and regularly reviews the Group's performance and effectiveness in related work.	The Group reviewed and improved the salary management system during the Year to achieve equal pay for equal work.
Diversity	The Group is committed to providing a diverse working environment for employees of different genders, cultures and backgrounds, and respecting and understanding the needs of employees from different backgrounds.	The Group plans to review the Employee Handbook in the coming year and introduce the diversity policy to provide clear guidance for employees.

Employment and labour system		
Aspect	**Description**	**Work during the Year/future plan**
Anti-discrimination	The Group does not treat employees differently based on gender, age, nationality, race, colour, religion, body type, illness, mental or physical disability, family status, family composition, sexual orientation, political beliefs or social status. 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 plans to review the Employee Handbook to introduce anti-discrimination policies in the coming year to protect employees from any form of discrimination and harassment.
Prevention of child labour and forced labour	The Group has zero tolerance towards child labour and forced labour. It has in place an internal employment procedure formulated according to the relevant laws to ensure 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.	The Group has established recruitment management procedures and the Employee Handbook. The risk of hiring child labour or forced labour is extremely low. The Group will continuously review the human resources management system to ensure that existing measures are effective.

During the Year, HRIF issued the HRIF Wage Management Policy and the HRIF Office Disciplinary Management Policy to further improve the human resources management system. In addition, the Group employs electronic information systems to handle employee work assessment procedures, salary management and annual tax documents. The Group aims to improve employees' work efficiency, ensure the accuracy of information, and protect the privacy of employees' personal data by improving information management.

Staff Development Management

HRIF values the career development of employees, and actively improves its training system to ensure that it can effectively respond to the training and development needs of employees at different stages in their careers, allowing them to grow with the enterprise. The Group conducts assessment of employees every year to promote employees who meet the requirements of the Company. In addition, the Group formulated the Staff Training Management Methods, which stipulates that the Human Resources Department should provide training courses as the operation requires and in response to employees' needs. These include employee orientation for new hires and professional training and management training for existing employees. In addition, the Group provides additional study allowances for employees, to encourage them to enrol in degree programs and various professional qualification trainings to obtain professional qualifications.

HRIF is aware of the importance of knowledge inheritance and actively organises various trainings for employees. The Human Resources Department is responsible for coordinating various departments, and invites internal and external professionals (including independent directors of the Group) to organise a series of specific trainings and lectures covering business, law, compliance, corporate governance, and information technology. During the Year, the total training hours of the Group reached 812.5 hours and the average training hours were 11.6 hours.

Compliance training	• Compliance training for new hires. • Provided training for staff in response to the latest amendments of the regulatory guidelines on securities guaranteed financial activities.
Anti-corruption and anti-fraud training	• Organised annual training to ensure that employees clearly understand the Group's requirements for a corruption-free office. • Arranged compliance employees to participate in anti-corruption training provided by the SFC. • Training in combating money laundering and terrorist financing. • Participated training provided by the Independent Commission Against Corruption on handling conflicts of interest, personal anti-corruption tips, counselling and reporting channels.
Corporate Governance Training	• Organised training on continuous duty of disclosure for listed companies to let all employees understand the Group's commitment. • Provided training on risk prevention for strengthening listed companies' governance, risk management and control, etc.. • Corporate governance training for the Group's management in relation to strengthening listed companies' governance.
Other training	• Arranged confidentiality training for employees according to the Company's confidentiality management requirements.

Protecting Employee Health and Safety

HRIF cares about the physical and mental health of employees. As stipulated in the Employee Handbook and the Corporate Social Responsibility Policy, the Group promises to protect the health and safety of employees by providing employees with high-quality and safe office equipment and offering employee compensation and medical insurance. Recreational activities are organised to encourage work life balance. HRIF values employees' mental health and plans to take the initiative to understand employees' needs in the future to provide timely aid and assistance.

Many research reports in recent years show that indoor air quality is closely related to the health of employees. Out of care for employees, the Group set up air purifiers in the office during the Year to create a healthy and comfortable working environment. To ensure that the measures are effective, the Group plans to communicate with employees in the coming year to review the effectiveness of the measures and gradually extend the measures to other branches.

Upholding Responsible Operation

As a financial service provider, HRIF understands the importance of responsible operation. The Group takes rigorous business ethics as the first principle, and requires every employee to treat customers, suppliers and other stakeholders with integrity, respect, and professionalism. To ensure the quality of the products and services provided by the Group and the integrity of its employees, HRIF has formulated a series of policies to maintain a fair and just market environment.

Organised four anti-corruption training

Updated the Procurement Management Methods

Participated in a poverty relief project to create economic benefits for the community

Anti-corruption

HRIF does not tolerate corruption and fraud within the Group, and actively takes measures to identify and manage related risks. The Group has stipulated policies and guidelines on preventing bribery, extortion, fraud and money laundering in accordance with the relevant local laws and regulations where it operates, to guide various departments and business partners to avoid any misconduct.

Employee guideline

- Policies such as the Accepting or Offering Gifts and Benefits Guidelines stipulate the basic standards and measures the Group adopts to prevent, identify and handle any actual or suspected cases of bribery or corruption. All employees of the Group must follow and practice these policies.
- The Employee Handbook stipulates that employees must abide by the basic disciplinary standards, including avoidance of conflict of interests. In any situations where conflict of interests may arise, the employee should notify the Company's directors in writing with the Application for Gift-Giving Form.
- The Policies and Procedures on Prevention of Money Laundering and Terrorist Financing offers guidance on preventing money laundering when servicing clients. It covers guidelines on record keeping and training. During the Year, the Group provided four training sessions on anti-money laundering and anti-corruption for both employees and directors. Over 100 participants took part in the trainings.
- The Group stipulates the reporting mechanism in the Whistleblowing Policy to encourage internal members to report any suspected misconduct or fraud to the Group. At the same time, the whistleblower protection system ensures the confidentiality of the whistleblower's identity, to protect him from mistreatment due to the report.

Supplier management

- During the Year, the Group updated the Procurement Management Methods to provide clear requirements and guidelines to suppliers. The Group conducts review on conflict of interests and annual performance assessment to remove suppliers who fail to meet the Group's requirements from the list.

Product responsibility

Protection of customer privacy has always been an important principle for HRIF to maintain the quality of its products and services. The Group reiterated its emphasis on personal privacy in the Employee Handbook and detailed the methods and procedures for collecting and processing customers' personal information in the Compliance Manual.

At the same time, the Group requires employees to strictly abide by the Code of Conduct for Persons Licensed by or Registered with the Securities and Futures Commission in conducting regulated financial operations in accordance with regulations. Market misconducts such as insider trading, false trading, and price manipulation are prohibited. To ensure that employees fully understand the relevant regulatory requirements, the Group has developed the Compliance Manual to guide employees in sales and promotional activities. It stipulates that employees must not provide customers with false, deceptive, or misleading information to ensure delivery of compliant and professional services. During the Year, the Group provided employees with training on employees' responsibilities and marketing techniques to deepen their understanding and practice of responsible marketing.

HRIF is committed to maintaining the quality of its products and services, and regards customer opinions as the driving force for the continuous improvement of the Company. The Group provides customers with complaint channels and promises to timely record and properly handle complaints received in accordance with the Compliance Manual. During the Year, HRIF did not receive any complaints about product or service compliance or service quality.

Community Investment

HRIF is fully aware that as a responsible enterprise, it must convey its concern for society through actions. In order to fulfil its commitment to caring for the society in the Corporate Social Responsibility Policy, HRIF carried out a series of activities in poor regions focusing on precise poverty alleviation during the Year.

The Group actively participates in the consumer poverty alleviation project for Xuanhan County, Sichuan Province, held by its holding company China Huarong. The Group also issued the Proposal on Organising Company Employees to Purchase Agricultural Products to Help Xuanhan Poor Areas in 2019, which encourages employees to purchase local agricultural products to create economic benefits for local communities. Nearly ten thousand RMB was spent on poverty relief products. In addition, the Group's Shenzhen-based subsidiary donated office furniture and supplies to Yuantian Village, Guangdong Province to alleviate the local people's daily needs, alleviating poverty in a precise manner and delivering warmth with concrete actions.

HRIF is committed to taking care of the needs of the communities where it operates, and will explore the needs of society in different ways to ensure that its community investment truly assists those in need.

Continuous Environmental Management

HRIF regards environmental sustainability as an integral part of its corporate social responsibility, and advocates to reducing the impact of its business on the environment and climate change, including the positive and negative effects it brings as a financial institution through funding and resource allocation. For its office operations, the Group has formulated the Environmental Policy with reference to the UNEP Statement of Commitment by Financial Institutions on Sustainable Development to ensure proper management of emissions, use of resources, and protection of the environment and natural resources. For the Group's management policy on sustainable development investment, please refer to the chapter on Sustainability Performance and Risk Management.

HRIF believes that it is important to continuously and accurately record and report environmental data. Each unit can regularly review the effectiveness of current environmental management measures in order to further discuss and formulate improvements. The following are the environmental management measures and performance implemented by the Group during the Year:

Greenhouse Gas Emissions
228 tonnes of CO_2-e

Energy consumption
269,000 kWh

Waste generated
11.3 tonnes

Carbon emission	• The Group commissioned a professional sustainability consultant to conduct carbon assessment during the Year again to quantify its greenhouse gas emissions produced by its operations. The quantification was carried out according to the Guidelines 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 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.
Energy	• Installed light-control sensor system at new offices • Improve information equipment, encourage employees to utilise the phone and teleconferences and reduce unnecessary business travel • Encourage green travelling and carsharing for work
Water resources	• Promote water conservation among employees to raise their environmental awareness
Waste	• Promote paperless office to reduce paper consumption • Reduce waste through recycling, conservation or reuse

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

Energy use and greenhouse gas emissions

HRIF's business is mainly based on indoor office operations and the main sources of its carbon emissions were office electricity consumption and business trips. During the Year, the Group actively adopted smart lighting systems and reduced energy consumption and emission reductions during business trips. Electricity use and greenhouse gas emissions were reduced by 8% and 30% respectively compared with the previous year.

The Group moved to a new office at the end of the previous year, and installed a light-control sensor system to use smart technology to sense activities in specific office areas and automatically turn off lighting equipment in vacant office areas to reduce waste of energy and greenhouse gas emissions. With the opening of the new office, the Group is expected to use energy more efficiently in the future. The Group will review the energy saving performance of the system and plan to expand to other branches.

Greenhouse Gas Emissions

Scope	**2019 total emissions**	2018 total emissions	Change
Scope 1: Direct greenhouse gas emissions (tonnes of CO_2-e)	**17**	41	(59%)
Scope 2: Energy indirect greenhouse gas emissions (tonnes of CO_2-e)	**166**	180	(8%)
Scope 3: Other indirect greenhouse gas emissions (tonnes of CO_2-e)[2]	**45**	105	(57%)
Greenhouse Gas Emissions in Total *(tonnes of CO_2-e)*	**228**	326	(30%)
Greenhouse Gas Intensity *(tonnes of CO_2-e/square foot floor area)*	**0.008**	0.011	(27%)
Greenhouse Gas Intensity *(tonnes of CO_2-e/employee)*	**3.26**	3.75	(13%)

As a result of reducing the use of official vehicles, the emissions of air pollutants caused by the combustion of gasoline have been significantly reduced compared to 2018. Emissions of nitrogen oxides, sulfur oxides, and respirable suspended particulates were reduced by 17%, 64%, and 17%, respectively.

Air pollutant emissions

Type	**Emissions (kg)**
Nitrogen Oxides	2.65
Sulphur Oxides	0.08
Respirable Suspended Particulates	0.20

[2] Data of 2018 and 2019 included waste paper disposal and employee business travel. Data of 2018 included greenhouse gases indirectly generated by water use and sewage discharge of Sheung Wan Branch.

Resource use and waste management

During the Year, the Group actively implemented a number of measures to reduce resource consumption, including promoting reuse and reducing waste. In order to more comprehensively review its environmental performance, during the Year the Group revised its waste recording method and expanded the record scope to all operating units so that it can analyse the data more systematically by year and operating unit in the future.

The waste generated by the Group mainly comes from office waste. To this end, the Group implements a recycling plan in the office to sort waste paper, batteries and plastic bottles, and plans to quantify and report the recycling results in the future to review the effectiveness of the measures. The Group commissioned the property management company to collect and dispose of non-hazardous waste in the office. During the Year, the Group did not generate electronic waste. A small amount of hazardous waste (including used toner cartridges) was produced in the Group's day-to-day operation and qualified recyclers were hired to dispose of it.

Based on the nature of financial business, paper is one of the Group's major resource consumables. In order to further reduce paper consumption and respond to customer needs, HRIF has expanded its service channels and promoted electronic transactions to allow customers to use the Group's services through the Internet, mobile terminals, telephones and terminals in outlets. During the Year, online securities transaction accounted for more than 97% of the total transaction volume of HRIF. As a result, paper consumption decreased by 17% compared with the previous year.

Water resources are another major resource consumption of the Group. During the Year, water conservation was promoted to employees from time to time, and employees' environmental awareness was enhanced. As the water resources data of the Group's operating points are managed by the property management company, the relevant data could not be provided here.

Key Performance Indicator Summary

Environmental Performance

Air emissions	Emissions 2019	2018	2017
Nitrogen Oxides (kg)	**2.65**	3.20	10.44
Sulphur Oxides (kg)	**0.08**	0.22	0.29
Respirable Suspended Particulates (kg)	**0.20**	0.24	0.77

Greenhouse gas emissions	Source	Emissions 2019		2018		2017	
Scope 1: Direct emissions (tonnes of CO_2-e)	Combustion of fossil fuel – mobile source		**14**		41		53
	Fugitive emissions		**3**		–		–
Scope 2: Energy – indirect emissions (tonnes of CO_2-e)	Purchased electricity		**166**		180		196
Scope 3: Other indirect emissions (tonnes of CO_2-e)	Waste paper disposal	**19**	**45**	23	105	27	114
	Freshwater consumption[3]	**–**		6		–	
	Sewage discharge[4]	**–**		3		–	
	Air business travel	**26**		73		87	
Greenhouse gas emissions in total (tonnes of CO_2-e)			**228**		326		363
Greenhouse gas intensity (tonnes of CO_2-e/square foot floor area)			**0.008**		0.011		0.01
Greenhouse gas intensity (tonnes of CO_2-e/employee)			**3.26**		3.75		–

3 The Head Office, the Sheung Wan Branch and Mong Kok Branch have not yet installed a separate metre. Their respective property management companies could not provide the data either. Therefore, the data is unavailable here.

4 Same as above.

Waste	2019[5]	Generation 2018[6]	2017
Total domestic waste (tonne)	**11.3**	0.15	3.8
Non-hazardous waste intensity (tonnes/1,000 square feet floor area)	**0.383**	0.029	0.126
Non-hazardous waste intensity (tonnes/employee)	**0.161**	0.002	–

Energy Use	2019	Consumption 2018	2017
Gasoline (1,000kWh)	**49**	138	171
Purchased electricity (1,000kWh)	**220**	238	261
Total energy consumption (1,000kWh)	**269**	376	432
Energy intensity (1,000 kWh/square metre floor area)	**0.01**	0.01	0.01
Energy intensity (1,000 kWh/employee)	**3.84**	4.32	–

Social Performance

Total workforce		2019	2018
Number of employees		**70**	87
Male to female ratio		**1.06:1**	0.98:1
By gender	Male	**36**	43
	Female	**34**	44
By age group	Below 30	**12**	18
	30–50	**45**	58
	Over 50	**13**	11
By employee category	Senior managerial level	**5**	5
	General staff	**65**	82
By employment category	Full-time	**70**	87
	Part-time	**0**	0

5 Includes the Head Office, the Sheung Wan Branch and the Mong Kok Branch. Due to a change in waste record methodology and an expansion of boundary for record, data of 2018 and 2019 are not suitable for direct comparison.

6 Includes the Sheung Wan Branch, excludes the Head Office and the Mong Kok Branch.

Number of new employees		2019	2018
Total number of new employees		18	16
New employee rate		26%	18%
By gender	Male	11	7
	Female	7	9
By age group	Below 30	2	5
	30–50	15	10
	Over 50	1	1

Employee turnover		2019	2018
Total employee turnover		35	71
Employee turnover rate		50%	62%
By gender	Male	17	45
	Female	18	26
By age group	Below 30	7	18
	30–50	25	45
	Over 50	3	8

Occupational health and safety	2019	2018	2017
Number of work-related fatalities	0	0	0
Number of work injury (employees)	0	0	0
Lost days of work due to work injury	0	0	0

Employee training		2019
Total number of employees receiving training		**60**
By gender	Male	**31**
	Female	**29**
By employee category	Senior managerial level	**5**
	General staff	**55**
Total hours of training received (hours)		**812.5**
By gender	Male (hours)	**448**
	Female (hours)	**364.5**
By employee category	Senior managerial level (hours)	**122.5**
	General staff (hours)	**690**
Percentage of employees trained		**86%**
Average training hours (hours)		**11.6**

ESG Reporting Guide Content Index

Material Aspect	Content	Page Index/Remark
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.	74
A1.1	The types of emissions and respective emissions data.	75, 77
A1.2	Greenhouse gas emissions in total and intensity.	75, 77
A1.3	Total hazardous waste produced and intensity.	The Group did not regularly measure the production of hazardous waste during the Year. We plan to quantify and report the results of recycling.
A1.4	Total non-hazardous waste produced and intensity.	78
A1.5	Description of measures to mitigate emissions and results achieved.	74
A1.6	Description of how hazardous and non-hazardous wastes are handled, reduction initiatives and results achieved.	76
A2 Use of Resources		
General Disclosure	Policies on the efficient use of resources, including energy, water and other raw materials.	74
A2.1	Direct and/or indirect energy consumption by type in total and intensity.	75, 77
A2.2	Water consumption in total and intensity.	No separate water meter is installed in the Group's offices. Their respective property management companies could not provide the data. It is therefore unavailable.
A2.3	Description of energy use efficiency initiatives and results achieved.	75
A2.4	Description of whether there is any issue in sourcing water that is fit for purpose, water efficiency initiatives and results achieved.	The Group had 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.	The operation of the Group did not involve packaging materials

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
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.	68–70
B1.1	Total workforce by gender, employment type, age group and geographical region.	78
B1.2	Employee turnover rate by gender, age group and geographical region.	79
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.	71
B2.1	Number and rate of work-related fatalities.	79
B2.2	Lost days due to work injury.	79
B2.3	Description of occupational health and safety measures adopted, how they are implemented and monitored.	71

Material Aspect	Content	Page Index/Remark
B3 Development and Training		
General Disclosure	Policies on improving employees' knowledge and skills for discharging duties at work. Description of training activities.	70
B3.1	The percentage of employees trained by gender and employee category (e.g. senior management, middle management).	80
B3.2	The average training hours completed per employee by gender and employee category.	69, 80
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.	69
B4.1	Description of measures to review employment practices to avoid child and forced labour.	69
B5 Supply Chain Management		
General Disclosure	Policies on managing environmental and social risks of the supply chain.	72
B5.2	Description of practices relating to engaging suppliers, number of suppliers where the practices are being implemented, how they are implemented and monitored.	72
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.	73
B6.2	Number of products and service related complaints received and how they are dealt with.	73
B6.5	Description of consumer data protection and privacy policies, how they are implemented and monitored.	73

Material Aspect	Content	Page Index/Remark
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.	72
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.	65
B7.2	Description of preventive measures and whistle-blowing procedures, how they are implemented and monitored.	72
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.	73
B8.1	Focus areas of contribution.	73

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 92 to 228, which comprise the consolidated statement of financial position as at 31 December 2019, 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 2019, 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">Expected Credit Loss ("ECL") 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 under the ECL model adopted 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 5 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 available 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 both qualitative and quantitative information that is reasonable and supportable, including historical experience and forward-looking information with significant judgments involved.</td><td>Our procedures in relation to the impairment of Loans and Advances and Debt Investment Securities under ECL model, included:

• Understanding the Group's established credit risk policies and procedures for impairment assessment under ECL model under HKFRS 9 Financial Instruments ("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 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 2019 are approximately HK$3,967 million, HK$329 million, HK$810 million, and HK$4,214 million less impairment loss of approximately HK$121 million, HK$12.5 million, HK$38 million and HK$1,330 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; and • 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.

<table>
<tr><th>Key audit matter</th><th>How our audit addressed the key audit matter</th></tr>
<tr><td colspan="2">Valuation of Level 3 financial instruments</td></tr>
<tr><td>We identified the valuation of Level 3 financial instruments as a key audit matter due to the 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 consideration of 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 is approximately HK$801 million as at 31 December 2019 as disclosed in note 44 to the consolidated financial statements.</td><td>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; and

• 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; and

(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.</td></tr>
</table>

Other Information

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

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

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

Responsibilities of Directors and Those Charged with Governance for the Consolidated Financial Statements

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

In preparing the consolidated financial statements, the directors 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

30 March 2020

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the year ended 31 December 2019

	NOTES	2019 HK$'000	2018 HK$'000
Revenue			
Commission and fee income	7	**121,020**	201,413
Interest income	7	**1,428,337**	1,714,942
Investment income	7	**117,832**	355,200
		1,667,189	2,271,555
Net losses on financial assets at fair value through profit or loss		**(9,802)**	(1,347,321)
Net loss arising from disposal of financial assets at fair value through other comprehensive income		**(18,715)**	(55,629)
Other income and gains or losses, net	7	**(28,295)**	(4,345)
Brokerage and commission expenses		**(8,839)**	(15,953)
Administrative and other operating expenses		**(152,353)**	(225,845)
Net gain on disposal of subsidiaries	39	**–**	5,435
Impairment losses, net of reversal	8	**(1,641,959)**	(522,042)
Finance costs	10	**(1,286,755)**	(1,683,892)
Share of result of associates	22	**14,327**	19,444
Loss before tax	9	**(1,465,202)**	(1,558,593)
Income tax (expense) credit	13	**(14,658)**	76,454
Loss for the year		**(1,479,860)**	(1,482,139)
(Loss) profit for the year attributable to:			
Owners of the Company		**(1,545,885)**	(1,548,222)
Holder of perpetual capital securities		**66,025**	66,083
		(1,479,860)	(1,482,139)
Basic loss per share	15	**HK(43.08) cents**	HK(43.14) cents

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2019

	2019 **HK$'000**	2018 HK$'000
Loss for the year	**(1,479,860)**	(1,482,139)
Other comprehensive income (expense)		
Items that may be reclassified subsequently to profit or loss:		
Fair value gain (loss) on financial assets at fair value through other comprehensive income	**52,410**	(421,658)
Net provision for (reversal of) impairment of financial assets at fair value through other comprehensive income included in profit or loss	**99,635**	(4,495)
Reclassification adjustments relating to disposal of financial assets at fair value through other comprehensive income during the year	**18,715**	55,629
Exchange differences on translation of foreign operations:		
Exchange differences arising from subsidiaries during the year	**(1,415)**	(6,421)
Exchange differences on translation of financial statements of associates	**–**	(938)
Other comprehensive income (expense) for the year, net of tax	**169,345**	(377,883)
Total comprehensive expense for the year	**(1,310,515)**	(1,860,022)
Total comprehensive (expense) income for the year attributable to:		
Owners of the Company	**(1,376,540)**	(1,926,105)
Holder of perpetual capital securities	**66,025**	66,083
	(1,310,515)	(1,860,022)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2019

	NOTES	At 31 December 2019 HK$'000	2018 HK$'000
Non-current assets			
Property and equipment	16	**2,300**	13,301
Other long term assets	17	**4,242**	4,327
Intangible assets	18	**2,350**	3,316
Right-of-use assets	19	**102,189**	–
Financial assets at fair value through profit or loss	20	**1,375,241**	1,719,076
Financial assets at fair value through other comprehensive income	21	**2,055,607**	2,716,175
Other loans and receivables	23	**–**	291,434
Investments accounted for using the equity method	22	**–**	36,694
Amount due from an associate	22	**314,262**	318,838
Deferred tax assets	32	**52,232**	110,990
Prepayments, deposits and other receivables	26	**–**	11,417
Total non-current assets		**3,908,423**	5,225,568
Current assets			
Advances to customers in margin financing	24	**2,883,671**	4,072,424
Accounts receivable	25	**103,356**	160,347
Interest receivable	26	**–**	16,872
Prepayments, deposits and other receivables	26	**94,907**	88,240
Contract assets		**–**	9,808
Financial assets at fair value through profit or loss	20	**3,473,220**	13,697,120
Financial assets at fair value through other comprehensive income	21	**1,911,824**	2,908,508
Other loans and receivables	23	**772,017**	5,979,776
Amount due from an associate	22	**1,927**	1,720
Tax recoverable		**58,010**	65,164
Restricted bank balances	27	**389,202**	396,500
Cash and cash equivalents	28	**3,069,944**	2,401,797
Total current assets		**12,758,078**	29,798,276

	NOTES	At 31 December 2019 HK$'000	2018 HK$'000
Current liabilities			
Accounts payable	29	**1,355,529**	2,269,848
Other liabilities, payables and accruals	30	**248,122**	401,108
Contract liabilities		**–**	38,511
Interest-bearing borrowings	31	**6,241,067**	12,456,782
Repurchase agreements	36	**1,745,170**	4,125,976
Tax payable		**141,097**	135,973
Lease liabilities	33	**49,954**	–
Financial liabilities at fair value through profit or loss	20	**39,023**	401,429
Total current liabilities		**9,819,962**	19,829,627
Net current assets		**2,938,116**	9,968,649
Total assets less current liabilities		**6,846,539**	15,194,217
Non-current liabilities			
Other liabilities, payables and accruals	30	**1,845**	39,022
Deferred tax liabilities	32	**10,427**	63,602
Interest-bearing borrowings	31	**5,449,796**	13,021,146
Lease liabilities	33	**55,374**	–
Total non-current liabilities		**5,517,442**	13,123,770
Net assets		**1,329,097**	2,070,447
Capital and reserves			
Equity attributable to owners of the Company			
Share capital	34	**3,588**	3,588
Perpetual capital securities classified as equity investments	37	**1,207,430**	1,208,369
Share premium and reserves		**118,079**	858,490
Total equity		**1,329,097**	2,070,447

The consolidated financial statements on pages 92 to 228 were approved by the Board of Directors on 30 March 2020 and are signed on its behalf by:

Yu Meng
DIRECTOR

Wang Junlai
DIRECTOR

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2019

	Attributable to owners of the Company										
	Issued capital HK$'000	Share premium account HK$'000	Contributed surplus HK$'000	Capital reserves (Note iii) HK$'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 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	–	–	–	–	–	–	(421,658)	–	(421,658)	–	(421,658)
Net reversal of impairment of financial assets at fair value through other comprehensive income included in profit or loss	–	–	–	–	–	–	(4,495)	–	(4,495)	–	(4,495)
Reclassification adjustment relating to disposal of financial assets at fair value through other comprehensive income during the year	–	–	–	–	–	–	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 37)	–	–	–	–	–	–	–	–	–	(66,932)	(66,932)
Dividends to shareholder (note 14)	–	–	–	–	–	–	–	(61,004)	(61,004)	–	(61,004)
At 1 January 2019	**3,588**	**1,639,533**	**139,615**	**-**	**1,433**	**3,348**	**(409,669)**	**(515,770)**	**862,078**	**1,208,369**	**2,070,447**
Loss for the year	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(1,545,885)**	**(1,545,885)**	**66,025**	**(1,479,860)**
Fair value gain on financial assets at fair value through other comprehensive income	**-**	**-**	**-**	**-**	**-**	**-**	**52,410**	**-**	**52,410**	**-**	**52,410**
Net provision for impairment of financial assets at fair value through other comprehensive income included in profit or loss	**-**	**-**	**-**	**-**	**-**	**-**	**99,635**	**-**	**99,635**	**-**	**99,635**
Reclassification adjustment relating to disposal of financial assets at fair value through other comprehensive income during the year	**-**	**-**	**-**	**-**	**-**	**-**	**18,715**	**-**	**18,715**	**-**	**18,715**
Exchange differences on translation of foreign operations	**-**	**-**	**-**	**-**	**-**	**(1,415)**	**-**	**-**	**(1,415)**	**-**	**(1,415)**
Total comprehensive (expenses) income for the year	**-**	**-**	**-**	**-**	**-**	**(1,415)**	**170,760**	**(1,545,885)**	**(1,376,540)**	**66,025**	**(1,310,515)**
Distribution relating to perpetual capital securities (note 37)	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(66,964)**	**(66,964)**
Disposal of subsidiaries (note 39)	**-**	**-**	**-**	**636,129**	**(1,316)**	**-**	**-**	**1,316**	**636,129**	**-**	**636,129**
At 31 December 2019	**3,588**	**1,639,533**	**139,615**	**636,129**	**117**	**1,933**	**(238,909)**	**(2,060,339)**	**121,667**	**1,207,430**	**1,329,097**

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.

(iii) The capital reserve represents deemed contribution arising from the disposal of subsidiaries to China Huarong Overseas Investment Holdings Co., Limited ("Huarong Overseas"), a fellow subsidiary of the Group.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2019

	NOTES	2019 HK$'000	2018 HK$'000
Cash flows from operating activities			
Loss before tax		**(1,465,202)**	(1,558,593)
Adjustments for:			
Finance costs		**1,286,755**	1,683,892
Net unrealised fair value (gain) loss on financial assets at fair value through profit or loss		**(11,075)**	2,351,070
Interest income		**(1,441,939)**	(1,754,183)
Net loss arising from disposal of financial assets at fair value through other comprehensive income		**18,715**	55,629
Dividend income		**(117,832)**	(355,200)
Net loss on financial liabilities at fair value through profit or loss		**92,046**	25,881
Depreciation		**47,152**	8,935
Net provision for long service payments		**1,122**	94
(Reversal of) provision for unused annual leaves		**(1,109)**	298
(Gain) loss on disposal of property and equipment		**(172)**	244
Net gain on disposal of subsidiaries	39	**–**	(5,435)
Share of result of associates	22	**(14,327)**	(19,444)
Net provision for impairment of advances to customers in margin financing and accounts receivable		**961,511**	397,150
Net provision for (reversal of) impairment of financial assets at fair value through other comprehensive income		**99,635**	(2,540)
Net provision for (reversal of) impairment of amount due from an associate		**2,683**	(21,127)
Net provision for impairment of other receivable		**30,944**	–
Net provision for impairment of other loans and receivables		**547,186**	150,514
Provision for reinstatement		**–**	1,095
		36,093	956,325
Operating cash flows before movements in working capital:			
Decrease in other loans and receivables		**1,388,991**	2,771,829
Decrease in due amount from an associate		**1,893**	1,297,365
Decrease (increase) in contract assets		**9,808**	(9,808)
Decrease in advances to customers in margin financing and accounts receivable		**284,233**	397,452
Decrease in prepayments, deposits and other receivables		**8,742**	73,600
Decrease (increase) in financial assets at fair value through profit or loss		**9,047,672**	(767,672)
Decrease in restricted bank balances		**7,298**	452,091
Decrease increase in accounts payable		**(914,319)**	(1,488,959)
Decrease in contract liabilities		**(38,511)**	(33,784)
Increase (decrease) in other liabilities, payables and accruals		**64,345**	(140,580)
(Decrease) increase in repurchase agreements		**(2,380,806)**	93,172
Cash generated from operations		**7,515,439**	3,601,031
Tax refund received (paid)		**5,315**	(214,755)
Interest received		**1,157,919**	1,263,798

Consolidated Statement of Cash Flows

For the year ended 31 December 2019

	NOTES	2019 HK$'000	2018 HK$'000
Net cash from operating activities		**8,678,673**	4,640,059
Cash flows from investing activities			
Dividend received		**117,832**	355,200
Proceeds from disposal of financial assets at fair value through other comprehensive income	21	**1,595,878**	1,935,773
Purchases of financial assets at fair value through other comprehensive income		**–**	(1,261,457)
Proceeds from disposal of items of property and equipment		**3,276**	1,581
Decrease in other long term assets		**85**	923
Purchases of items of property and equipment		**(234)**	(2,034)
Net (cash outflows) proceeds from disposal of subsidiaries	39	**(148,732)**	703,300
Net cash from investing activities		**1,568,105**	1,743,301
Cash flows from financing activities			
Dividend paid		**–**	(61,004)
Contribution from interest holders of unlisted consolidated investment funds		**–**	223,226
Distribution to interest holders of unlisted consolidated investment funds		**(454,452)**	(266,421)
Interest paid		**(1,453,152)**	(1,698,372)
Withdrawal of pledged bank deposits		**–**	1,898,063
Drawdown of interest-bearing borrowings		**17,418,511**	4,521,239
Repayment of interest-bearing borrowings		**(25,095,293)**	(11,961,995)
Repayment of leases liabilities		**(36,312)**	–
Distribution to perpetual capital securities holder	36	**(66,964)**	(66,932)
Net cash used in financing activities		**(9,687,662)**	(7,412,196)
Net increase (decrease) in cash and cash equivalents		**559,116**	(1,028,836)
Cash and cash equivalents at beginning of year as stated in the consolidated statement of financial position		**2,401,797**	3,524,781
Effect of foreign exchange rate changes, net		**109,031**	(94,148)
Cash and cash equivalents at end of year		**3,069,944**	2,401,797

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 Unit A, 16/F & Unit A, 17/F, Two 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 since 2014. China Huarong is indirectly controlled by the PRC Government through the Ministry of Finance (the "MOF").

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

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

Name	Place of incorporation/ establishment and operations	Nominal value of issued and paid-up ordinary share capital/ registered capital	Percentage of equity attributable to the Company				Principal activities
			2019		2018		
			Direct	**Indirect**	Direct	Indirect	
Excel Vision Development Limited 卓迅發展有限公司	Hong Kong	HK$1,000	**-**	**100%**	–	100%	Provision for sub-leasing arrangement
Huarong International Asset Management Limited 華融國際資產管理有限公司	Hong Kong	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 of margin financing
Skymart Global Limited (note c) 天進國際集團有限公司	Hong Kong	HK$1	**-**	**-**	100%	–	Money lending
Linewear Assets Limited	British Virgin Islands/ Hong Kong	US$1	**100%**	**-**	100%	–	Investment holding
Ample Professional Limited (note c) 溢專有限公司	British Virgin Islands/ Hong Kong	US$1	**-**	**-**	–	100%	Investment in fund
Admire Idea Limited (note c) 尊略有限公司	British Virgin Islands/ Hong Kong	US$100	**-**	**-**	–	100%	Investment in convertible bond

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 2019 Direct	2019 Indirect	2018 Direct	2018 Indirect	Principal activities
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	-	100%	–	90%	Investment in equities
Beaverway Limited	British Virgin Islands/ Hong Kong	US$100	-	100%	–	100%	Investment holding
Champion Sense Global Limited (note c) 冠思有限公司	British Virgin Islands/ Hong Kong	US$100	-	-	–	100%	Investment in convertible bond
Diamond Fox Limited	British Virgin Islands/ Hong Kong	US$100	-	100%	–	100%	Investment holding

1. Corporate and Group Information (continued)

Name	Place of incorporation/ establishment and operations	Nominal value of issued and paid-up ordinary share capital/ registered capital	Percentage of equity attributable to the Company 2019 Direct	2019 Indirect	2018 Direct	2018 Indirect	Principal activities
Dragongate Ventures Limited	British Virgin Islands/ Hong Kong	US$100	-	100%	–	100%	Investment holding
Eternity Sky Investments Limited (note c)	British Virgin Islands/ Hong Kong	US$100	-	-	–	100%	Investment in convertible bond
Abundant Ally Limited (note c) 豐盟有限公司	British Virgin Islands/ Hong Kong	US$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 (note c)	British Virgin Islands/ Hong Kong	US$100	-	-	–	100%	Investment holding
Global Celestial Limited 宇天有限公司	British Virgin Islands/ Hong Kong	US$100	-	100%	–	100%	Investment holding
Link Right Investments Limited 正協投資有限公司	British Virgin Islands/ Hong Kong	US$100	-	100%	–	100%	Investment holding
Sonic Cosmo Limited 宇迅有限公司	British Virgin Islands/ Hong Kong	US$100	-	100%	–	100%	Investment holding
Success Asia Global Limited 成亞環球有限公司	British Virgin Islands/ Hong Kong	US$100	-	100%	–	100%	Investment holding
Victor Source Investments Limited 勝源投資有限公司	British Virgin Islands/ Hong Kong	US$100	-	100%	–	100%	Investment holding
Bridge Rock Industry Fund Limited	Cayman Islands	US$1	-	100%	–	100%	Investment in fund
Gain Sun Ventures Limited (note c) 盈暉創投有限公司	British Virgin Islands/ Hong Kong	US$100	-	-	–	100%	Investment in preference shares

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 2019 Direct	2019 Indirect	2018 Direct	2018 Indirect	Principal activities
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 (note c and d)	PRC	Registered capital US$30,000,000	-	-	100%	–	Provision of professional investment and investment management services
Harvest Cosmo Holdings Limited (note c) 豐宇控股有限公司	British Virgin Islands/ Hong Kong	US$100	-	-	–	100%	Investment holding
Dynasty Jade Holdings Limited (note c)	British Virgin Islands/ Hong Kong	US$100	-	-	–	100%	Investment holding
Wide Trend Global Limited (note c) 廣興環球有限公司	British Virgin Islands/ Hong Kong	US$100	-	-	–	100%	Investment holding
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 (note c) 新景有限公司	British Virgin Islands/ Hong Kong	US$100	-	-	–	100%	Investment holding
華融國金(深圳)股權投資基金管理有限公司 (note d)	PRC	Registered capital US$2,000,000	-	100%	–	100%	Advisory services for equity investment

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 has the power to direct the relevant activities of Growth Fund. Therefore, the Group consolidates 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 has the power to direct the relevant activities of PRF Fund. Therefore, the Group consolidates this fund.

Note (c): During the year, the company disposed these subsidiaries to Huarong Overseas. Details of the disposal are set out in note 39.

Note (d): It is a wholly foreign owned enterprise registered under PRC Law.

1. Corporate and Group Information (continued)

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 "SEHK") (the "Listing Rules") and by the Hong Kong Companies Ordinance (Chapter 622 of the Laws of Hong Kong).

The consolidated financial statements have been prepared on the historical cost basis except for 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.

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 accounted for in accordance with HKFRS 16 (since 1 January 2019) or HKAS17 (before application of HKFRS 16) 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 16	Leases
HK(IFRIC) – Int 23	Uncertainty over Income Tax Treatments
Amendments to HKFRS 9	Prepayment Features with Negative Compensation
Amendments to HKAS 19	Plan Amendment, Curtailment or Settlement
Amendments to HKAS 28	Long-term Interests in Associates and Joint Ventures
Amendments to HKFRSs	Annual Improvements to HKFRSs 2015–2017 Cycle

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 position and performance for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

3.1 Impacts and changes in accounting policies of application on HKFRS 16 Leases

The Group has applied HKFRS 16 for the first time in the current year. HKFRS 16 superseded HKAS 17 Leases ("HKAS 17"), and the related interpretations.

Definition of a lease

The Group has elected 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 standards to contracts that were not previously identified as containing a lease. Therefore, the Group has not reassessed contracts which already existed prior to the date of initial application.

For contracts entered into or modified on or after 1 January 2019, the Group applies the definition of a lease in accordance with the requirements set out in HKFRS 16 in assessing whether a contract contains a lease.

As a lessee

The Group has applied HKFRS 16 retrospectively with the cumulative effect recognised at the date of initial application, 1 January 2019.

As at 1 January 2019, the Group recognised additional lease liabilities and right-of-use assets at amounts equal to the related lease liabilities by applying HKFRS 16.C8(b)(ii) transition. Any difference at the date of initial application is recognised in the opening accumulated losses and comparative information has not been restated.

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

3.1 Impacts and changes in accounting policies of application on HKFRS 16 Leases (continued)

As a lessee (continued)

When applying the modified retrospective approach under HKFRS 16 at transition, the Group applied the following practical expedients to leases previously classified as operating leases under HKAS 17, on lease-by-lease basis, to the extent relevant to the respective lease contracts:

i. elected not to recognise right-of-use assets and lease liabilities for leases with lease term ends within 12 months of the date of initial application;

ii. excluded initial direct costs from measuring the right-of-use assets at the date of initial application;

iii. applied a single discount rate to a portfolio of leases with a similar remaining terms for similar class of underlying assets in similar economic environment. Specifically, discount rate for certain leases of properties in Hong Kong was determined on a portfolio basis.

When recognising the lease liabilities for leases previously classified as operating leases, the Group has applied incremental borrowing rates of the relevant group entities at the date of initial application. The weighted average incremental borrowing rate applied by relevant group entities is 4.18%.

	At 1 January 2019 HK$'000
Operating lease commitments as at 31 December 2018	**64,154**
Less: Recognition exemption – short-term leases	**(2,048)**
	62,106
Lease liabilities discounted at relevant incremental borrowing rates relating to operating lease recognised upon application of HKFRS 16 as at 1 January 2019	**58,834**
Analysed as	
Current	**39,066**
Non-current	**19,768**
	58,834

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

3.1 Impacts and changes in accounting policies of application on HKFRS 16 Leases (continued)

As a lessee (continued)

The carrying amount of right-of-use assets as at 1 January 2019 comprises the following:

	Right-of-use assets HK$'000
Right-of-use assets relating to operating leases recognised upon application of HKFRS 16	58,834
By class:	
Leased buildings	56,459
Office equipment	2,375

Note: Before the application of HKFRS 16, the Group considered refundable rental deposits paid as rights and obligations under leases to which HKAS 17 applied. Based on the definition of lease payments under HKFRS 16, such deposits are not payments relating to the right to use of the underlying assets and should be adjusted to reflect the discounting effect at transition. The application of the discounting effect on 1 January 2019 is considered not material at the initial application. Accordingly, there is no adjustment refundable rental deposits and right-of-use assets.

The following adjustments were made to the amounts recognised in the consolidated statement of financial position at 1 January 2019. Line items that were not affected by the changes have not been included.

	Carrying amounts reported at 31 December 2018 HK$'000	**Adjustments** HK$'000	**Carrying amounts previously under HKFRS 16 at 1 January 2019** HK$'000
Non-current asset			
Right-of-use assets	–	58,834	58,834
Current liability			
Lease liabilities	–	39,066	39,066
Non-current liability			
Lease liabilities	–	19,768	19,768

Note: For the purpose of reporting cash flows from operating activities under indirect method for the year, movements in working capital have been computed based on opening statement of financial position as at 1 January 2019 as disclosed above.

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

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 17	Insurance Contracts[1]
Amendments to HKFRS 3	Definition of a Business[2]
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[3]
Amendments to HKAS 1 and HKAS 8	Definition of Material[4]
Amendments to HKFRS 9, HKAS 39 and HKFRS 7	Interest Rate Benchmark Reform[4]

1 Effective for annual periods beginning on or after 1 January 2021
2 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
3 Effective for annual periods beginning on or after a date to be determined
4 Effective for annual periods beginning on or after 1 January 2020

In addition to the above new and amendments to HKFRSs, a revised Conceptual Framework for Financial Reporting was issued in 2018. Its consequential amendments, the Amendments to References to the Conceptual Framework in HKFRS Standards, will be effective for annual periods beginning on or after 1 January 2020.

Except for the amendments to HKFRSs and the revised Conceptual Framework mentioned below, 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.

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

Amendments to HKAS 1 and HKAS 8 *Definition of Material*

The amendments provide refinements to the definition of material by including additional guidance and explanations in making materiality judgments. In particular, the amendments:

- include the concept of "obscuring" material information in which the effect is similar to omitting or misstating the information;
- replace threshold for materiality influencing users from "could influence" to "could reasonably be expected to influence"; and
- include the use of the phrase "primary users" rather than simply referring to "users" which was considered too broad when deciding what information to disclose in the financial statements.

The amendments also align the definition across all HKFRSs and will be mandatorily effective for the Group's annual period beginning on 1 January 2020. The application of the amendments is not expected to have significant impact on the financial position and performance of the Group but may affect the presentation and disclosures in the consolidated financial statements.

Conceptual Framework for Financial Reporting 2018 (the "New Framework") and the Amendments to References to the Conceptual Framework in HKFRS Standards

The New Framework:

- reintroduces the terms stewardship and prudence;
- introduces a new asset definition that focuses on rights and a new liability definition that is likely to be broader than the definition it replaces, but does not change the distinction between a liability and an equity instrument;
- discusses historical cost and current value measures, and provides additional guidance on how to select a measurement basis for a particular asset or liability;
- states that the primary measure of financial performance is profit or loss, and that only in exceptional circumstances other comprehensive income will be used and only for income or expenses that arise from a change in the current value of an asset or liability; and
- discusses uncertainty, derecognition, unit of account, the reporting entity and combined financial statements.

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

Conceptual Framework for Financial Reporting 2018 (the "New Framework") and the Amendments to References to the Conceptual Framework in HKFRS Standards (continued)

Consequential amendments have been made so that references in certain HKFRSs have been updated to the New Framework, whilst some HKFRSs are still referred to the previous versions of the framework. These amendments are effective for the Group's annual period beginning on or after 1 January 2020. Other than specific standards which still refer to the previous versions of the framework, the Group will rely on the New Framework on its effective date in determining the accounting policies especially for transactions, events or conditions that are not otherwise dealt with under the accounting standards.

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.

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.

4. Summary of Significant Accounting Policies (continued)

Basis of consolidation (continued)

Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in 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, the assets and liabilities of that subsidiary and non-controlling interests (if any) are derecognised. 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, or when applicable, the cost on initial recognition of an investment in an associate or a joint venture.

Dividends

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

4. Summary of Significant Accounting Policies (continued)

Investments in associates

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.

The results and assets and liabilities of associates are incorporated in these consolidated financial statements using the equity method of accounting. The financial statements of associates 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 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. Changes in net assets of the associate other than profit or loss and other comprehensive income are not accounted for unless such changes resulted in changes in ownership interest held by the Group. When the Group's share of losses of an associate exceeds the Group's interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate), 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.

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

The Group assesses whether there is an objective evidence that the interest in an associate 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 is not allocated to any asset, including goodwill, that forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognised in accordance with HKAS 36 to the extent that the recoverable amount of the investment subsequently increases.

4. Summary of Significant Accounting Policies (continued)

Investments in associates (continued)

When the Group ceases to have significant influence over an associate, 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 and the retained interest is a financial asset within the scope of HKFRS 9, 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 and the fair value of any retained interest and any proceeds from disposing the relevant interest in the associate is included in the determination of the gain or loss on disposal of the associate. In addition, the Group accounts for all amounts previously recognised in other comprehensive income in relation to that associate on the same basis as would be required if that associate had directly disposed of the related assets or liabilities. Therefore, if a gain or loss previously recognised in other comprehensive income by that associate 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.

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

Property and equipment

Property and equipment are tangible assets that are held for use in the supply of services, or for administrative purposes and are stated in the consolidated statement of financial position at cost less subsequent accumulated depreciation and subsequent accumulated impairment losses, if any.

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

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

4. Summary of Significant Accounting Policies (continued)

Intangible assets

Intangible assets acquired separately

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

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 property and equipment, right-of-use assets and intangible assets

At the end of the reporting period, the Group reviews the carrying amounts of its property and equipment and right-of-use 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 property and equipment, right-of-use assets 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.

In addition, corporates assets are allocated to individual cash generating units when a reasonable and consistent basis of allocation can be established, or otherwise they are allocated to the smallest group of cash generating units for which a reasonable and consistent allocation basis can be established. The Group assesses whether there is indication that corporate assets may be impaired. If such indication exists, the recoverable amount is determined for the cash-generating unit or group of cash-generating units to which the corporate asset belongs, and is compared with the carrying amount of the relevant cash-generating unit or group of cash-generating units.

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 property and equipment, right-of-use assets 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. For corporate assets or portion of corporate assets which cannot be allocated on a reasonable and consistent basis to a cash-generating unit, the Group compares the carrying amount of a group of cash-generating units, including the carrying amounts of the corporate assets or portion of corporate assets allocated to that group of cash-generating units, with the recoverable amount of the group of cash-generating units. 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 or the group of cash-generating units. 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 or the group of cash-generating units) 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 or the group of cash-generating units) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss.

4. Summary of Significant Accounting Policies (continued)

Leases

Definition of a lease (upon application of HKFRS 16 in accordance with transitions in note 3)

A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

For contracts entered into or modified on or after the date of initial application, the Group assesses whether a contract is or contains a lease based on the definition under HKFRS 16 at inception or modification date. Such contract will not be reassessed unless the terms and conditions of the contract are subsequently changed.

As a lessee (upon application of HKFRS 16 in accordance with transitions in note 3)

<u>Allocation of consideration to components of a contract</u>

For a contract that contains a lease component and one or more additional lease or non-lease components, the Group allocates the consideration in the contract to each lease component on the basis of the relative stand-alone price of the lease component and the aggregate stand-alone price of the non-lease components.

As a practical expedient, leases with similar characteristics are accounted on a portfolio basis when the Group reasonably expects that the effects on the financial statements would not differ materially from individual leases within the portfolio.

<u>Short-term leases</u>

The Group applies the short-term lease recognition exemption to leases of staff quarters and equipment that have a lease term of 12 months or less from the commencement date and do not contain a purchase option. Lease payments on short-term leases are recognised as expense on a straight-line basis over the lease term.

4. Summary of Significant Accounting Policies (continued)

Leases (continued)

As a lessee (upon application of HKFRS 16 in accordance with transitions in note 3) (continued)

Right-of-use assets

Except for short-term leases, the Group recognises right-of-use assets at the commencement date of the lease (i.e. the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities.

The cost of right-of-use asset includes:

- the amount of the initial measurement of the lease liability;
- any lease payments made at or before the commencement date, less any lease incentives received;
- any initial direct costs incurred by the Group; and
- an estimate of costs to be incurred by the Group in dismantling and removing the underlying assets, restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease.

Right-of-use assets in which the Group is reasonably certain to obtain ownership of the underlying leased assets at the end of the lease term is depreciated from commencement date to the end of the useful life. Otherwise, right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term.

The Group presents right-of-use assets as a separate line item on the consolidated statement of financial position.

Refundable rental deposits

Refundable rental deposits paid are accounted under HKFRS 9 and initially measured at fair value. Adjustments to fair value at initial recognition are considered as additional lease payments and included in the cost of right-of-use assets.

4. Summary of Significant Accounting Policies (continued)

Leases (continued)

As a lessee (upon application of HKFRS 16 in accordance with transitions in note 3) (continued)

Lease liabilities

At the commencement date of a lease, the Group recognises and measures the lease liability at the present value of lease payments that are unpaid at that date. In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable.

The lease payments include:

- fixed payments (including in-substance fixed payments) less any lease incentives receivable;
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable by the Group under residual value guarantees;
- the exercise price of a purchase option if the Group is reasonably certain to exercise the option; and
- payments of penalties for terminating a lease, if the lease term reflects the Group exercising the option to terminate the lease.

After the commencement date, lease liabilities are adjusted by interest accretion and lease payments.

The Group presents lease liabilities as a separate line item on the consolidated statement of financial position.

4. Summary of Significant Accounting Policies (continued)

Leases (continued)

As a lessee (upon application of HKFRS 16 in accordance with transitions in note 3) (continued)

Lease modifications

The Group accounts for a lease modification as a separate lease if:

- the modification increases the scope of the lease by adding the right to use one or more underlying assets; and

- the consideration for the leases increases by an amount commensurate with the stand-alone price for the increase in scope and any appropriate adjustments to that stand-alone price to reflect the circumstances of the particular contract.

For a lease modification that is not accounted for as a separate lease, the Group remeasures the lease liability based on the lease term of the modified lease by discounting the revised lease payments using a revised discount rate at the effective date of the modification.

The Group accounts for the remeasurement of lease liabilities by making corresponding adjustments to the relevant right-of-use asset. When the modified contract contains a lease component and one or more additional lease or non-lease components, the Group allocates the consideration in the modified contract to each lease component on the basis of the relative stand-alone price of the lease component and the aggregate stand-alone price of the non-lease components.

The Group as a lessee (prior to 1 January 2019)

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.

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.

4. Summary of Significant Accounting Policies (continued)

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. 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.

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

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.

4. Summary of Significant Accounting Policies (continued)

Financial instruments (continued)

Financial assets (continued)

Classification and subsequent measurement of financial assets (continued)

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 selling and collecting 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.

All other financial assets are subsequently measured at FVTPL, except that at the date of initial application of HKFRS 9/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.

A financial asset is 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.

4. Summary of Significant Accounting Policies (continued)

Financial instruments (continued)

Financial assets (continued)

<u>Classification and subsequent measurement of financial assets (continued)</u>

(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 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 (continued)

(iii) 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 on financial assets at fair value through profit or loss" line item in profit or loss.

Impairment of financial assets and other items subject to impairment assessment under HKFRS 9

The Group performs impairment assessment under expected credit loss ("ECL") model on financial assets (including advances to customers in margin financing, other loans and receivables, financial assets at FVOCI, accounts receivable, deposits and other receivables, amount due from an associate, restricted bank balances, cash and cash equivalents, other long term assets and interest receivable) and other items (representing contract assets) which are subject to impairment under HKFRS 9. 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.

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.

4. Summary of Significant Accounting Policies (continued)

Financial instruments (continued)

Financial assets (continued)

Impairment of financial assets and other items subject to impairment assessment under HKFRS 9 (continued)

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 and other items subject to impairment assessment under HKFRS 9 (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 and other items subject to impairment assessment under HKFRS 9 (continued)

(iii) Credit-impaired financial assets

A financial asset is credit-impaired when one or more events 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.

4. Summary of Significant Accounting Policies (continued)

Financial instruments (continued)

Financial assets (continued)

Impairment of financial assets and other items subject to impairment assessment under HKFRS 9 (continued)

(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.

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.

4. Summary of Significant Accounting Policies (continued)

Financial instruments (continued)

Financial assets (continued)

Impairment of financial assets and other items subject to impairment assessment under HKFRS 9 (continued)

(v) Measurement and recognition of ECL (continued)

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. Such amount represents the changes in the FVTOCI reserve in relation to accumulated loss allowance.

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.

Financial liabilities and equity

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 Company 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

All financial liabilities are subsequently measured at amortised cost using the effective interest method or at FVTPL.

4. Summary of Significant Accounting Policies (continued)

Financial instruments (continued)

Financial liabilities and equity (continued)

Financial liabilities at FVTPL

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

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial liability forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and HKFRS 9 permits the entire combined contract (asset or liability) to be designated as at FVTPL.

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/accumulated losses upon derecognition of the financial liability.

Financial liabilities at amortised cost

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

Deferred income

Deferred income arises when the fair value of a financial asset at initial recognition not based on a quoted price in an active market for an identical asset or based on a valuation technique that uses only data from observable markets, differs from the transaction price (fair value of the consideration given). In such situations the Group shall adjust 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.

4. Summary of Significant Accounting Policies (continued)

Financial instruments (continued)

Repurchase agreements

Financial assets sold under repurchase agreements 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.

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 measured at amortised cost, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognised in profit or loss.

On derecognition of an investment in a debt instrument classified as at FVTOCI, the cumulative gain or loss previously accumulated in the FVTOCI reserve is reclassified to 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.

4. Summary of Significant Accounting Policies (continued)

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.

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).

4. Summary of Significant Accounting Policies (continued)

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 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 and associates, 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 are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

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

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

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 to the same tax entity by the same authority.

4. Summary of Significant Accounting Policies (continued)

Taxation (continued)

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.

For leasing transactions in which the tax deductions are attributable to the lease liabilities, the Group applies HKAS 12 Income Taxes requirements to right-of-use assets and lease liabilities separately. Temporary differences on initial recognition of the relevant right-of-use assets and lease liabilities are not recognised due to application of the initial recognition exemption. Temporary differences arising from subsequent revision to the carrying amounts of right-of-use assets and lease liabilities, resulting from remeasurement of lease liabilities and lease modifications, that are not subject to initial recognition exemption are recognised on the date of remeasurement or modification.

In assessing any uncertainty over income tax treatments, the Group considers whether it is probable that the relevant tax authority will accept the uncertain tax treatment used, or proposed to be use by individual group entities in their income tax filings. If it is probable, the current and deferred taxes are determined consistently with the tax treatment in the income tax filings. If it is not probable that the relevant taxation authority will accept an uncertain tax treatment, the effect of each uncertainty is reflected by using either the most likely amount or the expected value.

Revenue from contracts with customers

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.

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.

4. Summary of Significant Accounting Policies (continued)

Revenue from contracts with customers (continued)

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

<u>Output method</u>

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 (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 at a point in time when the transaction is executed and service is completed except for custodian fees which are recognised over time as the customers simultaneously receives and consumes the benefit provided by the Group, 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 services 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)

Share-based payment arrangements

Equity-settled share-based payment transactions

Share options granted to employees

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

The fair value of the equity-settled share-based payments determined at the grant date without taking into consideration all non-market vesting conditions is expensed on a straight-line basis over the vesting period, based on the Group's estimate of equity instruments that will eventually vest, with a corresponding increase in equity (share options reserve).

At the end of each reporting period, the Group revises its estimate of the number of equity instruments expected to vest based on assessment of all relevant non-market vesting conditions. The impact of the revision of the original estimates, if any, is recognised in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to the share options reserve.

When share options are exercised, the amount previously recognised in share option reserve will be transferred to share premium. When 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/accumulated losses.

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, unless exchange rates fluctuate significantly during that period, in which case the exchange rates at the date of transactions are used. 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 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 financial statements.

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 scenarios 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 available without undue cost or effort, 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 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 the 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 other 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 estimated fair value of the financial instruments. The finance department 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 2019, a deferred tax asset of HK$52,232,000 (2018: HK$101,723,000) 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$1,635,575,000 (2018: HK$1,284,790,000) 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.

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

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 20) 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.

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 consider among others whether the Group has power to remove or control the party having the ability to direct the relevant activities of the Investments based on the facts and circumstances and that whether 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.

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

Critical judgements in applying accounting policies (continued)

Determination of consolidation scope of certain pledged securities in money lending

The Group entered into secured loan arrangements with customers that contains several covenants such that the Group may have the voting rights on relevant activities of the pledged company if a covenant is breached. When these protective rights become exercisable, there is a change in facts and circumstances and the control assessment is reassessed.

All facts and circumstances must be taken into consideration in the assessment of whether these rights are substantive and whether the Group, as lender, have practical ability to exercise these rights as power to direct the relevant activities of the pledged company. The principle of control sets out the following three elements of control: (a) power over the pledged company; (b) exposure, or rights, to variable returns from involvement with the pledged company; and (c) the ability to use power over the pledged company to affect the amount of the lender's returns.

In conducting the assessment to determine this consolidated scope, the directors of the Company consider whether the rights held by the Group are substantive and there are any barriers (economic or otherwise) that prevent or deter the Group from exercising its rights based on all facts and circumstances.

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 available without undue cost or effort. Information that will be taken into account when assessing whether 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.

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

For the measurement of segment liabilities and results, interest-bearing borrowings are not allocated to segment while their corresponding finance costs are allocated to segment results.

(a) Operating segments

The following tables present the revenue and results for the years ended 31 December 2019 and 2018 and certain assets, liabilities and expenditure information for the Group's operating segments as at 31 December 2019 and 2018 and for the years then ended.

6. Operating Segment Information (continued)

(a) Operating segments (continued)

For the year ended 31 December 2019

	Securities HK$'000	Corporate finance HK$'000	Asset management and direct investment HK$'000	Total HK$'000
Segment revenue				
Commission and fee income	30,280	8,907	81,833	121,020
Interest income	385,432	–	1,042,905	1,428,337
Investment income	–	–	117,832	117,832
	415,712	8,907	1,242,570	1,667,189
Net losses on financial assets at FVTPL	–	–	(9,802)	(9,802)
Net loss arising from disposal of financial assets at FVTOCI	–	–	(18,715)	(18,715)
Share of result of associates	–	–	14,327	14,327
Other income and gains or losses, net	3,872	–	18,774	22,646
	419,584	8,907	1,247,152	1,675,645
Segment results	(575,230)	(5,064)	(739,256)	(1,319,550)
Other unallocated income and gains or losses, net				(50,941)
Other unallocated expenses, net				(94,711)
Loss before tax				(1,465,202)
Amounts included in measurement of segment profit or loss:				
Finance costs	(17,400)	–	(1,269,355)	(1,286,755)
Net provision for impairment of advances to customers in margin financing and accounts receivable	(935,226)	(20,115)	(6,170)	(961,511)
Net provision for impairment of other loans and receivables	–	–	(547,186)	(547,186)
Net provision for impairment of other receivable	–	–	(30,944)	(30,944)
Net provision for impairment of amount due from an associate	–	–	(2,683)	(2,683)
Net provision for impairment of financial assets at FVTOCI	–	–	(99,635)	(99,635)

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)

As at 31 December 2019

	Securities HK$'000	Corporate finance HK$'000	Asset management and direct investment HK$'000	Total HK$'000
Total segment assets	**5,263,963**	**69,758**	**9,943,324**	**15,277,045**
Other unallocated assets (note i)				**1,389,456**
Total assets				**16,666,501**
Total segment liabilities	**1,160,784**	**4,457**	**2,760,319**	**3,925,560**
Other unallocated liabilities (note ii)				**11,411,844**
Total liabilities				**15,337,404**

For the year ended 31 December 2019

	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	21	31	38,236	(52,946)	(14,658)
Net loss on financial liabilities at FVTPL	–	–	(92,046)	–	(92,046)
Depreciation	(11,829)	–	(154)	(35,169)	(47,152)
Additions of property and equipment	–	–	–	234	234
Additions of right-of-use assets	–	–	–	83,592	83,592
Investments accounted for using the equity method	–	–	–	–	–

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)

Note i: The balance comprises cash and cash equivalents of HK$1,127,893,000 (2018: HK$421,621,000), prepayments, deposits and other receivables of HK$64,463,000 (2018: HK$30,519,000), tax recoverable of HK$53,745,000 (2018: HK$57,440,000) deferred tax assets of HK$52,232,000 (2018: HK$16,418,000), property and equipment of HK$1,695,000 (2018: HK$9,519,000) and right-of-use assets of HK$89,428,000 (2018: nil).

Note ii: The balance comprises other payables and accruals of HK$73,210,000 (2018: HK$242,353,000), interest-bearing borrowings of HK$11,246,363,000 (2018: HK$23,228,241,000) and lease liability of HK$92,271,000 (2018: nil). 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	
	2019	2018	**2019**	2018
	HK$'000	HK$'000	**HK$'000**	HK$'000
Hong Kong	**1,575,889**	2,165,838	**107,805**	26,106
PRC	**91,300**	105,717	**–**	38,622
	1,667,189	2,271,555	**107,805**	64,728

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 2019 and 2018.

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

	2019 HK$'000	2018 HK$'000
Revenue		
Commission and fee income (note (i)):		
Fee and commission income on securities dealing and broking	**15,688**	27,637
Placing and underwriting fee income	**555**	4,497
Consultancy and financing advisory fee income	**92,403**	152,994
Fund subscription and management fee income	**12,188**	16,050
Other service income	**186**	235
	121,020	201,413
Interest income:		
Interest income from other loans and receivables	**372,004**	430,831
Interest income from loan to an associate	**23,570**	62,748
Interest income from financial assets at FVTPL	**381,199**	460,773
Interest income from financial assets at FVTOCI	**266,132**	334,128
Interest income from margin financing activities	**385,432**	426,462
	1,428,337	1,714,942
Investment income:		
Dividend income	**117,832**	355,200
	1,667,189	2,271,555
Other income and gains or losses, net		
Bank interest income	**13,602**	39,241
Foreign exchange differences, net	**49,330**	(29,560)
Net loss on financial liabilities at FVTPL	**(92,046)**	(25,881)
Others	**819**	11,855
	(28,295)	(4,345)

Note:

(i) 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$16,429,000 (2018: HK$32,369,000) and HK$104,591,000 (2018: 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.

Revenue arising from contract with customers are provided in Hong Kong.

8. Impairment Losses, Net of Reversal

	2019 HK$'000	2018 HK$'000
Net provision for impairment of other loans and receivables	**547,186**	150,514
Net provision for (reversal of) impairment of amount due from an associate	**2,683**	(21,127)
Net provision for impairment of advances to customers in margin financing and accounts receivable	**961,511**	397,150
Net provision for (reversal of) impairment of financial assets at FVTOCI	**99,635**	(4,495)
Net provision for impairment of other receivables	**30,944**	–
	1,641,959	522,042

9. Loss Before Tax

	2019 HK$'000	2018 HK$'000
The Group's loss before tax is arrived at after charging (crediting):		
Depreciation of property and equipment (note 16)	**7,685**	8,935
Depreciation of right-of-use assets (note 19)	**39,467**	–
Total deprecation	**47,152**	8,935
(Gain) loss on disposal of property and equipment	**(172)**	244
Minimum lease payments under operating leases:		
Office premises	**–**	44,140
Office equipment	**–**	207
	–	44,347
Provision for reinstatement	**–**	1,095
Auditor's remuneration	**2,395**	4,290
Legal and professional fees	**8,604**	12,206
Directors' and chief executive's remuneration (note 11)	**2,477**	3,623
Employee benefit expenses (excluding directors' and chief executive's remuneration (note 11)):		
Salaries and other benefits (note (i))	**46,965**	90,347
Retirement benefits (defined contribution scheme)	**1,991**	2,228
Provision for long service payments, net	**1,122**	94
(Reversal of) provision for unused annual leaves	**(1,109)**	298

Note:

(i) Approximately HK$151,000 (2018: HK$197,000) was included in "Brokerage and commission expenses" in the consolidated statement of profit or loss.

10. Finance Costs

	2019 HK$'000	2018 HK$'000
Interest on bank borrowings	**143,701**	571,496
Interest on repurchase agreements and other activities	**161,551**	128,487
Interest on borrowings from an intermediate holding company	**842,538**	934,856
Interest on borrowings from the ultimate holding company	**137,069**	49,053
Interest on lease liabilities	**1,896**	–
	1,286,755	1,683,892

11. Directors' and Chief Executive's Remuneration

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

	2019 HK$'000	2018 HK$'000
Fees	**957**	930
Other emoluments:		
Salaries and other benefits	**1,126**	1,444
Discretionary bonuses	**364**	1,219
Retirement benefits	**30**	30
	1,520	2,693
	2,477	3,623

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

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:

2019

(a) Executive directors

	Chief Executive Officer Mr. Xu Yong (appointed on 11 April 2018 and resigned on 20 November 2019) HK$'000	Mr. Bai Junjie (appointed on 1 November 2018 and resigned on 8 July 2019) HK$'000	Mr. Yu Meng (appointed on 8 July 2019) (note (i)) HK$'000	Chief Executive Officer Mr. Wang Junlai (appointed on 20 November 2019) HK$'000	Total HK$'000
Fees	–	–	–	–	–
Other emoluments:					
Salaries, allowances and benefits in kind	673	364	–	89	1,126
Discretionary bonuses	169	195	–	–	364
Retirement benefits	18	9	–	3	30
Sub-total	860	568	–	92	1,520

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

Note

(i) Mr. Yu Meng is the general manager of an intermediate holding company and his emolument has been borne by the intermediate holding company.

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

2019 (continued)

(b) Non-executive directors

There is no non-executive directors since the resignation of Ms. Fan Haibo on 16 March 2018.

(c) Independent non-executive directors

	Dr. Wong Tin Yau Kelvin (resigned on 13 December 2019 HK$'000	Mr. Ma Li Shan HK$'000	Mr. Guan Huanfei HK$'000	Mr. Hung Ka Hai Clement (appointed on 13 December 2019) HK$'000	Total HK$'000
Fees	320	310	300	27	957
Other emoluments:					
Salaries, allowances and benefits in kind	–	–	–	–	–
Discretionary bonuses	–	–	–	–	–
Retirement benefits	–	–	–	–	–
Sub-total	320	310	300	27	957

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

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

2018

(a) Executive directors

	Ms. Wang Wei (resigned on 8 January 2018) HK$'000	Chief Executive Officer Mr. Lai Jinyu (resigned on 11 April 2018) HK$'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	Chief Executive Officer Mr. Xu Yong (appointed on 11 April 2018) HK$'000	Mr. Bai Junjie (appointed on 01 November 2018) HK$'000	Total 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.

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

2018 (continued)

(b) Non-executive directors

	Ms. Fan Haibo (resigned on 16 March 2018) HK$'000	Total HK$'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$'000	Mr. Ma Li Shan HK$'000	Mr. Guan Huanfei HK$'000	Total HK$'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.

There was no arrangement under which a director or the chief executive waived or agreed to waive any remuneration during the year (2018: nil).

12. Five Highest Paid Employees

Details of the remuneration for the year ended 31 December 2019 of the five (2018: five) highest paid employees who are non-directors of the Company are as follows:

	2019	2018
	HK$'000	HK$'000
Salaries and other benefits	**6,762**	8,504
Retirement benefits	**72**	87
	6,834	8,591

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

	2019 Number of employees	2018 Number of employees
HK$1,000,001 to HK$1,500,000	**4**	–
HK$1,500,001 to HK$2,000,000	**1**	5
	5	5

13. Income Tax Expense (Credit)

	2019	2018
	HK$'000	HK$'000
Current tax:		
Hong Kong	**8,594**	128,458
PRC	**–**	221
	8,594	128,679
Under/(over) provision in prior year:		
– Hong Kong	**4,936**	(165)
– PRC	**3,381**	–
Deferred tax (note 32)	**(2,253)**	(204,968)
	14,658	(76,454)

13. Income Tax Expense (Credit) (continued)

On 21 March 2018, the Hong Kong Legislative Council passed The Inland Revenue (Amendment) (No. 7) Bill 2018 (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% (2018: 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 applicable to loss before tax at the statutory rate of Hong Kong, where the Company is headquartered, to the tax expense (credit) is as follows:

	2019 **HK$'000**	2018 HK$'000
Loss before tax	**(1,465,202)**	(1,558,593)
Tax at the statutory tax rate of 16.5% (2018: 16.5%)	**(241,758)**	(257,168)
Tax effect of income not taxable for tax purpose	**(57,220)**	(9,238)
Tax effect of share of profit of associates	**(2,364)**	(3,208)
Tax effect of expenses not deductible for tax purpose	**2,142**	4,255
Tax effect of deductible temporary differences not recognised	**4,969**	16,807
Under/(over)provision in respect of prior years	**8,317**	(165)
Utilisation of tax losses previously not recognised	**–**	(23,425)
Tax effect of tax losses not recognised	**300,572**	191,189
Effect of different tax rates of subsidiaries	**–**	4,499
Income tax expense (credit)	**14,658**	(76,454)

14. Dividends

	2019	2018
	HK$'000	HK$'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

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

15. Loss Per Share Attributable to Owners of the Company

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

	2019	2018
	HK$'000	HK$'000
Loss		
Loss for the year attributable to owners of the Company used as loss for the purpose of basic loss per share	**(1,545,885)**	(1,548,222)

	Number of shares	
	2019	2018
	'000	'000
Number of shares		
Weighted average number of ordinary shares for the purpose of basic loss per share	**3,588,466**	3,588,466

No diluted loss 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 2019			
COST			
At 1 January 2019	**24,566**	**18,502**	**43,068**
Additions	**–**	**234**	**234**
Disposals	**(10,684)**	**(2,217)**	**(12,901)**
Disposal of a subsidiary (note 39)	**(2,234)**	**(928)**	**(3,162)**
At 31 December 2019	**11,648**	**15,591**	**27,239**
ACCUMULATED DEPRECIATION AND IMPAIRMENT			
At 1 January 2019	**(16,010)**	**(13,757)**	**(29,767)**
Depreciation provided during the year	**(5,509)**	**(2,176)**	**(7,685)**
Eliminated on disposal	**8,694**	**1,103**	**9,797**
Eliminated on disposal of a subsidiary (note 39)	**2,099**	**617**	**2,716**
At 31 December 2019	**(10,726)**	**(14,213)**	**(24,939)**
CARRYING VALUES			
At 31 December 2019	**922**	**1,378**	**2,300**

16. Property and Equipment (continued)

	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

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%

As at 31 December 2019, included in furniture, equipment and motor vehicles with cost of HK$2,476,000 (2018: HK$512,000) was fully depreciated.

17. Other Long Term Assets

	2019 **HK$'000**	2018 HK$'000
Deposits with 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	**250**	316
Deposit with the Reserve Fund of SEHK Options Clearing House Limited	**1,699**	1,718
Deposit with the Reserve Fund of Hong Kong Futures Exchange Clearing Corporation Limited	**1,500**	1,500
	4,242	4,327

18. Intangible Assets

	Trading rights HK$'000	**Other licences** HK$'000	**Total** HK$'000
COST			
At 31 December 2018 and 1 January 2019	20,171	966	21,137
Disposal of subsidiaries (note 39)	–	(966)	(966)
31 December 2019	**20,171**	**–**	**20,171**
ACCUMULATED IMPAIRMENT			
At beginning and end of year	17,821	–	17,821
CARRYING VALUES			
At 31 December 2018	2,350	966	3,316
At 31 December 2019	**2,350**	**–**	**2,350**

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 2019 and 2018.

18. Intangible Assets (continued)

Other licences used for the Group's operations are expected to be renewable without significant cost. Therefore, licences are considered by the management of the Group as having indefinite useful lives. These licences will not be amortised until their useful lives are determined to be finite. Instead, they will be tested for impairment annually and whenever there is an indication that they may be impaired. No impairment is considered necessary for years ended 31 December 2019 and 2018.

19. Right-of-Use Assets

	Leased properties HK$'000	**Office equipment** HK$'000	**Total** HK$'000
As at 1 January 2019			
Carrying amount	56,459	2,375	58,834
As at 31 December 2019			
Carrying amount	**100,568**	**1,621**	**102,189**
For the year ended 31 December 2019			
Depreciation charge	**(38,713)**	**(754)**	**(39,467)**
Additions to right-of-use assets	**83,592**	**–**	**83,592**
Expense relating to short-term lease and other leases with lease terms end within 12 months from the date of initial application of HKFRS 16	**2,595**	**–**	**2,595**
Total cash flow for leases			**40,803**

For both years, the Group leases various offices, staff quarters and office equipment for its operations. Lease contracts are entered into for fixed term of 7 months to 45 months, but may have extension and termination options. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. In determining the lease term and assessing the length of the non-cancellable period, the Group applies the definition of a contract and determines the period for which the contract is enforceable.

The Group regularly entered into short-term leases for office equipment and staff quarters. As at 31 December 2019, the portfolio of short-term leases is similar to the portfolio of short-term leases to which the short-term lease expense disclosed in above.

19. Right-of-Use Assets (continued)

The Group has extension options in certain leases. The extension options are allowed to take for further term for a maximum of 2 years. These are used to maximise operational flexibility in terms of managing the assets used in the Group's operations. The extension options held are exercisable only by the Group and not by the respective lessors.

The Group assesses at lease commencement date whether it is reasonably certain to exercise the extension options or not to exercise the termination options. The potential exposures to these future lease payments for extension options in which the Group is not reasonably certain to exercise is summarised below:

	Lease liabilities recognised as at 31 December 2019	Potential future payments not included in lease liabilities (undiscounted)
	HK$'000	HK$'000
Leased properties	**979**	1,560

In addition, the Group reassesses whether it is reasonably certain to exercise an extension option, or not to exercise a termination option, upon the occurrence of either a significant event or a significant change in circumstances that is within the control of the lessee. During the year ended 31 December 2019, there is no such triggering event.

Lease liabilities of HK$105,328,000 are recognised with related right-of-use assets of HK$102,189,000 as at 31 December 2019. The lease agreements do not impose any covenants other than the security interests in the leased assets that are held by the lessor. Leased assets may not be used as security for borrowing purposes.

Details of maturity analysis of lease liabilities are set out in note 33 and 45.

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

	2019 HK$'000	2018 HK$'000
Assets		
Non-current:		
– Unlisted fund investments (note (iii))	**1,375,241**	1,719,076
	1,375,241	1,719,076
Current:		
– Listed preference shares	**1,620,175**	3,173,540
– Unlisted preference shares (note (iv))	**–**	360,000
– Unlisted convertible bonds and convertible notes (note (i))	**–**	1,675,555
– Unlisted convertible bonds with put option (note (ii))	**–**	192,500
– Unlisted fund investments (note (iii))	**–**	5,341,891
– Listed equity investments	**914,567**	2,247,212
– Listed debt investments	**304,941**	474,693
– Unlisted put options on listed equity investments, at fair value (note (v))	**633,537**	231,729
	3,473,220	13,697,120
Liabilities		
Current:		
Payables to interest holders of unlisted consolidated investment funds, measured at FVTPL (note (vi))	**39,023**	401,429

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

Notes:

(i) The unlisted convertible notes with the principal amount of US$30,000,000 or equivalent to HK$233,625,000 with fixed interest rate of 4.5% per annum payable semi-annually and conversion price of 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 period, the Company entered into a 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. As at 31 December 2019, the transaction has completed and fully settled. As at 31 December 2018, the fair value of the Convertible Note 1 is HK$310,178,000 which was estimated by an independent firm of professional valuers.

As at 31 December 2018, the unlisted convertible notes with the principal amount of HK$500,000,000 with a fixed interest rate of 7% per annum payable semi-annually and the initial contractual conversion price of 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 Convertible Note 2 has been subsequently adjusted to HK$0.6952 per share due to the corporation action of share subdivision conducted by the listed issuer. As at 31 December 2018, the fair value of the Convertible Note 2 is HK$523,149,000, which was estimated by an independent firm of professional valuers. During the year, the Group disposed the Convertible Note 2 through the disposal of subsidiaries. Details of the disposal are set out in note 39.

As at 31 December 2018, the unlisted convertible notes with the principal amount of HK$75,000,000 with the fixed interest rate of 5% per annum payable semi-annually and conversion price of 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, 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. During the year, the Group disposed the Convertible Note 3 through the disposal of subsidiaries. Details of the disposal are set out in note 39.

As at 31 December 2018, the unlisted convertible bonds with the principal amount of 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 per share, was issued by a listed company in Hong Kong with the due date on 31 December 2018 (the "Convertible Note 4"). As at 31 December 2018, the fair value of the Convertible Note 4 is HK$789,728,000, which was estimated by an independent firm of professional valuers. During the year, the Group disposed the Convertible Note 4 through the disposal of subsidiaries. Details of the disposal are set out in note 39.

(ii) As at 31 December 2018, the unlisted convertible bonds with principal amount of HK$275,000,000 with the fixed interest rate of 4% per annum payable quarterly and the initial conversion price of 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. As at 31 December 2018, the fair value of the Convertible Note 5 amounted to approximately HK$192,500,000, 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. During the year, the Group disposed the Convertible Note 5 through the disposal of subsidiaries. Details of the disposal are set out in note 39.

(iii) As at 31 December 2019, included in financial assets at FVTPL are unlisted fund investments of approximately HK$1,375,241,000 (2018: HK$7,060,967,000) 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$1,375,241,000 (2018: HK$1,719,076,000) to third parties within the next twelve months and has accordingly classified them as non-current assets.

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

Notes: (continued)

(iv) As at 31 December 2018, included in financial assets at FVTPL are the unlisted preferences shares with aggregate amount of HK$900,000,000 with fixed interest rate of 6% per annum. Put option in relation to the preference shares granted to the Group which 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. Due to the failure to settle first annual preferential dividends of HK$54,000,000 in 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. The preference shares are not transferred as at 31 December 2018, accordingly, the transaction is considered not yet completed.

As at 31 December 2018, 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. During the year, the Group disposed the preferences shares through the disposal of subsidiaries. Details of the disposal are set out in note 39.

(v) In prior year, the Group purchased listed securities together with a put option ("Put Option 1") 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 1 amounted to approximately HK$55,043,000 as at 31 December 2019 (2018: HK$75,380,000), which was estimated by an independent firm of professional valuers.

In prior year, the Group purchased listed securities together with a put option ("Put Option 2") 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 2 amounted to approximately HK$545,562,000 as at 31 December 2019 (2018: HK$119,410,000), which was estimated by an independent firm of professional valuers.

As at 31 December 2019, the Group held one (2018: two) put option contract(s) in relation to listed securities with the fair value of HK$32,932,000 (2018: HK$36,939,000), which was estimated by an independent firm of professional valuers.

All the put options are secured by entity interest of company.

The day 1 gain arising from the Put Option 1 and the Put Option 2 with the underlying assets of listed securities have been amortised in accordance with the terms of instruments as disclosed in Note 30 (iv).

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

Notes: (continued)

(vi) As at 31 December 2019 and 31 December 2018, included in financial liabilities at FVTPL are the payables to interest holders of unlisted consolidated investment funds.

As at 31 December 2019 and 31 December 2018, a wholly-owned subsidiary of the Group held 65% interests in PRF Fund as a limited partner (the "First-Tier Limited Partner of the PRF Fund"). According to the limited partnership agreement, at the end of the term of the PRF Fund, the First-Tier Limited Partner of the PRF Fund will be entitled to a priority return of its own capital contribution and a 8% preferred return; thereafter the second-tier limited partner is entitled to return of its own capital contribution. Thereafter, 60% and 40% of the residual amount of the consolidated investment fund will be distributed to First-Tier Limited Partner of the PRF Fund and second-tier limited partner, respectively. Accordingly, the interests of the second-tier limited partner in the consolidated investment fund are classified as financial liabilities measured at FVTPL of approximately HK$39,023,000 as at 31 December 2019 (2018: HK$95,727,000).

As at 31 December 2018, 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. During the year, the interest in VD Fund held by the Group was fully redeemed.

As at 31 December 2018, a wholly-owned subsidiary of the Group held 90% interests in Growth Fund as a limited partner (the "First-Tier Limited Partner of the Growth Fund"). Pursuant to the limited partnership agreement of the Growth Fund, the interests in the Growth Fund as a limited partner provide the Group with the return of capital equal to 100% of its total invested capital and a fixed proceed of 12% per annum return of its invested capital to First-Tier Limited Partner of the Growth Fund. If the Growth Fund eventually holds its investment, 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. During the year, the interest in Growth Fund held by the Group was fully redeemed.

The Group did not provide any financial support to the above unlisted consolidated investment funds during the years ended 31 December 2019 and 2018.

21. Financial Assets at Fair Value Through Other Comprehensive Income

	2019 **HK$'000**	2018 HK$'000
Non-current:		
Listed debt investments, at fair value	**2,055,607**	2,716,175
Current:		
Listed debt investments, at fair value	**1,911,824**	2,908,508
	3,967,431	5,624,683

During the year, the gain in respect of changes in fair value of the Group's financial assets at FVTOCI recognised in other comprehensive income amounted to approximately HK$52,410,000 (2018: a loss of approximately HK$421,658,000). During the year, the Group disposed of financial assets at FVTOCI with proceeds of approximately HK$1,595,878,000 (2018: HK$1,935,773,000) to independent third parties, and a loss of approximately HK$18,715,000 (2018: 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 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

	2019 **HK$'000**	2018 HK$'000
Associates:		
Cost of unlisted investments in associates	–	17,062
Share of result of associates	–	20,570
Exchange differences	–	(938)
	–	36,694

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 2019**	As at 31 December 2018	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%	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 2019 was nil (2018: loss of HK$8,164,000), and profit of HK$14,327,000 (2018: profit of HK$27,608,000) respectively. The cumulative unrecognised share of loss of Hua Rong Bo Run International Investment Holdings Limited was HK$18,182,000 (2018: HK$69,510,000).

In the prior year, the Group held a 40% interest in 華融柏潤（珠海）資產管理有限公司 and accounted for the investment as an associate. In December 2019, the Group disposed of a 40% interest in 華融柏潤（珠海）資產管理有限公司 through disposal of subsidiary. Details of the disposal are 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$314,262,000 (2018: HK$318,838,000) as at 31 December 2019 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$1,927,000 (2018: HK$1,720,000) which are expected to be received within the next twelve months. The gross carrying amount of amount due from associate was HK$328,661,000 (2018: HK$330,347,000) as at 31 December 2019. During the year, there is an impairment of amount due from an associate amounting to HK$2,683,000 (2018: reversal of impairment of HK$21,127,000). The carrying amount of amount due from an associate was net of provision for impairment of HK$12,472,000 (2018: HK$9,789,000).

23. Other Loans and Receivables

	2019 **HK$'000**	2018 HK$'000
Other loans and receivables	**809,807**	6,614,053
Less: Provision for impairment	**(37,790)**	(342,843)
	772,017	6,271,210
Secured	**772,017**	6,032,149
Unsecured	**–**	239,061
	772,017	6,271,210
Analysed as:		
Current	**772,017**	5,979,776
Non-current	**–**	291,434
	772,017	6,271,210

As at 31 December 2019, 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 6% to 12% per annum (2018: 5% to 14% per annum) with contractual maturity date up to 6 months from 31 December 2019 (2018: up to two years).

As at 31 December 2019, other loans and receivables with carrying amount of approximately HK$772,017,000 are secured by equity interest of companies listed on Hong Kong and PRC (2018: HK$6,032,149,000 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).

As at 31 December 2018, unsecured other loans and receivables included a redeemable fixed coupon notes with carrying amount of HK$239,061,000. The contractual maturity date is up to six months from 31 December 2018. The contractual interest rate is 6% per annum (2018: 8.5% per annum).

As at 31 December 2019, the Group has concentration of credit risk as 100% (2018: 58%) of the total other loans and receivables was due from the Group's three largest borrowing customers (2018: five largest borrowing customers). Interest income derived from other loans and receivables was recognised as "interest income from other loans and receivables" within "revenue".

23. Other Loans and Receivables (continued)

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 2019, included in the Group's loan receivables balance are borrowers with aggregate carrying amount of HK$757,216,000 (2018: HK$1,016,379,000) which are past due as at the reporting date, of which HK$757,216,000 (2018: 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.).

During the year, the Group disposed other loans and receivables with the carrying amount of approximately HK$3,935,020,000 through the disposal of subsidiaries.

Details of credit risk profile disclosure are set out in "credit risk and impairment assessment" in note 45.

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

	2019 **HK$'000**	2018 HK$'000
Hong Kong Dollar	**772,017**	3,032,459
United States Dollar ("USD")	**–**	1,480,310
Chinese Yuan Renminbi ("RMB")	**–**	1,758,441
	772,017	6,271,210

24. Advances to Customers in Margin Financing

	2019 **HK$'000**	2018 HK$'000
Loans to customers in margin financing	**4,214,066**	4,470,932
Less: provision for impairment	**(1,330,395)**	(398,508)
	2,883,671	4,072,424

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.

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. The carrying amount of the loans and the market value of the collateral securities are reviewed regularly by the management.

All the pledged securities are listed equity securities in respective stock exchanges as at 31 December 2019 and 2018. The loans are repayable on demand subsequent to settlement date and normally carry interest at nil to Hong Kong Prime Rate + 15% per annum (2018: Hong Kong Prime Rate + 1% to Hong Kong Prime Rate + 15% per annum). Securities are assigned with specific margin ratios for calculating their margin values. Additional funds or collateral are required if the outstanding amount exceeds the eligible margin value of securities deposited. The collateral held can be repledged and can be sold at the Group's discretion to settle any outstanding amount owed by margin clients.

The Group has concentration of credit risk as 65% (2018: 61%) of the total loans to securities margin clients due from the Group's five largest securities margin clients.

25. Accounts Receivable

	2019 HK$'000	2018 HK$'000
Accounts receivable from:		
– securities, futures and options dealing services		
– clients	**1,259**	4,832
– brokers, dealers and clearing houses	**71,125**	135,262
– corporate finance	**56,055**	20,264
– asset management	**–**	320
	128,439	160,678
Provision for impairment	**(25,083)**	(331)
	103,356	160,347

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 variable 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:

	2019 HK$'000	2018 HK$'000
0 – 30 days	**97,476**	154,975
31 – 90 days	**456**	444
91 – 365 days	**–**	4,066
Over 365 days	**5,424**	862
	103,356	160,347

25. Accounts Receivable (continued)

For accounts receivable from clients of HK$75,936,000 (2018: HK$140,003,000) that are overdue as at 31 December 2019, 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.

Details of credit risk profile disclosure are set out in "credit risk and impairment assessment" in note 45.

The Group has concentration of credit risk of a broker included in accounts receivable balance which is deposited with a financial institution that represents 38% (2018: 57%) of the Group's accounts receivable balance.

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

	2019 **HK$'000**	2018 HK$'000
Hong Kong Dollar	**51,645**	53,114
USD	**51,704**	106,087
RMB	**7**	1,146
	103,356	160,347

26. Prepayments, Deposits and Other Receivables and Interest Receivable

	2019 HK$'000	2018 HK$'000
Non-current portion:		
Deposits	–	11,417
	–	11,417
Current portion:		
Prepayments	16,691	30,362
Deposits	20,973	14,373
Other receivables (Note (a) and (c))	57,243	43,505
	94,907	88,240
	94,907	99,657
Interest receivable (Note (b))	–	16,872

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 be suffered by the Company for the tax provision made under Bulletin 7. Therefore, the Group recognised HK$9,061,000 as 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 2019, the directors of the Company reassessed the impairment on amount due from Mr. Cui and provided impairment of HK$9,061,000.

(b) As at 31 December 2018, interest receivable represents interest income receivable from bank deposits. As at 31 December 2019, the directors of the Company reassessed the impairment on the amount and provided impairment of HK$16,774,000.

(c) As at 31 December 2019, approximately HK$21,986,000 are amount due from fellow subsidiary in relation to the disposal of subsidiaries, which has been subsequently settled.

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

	2019 **HK$'000**	2018 HK$'000
Cash and balances with financial institutions	**3,069,944**	2,401,797

At the end of the reporting period, the cash and balances with financial institutions of the Group denominated in USD amounted to approximately HK$10,343,000 (2018: RMB amounted to approximately HK$21,183,000) which are subject to currency 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:

	2019 **HK$'000**	2018 HK$'000
Current to 1 month	**1,355,529**	2,269,848

As at 31 December 2019, included in the accounts payable is the accounts payable to financial institutions of approximately HK$948,433,000 (2018: HK$1,869,089,000) which is maintained for investment trading. The balance is interest bearing at the rates ranging from 2.7% to 3.9% per annum (2018: 2.8% to 3.9%).

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 2019, accounts payable with carrying amount of approximately HK$406,679,000 (2018: HK$398,402,000) are interest-bearing at bank savings deposit rates.

30. Other Liabilities, Payables and Accruals

	2019 **HK$'000**	2018 HK$'000
Current portion:		
Other payables	**1,101**	2,381
Interest payables (note (i))	**62,087**	228,484
Accruals (note (ii))	**21,086**	35,550
Receipt in advance (note (iii))	**128,444**	31,417
Deferred income (note (iv))	**35,404**	103,276
	248,122	401,108
Non-current portion:		
Other payables	**1,845**	3,618
Deferred income (note (iv))	**–**	35,404
	1,845	39,022

Notes:

(i) Included in interest payables are the interest payables of HK$ 48,966,000 (2018: HK$205,866,000) in relation to the loan from the intermediate holding company of an aggregate amount of US$1,161,685,000 (2018: US$2,763,331,000) at annual interest rates of ranging from 4.3% to 7.98% (2018: 3.85% to 7.98%) and interest payables of HK$13,121,000 (2018: HK$15,409,000) is related to the bank borrowings. As at 31 December 2018, interest payables of HK$7,209,000 were related to the loan from the ultimate holding company of RMB1,569,000,000 at annual interest rates of 6.87% to 6.97% and interest payable in relation to bank borrowings.

(ii) Accruals mainly represent HK$14,795,000 (2018: HK$22,183,000) salaries and bonus payable.

(iii) Receipt in advance represents the payment from the independent third parties who are interested to acquire certain listed equities held by the Group ("Transactions"). Up to the reporting date, the Transactions are still in negotiation and not contracted.

(iv) As at 31 December 2019, deferred income represents the day 1 gain arising from put option investments with the underlying assets of listed securities as disclosed in Note 20 (v) that the initial fair value is based on a valuation technique which included a significant 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. As at the date of initial recognition in prior year, the directors of the Company consider that the major reason for the fair value of the put option being higher than the transaction price was the share prices of the listed securities being lower than the exercise price of put option investments respectively. A reconciliation of day 1 gain is set out as follows:

	2019 **HK$'000**	2018 HK$'000
Aggregate differences to be recognised in profit or loss at the beginning of the period	**138,680**	274,429
Credited to profit or loss (note)	**(103,276)**	(135,749)
Aggregate differences to be recognised in profit or loss at the end of the period	**35,404**	138,680

Note: The Group has recognised HK$103,276,000 (2018: HK$135,749,000) in profit or loss during the year due to the amortisation of day 1 gain.

31. Interest-Bearing Borrowings

	2019 HK$'000	2018 HK$'000
Bank loans	**2,642,528**	2,042,304
	2,642,528	2,042,304
Loan from the ultimate holding company	**–**	1,790,687
Loan from an intermediate holding company	**9,048,335**	21,644,937
	11,690,863	25,477,928
Secured	**144,500**	159,000
Unsecured	**11,546,363**	25,318,928
	11,690,863	25,477,928
The carrying amounts of the above borrowings are repayable*:		
Within one year	**3,598,539**	10,414,478
Within a period of more than one year but not exceeding two years	**365,740**	2,238,964
Within a period of more than two years but not exceeding five years	**1,409,318**	7,739,009
Within a period of more than five years	**3,674,738**	3,043,173
	9,048,335	23,435,624
The carrying amounts of bank loans that contain a repayment on demand clause (shown under current liabilities) but repayable:		
Within one year	**2,642,528**	2,042,304
	11,690,863	25,477,928
Amounts shown under current liabilities	**(6,241,067)**	(12,456,782)
Amounts shown under non-current liabilities	**5,449,796**	13,021,146

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

31. Interest-Bearing Borrowings (continued)

As at 31 December 2019, the Group had loans (the "Company Loans") amounting to approximately US$1,161,685,000 (equivalent to approximately HK$9,048,335,000) (2018: US$2,763,331,000 (equivalent to approximately HK$21,644,937,000)) from its intermediate holding company, CHIH and nil (2018: RMB1,569,000,000 (equivalent to approximately HK$1,790,687,000) 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 4.3% to 7.98% per annum (2018: 3.85% to 7.98% per annum) and are repayable in three months to ten years (2018: one month to nine years) from the end of the reporting period.

In addition, bank borrowings of HK$144,500,000 (2018: HK$159,000,000) 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 2019.

As at 31 December 2019, the Group has undrawn bank facilities of approximately HK$1,625,500,000 (2018: HK$2,845,975,000), and the Group utilised approximately HK$2,642,528,000 (2018: HK$2,042,304,000) of these banking facilities.

The bank borrowings as at 31 December 2019 carry variable interest at Hong Kong Interbank Offered Rate ("HIBOR") plus 1.6% to 2.4% and London Interbank Offered Rate ("LIBOR") plus 1.55% to 2.4% per annum (2018: 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

	2019 **HK$'000**	2018 HK$'000
Deferred tax assets	**52,232**	110,990
Deferred tax liabilities	**(10,427)**	(63,602)
	41,805	47,388

32. Deferred Taxation (continued)

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	Tax losses	Temporary difference on net unrealised gain on financial assets/ liabilities at FVTPL	Total
	HK$'000	HK$'000	HK$'000	HK$'000
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 1 January 2019	**9,267**	**101,723**	**(63,602)**	**47,388**
(Charge) credit to profit or loss	**(268)**	**(49,491)**	**52,012**	**2,253**
Disposal of subsidiary (note 39)	**(8,999)**	**–**	**1,163**	**(7,836)**
At 31 December 2019	**–**	**52,232**	**(10,427)**	**41,805**

At the end of the reporting period, the Group has unused tax losses of approximately HK$1,952,133,000 (2018: HK$1,901,290,000) available indefinitely for offsetting against future taxable profits of the companies in which the losses arose. Tax losses of 1,470,863,000 have been derecognised due to disposal of subsidiaries. A deferred tax asset has been recognised in respect of HK$316,558,000 (2018: HK$616,500,000) of such losses. No deferred tax asset has been recognised in respect of the remaining HK$1,635,575,000 (31 December 2018: HK$1,284,790,000) due to the unpredictability of future profit streams.

At 31 December 2019, the Group has deductible temporary differences of HK$146,526,000 (2018: HK$218,697,000). Temporary differences of 102,286,000 have been derecognised due to disposal of subsidiaries. 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.

32. Deferred Taxation (continued)

At 31 December 2019, 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. Lease Liabilities

	2019 **HK$'000**
Lease liabilities payable:	
Within one year	**49,954**
Within a period of more than one year but not more than two years	**27,847**
Within a period of more than two years but not more than five years	**27,527**
	105,328
Less: Amount due for settlement with 12 months shown under current liabilities	**(49,954)**
Amount due for settlement after 12 months shown under non-current liabilities	**55,374**

34. Share Capital

Shares

	Number of shares '000	Total value HK$'000
Authorised:		
Ordinary shares of HK$0.001 each at 1 January 2018, 31 December 2018 and 31 December 2019	1,000,000,000	1,000,000
Issued and fully paid:		
At 1 January 2018, 31 December 2018 and 31 December 2019	3,588,466	3,588

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 35.

35. 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.

35. Share Option Scheme (continued)

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

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

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

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

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

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

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

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

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

Share options to be granted to a director, chief executive or substantial shareholder of the Company, or to any of their associates, are subject to approval in advance by the independent non-executive directors of the Company.

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

35. Share Option Scheme (continued)

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

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

No share options were granted or outstanding under the Scheme during the years ended 31 December 2019 and 2018. 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.

36. Repurchase Agreements

	2019 **HK$'000**	2018 HK$'000
Analysed by collateral type:		
Bonds	**1,122,940**	2,304,648
Preference shares	**622,230**	1,821,328
	1,745,170	4,125,976
Analysed by market:		
Inter-bank market	**1,745,170**	4,125,976

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 2019, the Group entered into repurchase agreements with one financial institution to sell bonds and preference shares recognised as financial assets at FVTPL and FVTOCI with carrying amount of approximately HK$1,608,648,000 and HK$1,367,939,000 (2018: HK$3,493,730,000 and HK$2,690,379,000), respectively, which are subject to the simultaneous agreements to repurchase these investments at the agreed date and price. However, the disposal or repledge of the bonds and preference shares subject to such arrangement are restricted and governed by the simultaneous agreements. The Group was not allowed to sell or pledge these securities during the covered period unless both parties mutually agree with such arrangement. 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. The net difference between the fair value of the transferred assets and the associated liabilities is HK$1,231,417,000 (2018: HK$2,058,133,000).

37. Perpetual Capital Securities Classified as Equity Instruments

	Principal HK$'000	**Distribution** HK$'000	**Total** HK$'000
Balance at 1 January 2018	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
Profit attributable to holder of perpetual capital securities	–	66,025	66,025
Distribution relating to perpetual capital securities	–	(66,964)	(66,964)
Balance at 31 December 2019	**1,186,854**	**20,576**	**1,207,430**

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% to 5.80% (2018: 4.98% and 5.80%) as set out in the subscription agreement.

38. 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 96 of these consolidated financial statements.

39. Disposal of Subsidiaries

(a) On 18 October 2019, the Company and China Huarong Overseas Investment Holdings Co., Limited ("Huarong Overseas"), a fellow subsidiary of China Huarong, entered into a master deed (the "Huarong Overseas Master Deed") and a deed to transfer the equity interest in Huarong Tianhai (Shanghai) Investment Management Company Limited ("Huarong Tianhai") (the "Huarong Tianhai Transfer Agreement"), while Linewear Assets Limited ("Linewear"), a direct wholly-owned subsidiary of the Company, and Huarong Overseas entered into a deed to transfer the equity interests in the Wide Trend Global Limited ("Wide Trend") (the "Wide Trend Transfer Deed"), pursuant to which, the Company agreed to sell and Huarong Overseas agreed to acquire 100% equity interest in Huarong Tianhai, while Linewear agreed to sell and Huarong Overseas agreed to acquire 100% of the issued shares of Wide Trend at the aggregate of total consideration of HK$11,230,000 and the actual amount paid by the Company on their behalf in relation to the amount attributed to the transition period (i.e. from 1 October 2019 to 8 December 2019), which amounted to HK$21,986,000 ("Disposal"). The Disposal was fully completed on 9 December 2019. The HK$11,230,000 as settled on 30 December 2019 and the remaining of HK$21,986,000 was subsequently settled after year end.

39. Disposal of Subsidiaries (continued)

(a) (continued)

Analysis of assets and liabilities over which control was lost:

	Huarong Tianhai HK$'000	Wide Trend HK$'000	Total HK$'000
Non-current assets			
Property and equipment	446	–	446
Intangible assets	–	966	966
Right-of-use asset	770	–	770
Interest in associates	49,967	–	49,967
Deferred tax assets	8,999	–	8,999
Amount due from immediate holding company	1,042	–	1,042
Total non-current assets	61,224	966	62,190
Current assets			
Prepayments, deposits and other receivables	3,825	–	3,825
Financial assets at fair value through profit or loss	–	1,556,828	1,556,828
Other loans and receivables	1,574,368	2,359,686	3,934,054
Tax recoverable	–	690	690
Cash and bank equivalents	124,651	35,311	159,962
Total current assets	1,702,844	3,952,515	5,655,359
Current liabilities			
Other payables and accruals	(56,998)	(31,202)	(88,200)
Tax payable	–	(10,638)	(10,638)
Loan from ultimate holding company	(1,818,527)	–	(1,818,527)
Loan from an intermediate holding company	–	(4,401,148)	(4,401,148)
Lease liability	(786)	–	(786)
Total current liabilities	(1,876,311)	(4,442,988)	(6,319,299)
Net current liabilities	(173,467)	(490,473)	(663,940)
Non-current liabilities			
Deferred tax liabilities	–	(1,163)	(1,163)
Total non-current liabilities	–	(1,163)	(1,163)
Net liabilities disposed of	(112,243)	(490,670)	(602,913)

Net cash outflow on disposal	
Cash received	11,230
Less: cash and cash equivalent disposed	(159,962)
	(148,732)
Deemed capital contribution arising from disposal of subsidiaries	
Consideration received	33,216
Net liabilities disposed of	602,913
	636,129

39. DISPOSAL OF SUBSIDIARIES (continued)

(b) 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. It 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

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 but HISL has instead pursued its counterclaim against the plaintiff as the Directors consider that HISL has good defence and a strong case. In early March 2020, the plaintiff and HISL reached a settlement in respect with such proceeding and the consent order made by the Court of First Instance of the High Court of the Hong Kong Special Administrative Region became effective on 9 March 2020 subsequently.

Save as disclosed above, the Group had no other material contingent liabilities at 31 December 2019 and 2018.

41. Operating Lease Arrangements

As at 31 December 2018, 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, and those for office equipment are for terms of 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
Within one year	38,198
In the second to fifth years, inclusive	18,907
	57,105

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 2019.

42. Related Party Transactions (continued)

(b) (continued)

During the years ended 31 December 2019 and 2018, the Group had the following material transactions with related parties.

	2019 Interest income HK$'000	2019 Underwriting fee income HK$'000	2019 Finance costs HK$'000	2018 Interest income HK$'000	2018 Underwriting fee income HK$'000	2018 Finance costs HK$'000
Intermediate holding company (i)	–	–	842,538	–	–	934,856
Ultimate holding company (ii)	–	–	137,069	–	–	49,053
Fellow subsidiary (iii)	–	555	–	–	4,497	–
Fellow subsidiary (iv)	–	–	294	–	–	–
Associate (v)	23,570	–	–	62,748	–	–
	23,570	555	979,607	62,748	4,497	983,909

(i) As at 31 December 2019, the intermediate holding company CHIH provided an aggregate amount of US$1,161,685,000 (equivalent to HK$9,048,335,000) (2018: US$2,763,331,000 (equivalent to HK$21,644,937,000)) company loans. The loans bear annual interest rates ranging from 4.3% to 7.98% (2018: 3.85% to 7.98%) and repayable in three months to ten years (2018: one month to nine years). During the year ended 31 December 2019, the Group incurred arrangement fee expense to CHIH in respect of the issue of these loans from CHIH. Approximately HK$48,966,000 (2018: HK$205,866,000) interest payables are accrued from the company loans as at 31 December 2019.

(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) company loans. The loans bear annual interest rates of 6.87% to 6.97% and repayable in 2 months to 1 year. As at 31 December 2018, interest of HK$7,209,000 are accrued from the company loans during the year.

(iii) During the year ended 31 December 2019, the Group earned underwriting income of US$70,900 (equivalent to approximately HK$555,000) (2018: US$573,300 (equivalent to approximately HK$4,497,000) from its fellow subsidiary, Huarong Finance 2019 Co., Ltd in respect of the issuance of medium term notes.

(iv) During the year ended 31 December 2019, the Company signed a sharing agreement with a fellow subsidiary for the use of an office and administrative services for a term of 3 years. Right-of-use assets and lease liability with carrying amount of HK$83,592,000 has been recognised on commencement of sharing. During the year ended 31 December 2019, interest arising from the lease liability amounted to HK$294,000 (2018: nil). Lease liability as at 31 December 2019 amounted to HK$80,826,000.

(v) During the year ended 31 December 2019, the Group earned interest income of HK$23,570,000 (2018: HK$62,748,000) from an associate.

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 2019. 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 2019

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	–	4,242	–	4,242
Advances to customers in margin financing	–	2,883,671	–	2,883,671
Accounts receivable	–	103,356	–	103,356
Deposits and other receivables	–	78,216	–	78,216
Other loans and receivables	–	772,017	–	772,017
Amount due from an associate	–	316,189	–	316,189
Financial assets at FVTPL	4,848,461	–	–	4,848,461
Financial assets at FVTOCI	–	–	3,967,431	3,967,431
Restricted bank balances	–	389,202	–	389,202
Cash and cash equivalents	–	3,069,944	–	3,069,944
	4,848,461	7,616,837	3,967,431	16,432,729

Financial liabilities

	Financial liabilities at FVTPL HK$'000	Financial liabilities at amortised cost HK$'000	Total HK$'000
Accounts payable	–	1,355,529	1,355,529
Other payables	–	63,188	63,188
Interest-bearing borrowings	–	11,690,863	11,690,863
Lease liabilities	–	105,328	105,328
Repurchase agreements	–	1,745,170	1,745,170
Financial liabilities at FVTPL	39,023	–	39,023
	39,023	14,960,078	14,999,101

43. Financial Instruments By Category (continued)

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

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

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 2019 and 31 December 2018 are as follows:

		Fair value as at 31 December 2019 '000	Fair value as at 31 December 2018 '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$914,567**	Listed equity investments: – HK$2,247,212	Level 1	Note (a)	N/A	N/A	N/A
2)	Financial assets at FVTPL	**Unlisted put option: – HK$633,537**	Unlisted put option: – HK$231,729	Level 3	Note (i)	Expected volatility of ranging from 30.87% to 41.64% (2018: 40.08% to 43.91%)	10% (volatility ranging from 27.78% to 45.80% (2018: 36.07% to 48.3%))	Increase/decrease in volatility: HK$33,613,000/ HK$(33,613,000) (2018: HK$18,860,622/ HK$(19,041,763))
3)	Financial assets at FVTPL	**Listed debt investments – HK$304,941**	Listed debt investments – HK$474,693	Level 2	Note (b)	N/A	N/A	N/A
4)	Financial assets at FVTPL	**Listed preference shares – HK$1,620,175**	Listed preference shares – HK$3,173,540	Level 2	Note (b)	N/A	N/A	N/A
5)	Financial assets at FVTPL	**Unlisted convertible bonds and convertible notes: – nil**	Unlisted convertible bonds and convertible notes: – HK$1,623,055	Level 3	Note (c)	N/A (2018: Expected volatility of ranging from 56.33% to 124.60%)	N/A (2018: 10% (volatility ranging from 50.88% to 137.06%))	Increase/decrease in volatility: nil (2018: HK$1,696,000/ HK$(2,033,000))

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 2019 '000	Fair value as at 31 December 2018 '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
						N/A (2018: Discount rates ranging from 10.91% to 26.42%)	N/A (2018: 10% (discount rate ranging from 9.82% to 29.06%)	Decrease/increase in discount rate: nil (2018: HK$11,988,000/ HK$(11,719,000))
6)	Financial assets at FVTPL	**Unlisted convertible bonds and convertible notes: – nil**	Unlisted convertible bonds and convertible notes: – HK$52,500	Level 3	Note (d)	N/A (2018: Discount rate of 35.35%)	N/A (2018: 10% (discount ranging from 31.82% to 38.89%)	Decrease/increase in discount rate: nil (2018: HK$2,013,000/ HK$(2,096,000))
7)	Financial assets at FVTPL	**Unlisted convertible bonds with put option: – nil**	Unlisted convertible bonds with put option: – HK$192,500	Level 3	Note (d)	N/A (2018: Discount rate 33.70%))	N/A (2018: 10% (discount ranging from 30.33% to 37.07%))	Decrease/increase in discount rate: nil (2018: HK$7,117,000/ HK$(7,424,000))
8)	Financial assets at FVTPL	**Unlisted fund investments – HK$1,207,667**	Unlisted fund investments – HK$2,235,124	Level 2	Note (g)	N/A	N/A	N/A
9)	Financial assets at FVTPL	**Unlisted fund investments – HK$167,574**	Unlisted fund investments – HK$4,825,843	Level 3	Note (h)	Net asset value	10% (2018: 10%)	Increase/ decrease in net asset value of HK$17,522,700 (HK$17,522,700) (2018: HK$402.874,000/ (HK$402.874,000)
10)	Financial assets at FVTPL	**Unlisted preference shares – nil**	Unlisted preference shares – HK$360,000	Level 3	Note (d)	N/A (2108: Discount rate of 73.32%)	N/A (2018: 10% (discount ranging from 65.98% to 80.66%)	Decrease/increase in discount rate: nil (2018: HK32,507,000/ HK$(28,630,000))

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 2019 '000	Fair value as at 31 December 2018 '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
11) Financial assets classified as FVTOCI investments	**Listed bond securities – HK$3,967,431**	Listed bond securities – HK$5,624,683	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$39,023**	Non-controlling interests in consolidated investment fund: – HK$322,453	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: – nil**	Non-controlling interests in consolidated investment fund: – HK$78,976	Level 3	Note (f)	N/A (2018: Expected volatility 56.53%)	N/A (2018: 10% (volatility ranging from 50.88% to 62.18%))	Increase/decrease in volatility: nil (2018: HK$1,656,000/ HK$(868,000))
					N/A (2018: Discount rate of 18.52%)	N/A (2018: 10% (discount ranging from 16.67% to 20.38%))	Decrease/increase in discount rate: nil (2018: HK$180,000/ HK$(178,000)

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:

(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.

(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 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.

(i) 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.

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 2019

	Fair value measurement			
	(Level 1)	(Level 2)	(Level 3)	Total
	HK$'000	HK$'000	HK$'000	HK$'000
Financial assets at FVTPL	914,567	3,132,783	801,111	4,848,461
Financial assets at FVTOCI	–	3,967,431	–	3,967,431
	914,567	7,100,214	801,111	8,815,892
Financial liabilities at FVTPL	–	39,023	–	39,023

As at 31 December 2018

	Fair value measurement			
	(Level 1)	(Level 2)	(Level 3)	Total
	HK$'000	HK$'000	HK$'000	HK$'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

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:

	2019 **HK$'000**	2018 HK$'000
Financial assets at FVTPL:		
At beginning of the year	**7,285,627**	3,808,236
Transfer into level 3 (note i)	**–**	4,161,193
Purchased during the year	**–**	951,151
Disposed during the year	**(6,908,917)**	(66,727)
Total gain (losses) in profit or loss (note ii)	**424,401**	(1,568,226)
At end of the year	**801,111**	7,285,627

	2019 **HK$'000**	2018 HK$'000
Financial liabilities at FVTPL:		
At beginning of the year	**78,976**	223,762
Total gain (losses) in profit or loss (note ii)	**59,552**	(74,640)
Settled during the year	**(138,528)**	(70,146)
	–	78,976

Notes:

(i) The fair value of unlisted investments including financial assets at FVTPL of HK$1,821 million and financial assets at FVTPL 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 2018. 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 2019, of the total gains or losses for the year included in profit or loss, unrealised gain of HK$424,401,000 and HK$59,552,000 (2018: unrealised loss of HK$1,568,226,000 and HK$74,640,000) relates financial assets at FVTPL and financial liabilities at FVTPL at the end of each reporting period 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.

45. Financial Risk Management Objectives and Policies

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

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

	Foreign currency	**2019 HK$'000**	2018 HK$'000
Financial assets at FVTPL	USD	**3,295,359**	10,803,994
Accounts receivable	USD	**49,548**	106,087
	RMB	**–**	1,146
Other loans and receivables	USD	**–**	1,480,310
	RMB	**–**	1,758,441
Financial assets at FVTOCI	USD	**3,967,431**	5,624,683
Restricted bank balances	USD	**252,072**	249,858
	RMB	**351**	414
Cash and cash equivalents	USD	**511,145**	667,673
	RMB	**22,213**	29,678
	EUR	**5,805**	5,959
	GBP	**–**	56
	JPY	**9**	8
Other receivables	USD	**7,700**	22,184
	RMB	**–**	802
Accounts payable	USD	**(1,199,061)**	(2,118,955)
	RMB	**(297)**	(383)
Interest-bearing borrowings	USD	**(9,671,364)**	(22,193,241)
	RMB	**–**	(1,790,687)
Other payables	USD	**(48,966)**	(213,567)
Financial liabilities at FVTPL	USD	**–**	(78,976)
Repurchase agreements	USD	**(1,745,170)**	(4,125,976)

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 2019

	Increase/ decrease in loss after tax HK$'000
If Hong Kong Dollar strengthens/weakens against RMB by 5%	**930**

As at 31 December 2018

	Increase/ decrease in loss after tax HK$'000
If Hong Kong Dollar strengthens/weakens against RMB by 5%	25

Other price risk

The Group is exposed to other price changes arising from financial assets at fair value through profit or loss (see note 20) and financial assets at fair value through other comprehensive income (see note 21).

The following table demonstrates the sensitivity to 5% (2018: 5%) and 10% (2018: 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 2019

	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%	914,567	38,183/ (38,183)	–
– Listed preference shares	increase/ decrease 5%	1,620,175	67,642/ (67,642)	–
– Unlisted preference shares	increase/ decrease 10%	–	–	–
– Listed debt investments	increase/ decrease 5%	304,941	12,731/ (12,731)	–
– Unlisted convertible bonds and convertible notes	increase/ decrease 10%	–	–	–
– Unlisted convertible bonds with put option	increase/ decrease 10%	–	–	–
– Unlisted put options on listed equity investments	increase/ decrease 10%	633,537	(34,055)/ 40,784	–
– Unlisted fund investments, at fair value	increase/ decrease 10%	1,375,241	114,832/ (114,832)	–
Financial assets at FVTOCI	increase/ decrease 10%	3,967,431	–	331,280/ (331,280)
Financial liabilities at FVTPL:				
– Payables to interest holders of unlisted consolidated investment funds	increase/ decrease 5%	39,023	1,951/ (1,692)	–

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)

Interest rate risk

The Group is exposed to cash flow interest rate risk in relation to restricted bank balances, cash and cash equivalents, advances to customers in margin financing and variable rate interest-bearing borrowings. The Group is also exposed to fair value interest rate risk in relation to fixed rate financial assets at FVTPL, financial assets at FVTOCI, accounts payable, loans from ultimate holding company and an intermediate holding company and lease liabilities. 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, HIBOR and LIBOR 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 and cash and cash equivalents are insignificant and are excluded from sensitivity analysis. As at 31 December 2019, if the interest rate had been 50 basis points (2018: 50 basis points) higher/lower, the Group's loss after tax would decrease/increase by HK$1,007,000 (2018: loss after tax would decrease/increase by HK$8,476,000).

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 (2018: 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 or FVTOCI investment revaluation reserve is mainly concentrated on the fluctuation of market interest rate arising from the Group's investment in fixed rate financial assets at FVTPL and financial assets at FVTOCI.

As at 31 December 2019, if the interest rate had been 100 basis points (2018: 100 basis points) higher/lower with all other variables held constant, the Group's loss after tax would increase/decrease by HK$16,075,000/HK$16,075,000 (2018: loss after tax would increase/decrease by HK$45,469,000/HK$45,789,000) and FVTOCI investment revaluation reserve would decrease/increase by approximately HK$123,737,000/HK$130,180,000 (2018: FVTOCI investment revaluation reserve would decrease/increase by HK$159,362,000/HK$167,612,000) 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 this regard, the directors of the Company consider that the Group's credit risk is significantly reduced. In addition, the Group reviews the recoverable amount of each individual receivable to ensure relevant information is updated.

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$2,117,088,000 (2018: approximately HK$1,972,126,000).

The Group invested in unlisted convertible bonds and convertible notes, unlisted convertible bonds with put option and a put option over 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 over equity investment was estimated by an independent firm of professional valuers.

As at 31 December 2019, for amount due from an associate of HK$316,189,000 (2018: HK$320,558,000), 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. Credit 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 loans 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:

	Notes	External credit rating	Internal credit rating	12m or lifetime ECL	2019 Gross carrying amount HK$'000	2019 Gross carrying amount HK$'000	2018 Gross carrying amount HK$'000	2018 Gross carrying amount HK$'000
Financial assets at FVTOCI	21	B3 and above (Moody's)	Pass	12m ECL	**3,524,258**		5,577,648	
		B3 to Caa3 (Moody's)	Special Mention – low risk	Lifetime ECL – not credit impaired	**33,852**		47,035	
		Ca to N/A (Moody's)	Substandard	Lifetime ECL – credit impaired	**409,321**	**3,967,431**	–	5,624,683
Financial assets at amortised cost								
Other long term assets (note)	17	N/A	Pass	12m ECL	**4,242**	**4,242**	4,327	4,327
Amount due from an associate (note)	22	N/A	Pass	12m ECL – not credit impaired	**328,661**	**328,661**	330,347	330,347
Contract assets (note)		N/A	Pass	Lifetime ECL	**-**	**-**	9,808	9,808
Other loans and receivables	23	N/A	Pass	12m ECL	**14,812**		3,968,432	
			Special Mention – high risk	Lifetime ECL – credit-impaired	**434,995**		2,023,819	
			Substandard	Lifetime ECL – credit-impaired	**-**		541,802	
			Doubtful	Lifetime ECL – credit-impaired	**360,000**	**809,807**	80,000	6,614,053
Advances to customers in margin financing	24	N/A	Pass	12m ECL	**602,478**		3,566,820	
			Special Mention – low risk	Lifetime ECL – not credit-impaired	**854,141**		–	
			Substandard	Lifetime ECL – credit-impaired	**2,757,447**	**4,214,066**	904,112	4,470,932
Accounts receivable	25	N/A	Pass	12m ECL	**97,476**		139,650	
			Special Mention – low risk	Lifetime ECL – not credit impaired	**456**		15,769	
			Substandard	Lifetime ECL – credit-impaired	**30,507**	**128,439**	5,259	160,678
Interest receivable (note)	26	N/A	Pass	12m ECL	**-**		16,872	
			Substandard	Lifetime ECL – credit impaired	**16,774**	**16,774**	–	16,872
Deposits and other receivable (note)	26	N/A	Pass	12m ECL	**79,229**		69,295	
			Substandard	Lifetime ECL – credit impaired	**14,170**	**93,399**	–	69,295
Restricted bank balances (note)	27	Above Aa3 (Moody's)	Pass	12m ECL	**389,202**	**389,202**	396,500	396,500
Cash and cash equivalents (note)	28	Above Ba1 (Moody's)/BB+ (S & P)	Pass	12m ECL	**3,069,944**	**3,069,944**	2,401,797	2,401,797

Note: Except for the impairment of the interest receivables and deposit and other receivable amounted to HK$16,774,000 and HK$14,170,000 respectively, 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.

45. Financial Risk Management Objectives and Policies (continued)

Credit risk and impairment assessment (continued)

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.

Analysis of the gross carrying amount of financial assets at FVTOCI are as follows:

	12m ECL HK$'000	Lifetime ECL (not credit-impaired) HK$'000	Lifetime ECL (credit-impaired) HK$'000	Total HK$'000
As at 1 January 2018	6,863,409	–	–	6,863,409
As at 31 December 2018 and 1 January 2019	5,577,648	47,035	–	5,624,683
As at 31 December 2019	**3,524,258**	**33,852**	**409,321**	**3,967,431**

45. Financial Risk Management Objectives and Policies (continued)

Credit risk and impairment assessment (continued)

Movement in the allowances for impairment that has been recognised for financial assets at FVTOCI are as follows:

	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	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 (note (i))	1,864	–	–	1,864
Financial assets that have been derecognised (note (ii))	(7,206)	–	–	(7,206)

45. Financial Risk Management Objectives and Policies (continued)

Credit risk and impairment assessment (continued)

	12m ECL HK$'000	Lifetime ECL (not credit-impaired) HK$'000	Lifetime ECL (credit-impaired) HK$'000	Total HK$'000
As at 31 December 2018	**17,132**	**4,233**	**–**	**21,365**
Changes in the loss allowance due to financial assets as at 1 January 2019				
– Transfer from lifetime ECL (not credit-impaired) to 12m ECL (note (v))	**225**	**(225)**	**–**	**–**
– Transfer from 12m ECL to lifetime ECL (credit-impaired) (note (iii))	**(3,410)**	**–**	**3,410**	**–**
– Net remeasurement of ECL due to change in credit risk without transfer of stage	**3,172**	**(1,361)**	**–**	**1,811**
– Net remeasurement of ECL arising from financial assets transferred from lifetime ECL (non credit-impaired) to 12m ECL (note (v))	**(198)**	**–**	**–**	**(198)**
- Net remeasurement of ECL arising from financial assets transferred from lifetime ECL (non credit-impaired) to lifetime ECL (credit-impaired) (note (iii))	**–**	**–**	**106,928**	**106,928**
Financial assets that have been derecognised (note (iv))	**(8,192)**	**(714)**	**-**	**(8,906)**
As at 31 December 2019	**8,729**	**1,933**	**110,338**	**121,000**

45. Financial Risk Management Objectives and Policies (continued)

Credit risk and impairment assessment (continued)

Notes:

(i) Impairment allowance of HK$1,864,000 made under 12m ECL is in relating to new financial assets at FVTOCI with gross amount of HK$1,261 million. During the current year, these financial assets at FVTOCI had no significant increase in credit risk since initial recognition and were not assessed to be credit-impaired.

(ii) Impairment allowance of HK$7,206,000 was reversed due to redemption and disposal of financial assets at FVTOCI with a gross carrying amount of HK$2,150 million.

(iii) Financial assets at FVTOCI with a gross carrying amount of HK$409 million were assessed as becoming credit-impaired. Accordingly, 12m ECL of HK$3,410,000 was transferred to lifetime ECL (credit-impaired) during the current year. Additional impairment allowance of HK$106,928,000 was made under lifetime ECL (credit-impaired) in respect of these assets due to the significant financial difficulty of the issuer or the borrower and a breach of contract, such as a default or past due event.

(iv) During the current year, impairment allowance of HK$8,906,000 was reversed due to the redemption and disposal of financial assets at FVTOCI with a gross carrying amount of HK$1,581 million under 12m ECL and HK$15 million under lifetime ECL (not-credit-impaired) respectively.

(v) Financial assets at FVTOCI with a gross carrying amount of HK$3 million were assessed as no longer being subject to significant increase in credit risk. Accordingly, lifetime ECL (not-credited-impaired) of HK$225,000 was transferred to 12m ECL during the current year. Impairment allowance of HK$198,000 was reversed under 12m ECL in respect of these assets due to the timely settlement of the interest and the improvement in its credit rating.

Analysis of the gross carrying amount of other loans and receivables is as follows:

	12-month ECL HK$'000	Lifetime ECL (not-credited impaired) HK$'000	Lifetime ECL (credit-impaired) HK$'000	Total HK$'000
As at 1 January 2018	9,303,160	–	190,206	9,493,366
As at 31 December 2018 and 1 January 2019	3,968,432	–	2,645,621	6,614,053
As at 31 December 2019	**14,812**	**–**	**794,995**	**809,807**

45. Financial Risk Management Objectives and Policies (continued)

Credit risk and impairment assessment (continued)

Movement in the loss allowance for impairment that has been recognised for other loans and receivables is as follows:

	12m ECL HK$'000	Lifetime ECL (not credit-impaired) HK$'000	Lifetime ECL (credit-impaired) HK$'000 (Note (viii))	Total HK$'000
Loss allowance as at 1 January 2018	3,900	–	190,206	194,106
Changes in the loss allowance due to financial assets as at 1 January 2018				
– Transfer from 12m ECL to lifetime ECL (note (i))	(667)	–	667	–
– Net remeasurement of ECL arising from financial assets transferred from 12m ECL to lifetime ECL (note (i))	–	–	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 (note (v))	(29)	–	29	–
Net remeasurement of ECL arising from new financial assets originated or purchased transferred from 12m ECL to lifetime ECL (note (v))	–	–	11,384	11,384
Financial assets that have been derecognised (note (vi))	(1,715)	–	(12)	(1,727)
Foreign exchange	(39)	–	(1,738)	(1,777)

45. Financial Risk Management Objectives and Policies (continued)

Credit risk and impairment assessment (continued)

	12m ECL HK$'000	Lifetime ECL (not credit-impaired) HK$'000	Lifetime ECL (credit-impaired) HK$'000 (Note (viii))	Total HK$'000
As at 31 December 2018 (note (vii))	**7,615**	**–**	**335,228**	**342,843**
Changes in the loss allowance due to financial assets as at 1 January 2019				
– Transfer from 12m ECL to lifetime ECL (note (ii))	**(378)**	**–**	**378**	**–**
– Net remeasurement of ECL arising from financial assets transferred from 12m ECL to lifetime ECL (credit-impaired) (note (ii))	**–**	**–**	**306,699**	**306,699**
– Net remeasurement of ECL due to change in credit risk without transfer of stage (note (ix))	**–**	**–**	**240,487**	**240,487**
Financial assets that have been derecognised (note (iii))	**(7,237)**	**–**	**–**	**(7,237)**
Financial assets that have been derecognised due to disposal of subsidiaries (note (iv))	**–**	**–**	**(845,002)**	**(845,002)**
As at 31 December 2019 (note (vii))	**–**	**–**	**37,790**	**37,790**

45. Financial Risk Management Objectives and Policies (continued)

Credit risk and impairment assessment (continued)

Notes:

(i) Other loans and receivables with a gross carrying amount of HK$2,253 million were assessed as credit-impaired. Accordingly, 12m ECL of HK$667,000 was transferred to lifetime ECL (credit-impaired) during the year ended 31 December 2018. Additional impairment allowance of HK$134,692,000 was made under lifetime ECL in respect of these assets. Please refer to note (viii) for more details of the collaterals.

(ii) Other loans and receivables with a gross carrying amount of HK$2,429 million were assessed as becoming credit-impaired. Accordingly, 12m ECL of HK$378,000 was transferred to lifetime ECL (credit-impaired) during the current year. Additional impairment allowance of HK$306,699,000 was made under lifetime ECL in respect of these assets.

(iii) During the current year, impairment allowance of HK$7,237,000 was reversed due to repayment of other loan and receivables with a gross carrying amount of HK$1,524 million.

(iv) During the current year, impairment allowance of HK$845,002,000 was reversed due to the disposal of other loans and receivables with a gross carrying amount of HK$4,278 million upon the disposal of subsidiaries and the detailed information are set out in note 39.

(v) Other loans and receivables with a gross carrying amount of HK$585 million were assessed as credit-impaired. Accordingly, 12m ECL of HK$29,000 was transferred to lifetime ECL (credit-impaired) during the year ended 31 December 2018. Additional impairment allowance of HK$11,384,000 was made under lifetime ECL in respect of these assets.

(vi) During the year ended 31 December 2018, impairment allowance of HK$1,715,000 was reversed due to repayment of other loan and receivables with a gross carrying amount of HK$3,293 million.

(vii) The directors of the Group considered that the recoverability of the credit-impaired loan is highly reliant on the realisation of the collateral under this type of asset-backed money lending. As at 31 December 2019, credit impaired loan receivables of HK$794,995,000 is secured by listed equity (2018: 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 took into account the fair value of collateral which is determined based on the realisation amount by taking into account of executable settlement plan and restructuring arrangements for each credit impaired loans individually.

(viii) Other loans and receivables is asset-backed financing which is secured by either properties in the PRC, listed equity or unlisted equity. The directors of the Group considered that the recoverability of the credit-impaired loan is highly reliant on the realisation of the collateral under this type of asset-backed money lending. In determining the allowances for credit impaired loans receivables, the management of the Group took into account the fair value of collateral which is determined based on the realisation amount by taking into account of executable settlement plan and restructuring arrangements for each credit impaired loans individually.

(ix) Impairment allowance of HK$240,487,000 made under lifetime ECL (credit-impaired) was in relating to other loans and receivables with gross carrying amount of HK$3,250 million due to the decrease in fair value of the collateral which is determined based on the realisation amount by taking into account of executable settlement plan and restructuring arrangements for each credit impaired loans individually.

Analysis of the gross carrying amount of advances to customers in margin financing is as follows:

	12m ECL HK$'000	**Lifetime ECL (not-credited impaired)** HK$'000	**Lifetime ECL (credit-impaired)** HK$'000	**Total** HK$'000
As at 1 January 2018	4,948,219	–	929	4,949,148
As at 31 December 2018 and 1 January 2019	3,566,820	–	904,112	4,470,932
As at 31 December 2019	**602,478**	**854,141**	**2,757,447**	**4,214,066**

45. Financial Risk Management Objectives and Policies (continued)

Credit risk and impairment assessment (continued)

Loss allowance as at 31 December 2019

Movement in the allowances for impairment that has been recognised for advances to customers in margin finance as follows:

	12m ECL HK$'000	Lifetime ECL (not credit-impaired) HK$'000	Lifetime ECL (credit-impaired) HK$'000 (Note viii)	Total HK$'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 (note (i))	(134)	–	134	–
– Net remeasurement of ECL arising from financial assets transferred from 12m ECL to lifetime ECL (note (i))	–	–	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 (note (ii))	(132)	–	132	–
Net remeasurement of ECL arising from new financial assets originated or purchased transferred from 12m ECL to lifetime ECL transferred from 12m ECL to lifetime ECL (note (ii))	–	–	22,112	22,112
Financial assets that have been derecognised (note (v))	(529)	–	(624)	(1,153)

45. Financial Risk Management Objectives and Policies (continued)

Credit risk and impairment assessment (continued)

	12m ECL HK$'000	**Lifetime ECL (not credit-impaired)** HK$'000	**Lifetime ECL (credit-impaired)** HK$'000 (Note (viii))	**Total** HK$'000
As at 31 December 2018	**2,351**	**–**	**396,157**	**398,508**
Changes in the loss allowance due to financial assets as at 1 January 2019				
– Transfer from 12m ECL to lifetime ECL (note (iii))	**(1,991)**	**155**	**1,836**	**–**
– Net remeasurement of ECL arising from financial assets transferred from 12m ECL to lifetime ECL (note (iii))	**–**	**105**	**839,154**	**839,259**
– Net remeasurement of ECL due to change in credit risk without transfer of stage (note (vii))	**(87)**	**–**	**92,771**	**92,684**
New financial assets originated or purchased	**5**	**–**	**–**	**5**
Financial assets that have been derecognised (note (vi))	**(61)**	**–**	**–**	**(61)**
As at 31 December 2019 (note (iv))	**217**	**260**	**1,329,918**	**1,330,395**

Notes:

(i) Advances to customers in margin financing with a gross carrying amount of HK$852 million were assessed as becoming credit-impaired. Accordingly, 12m ECL of HK$134,000 was transferred to lifetime ECL (credit-impaired) during the year ended 31 December 2018. Additional impairment allowance of HK$373,474,000 was made under lifetime ECL in respect of these assets. Please refer to note (viii) for more details of the collaterals.

(ii) New advances to customers in margin financing with a gross carrying amount of HK$54 million were assessed as becoming credit-impaired. Accordingly, 12m ECL of HK$132,000 was transferred to lifetime ECL (credit-impaired) during the year ended 31 December 2018. Additional impairment allowance of HK$22,112,000 made under 12m ECL is in relating to new financial assets with gross amount of HK$54 million.

(iii) Advances to customers in margin financing with a gross carrying amount of HK$852 million and HK$1,853 million were assessed as becoming lifetime ECL (not-credit-impaired) and lifetime ECL (credit-impaired). Accordingly, 12m ECL of HK$155,000 and HK$1,836,000 were transferred to lifetime ECL (not-credit-impaired) and lifetime ECL (credit-impaired) during the current year. Additional impairment allowance of HK$105,000 and HK$839,154,000 was made under lifetime ECL (not-credit-impaired) and lifetime ECL (credit-impaired) in respect of these assets. Please refer to note (viii) for more details of the collaterals.

45. Financial Risk Management Objectives and Policies (continued)

Credit risk and impairment assessment (continued)

Notes: (continued)

(iv) As at 31 December 2019, 73% (2018: 80%) of the outstanding balances of advances to customers in margin financing in gross carrying amount were secured by listed equity. 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 both years are appropriate.

(v) During the year ended 31 December 2018, impairment allowance of HK$1,153,000 was reversed due to repayment of advances to customers in margin financing with a gross carrying amount of HK$705 million.

(vi) During the current year, impairment allowance of HK$61,000 was reversed due to repayment of advances to customers in margin financing with a gross carrying amount of HK$254 million.

(vii) Impairment allowance of HK$92,771,000 made under lifetime ECL (credit-impaired) was in relating to advances to customers in margin financing with gross carrying amount of HK$965 million due to the decrease in fair value of the collateral which is determined based on the realisation amount by taking into account of executable settlement plan and restructuring arrangements for each credit impaired loan to margin clients individually.

(viii) Any excess in the lending ratio will trigger a margin call in the case of which the customers have to make additional funds and additional collateral available for the shortfall to maintain an acceptable loan to collateral value ratio. The Group would accept not limited to cash, property and interest in private entities as collaterals. Accounts with margin deficit is subject to margin calls, failure to meet margin calls may result in forced liquidation of part or all positions of the account. As at 31 December 2019, 73% (2018: 80%) of the outstanding balances of advances to customers in margin financing in gross carrying amount were secured by either listed equity or other collaterals. The directors of the Group considered that the recoverability of the credit-impaired loans to margin clients is highly reliant on the realisation of the collaterals. In determining the allowances for credit impaired loans to margin clients, the management of the Group took into account the fair value of collateral which is determined based on the realisation amount by taking into account of executable settlement plan and restructuring arrangements for each credit impaired loans individually.

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.

45. Financial Risk Management Objectives and Policies (continued)

Liquidity risk (continued)

As at 31 December 2019

	Weighted average effective interest rate	On demand	Less than 3 months	3 to less than 12 months	1 to 5 years	Over 5 years	Total undiscounted cash flow	Total carrying amount
	%	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Accounts payable	-	1,355,113	416	-	-	-	1,355,529	1,355,529
Other payables and accruals	-	-	62,097	1,101	-	-	63,198	63,188
Interest-bearing borrowings (note)	3.95	2,642,528	1,895,427	3,073,155	2,054,048	5,290,638	14,955,796	11,690,863
Lease liabilities	-	-	17,025	33,930	57,784	-	108,739	105,328
Repurchase agreements	-	-	1,745,170	-	-	-	1,745,170	1,745,170
Financial liabilities at FVTPL	-	-	-	39,023	-	-	39,023	39,023
		3,997,641	3,720,135	3,147,209	2,111,832	5,290,638	18,267,455	14,999,961

As at 31 December 2018

	Weighted average effective interest rate	On demand	Less than 3 months	3 to less than 12 months	1 to 5 years	Over 5 years	Total undiscounted cash flow	Total carrying amount
	%	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	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

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 2019, the aggregate carrying amounts of these bank loans amounted to HK$2,642,528,000 (31 December 2018: HK$2,042,304,000). 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 (2018: within one year). The aggregate principal and interest cash outflows amounted to HK$2,747,937,000 (2018: HK$2,113,035,000).

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 its rights to 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 by means of pledging the Group's assets which have not been pledged.

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 2019 and 2018.

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 2019

	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	2,996,132	(40,352)	2,955,780	–	(2,883,655)	72,125

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

46. Financial Assets and Financial Liabilities Offsetting (continued)

As at 31 December 2019

	Gross amounts of recognised financial liabilities HK$'000	Gross amounts of recognised financial assets set off in the consolidated statement of financial position HK$'000	Net amounts of financial liabilities presented in the consolidated statement of financial position HK$'000	Related amounts not set off in the consolidated statement of financial position: Financial instruments HK$'000	Related amounts not set off in the consolidated statement of financial position: collateral paid HK$'000	Net amount HK$'000
Description						
Accounts payable	**1,395,530**	**(40,352)**	**1,355,178**	**–**	**–**	**1,355,178**

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	–	(4,028,932)	183,255

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

46. Financial Assets and Financial Liabilities Offsetting (continued)

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

	2019 HK$'000	2018 HK$'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	**2,955,780**	4,212,187
Amount not in scope of offsetting disclosure	**31,247**	20,584
Total amount of advances to customers in margin financing and accounts receivable stated in notes 24 and 25	**2,987,027**	4,232,771
Accounts payable		
Net amount of accounts payable as stated above	**(1,355,178)**	(2,268,378)
Amount not in scope of offsetting disclosure	**(351)**	(1,470)
Total amount of accounts payable stated in note 29	**(1,355,529)**	(2,269,848)

47. Transfer of Financial Assets

The Group enters into transactions in the normal course of business by which it transfers recognised financial assets to third parties or to special purpose entities. In some cases where the transfers qualify for derecognition, the transfer may give rise to full or partial derecognition of the financial assets concerned. In other cases where the Group retained substantially all the risks and rewards of the financial assets concerned after the transfer, the Group continued to recognise the transferred assets.

Financial assets sold under repurchase agreement

Transferred financial assets that do not qualify for derecognition include bonds and preference shares held by counterparties as collateral under repurchase agreements, and the Group has determined that if the Group retains substantially all the risks and rewards of these bonds and preference shares and therefore has not derecognised them.

Details of carrying amount and fair value of transferred assets, and the assessment performed by the Group in respect of whether bonds and preference shares sold under repurchase agreements shall be derecognised are disclosed in note 36 to the consolidated financial statements.

48. 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.

	Lease liabilities HK$'000 Note 33	Financial liabilities at fair value through profit or loss HK$'000 Note 20	Interest-bearing borrowings HK$'000 Note 31	Interest payables HK$'000 Note 30	Total HK$'000
At 1 January 2019 (restated)	**58,834**	**401,429**	**25,477,928**	**228,484**	**26,166,675**
Financing cash flows					
Drawdown of Interest-bearing Borrowings	**–**	**–**	**17,418,511**	**–**	**17,418,511**
Repayment of Interest-bearing Borrowings	**–**	**–**	**(25,095,293)**	**–**	**(25,095,293)**
Interest paid	**(1,896)**	**–**	**–**	**(1,451,256)**	**(1,453,152)**
Distribution to interest holders of unlisted consolidated investment fund	**–**	**(454,452)**	**–**	**–**	**(454,452)**
Repayment of lease liabilities	**(36,312)**	**–**	**–**	**–**	**(36,312)**
New lease entered into (note 42(iv))	**83,592**	**–**	**–**	**–**	**83,592**
Foreign exchange translation	**–**	**–**	**109,392**	**–**	**109,392**
Interest expenses	**1,896**	**–**	**–**	**1,284,859**	**1,286,755**
Fair value loss	**–**	**92,046**	**–**	**–**	**92,046**
Derecognised upon disposal of subsidiaries	**(786)**	**–**	**(6,219,675)**	**–**	**(6,220,461)**
At 31 December 2019	**105,328**	**39,023**	**11,690,863**	**62,087**	**11,897,301**

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

	Pledged bank deposits HK$'000	Financial liabilities at fair value through profit or loss HK$'000 Note 20	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 fund	–	223,226	–	–	223,226
Withdrawal from interest holders of unlisted consolidated investment fund	–	(266,421)	–	–	(266,421)
Foreign exchange translation	–	–	(119,293)	–	(119,293)
Interest expenses	–	–	–	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

49. Events After the End of the Reporting Period

After the end of the Year, the Group has the following subsequent events:

(1) HISL entered into a facility letter with a bank to renew facilities in an aggregate principal amount not exceeding HK$600,000,000. For further details, please refer to the announcement of the Company dated 17 March 2020.

(2) The Company entered into a discloseable transaction in relation to the disposal of shares in a listed company. For further details, please refer to the announcement of the Company dated 23 March 2020.

(3) Since early January 2020, COVID-19 has spread globally, causing disruption to businesses and economic activities and shock to financial markets. This has negative effect in the fair value of the financial assets and impairment losses of loans and advances to customers of the Group up to the date of issuance of the financial statements. The degree of the impact depends on the duration of the pandemic, the implementation of preventive measures and fiscal easing policies posted by the impacted countries and regions. As the situation is rapidly evolving, we do not consider it practicable to provide a quantitative estimate of the potential impact of this outbreak on the Group. Such impact is a non-adjusting event after the financial year end and does not result in any adjustments to the consolidated financial information for the year ended 31 December 2019. The Group and the management will continue to monitor the situation closely and actively respond to the impacts on the Group's financial position and operating results.

50. Statement of Financial Position and Reserves of the Company

	2019 HK$'000	2018 HK$'000
Non-current assets		
Property and equipment	**1,299**	8,122
Right-of-use assets	**101,160**	–
Investments in subsidiaries	**–**	133,756
Financial assets at fair value through other comprehensive income	**2,055,607**	2,716,175
Amount due from an associate	**314,262**	328,983
Deferred tax assets	**52,232**	83,638
Prepayments, deposits and other receivables	**–**	11,417
Total non-current assets	**2,524,560**	3,282,091
Current assets		
Due from subsidiaries	**7,949,502**	21,123,277
Financial assets at fair value through other comprehensive income	**1,635,420**	2,908,508
Financial assets at fair value through profit or loss	**1,925,116**	3,648,233
Amount due from an associate	**1,927**	1,720
Accounts receivable	**49,458**	101,947
Interest receivable	**–**	16,872
Prepayments, deposits and other receivables	**51,626**	53,791
Tax recoverable	**53,745**	53,745
Cash and cash equivalents	**915,662**	404,847
Total current assets	**12,582,456**	28,312,940
Current liabilities		
Due to subsidiaries	**398,246**	161,740
Accounts payable	**948,433**	1,870,089
Other payables and accruals	**78,342**	244,434
Repurchase agreements	**1,745,170**	4,125,976
Interest-bearing borrowings	**5,796,568**	1,583,304
Lease liabilities	**49,107**	–
Total current liabilities	**9,015,866**	7,985,543
Net current assets	**3,566,590**	20,327,397
Total assets less current liabilities	**6,091,150**	23,609,488

50. Statement of Financial Position and Reserves of the Company (continued)

	2019 HK$'000	2018 HK$'000
Non-current liabilities		
Other payables and accruals	**1,179**	1,179
Interest-bearing borrowings	**5,449,796**	21,644,937
Lease liability	**55,178**	–
	5,506,153	21,646,116
Net assets	**584,997**	1,963,372
Equity		
Issued capital (note 34)	**3,588**	3,588
Perpetual capital securities classified as equity instruments	**1,207,430**	1,208,369
Share (surplus) and premium reserves	**(626,021)**	751,415
Total equity	**584,997**	1,963,372

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	Capital reserve HK$'000	FVTOCI investment revaluation reserve HK$'000	Retained profits (accumulated losses) HK$'000	Subtotal HK$'000	Perpetual capital securities HK$'000	Total HK$'000
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	–	–	–	(421,658)	–	(421,658)	–	(421,658)
Net reversal of provision for impairment of financial assets at FVTOCI included in profit or loss	–	–	–	(4,495)	–	(4,495)	–	(4,495)
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 1 January 2019	1,632,380	139,615	–	(420,113)	(600,467)	751,415	1,208,369	1,959,784
Loss for the year	–	–	–	–	(1,581,412)	(1,581,412)	66,025	(1,515,387)
Fair value gain on financial assets at FVTOCI	–	–	–	52,410	–	52,410	–	52,410
Net provision for impairment of financial assets at FVTOCI included in profit or loss	–	–	–	99,635	–	99,635	–	99,635
Reclassification adjustment relating to disposal of financial assets at FVTOCI	–	–	–	18,715	–	18,715	–	18,715
Total comprehensive (expense) income for the year	–	–	–	170,760	(1,581,412)	(1,410,652)	66,025	(1,344,627)
Distribution relating to perpetual capital securities	–	–	–	–	–	–	(66,964)	(66,964)
Disposal of subsidiaries	–	–	33,216	–	–	33,216	–	33,216
At 31 December 2019	**1,632,380**	**139,615**	**33,216**	**(249,353)**	**(2,181,879)**	**(626,021)**	**1,207,430**	**581,409**

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.

FIVE YEAR FINANCIAL SUMMARY

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

Results

	1.1.2019 to 31.12.2019 HK$'000	1.1.2018 to 31.12.2018 HK$'000	1.1.2017 to 31.12.2017 HK$'000	1.1.2016 to 31.12.2016 HK$'000 (Restated)	1.5.2015 to 31.12.2015 HK$'000 (Restated)
Turnover:					
Continuing operations	**1,667,189**	2,271,555	2,834,890	1,402,029	168,003
Discontinued operations	**–**	–	–	–	30,945
	1,667,189	2,271,555	2,834,890	1,402,029	198,948
(Loss) profit before tax:					
Continuing operations	**(1,465,202)**	(1,558,593)	1,264,029	696,853	175,905
Discontinued operations	**–**	–	–	–	(4,409)
	(1,465,202)	(1,558,593)	1,264,029	696,853	171,496
Income tax (expense) credit	**(14,658)**	76,454	(258,386)	(145,939)	(32,099)
(Loss) profit before non-controlling interests	**(1,479,860)**	(1,482,139)	1,005,643	550,914	139,397
Non-controlling interests classified as equity	**–**	–	–	–	–
Profit attributable to holder of perpetual capital securities	**(66,025)**	(66,083)	(41,550)	–	–
(Loss) profit attributable to owners of the parent	**(1,545,885)**	(1,548,222)	964,093	550,914	139,397

Five Year Financial Summary

Assets and Liabilities

	31.12.2019 **HK$'000**	31.12.2018 HK$'000	31.12.2017 HK$'000	31.12.2016 HK$'000 (Restated)	31.12.2015 HK$'000 (Restated)
Non-current assets	**3,908,423**	5,225,568	19,271,737	3,324,620	328,458
Current assets	**12,758,078**	29,798,276	27,053,032	18,960,107	5,040,813
Total assets	**16,666,501**	35,023,844	46,324,769	22,284,727	5,369,271
Current liabilities	**(9,819,962)**	(19,829,627)	(24,619,927)	(9,097,311)	(711,041)
Non-current liabilities	**(5,517,442)**	(13,123,770)	(17,642,020)	(11,900,475)	(3,923,075)
Total liabilities	**(15,337,404)**	(32,953,397)	(42,261,947)	(20,997,786)	(4,634,116)
	1,329,097	2,070,447	4,062,822	1,286,941	735,155

"AGM"	annual general meeting of the Company
"Audit Committee"	the audit committee of the Company
"Board"	board of Directors of the Company
"Bye-laws"	the memorandum of association and bye-laws of the Company
"CHIH"	China Huarong International Holdings Limited, a company with limited liability incorporated in Hong Kong and a controlling shareholder (as defined in the Listing Rules) of the Company
"China" or "Mainland China" or "PRC"	People's Republic of China
"China Huarong"	China Huarong Asset Management Co., Ltd.* (中國華融資產管理股份有限公司), a joint stock limited liability company incorporated in the PRC, the issued overseas listed foreign shares of which are listed on the Stock Exchange (stock code: 2799), and a controlling shareholder (as defined in the Listing Rules) of the Company
"Company"	Huarong International Financial Holdings Limited, a company incorporated in Bermuda with limited liability, the issued shares of which are listed on the Stock Exchange (stock code: 993)
"CG Code"	Corporate Governance Code and Corporate Governance Report as set out in Appendix 14 of the Listing Rules
"Deloitte"	Deloitte Touche Tohmatsu
"Director(s)"	Director(s) of the Company
"Executive Committee"	the executive committee of the Company
"GDP"	gross domestic product
"Group"	the Company and its subsidiaries
"HISL"	Huarong International Securities Limited (formerly known as United Simsen Securities Limited), an indirectly wholly owned subsidiary of the Company, a licensed corporation under the SFO to carry out Type 1, 2, 4 regulated activities
"HK$"	Hong Kong dollar, the lawful currency of Hong Kong
"HKAS"	Hong Kong Accounting Standards
"HKFRS"	Hong Kong Financial Reporting Standards
"HKICPA"	Hong Kong Institute of Certified Public Accountants

DEFINITIONS

"Hong Kong"	Hong Kong Special Administrative Region of PRC
"Last Year"	the year ended 31 December 2018
"Latest Practicable Date"	22 April 2020, being the latest practicable date prior to the printing of this annual report for the purpose of ascertaining certain information contained in this annual report
"Listing Rules"	The Rules Governing the Listing of Securities on the Stock Exchange (as amended, modified or otherwise supplemented from time to time)
"Model Code"	Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules
"MOF"	Ministry of Finance
"Nomination Committee"	the nomination committee of the Company
"Remuneration Committee"	the remuneration committee of the Company
"Risk Management Committee"	the risk management committee of the Company
"RMB"	Renminbi, the lawful currency of the PRC
"SFO"	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time
"Share(s)"	ordinary share(s) in the share capital of the Company
"Shareholder(s)"	holder(s) of the Share(s)
"Stock Exchange" or "HKEx"	The Stock Exchange of Hong Kong Limited
"US$"	United States dollar, the lawful currency of the United States
"Year"	the year ended 31 December 2019, being the financial reporting period of this annual report
"%"	per cent.

* *for identification purpose only*

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