



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)



2023

INTERIM REPORT

CONTENTS

2	Corporate Information
4	Management Discussion and Analysis
17	Independent Review Report
	Condensed Consolidated Financial Statements
19	Condensed Consolidated Statement of Profit or Loss
20	Condensed Consolidated Statement of Comprehensive Income
21	Condensed Consolidated Statement of Financial Position
23	Condensed Consolidated Statement of Changes in Equity
25	Condensed Consolidated Statement of Cash Flows
27	Notes to the Interim Financial Information
69	Supplementary Information
75	Definitions

CORPORATE INFORMATION

Board of Directors

Non-executive Director

Mr. Zhang Xing (*Chairman*)

Executive Directors

Mr. Chen Qinghua (*Chief Executive Officer*)

Mr. Lu Xinzheng

Independent Non-executive Directors

Mr. Hung Ka Hai Clement

Mr. Ma Lishan

Mr. Guan Huanfei

Dr. Lam Lee G.

Audit Committee

Mr. Hung Ka Hai Clement (*Chairman*)

Mr. Ma Lishan

Mr. Guan Huanfei

Dr. Lam Lee G.

Remuneration Committee

Mr. Guan Huanfei (*Chairman*)

Mr. Hung Ka Hai Clement

Mr. Ma Lishan

Nomination Committee

Mr. Hung Ka Hai Clement (*Chairman*)

Mr. Zhang Xing

Mr. Ma Lishan

Mr. Guan Huanfei

Executive Committee

Mr. Chen Qinghua (*Chairman*)

Mr. Lu Xinzheng

Risk Management Committee

Mr. Ma Lishan (*Chairman*)

Mr. Zhang Xing

Mr. Chen Qinghua

Mr. Lu Xinzheng

Dr. Lam Lee G.

Sustainable Development Committee

Dr. Lam Lee G. (*Chairman*)

Mr. Chen Qinghua

Mr. Guan Huanfei

Authorised Representatives

Mr. Lu Xinzheng

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

15th Floor, China Huarong Tower
60 Gloucester Road
Wanchai
Hong Kong

Resident Representative

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

Principal Bankers

Bank of Communications Co., Ltd.
Hong Kong Branch
Bank of China (Hong Kong) Limited
China CITIC Bank International Limited
Shanghai Pudong Development Bank Co., Ltd.
Hong Kong Branch
Bank of Shanghai (Hong Kong) Limited
Macau Chinese Bank Co., Ltd.

Auditor

Ernst & Young
27th Floor, One Taikoo Place
979 King's Road
Quarry Bay, Hong Kong
Registered Public Interest Entity Auditor

Hong Kong Legal Adviser

Latham & Watkins LLP
18th Floor, One Exchange Square
8 Connaught Place
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
17th Floor, Far East Finance Centre
16 Harcourt Road
Hong Kong

Stock Code

993

Website

www.hrif.com.hk

MANAGEMENT DISCUSSION AND ANALYSIS

Financial Highlights

For the Period, the Group recorded a revenue of approximately HK\$64,436,000 (Last Period: approximately HK\$135,889,000), net loss on financial assets at fair value through profit or loss of approximately HK\$180,695,000 (Last Period: net loss of approximately HK\$291,476,000), net loss arising from disposal of financial assets at fair value through other comprehensive income of approximately HK\$0 (Last Period: net loss of approximately HK\$19,337,000). Therefore, total revenue and investment losses described above amounted to approximately HK\$116,259,000 (Last Period: net loss of approximately HK\$174,924,000). Net loss for the Period was approximately HK\$458,361,000 (Last Period: net loss of approximately HK\$1,346,573,000), while loss attributable to the Shareholders for the Period was approximately HK\$658,804,000 (Last Period: loss of approximately HK\$1,457,379,000). The decrease in net loss for the Period was mainly due to the decrease in impairment provision made by the Group in respect of its direct investment in debt instruments, trade receivables, loans and margin financing advances as well as the decrease in loss in financial assets at fair value through profit or loss.

Basic loss per Share was HK7.6 cents for the Period as compared to basic loss per Share of HK16.7 cents for the Last Period, and no diluted loss per Share has been presented for the Period and the Last Period as there was no dilutive financial instruments for the Period and the Last Period.

Business Review

In the first half of 2023, while the international landscape remained grim and complicated, the overall economic sentiments improved after the reopening of borders between Mainland China and Hong Kong, as economic and commercial activities gradually resumed and the economy was gaining momentum on the back of the Central Government's economic policy and measures underpinned by prudent progress. To address the challenging external environment, the Group persisted in progress with prudence as it continued to advance the liquidation, cash recouping and assets reduction of risk projects with stronger risk control efforts. Meanwhile, we actively refocused on our principal business and sought to consistently identify business opportunities in the market during this special period, bringing into full play the synergies of our licensed businesses to drive business transformation.

Asset Management and Direct Investment

The Group's asset management and direct investment segment is engaged in the provision of asset management and fund management services and investment in equity, debt, funds, derivative instruments and other financial products with its own funds. During the first half of 2023, global economic and political conditions became increasingly grim and complicated, and economic development in Mainland China and Hong Kong was also subject to pressure, but the economy showed signs of recovery in the wake of the waning COVID-19 pandemic. However, as the contractionary US dollar monetary policy was sustained, the capital market continued to bear pressure and the risk of US dollar bonds issued by Chinese property companies was further exposed and deepened. In view of changes in the market, the Group has been enhancing its risk control measures in relation to market risks and credit risks since the beginning of the year, persisting in driving the development of existing businesses subject to rigorous risk control. Meanwhile, we have vigorously commenced asset management businesses with a special emphasis on non-performing assets, focusing on distressed assets and relief for corporations, with a view to identifying anti-cyclical investment opportunities in the course of risk prevention.

The Group leveraged its build-up and strengths in the non-performing asset business to facilitate development of its asset management business, with key efforts in seizing market opportunities to cultivate overseas funds for investment in non-performing assets and special opportunities bond funds and provide asset management services to clients in connection with distressed assets. Meanwhile, more extensive services and product types were offered to the market in a further focus on non-performing assets, enhancing close cooperation with investors and driving business transformation.

For the Period, the revenue from this segment was approximately HK\$58,642,000, versus segment revenue of approximately HK\$105,142,000 for the Last Period. The net losses on financial assets at fair value through profits or loss decreased from approximately HK\$291,476,000 for the Last Period to approximately HK\$180,695,000 for the Period. The segment result for the Period recorded a loss of approximately HK\$360,398,000, as compared to loss of approximately HK\$1,066,473,000 for the Last Period, with the decrease mainly due to the decrease in provision for impairment made for investment projects.

Securities

Securities business segment of the Group includes the provision of brokerage services, custodian service, margin financing, structured financing and investment advisory services. During the first half of 2023, the Group persisted in compliant business operation and expedited business transformation with a focus on its principal licensed business to achieve cost reduction, efficiency enhancement, diversification of revenue streams and conservation of resources against a complicated economic environment and lacklustre market sentiments. In connection with the development of financial technology, a brand new version of the mobile APP “Huarong Caifutong (華融財富通)” has completed the testing procedures and will be launched soon. In connection with its custodian business, the Group has enhanced business synergy and assisted in the disposal of stock assets in existing projects within the system to increase intermediary income. In connection with the management of existing projects, the Group further improved its risk control measures with enhanced efforts in negotiations and communication with customers to ensure principal and interest repayments as due for existing normal projects.

For the Period, the revenue and other gains or losses from the securities segment was approximately HK\$2,743,000 as compared to approximately HK\$2,244,000 for the Last Period. Total revenue increased on a year-on-year basis, attributable mainly to enhanced effort in business development resulting in the increase in interest-generating assets and stronger coordinating effect attained by China Huarong’s major business of non-performing assets. The segment result of the securities business segment for the Period amounted to loss of approximately HK\$11,292,000 as compared to loss of approximately HK\$29,132,000 for the Last Period.

Corporate Finance

During the first half of 2023, the capital market of Hong Kong continued to be affected by multiple external factors. The capital market was in a state of depression, underpinned by shrinking market capitalization, decline in the weighting of shareholdings by offshore investment, reduction in market liquidity, significantly lower valuations and notable downsizing of institutions. Persisting in the business development model of “Investment + Investment Bank” and with a strong focus on its licensed business, the Company continued to advance the transformation of its licensed business and step by step forge its advantages in differentiated operations, as it achieved breakthrough in the corporate finance business. During the Period, we successfully completed a financial advisory project for privatization while diversifying into different types of financial advisory services focused on distress relief and distressed corporations, playing the role of an investment bank in restoring asset value and enhancing asset liquidity.

For the Period, revenue from the corporate finance segment amounted to approximately HK\$1,551,000, while no revenue was generated from the corporate finance segment for the Last Period. The segment result for the Period was loss of approximately HK\$1,677,000 as compared to gain of approximately HK\$207,000 for the Last Period due to the increase in expenses attributed to this segment and the absence of other one-off income during the Period.

Financial Services and Others

The Group's financial services and others includes provision of finance lease services and other related services in Mainland China. It is focusing on providing services to the basic industries which conform to the PRC's industrial policy and economic development trend, by way of introducing financial leasing to those industries, including the logistics, automobile, aviation, solar energy and wind power generation, etc, with a view to obtaining rental income. We were focused on the disposal of existing projects during the Period and there was investment in new projects.

During the Period, the revenue from this segment was approximately HK\$1,430,000 (Last Period: HK\$25,187,000). The segment loss for the Period decreased to approximately HK\$30,322,000 (Last Period: segment loss of approximately HK\$262,416,000), which was mainly attributable to the decrease in provision for finance leasing projects for the Period.

Prospects

The Group anticipates sustained challenging conditions for the second half of the year. To address multiple uncertainties in China and elsewhere, the Group will overcome hurdles with focused efforts and seize opportunities in this special period of the market.

In connection with asset management, with China stepping up with the magnitude of its supportive policy, market sentiments in general will further improve and the industry chain and supply will steadily be restored, providing a positive boost for industrial production and employment and therefore a stronger driving force for the economy generated from investment and consumer spending. All in all, the overall momentum of economic recovery will be strengthened in a steady manner, and the cycle of economic recovery is set to provide more investment opportunities for the asset management sector and improve the overall risk profile of the market. The Group will remain focused on its principal business and deeply engaged in the "major non-performing asset" segment, especially cross-border businesses and services, on the back of its experience and strengths afforded by business synergy in its own financial licenses and non-performing asset businesses, further expanding and promoting new offshore non-performing asset investment funds, custodian management of distressed assets and high-yield bond fund products to enhance its product variety. On the back of our specialized feature services and products, we will solidify our customer base and enhance close cooperation with investors with a view to genuinely enlarging the scale of our asset management and increasing our management fee income. In future, the Group will actively seek fundraising and seize market opportunities to develop anti-cyclical fund-based products, asset management services and custodian management services with strong efforts.

In connection with the securities business, the Group will further optimise the organizational structure of the securities house to enhance its operational efficiency and continuously improve its operational compliance in genuine prevention and control of compliance and operational risks. A special emphasis will be placed on the institutional business and the intermediary business to increase revenue contributions from the institutional business. We will also enhance business synergy by fostering close cooperation with the corporate finance business to provide customers with one-stop financial services. Research on brokerage services for novel products, such as over-the-counter options and other over-the-counter derivative financial products, will be conducted. Meanwhile, the customer marketing channel will be further broadened by developing the connections with private banks and family business offices in Hong Kong.

In connection with corporate finance, the Group will fully leverage the strengths of the Huarong brand in the non-performing asset segment with a special focus on the investment bank business of major non-performing assets, bringing into full play the investment bank's functions in restoring the value and arranging institutional sales of non-performing assets to further increase asset liquidity and assist customers to effectively revitalize existing low-return assets and distressed assets through investment banking initiatives in the capital market, in a bid to provide assistance and support to CHIH's principal business of major non-performing assets. We will seek to serve the development of the real economy more effectively and answer the service demands of real-economy enterprises in a more satisfactory manner in terms of corporate finance and capital market, with a special emphasis on increasing investment of resources in the privatization and return of offshore companies, merger and acquisition of equities in listed companies, asset injection for listed companies and merger and acquisition of cross-border assets, empowering and adding value to real-economy enterprises corporations with the use of investment banking instruments and gradually fostering differentiated competitive edge for the Group's corporate finance business.

Financial Review

Capital Structure

As at 30 June 2023, the total number of issued Shares of the Company (with par value of HK\$0.001 each) was 8,709,586,011. Total Shareholders' equity was approximately HK\$-1,314,760,000 (31 December 2022: approximately HK\$-732,882,000).

Liquidity and Financial Resources

The Group regularly reviews its liquidity position and actively manages liquidity and financial resources according to the changes in economic environment and business development needs. As at 30 June 2023, the Group had total cash and deposits with banks amounting to approximately HK\$2,491,087,000 as compared to approximately HK\$1,986,641,000 as at 31 December 2022, excluding client funds that were kept in separate designated bank accounts of approximately HK\$112,249,000 (31 December 2022: approximately HK\$124,535,000) and deposits in other financial institutions of approximately HK\$14,487,000 (31 December 2022: approximately HK\$13,527,000). As at 30 June 2023, 52% (31 December 2022: 51%) of the Group's cash and deposits with banks was denominated in HKD or RMB. The Group's gearing ratio as at 30 June 2023 was -448.27% as compared to -801.42% as at 31 December 2022, being calculated as borrowings over the Group's Shareholders' equity. The change in gearing was attributable to a decrease in the Group's Shareholders' equity in the Period.

The Group has been committed to expanding the financing channel and maintaining an appropriate allocation of repayment schedules and overall fund application to maintain robust financial position. As at 30 June 2023, the Group obtained shareholder loans and perpetual capital bonds from CHIH in an aggregate principal amount of approximately US\$1,069,233,000 (equivalent to approximately HK\$8,358,233,000) (31 December 2022: approximately US\$1,069,233,000 (equivalent to approximately HK\$8,346,884,000)) to support the business of the Group. The proceeds had been applied in full to working capital immediately after closing. Such loans were subject to interest at fixed annual interest rates ranging from 4.3% to 7.98% (31 December 2022: annual rates of 4.3% to 7.98%) and were repayable within one to seven years from the end of the Period (31 December 2022: in two to seven years from the end of the year).

As at 30 June 2023, the Group had loans denominated in USD of US\$260,940,000 (equivalent to approximately HK\$2,045,054,000) from Right Select International Limited (direct controlling shareholder of the Company) (31 December 2022: US\$260,940,000 (equivalent to approximately HK\$2,034,482,000)). The Group also had a RMB loan of RMB50,000,000 (equivalent to approximately HK\$54,231,000) from a fellow subsidiary (31 December 2022: RMB loan of RMB50,000,000 (equivalent to approximately HK\$55,974,000)).

As at 30 June 2023, the Group had utilised bank credit facilities of approximately HK\$1,599,000,000 (31 December 2022: approximately HK\$1,599,000,000), all subject to floating interest rates (31 December 2022: all subject to floating interest rates).

As at 30 June 2023, the Group had undrawn bank credit facilities of approximately HK\$883,491,000 (31 December 2022: approximately HK\$881,870,000), providing the Group with additional liquidity as and when required.

As at 30 June 2023, the Group was unable to comply with a financial covenant for a banking facility with loan amount of HK\$624 million. In August 2023, the Group obtained a waiver from the bank, under which the bank continues to provide normal banking facilities to the Group and has not requested early repayment of borrowings. As such, the Company does not expect any material adverse impact of the aforesaid on the Group's financial performance and operations.

Taking into account the financial resources and banking and other financing available to the Group, including but not limited to internally generated cashflow, cash on hand and bank balances, and external loans, the Group anticipates sufficient working capital for its present requirements for at least the next 12 months.

For the subsidiaries licensed by the Securities and Futures Commission of Hong Kong, the Group ensures each of the subsidiaries maintains a flexible 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 Period, all the licensed subsidiaries complied with the liquidity requirements under the Securities and Futures (Financial Resources) Rules.

Charges on Group Assets

As at 30 June 2023, the Group had not pledged any time deposits (31 December 2022: nil) to secure the 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 the Hong Kong dollar is pegged to the United States dollar. Other foreign currency exposure is relatively insignificant when compared to our total assets and liabilities. As such, we consider our foreign exchange risk exposure manageable and the Group will closely monitor such risk exposure from time to time.

Contingent Liabilities

The Group had no material contingent liabilities as at 30 June 2023 and 31 December 2022.

Significant Securities Investment

As at 30 June 2023, the Group held the following significant securities investments:

- (1) 1,836,000 ordinary shares (31 December 2022: 1,836,000 ordinary shares) and a secured convertible bond issued by ARTA TechFin Corporation Limited (formerly known as Freeman FinTech Corporation Limited) ("**Freeman**"), at a cost of HK\$7,803,000 and HK\$429,197,000, respectively. Freeman is a company incorporated in Cayman Islands and listed on the Main Board of the Stock Exchange (stock code: 279), principally engaging in financial businesses. The shares held by the Group represents 0.01% (31 December 2022: 0.01%) of the equity interests in Freeman. The respective fair values of the shares and convertible bond as at 30 June 2023 were HK\$184,000 and HK\$300,317,000, which aggregated to approximately 5.9% (31 December 2022: 6.8%) of the total assets of the Group. During the Period, the Group's unrealised fair value loss on the shares of Freeman was HK\$25,000. The unrealised fair value loss of the secured convertible bond was HK\$89,089,000.

This significant investment is not primarily held for trading. It was acquired by a subsidiary of HRIV in August 2017 as a long-term investment and subsequently has been in default since April 2019. Freeman had previously entered into the temporary liquidation procedure and a provisional liquidator was appointed. The provisional liquidator conducted an external price inquiry and bidding over the pledge of the project and finally selected a qualified bidder. According to the latest feedback of the bidder, it is expected that the acquisition will not be able to obtain the requisite regulatory approval(s). Therefore, the provisional liquidator expects to seek another suitable buyer for the disposal of the collaterals.

- (2) 52,947.8 Class A participating shares and 15,108.1 Class B participating shares of China Special Opportunities Fund SP1 (the “**Fund**”), at a cost of HK\$530,615,000. The Fund’s principal business comprises its investment in debt securities issued by companies and governments around the world. The fair value of the investment as at 30 June 2023 was HK\$261,097,000 (31 December 2022: HK\$293,095,000), representing approximately 5.12% of the total asset value of the Group (31 December 2022: 5.11%). The fair value of the Fund for the Period decreased by approximately HK\$33,512,000 from HK\$293,095,000 at the end of last year, which mainly reflected the downward adjustment to the valuation taking into account the time required for exiting from the Fund. There were no distributions from the Fund during the Period.

The Group is procuring the fund manager of the Fund to complete the exit and distributions of the underlying assets of the Fund.

Provision for Impairment

(I) *Overall provision for impairment*

The Group recognised impairment provision for expected credit loss for financial assets at amortized cost and financial assets at fair value through other comprehensive income in accordance with the expected credit loss model under Hong Kong Financial Reporting Standards 9 Financial Instruments (“**HKFRS 9**”). Provision for allowance of expected credit losses is computed as the difference between the carrying value of the relevant financial instruments and the present values of estimated future cashflows, taking into account the expected future credit losses of the financial instruments.

The Group has established credit risk policies and processes for impairment assessment in accordance with HKFRS 9, including the establishment and approval of models, as well as the choice and application of assumptions and major inputs. In accordance with HKFRS 9, the Group has distinguished the stages of impairment provision for the relevant items into stage one (no significant increase in credit risk since initial recognition), stage two (significant increase in credit risk) or stage three (credit-impaired) based on the impact of credit risk on the items held.

The major credit risk and expected credit loss faced by the Group is mainly derived from other loans and debt instruments, advances to customers in margin financing, financial assets at fair value through other comprehensive income, finance lease receivables, accounts receivable and amount due from an associate. The Group closely monitors its other loans and debt instruments, advances to customers in margin financing, financial assets at fair value through other comprehensive income, finance lease receivables, accounts receivable and amount due from an associate on an ongoing basis. In the event of the lender or issuer of the item being subject to overdue risks, decline in the value of collaterals or negative public opinion in the market, the Group will conduct thorough investigation of the causes of the events and adopt remedial measures such as timely liaison with the customers for early repayment and obtaining supplementary collaterals from the customer.

At the same time, the Group verifies the stage of impairment provision of the item according to information on the item known or collected. For stage one or stage two, the impairment amount of expected credit loss is determined through the expected credit loss model. For the stage three, impairment is charged according to individual assessment.

The Group recorded net impairment loss of approximately HK\$133 million for the Period, which mainly caused by the following:

- two finance leasing projects entered into by the Group, the debtors of which were two companies principally engaged in wind power generation and solar energy power generation, respectively. As the companies had been operating on tight cash flows and were affected by the change of local subsidy policies, the companies had been unable to operate power generation in a normal manner for a period, and the guarantor and de facto controller had been included in the list of domestic discredited parties in China and were considered not to have the ability to make repayments. Given the difficulty of disposing of the leased wind power and solar energy power generation equipment for cash, the Group has twice proposed since the second half of 2022 to dispose the credit right assets by way of listing on a domestic exchange but has not been successful. After taking into account the prevailing market conditions, the Group applied a further reduction adjustment on the value of these projects on the basis of their valuations as at the end of 2022, resulting in a further provision for impairment of approximately HK\$82 million in total for the Period in respect of these two projects.
- two real estate sector bonds, classified as the Group's financial assets at fair value through other comprehensive income, were downgraded in the first half of 2023 due to the ongoing deterioration of the industry and market environments with notable signs of risk and were classified as stage three assets. Based on prudent consideration, including the credit status of the issuers of the two bonds, the management provided for impairment based on the market value of the bonds as at the end of the Period and total impairment provision of approximately HK\$39 million was made in respect of the two bonds for the Period.
- advances in margin financing under a margin financing project of the Group was converted into other loans and debt instruments through a deed of assignment on 29 June 2020. The collateral under the project consists of shares of a listed company in Hong Kong. The market price of such shares at the end of June 2023 further declined compared to the beginning of this year. The Group calculated the recoverable amount of the loan according to the market prices of the pledged shares, resulting in a further provision for impairment of approximately HK\$18 million in respect of such project for the Period.

- a fixed income project of the Group entered into in 2017 for investment purpose, the main collaterals of which are equity interests of a project company holding shops in Lijiang, the PRC. The project has been classified as stage 3 in mid-2021 due to consecutive overdue situations. In view of that, the management expected low chances to recover interest receivables for the project, and made full impairment provision for interest accrued out of prudence. The provision for impairment made during the Period amounted to approximately HK\$30 million.
- a finance lease project entered into by the Group in 2017, the outstanding principal and interest payment of which was completed by the debtor at the end of May 2023. Therefore, provision for impairment of approximately HK\$48 million was reversed for the Period.

The Group will assess the expected credit risk and impairment of financial assets at amortised cost and financial assets at fair value through other comprehensive income on an ongoing basis and communicate with the management and/or Board on the impact of the relevant events on specific items and on the financial reporting of the Group in a timely manner in accordance with internal procedures. At the same time, the Group will actively take further actions to collect unrecovered amounts and endeavour to recover amounts from customers through various means, including legal actions and disposal of collaterals.

(II) *Provision for impairment of publicly issued bonds*

The Group invests in publicly-issued bonds from time to time according to the investment strategy. These bonds are classified as financial assets at fair value through other comprehensive income based on the Business Model Test in accordance with the applicable accounting standard. Fair values of these bonds are measured at their open market prices. In respect of the estimation of expected credit losses (“ECL”) on these publicly-issued bonds, these bonds are classified into stages 1, 2 or 3 in accordance with the applicable accounting standard. The Risk Management Department of the Company verifies and assesses the information obtained by frontline business teams during their risk management process, and determines the stage of these bonds for provision of ECL.

The amount of impairment of publicly-issued bonds under stage 1 and stage 2 is determined from the ECL model, which is developed by the Company with the assistance of an independent third-party consultant, whereby impairment is measured based on factors such as probability of default, loss given default and exposure at default. Having considered that fair values of these bonds adequately indicate the recoverable value, the amount of impairment of stage 3 publicly-issued bonds is determined according to the market values of these bonds as at the end of a reporting period.

The Group made a net impairment provision of HK30 million for its financial assets at fair value through other comprehensive income for the Period. The investment cost of the main bond products involved is HK\$678 million, with the remaining maturity mainly ranging from one to five years at a coupon rate ranging from 3% to 16% per annum. For details of the major impairment provision for the Period for publicly issued bonds, please refer to the sub-section headed “(I) Overall provision for impairment” above.

(III) *Finance lease business and provision for impairment*

Impairment provision for finance lease projects

As one of the financial services of the Group, the Company provides finance lease services in Mainland China through its indirectly wholly-owned subsidiary Zhongju (Shenzhen) Financial Leasing Co., Ltd. (“**Zhongju Financial Leasing**”). Zhongju Financial Leasing is a wholly-owned subsidiary of HRIV, and has been consolidated into the Group since the privatization of HRIV by the Company in November 2020 (the “**Privatization**”).

Zhongju Financial Leasing provides finance lease services mainly by way of sale-and-leaseback model, under which the lessee assigns the ownership of its properties to the lessor and leases the properties back from the lessor for financing purposes. In practice, a lessee enters into an equipment sale-and-purchase agreement with Zhongju Financial Leasing for the sale of the leased property/equipment to Zhongju Financial Leasing, which will pay the consideration to acquire the ownership of such leased property and then enter into a sale-and-leaseback agreement with the lessee for the lease of the property back to the lessee, whereby the lessee pays rental installments to Zhongju Financial Leasing according to the payment schedule.

As at 30 June 2023, Zhongju Financial Leasing held seven outstanding finance lease projects, which were all initially invested back in 2017. The total carrying amount of these projects as at the same date was approximately HK\$98 million, of which approximately 100% was attributable to the top five projects. These projects accounted for approximately 1.92% of the Group’s total assets.

These projects are entered with various counterparties who operate in car leasing, standalone new energy power station, storage and logistics, cargo aircraft leasing, etc. Geographically, all finance lease businesses are conducted in Mainland China, including Guangdong Province, Shaanxi Province, Gansu Province, Tibet Autonomous Region, etc.

Based on the Group’s current business development strategy and positioning, the key focus of the Group’s finance lease business will be focusing on the recovery of the outstanding projects. The Group does not have any current plan for investment in new finance lease projects in the near future.

Principal terms of finance lease projects

Depending on credit conditions of customers and the quality of collaterals, duration of finance lease projects generally ranges from three to five years while interest rates of finance lease projects range from 6.8% per annum to 9.75% per annum under the respective sale-and-lease back agreements. Margin deposit at a range from 2% to 7% of the financing amount is received. Customers shall repay the outstanding balance on a quarterly basis.

In addition, finance lease receivables are pledged by electrical cable production equipment, solar or wind power generation equipment, transport vehicles, passenger vehicles and cargo aircrafts, as well as equity interests in companies and real estates.

Credit risk assessment and impairment provision for finance lease projects

All the finance lease projects held by the Group, are classified as stage 3 for ECL estimation. During the Period, the Company performed analysis and forecast on the realisable values of the leased assets and the pledged collaterals for each finance lease project. Please refer to the sub-section headed “(I) Overall provision for impairment” above for details of the impairment provision for finance lease projects.

Key internal control measures

The Group adopts the following internal control measures when conducting the finance lease business:

1. Daily risk monitoring

Zhongju Financial Leasing conducts ongoing daily tracking and monitoring of the risks associated with invested projects. In the event of any delay in lease payments or breach of other contract terms by the debtors, the alert signal will be activated and Zhongju Financial Leasing will report the conditions to the risk department and management of the Company in a timely manner, and adopt active measures to alleviate the situation. Meanwhile, Zhongju Financial Leasing also closely monitors the operating and financial conditions of lessees and guarantors, requests them to furnish their financial statements each quarter, conducts on-site visits and inspection of the debtors to obtain information on their business updates, conditions of the leased assets and project progress, and conducts ongoing assessment and analysis of risks associated with them. The Group will also appoint external agencies to conduct valuation of the leased assets at least annually to monitor movements in the value of the leased assets.

2. Actions taken in respect of overdue projects

In the event of overdue loans, Zhongju Financial Leasing will issue a loan call demand note to the debtor and maintain close liaison with the debtor and report the latest progress to the Company's Risk Management Department and the management in a timely manner, striving to identify appropriate solutions as soon as practicable to eliminate or reduce the project risk. If both parties are unable to reach a settlement before a specified deadline and the risk cannot be alleviated, the Company will resort to a variety of means such as litigation, transfer of credit exposures and introduction of investors to undergo debt restructuring, among others, depending on the current risk conditions of the project. In respect of finance lease projects which are in stage 3, the Company has taken actions to collect payments and will endeavour to divest the project through the aforementioned means.

3. Management and decision-making process

The Company manages its finance lease projects in accordance with the project management requirements for creditor right projects. The Company's Risk Management Department assesses the impairment of financial assets at amortised cost and financial assets at fair value through other comprehensive income on an ongoing basis and communicates with the management and/or the Board in a timely manner in respect of the impact of relevant events on specific projects and on the Group's financial report. The Company's management reviews on a quarterly basis the results of risk classification for credit right projects, including finance lease projects, as examined by the Risk Management Department and reviews on a half-yearly basis the impairment provision amount of such projects as examined by the Risk Management Department, and makes recommendations to the Board accordingly. At the Board level, the Audit Committee convenes a regular meeting each quarter to discuss with the management on the impaired projects and review the audit/review results reported by the external auditor in respect of material accounting matters during the interim review and year-end audit; the Risk Management Committee convenes meetings on a half-yearly basis to receive reports on the development of the Company's risk management organisation and systems, key projects risk updates and impairment provisions and make recommendations for improvement, and supervises the ongoing improvement of the Group's risk and internal control mechanism. The Board is responsible for the final approval of the Company's interim and annual financial reports.

Employee and Remuneration Policy

As at 30 June 2023, the Group employed a total of 36 employees (31 December 2022: 43 employees). The Group's recruitment and promotion of staff is based on consideration of multiple factors, such as job nature, market rates, relevant experience, individual merits and development potential of the employees, and may also offer discretionary incentives and bonuses by reference to indicators such as market conditions, the Company's business performance, individual staff performance and fulfilment of compliance requirements, among others, with a view to rewarding staff contributions as well as retaining and incentivising employees with superior competence and experience to continue to deliver value for the Group. Other benefits offered by the Group include, but are not limited to, group medical plans and group life insurance, etc.

The Group is committed to providing employees with an environment conducive to ongoing learning and development. The Group arranges both internal and external multi-dimensional training and development plans for staff and offer incentives for off-duty studies to eligible staff to encourage voluntary learning and ongoing self-improvement to address the growing requirements of the Group's operations.

INDEPENDENT REVIEW REPORT



Ernst & Young
27/F, One Taikoo Place
979 King's Road
Quarry Bay, Hong Kong

安永會計師事務所
香港鰂魚涌英皇道979號
太古坊一座27樓

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

Introduction

We have reviewed the interim financial information set out on pages 2 to 52, which comprises the condensed consolidated statement of financial position of Huarong International Financial Holdings Limited (the “**Company**”) and its subsidiaries (the “**Group**”) as at 30 June 2023 and the related condensed consolidated statement of profit or loss, comprehensive income, changes in equity and cash flows for the six-month period then ended, and explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard 34 *Interim Financial Reporting* (“**HKAS 34**”) issued by the Hong Kong Institute of Certified Public Accountants (“**HKICPA**”).

The directors of the Company are responsible for the preparation and presentation of this interim financial information in accordance with HKAS 34. Our responsibility is to express a conclusion on this interim financial information based on our review. Our report is made solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Scope of Review

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410 *Review of Interim Financial Information Performed by the Independent Auditor of the Entity* issued by the HKICPA. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the interim financial information is not prepared, in all material respects, in accordance with HKAS 34.

Ernst & Young

Certified Public Accountants

Hong Kong

29 August 2023

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the six months ended 30 June 2023

	Notes	For the six months ended 30 June	
		2023 (Unaudited) HK\$'000	2022 (Unaudited) HK\$'000
REVENUE			
Commission and fee income	5	6,119	4,203
Interest income	5		
Interest income calculated using the effective interest method		44,275	76,590
Others		14,042	34,961
Investment income	5	–	20,135
		64,436	135,889
Net loss on financial assets at fair value through profit or loss		(180,695)	(291,476)
Net loss arising from disposal of financial assets at fair value through other comprehensive income		–	(19,337)
Other income and gains or losses, net		32,407	(47,802)
Brokerage and commission expenses		–	(1,345)
Administrative and other operating expenses		(77,989)	(127,169)
Impairment losses, net		(132,951)	(819,437)
Finance costs	6	(162,847)	(196,335)
LOSS BEFORE TAX	7	(457,639)	(1,367,012)
Income tax (expense)/credit	8	(722)	20,439
LOSS FOR THE PERIOD		(458,361)	(1,346,573)
Attributable to:			
Equity holders of the Company		(658,804)	(1,457,379)
Holder of perpetual capital securities		200,443	79,218
Non-controlling interests		–	31,588
		(458,361)	(1,346,573)
BASIC LOSS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY	9	(HK7.6 cents)	(HK16.7 cents)

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2023

	For the six months ended 30 June	
	2023 (Unaudited) HK\$'000	2022 (Unaudited) HK\$'000
LOSS FOR THE PERIOD	(458,361)	(1,346,573)
OTHER COMPREHENSIVE INCOME		
Other comprehensive income that may be reclassified to profit or loss in subsequent periods:		
Fair value loss on financial assets at fair value through other comprehensive income	(20,180)	(91,968)
Net provision for impairment of financial assets at fair value through other comprehensive income included in profit or loss	30,153	45,458
Reclassification adjustments relating to disposal of financial assets at fair value through other comprehensive income during the period	–	19,337
Exchange differences on translation of foreign operations, net	20,807	15,364
OTHER COMPREHENSIVE INCOME FOR THE PERIOD, NET OF TAX	30,780	(11,809)
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	(427,581)	(1,358,382)
Attributable to:		
Equity holders of the Company	(628,024)	(1,469,188)
Holder of perpetual capital securities	200,443	79,218
Non-controlling interests	–	31,588
	(427,581)	(1,358,382)

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

30 June 2023

	Notes	30 June 2023 (Unaudited) HK\$'000	31 December 2022 (Audited) HK\$'000
NON-CURRENT ASSETS			
Property, plant and equipment		4,386	4,449
Other long term assets		1,043	1,043
Intangible assets		2,350	2,350
Right-of-use assets		4,907	29,743
Prepayments, deposits and other receivables		44	44
Financial assets at fair value through profit or loss	10	1,066,759	751,005
Financial assets at fair value through other comprehensive income	11	79,448	158,251
Other loans and debt instruments	14	213,060	255,821
Total non-current assets		1,371,997	1,202,706
CURRENT ASSETS			
Advances to customers in margin financing	15	24,373	43,055
Accounts receivable	16	196,797	540,914
Prepayments, deposits and other receivables		140,680	149,364
Financial assets at fair value through profit or loss	10	288,752	993,443
Financial assets at fair value through other comprehensive income	11	96,587	47,164
Finance lease receivables	13	97,808	376,565
Other loans and debt instruments	14	237,874	237,874
Amounts due from related parties		30,782	16,005
Tax recoverable		161	161
Restricted bank balances	17	112,249	124,535
Deposits in other financial institutions		14,487	13,527
Cash and deposits with banks	18	2,491,087	1,986,641
Total current assets		3,731,637	4,529,248

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

30 June 2023

	Notes	30 June 2023 (Unaudited) HK\$'000	31 December 2022 (Audited) HK\$'000
CURRENT LIABILITIES			
Accounts payable	19	113,391	125,625
Other liabilities, payables and accruals	20	192,563	199,758
Interest-bearing borrowings	21	2,854,655	1,599,000
Repurchase agreements	23	65,684	107,331
Tax payable		74,790	63,444
Lease liabilities		974	28,907
Amounts due to related parties		73,648	62,322
Total current liabilities		3,375,705	2,186,387
NET CURRENT ASSETS		355,932	2,342,861
TOTAL ASSETS LESS CURRENT LIABILITIES		1,727,929	3,545,567
NON-CURRENT LIABILITIES			
Other liabilities, payables and accruals	20	3,504	3,504
Interest-bearing borrowings	21	3,038,963	4,274,440
Lease liabilities		222	505
Total non-current liabilities		3,042,689	4,278,449
NET LIABILITIES		(1,314,760)	(732,882)
EQUITY			
Share capital	22	8,710	8,710
Share premium and reserves		(7,612,100)	(6,984,076)
Equity attributable to owners of the Company		(7,603,390)	(6,975,366)
Perpetual capital securities classified as equity instruments	24	6,288,630	6,242,484
Non-controlling interests		-	-
Total equity		(1,314,760)	(732,882)

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2023

	Attributable to owners of the Company										
	Share capital HK\$'000	Share premium HK\$'000	Contributed surplus (Note i) HK\$'000	Capital reserves (Note ii) HK\$'000	Statutory reserve (Note iii) HK\$'000	Currency translation reserve HK\$'000	FVTOCI investment revaluation reserve HK\$'000	Accumulated losses HK\$'000	Total HK\$'000	Perpetual capital securities HK\$'000	Total equity HK\$'000
At 1 January 2023 (audited)	8,710	3,220,249	139,615	636,129	31,973	22,878	(48,563)	(10,986,357)	(6,975,366)	6,242,484	(732,882)
Loss for the period	-	-	-	-	-	-	-	(658,804)	(658,804)	200,443	(458,361)
Other comprehensive income for the period:											
Fair value loss on financial assets at fair value through other comprehensive income	-	-	-	-	-	-	(20,180)	-	(20,180)	-	(20,180)
Net provision for impairment of financial assets at fair value through other comprehensive income included in profit or loss	-	-	-	-	-	-	30,153	-	30,153	-	30,153
Exchange differences on translation of foreign operations, net	-	-	-	-	-	20,807	-	-	20,807	-	20,807
Total comprehensive income for the period	-	-	-	-	-	20,807	9,973	(658,804)	(628,024)	200,443	(427,581)
Distributions relating to perpetual capital securities	-	-	-	-	-	-	-	-	-	(154,297)	(154,297)
At 30 June 2023 (unaudited)	8,710	3,220,249	139,615	636,129	31,973	43,685	(38,590)	(11,645,161)	(7,603,390)	6,288,630	(1,314,760)

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2022

	Attributable to owners of the Company											
	Share capital HK\$'000	Share premium HK\$'000	Contributed surplus (Note i) HK\$'000	Capital reserves (Note ii) HK\$'000	Statutory reserve (Note iii) HK\$'000	Currency translation reserve HK\$'000	FVTOCI investment revaluation reserve HK\$'000	Accumulated losses HK\$'000	Total HK\$'000	Perpetual capital securities HK\$'000	Non-controlling interests (Note iv) HK\$'000	Total equity HK\$'000
At 1 January 2022 (audited)	8,710	3,220,249	139,615	636,129	31,973	(5,222)	(73,908)	(8,486,350)	(4,528,804)	2,755,781	1,277,029	(495,994)
Loss for the period	-	-	-	-	-	-	-	(1,457,379)	(1,457,379)	79,218	31,588	(1,346,573)
Other comprehensive income for the period:												
Fair value loss on financial assets at fair value through other comprehensive income	-	-	-	-	-	-	(91,968)	-	(91,968)	-	-	(91,968)
Net provision for impairment of financial assets at fair value through other comprehensive income included in profit or loss	-	-	-	-	-	-	45,458	-	45,458	-	-	45,458
Reclassification adjustments relating to disposal of financial assets at fair value through other comprehensive income during the period	-	-	-	-	-	-	19,337	-	19,337	-	-	19,337
Exchange differences on translation of foreign operations, net	-	-	-	-	-	15,364	-	-	15,364	-	-	15,364
Total comprehensive income for the period	-	-	-	-	-	15,364	(27,173)	(1,457,379)	(1,469,188)	79,218	31,588	(1,358,382)
Distributions relating to perpetual capital securities	-	-	-	-	-	-	-	-	-	(32,933)	(31,581)	(64,514)
At 30 June 2022 (unaudited)	8,710	3,220,249	139,615	636,129	31,973	10,142	(101,081)	(9,943,729)	(5,997,992)	2,802,066	1,277,036	(1,918,890)

Notes:

- (i) Under the Bermuda Companies Act, the Company's contributed surplus is distributable to shareholders under certain circumstances.
- (ii) 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.
- (iii) 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.
- (iv) Non-controlling interests represented interests of holders of perpetual capital securities of Huarong Investment Stock Corporation Limited ("**HRIV**") as at 1 January 2022 and 30 June 2022.

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2023

	For the six months ended 30 June	
	2023 (Unaudited) HK\$'000	2022 (Unaudited) HK\$'000
CASH FLOWS FROM OPERATING ACTIVITIES		
Loss before tax	(457,639)	(1,367,012)
Total non-cash adjustments	457,010	1,213,057
Total working capital adjustments	795,053	1,183,088
Cash generated from operations	794,424	1,029,133
Tax (paid)/refunded	(722)	74,184
Interest received	19,715	39,698
Net cash flows from operating activities	813,417	1,143,015
CASH FLOWS FROM INVESTING ACTIVITIES		
Dividend received	–	20,135
Decrease in other long term assets	–	428
Purchases of items of property, plant and equipment	(874)	(811)
Proceeds from disposal of items of property, plant and equipment	465	–
Proceeds from disposal/(purchases) of financial assets at fair value through other comprehensive income	10,842	(9,115)
Net cash flows from investing activities	10,433	10,637
CASH FLOWS FROM FINANCING ACTIVITIES		
Repayment of interest-bearing borrowings	20,178	(351,969)
Interest paid	(160,898)	(213,862)
Net changes from amount (from)/to related parties	(3,450)	400
Repayment of lease liabilities	(28,217)	(28,686)
Distribution to perpetual capital securities holder	(154,297)	(32,933)
Distribution to non-controlling interests	–	(31,581)
Net cash flows used in financing activities	(326,684)	(658,631)

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2023

	For the six months ended 30 June	
	2023 (Unaudited) HK\$'000	2022 (Unaudited) HK\$'000
NET INCREASE IN CASH AND CASH EQUIVALENTS	497,166	495,021
Cash and cash equivalents at the beginning of the period	1,973,114	1,852,784
Effect of foreign exchange rate changes, net	20,807	15,364
CASH AND CASH EQUIVALENTS AT END OF THE PERIOD	2,491,087	2,363,169
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS		
Cash and bank balances	1,590,323	2,353,167
Time deposits with original maturity of less than three months	900,764	10,002
Cash and cash equivalents as stated in the condensed consolidated statement of cash flows	2,491,087	2,363,169

NOTES TO THE INTERIM FINANCIAL INFORMATION

1. General 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 “**Stock Exchange**”). The principal activity of the Company is investment holding. The Group is principally engaged in the brokerage and dealing of securities, margin financing, loan financing, financial advisory, direct investments, investment holding, provision of advising on corporate finance services and provision of management and consultancy services. 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 15th floor, China Huarong Tower, 60 Gloucester Road, Wanchai, Hong Kong. The intermediate controlling shareholder of the Company is China Huarong International Holdings Limited (“**CHIH**”) that is incorporated in Hong Kong through Camellia Pacific Investment Holding Limited and Right Select International Limited, both of which are incorporated in the British Virgin Islands and wholly-owned subsidiaries of CHIH. China Huarong Asset Management Co., Ltd. (“**China Huarong**”), a company established in the PRC and whose shares are listed on the Stock Exchange, became the ultimate holding company since 2015. Currently, major Shareholders of China Huarong include the CITIC Group Corporation, Ministry of Finance (the “**MOF**”), China Insurance Rongxin Private Fund Co., Ltd., China Life Insurance (Group) Company, Warburg Pincus and Sino-Ocean Group Holding Limited.

This unaudited interim financial information was approved by the board of directors for issue on 29 August 2023.

2. Basis of preparation

The interim condensed consolidated financial information for the six months ended 30 June 2023 has been prepared in accordance with HKAS 34 *Interim Financial Reporting*. The interim condensed consolidated financial information does not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group’s annual consolidated financial statements for the year ended 31 December 2022.

This unaudited interim financial information is presented in thousands of Hong Kong dollars (“**HK\$’000**”), which is also the functional currency of the Company.

Going concern basis

As at 30 June 2023, the Group had net liabilities of HK\$1,315 million (31 December 2022: net liabilities of HK\$733 million) and incurred a loss of HK\$458 million (30 June 2022: net loss of HK\$1,347 million) for the six months period ended.

2. Basis of preparation (continued)

Going concern basis (continued)

In view of above circumstances, the directors have given consideration to the future liquidity and performance of the Group and its available sources of finance in assessing whether the Group will have sufficient financial resources to continue as a going concern. In order to improve the Group's liquidity and cash flows to sustain the Group as a going concern, the Group has implemented or is in the process of implementing the following measures:

(i) *Continuous securing of certain bank borrowings*

The Group communicated and confirmed with various banks on the bank borrowings. Pursuant to the agreements with the banks, the next review dates of bank borrowings of HK\$775 million, HK\$624 million and HK\$200 million will be September 2023, August 2024 and September 2023, respectively.

(ii) *Utilisation of banking facilities*

As at 30 June 2023, the Group has total bank credit facilities of approximately HK\$2,482,491,000 (31 December 2022: approximately HK\$2,480,870,000), of which HK\$1,599,000,000 (31 December 2022: approximately HK\$1,599,000,000) were utilised by the Group.

(iii) *Support from intermediate controlling shareholder*

The Group has obtained a letter of support from its intermediate controlling shareholder, CHIH, who has confirmed its intention to provide sufficient financial support to the Group to enable it to meet its obligations and liabilities as and when they fall due, where the Directors are of the opinion that the financial support from CHIH will continue to be forthcoming. As at 30 June 2023, CHIH, directly and indirectly through its subsidiaries, lent an aggregate of HK\$10.5 billion to the group in forms of intercompany loans and perpetual securities (31 December 2022: HK\$10.5 billion). Depending on the need for working capital, the Group may need to obtain the loans at different times and amounts. During the six months ended 30 June 2023, the Group has no extension from CHIH on intercompany borrowings as of 30 June 2023. There are HK\$1,201 million of intercompany borrowings to be due within the next twelve months from 30 June 2023.

(iv) *Disposal of public traded bonds and listed equity securities*

In respect of public traded bonds and the listed equity securities in Hong Kong held by the Group, which are classified either as financial assets at fair value through profit or loss or as financial assets at fair value through other comprehensive income in the condensed consolidated statement of financial position as at 30 June 2023, the Directors are of the opinion that the Group would be able to dispose of such investments as and when needed to alleviate the Group's liquidity pressure.

2. Basis of preparation (continued)

Going concern basis (continued)

(v) *Measures to recover project cashflows, control expenses and contain capital expenditures*

The Group will take active measures to improve its cash flow through focus of resources to recover cashflows from existing projects and investments in the upcoming year. At the same time, the Group will continue to take active measures to control administrative costs through various channels including communication of the budget, control and monitoring by finance department within the Group.

(vi) *Actively develop licensed business*

Securities:

- (1) Focus on expanding institutional business and improve the profit contribution from institutional business.
- (2) Collaborate with different segments to provide customers with comprehensive financial services of “investment + intelligence”.

Asset management:

- (1) Implement the fund investment-focused strategy.
- (2) Focus on the transformation of “big non-performing” alternative investment and actively manage asset management business.
- (3) Promote the characteristic model of main business and licensed business.
- (4) Actively expand non-performing asset restructuring and mergers, alternative special direct investment and other asset management fund products.
- (5) Based on the existing funds and new development of fund business, with existing platforms and personnel, focus on strengthening customer marketing efforts on the investment side and financing side, and strengthening the coordination and linkage within the Huarong Group, cross-combining investment banking business, investment business to give full play to the synergic effect of our licensed business.

2. Basis of preparation (continued)

Going concern basis (continued)

(vi) *Actively develop licensed business (continued)*

Corporate Finance:

- (1) Focus on the underwriting, pricing and issuance of Hong Kong stock IPOs, focus on subsectors such as medicine and medical care, real estate, property, finance, etc., and continue to focus on key execution projects.
- (2) In coordination with major non-performing main businesses, focus on arranging merger and acquisition opportunities for restructured assets.
- (3) Undertake projects such as mergers and acquisitions, privatisation, cross-border mergers and acquisitions, and give full play to the company's brand effect and the advantages of capital investment banks.
- (4) Focus on the main business of licenses and resume the development of debt underwriting business.
- (5) Take the initiative, strengthen resource coordination and external cooperation, and expand business network.

The Directors have reviewed the Group's cash flow projections prepared by management. The cash flow projections cover a period of not less than twelve months from 30 June 2023. They are of the opinion that, taking into account the abovementioned plans and measures, the Group will have sufficient working capital to finance its operations and to meet its financial obligations as and when they fall due within twelve months from 30 June 2023. Accordingly, the Directors are satisfied that it is appropriate to prepare the consolidated financial statements on a going concern basis.

Should the going concern assumption be inappropriate, adjustments may have to be made to write down the values of assets to their recoverable amounts, to provide for any further liabilities that might arise, and to reclassify non-current assets and non-current liabilities as current assets and current liabilities, respectively. The effects of these adjustments have not been reflected in the condensed consolidated financial statements. The Audit Committee of the Board has confirmed that it has objectively and critically reviewed the measures mentioned above. The Audit Committee of the Board and the Board have confidence in the Group's management and concurred with management's view that the Group's business plan for the next twelve months is feasible and achievable. The Group has actively implemented, or is actively implementing, all the improvement targets outlined above for the purposes of increasing profits and improving the cash flow position of the Group.

3. Changes in accounting policies

The accounting policies adopted in the preparation of the interim condensed consolidated financial information are consistent with those applied in the preparation of the Group's annual consolidated financial statements for the year ended 31 December 2022, except for the adoption of the following revised Hong Kong Financial Reporting Standards ("**HKFRSs**") for the first time for the current period's financial information.

Amendments to HKAS 1 and HKFRS Practice Statement 2	<i>Disclosure of Accounting Policies</i>
Amendments to HKAS 8	<i>Definition of Accounting Estimates</i>
Amendments to HKAS 12	<i>Deferred Tax related to Assets and Liabilities arising from a Single Transaction</i>
Amendments to HKAS 12	<i>International Tax Reform – Pillar Two Model Rules</i>

The nature and impact of the revised HKFRSs are described below:

- (a) Amendments to HKAS 1 require entities to disclose their material accounting policy information rather than their significant accounting policies. Accounting policy information is material if, when considered together with other information included in an entity's financial statements, it can reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements. Amendments to HKFRS Practice Statement 2 provide non-mandatory guidance on how to apply the concept of materiality to accounting policy disclosures. The Group has applied the amendments since 1 January 2023. The amendments did not have any impact on the Group's interim condensed consolidated financial information but does not expected to affect the accounting policy disclosures in the Group's annual consolidated financial statements.
- (b) Amendments to HKAS 8 clarify the distinction between changes in accounting estimates and changes in accounting policies. Accounting estimates are defined as monetary amounts in financial statements that are subject to measurement uncertainty. The amendments also clarify how entities use measurement techniques and inputs to develop accounting estimates. The Group has applied the amendments to changes in accounting policies and changes in accounting estimates that occur on or after 1 January 2023. Since the Group's policy of determining accounting estimates aligns with the amendments, the amendments did not have any impact on the financial position or performance of the Group.

3. Changes in accounting policies (continued)

- (c) Amendments to HKAS 12 *Deferred Tax related to Assets and Liabilities arising from a Single Transaction* narrow the scope of the initial recognition exception in HKAS 12 so that it no longer applies to transactions that give rise to equal taxable and deductible temporary differences, such as leases and decommissioning obligations. Therefore, entities are required to recognise a deferred tax asset (provided that sufficient taxable profit is available) and a deferred tax liability for temporary differences arising from these transactions. The Group has applied the amendments on temporary differences related to leases and decommissioning obligations as at 1 January 2022, with any cumulative effect recognised as an adjustment to the balance of retained profits or other component of equity as appropriate at that date. In addition, the Group has applied the amendments prospectively to transactions other than leases and decommissioning obligations that occurred on or after 1 January 2022, if any. These amendments have no impact on the Group's interim financial statements as there were no transactions fallen within the scope of these amendments on or after the beginning of the earliest period presented.
- (d) Amendments to HKAS 12 International Tax Reform – Pillar Two Model Rules introduce a mandatory temporary exception from the recognition and disclosure of deferred taxes arising from the implementation of the Pillar Two model rules published by the Organisation for Economic Co-operation and Development. The amendments also introduce disclosure requirements for the affected entities to help users of the financial statements better understand the entities' exposure to Pillar Two income taxes, including the disclosure of current tax related to Pillar Two income taxes separately in the periods when Pillar Two legislation is effective and the disclosure of known or reasonably estimable information of their exposure to Pillar Two income taxes in periods in which the legislation is enacted or substantively enacted but not yet in effect. Entities are required to disclose the information relating to their exposure to Pillar Two income taxes in annual periods beginning on or after 1 January 2023, but are not required to disclose such information for any interim periods ending on or before 31 December 2023. The Group has applied the amendments retrospectively. Since the Group did not fall within the scope of the Pillar Two model rules, the amendments did not have any impact to the Group.

4. Operating segment information

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

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

- (a) the securities segment comprises the broking and dealing of securities, futures and options contracts and the provision of margin financing services.
- (b) the corporate finance segment provides securities underwriting and sponsoring, financial advisory and financing arrangement services to institutional clients.
- (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.
- (d) the financial services and others segment comprises finance lease services, business consulting services, financing services and other related services.

Segment performance is evaluated based on reportable segment result, which is measured consistently with the Group's loss 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.

4. Operating segment information (continued)

(a) Operating segments

The following tables represent the revenue and results for the six months ended 30 June 2023 and 2022 for the Group's operating segments:

Six months ended 30 June 2023 (Unaudited)

	Securities HK\$'000	Corporate finance HK\$'000	Asset management and direct investment HK\$'000	Financial services and others HK\$'000	Total HK\$'000
Segment revenue					
Commission and fee income	798	1,551	3,770	-	6,119
Interest income	2,015	-	54,872	1,430	58,317
Investment income	-	-	-	-	-
	2,813	1,551	58,642	1,430	64,436
Net loss on financial assets at fair value through profit or loss	-	-	(180,695)	-	(180,695)
Other income and gains or losses, net	(70)	31	34,793	3,253	38,007
	2,743	1,582	(87,260)	4,683	(78,252)
Segment results	(11,292)	(1,677)	(360,398)	(30,322)	(403,689)
Unallocated other income and gains or losses, expenses, net					(53,950)
Loss before tax					(457,639)
Income tax expense					(722)
Loss for the period					(458,361)

4. Operating segment information (continued)

(a) Operating segments (continued)

Six months ended 30 June 2022 (Unaudited)

	Securities HK\$'000	Corporate finance HK\$'000	Asset management and direct investment HK\$'000	Financial services and others HK\$'000	Total HK\$'000
Segment revenue					
Commission and fee income	3,394	–	809	–	4,203
Interest income	2,166	–	84,198	25,187	111,551
Investment income	–	–	20,135	–	20,135
	5,560	–	105,142	25,187	135,889
Net loss on financial assets at fair value through profit or loss	–	–	(291,476)	–	(291,476)
Net loss arising from disposal of financial assets at fair value through other comprehensive income	–	–	(19,337)	–	(19,337)
Other income and gains or losses, net	(3,316)	212	22,070	(66,269)	(47,303)
	2,244	212	(183,601)	(41,082)	(222,227)
Segment results	(29,132)	207	(1,066,473)	(262,416)	(1,357,814)
Unallocated other income and gains or losses, expenses, net					(9,198)
Loss before tax					(1,367,012)
Income tax credit					20,439
Loss for the period					(1,346,573)

4. Operating segment information (continued)

(a) Operating segments (continued)

The following tables present the assets and liabilities for the Group's operating segments as at 30 June 2023 and 31 December 2022.

	30 June 2023 (Unaudited) HK\$'000	31 December 2022 (Audited) HK\$'000
Assets		
Securities	1,209,199	1,266,161
Corporate finance	16,086	22,578
Asset management and direct investment	1,566,977	1,981,265
Financial services and others	626,453	585,081
Total segment assets	3,418,715	3,855,085
Other unallocated assets	1,684,919	1,876,869
Total assets	5,103,634	5,731,954
Liabilities		
Securities	129,183	177,966
Corporate finance	–	100
Asset management and direct investment	280,020	71,253
Financial services and others	478,012	302,479
Total segment liabilities	887,215	551,798
Other unallocated liabilities	5,531,179	5,913,038
Total liabilities	6,418,394	6,464,836

4. Operating segment information (continued)

(a) Operating segments (continued)

Other segment information for the six months ended 30 June 2023 (Unaudited)

	Securities HK\$'000	Corporate finance HK\$'000	Asset management and direct investment HK\$'000	Financial services and others HK\$'000	Unallocated HK\$'000	Total HK\$'000
Finance costs	-	-	(116,238)	-	(46,609)	(162,847)
Net provision for impairment of other loans and debt instruments	-	-	(59,591)	-	-	(59,591)
Net provision for impairment of advances to customers in margin financing	(9,929)	-	-	-	-	(9,929)
Net provision for impairment of finance lease receivables	-	-	-	(33,278)	-	(33,278)
Net provision for impairment of financial assets at fair value through other comprehensive income	-	-	(30,153)	-	-	(30,153)

Other segment information for the six months ended 30 June 2022 (Unaudited)

	Securities HK\$'000	Corporate finance HK\$'000	Asset management and direct investment HK\$'000	Financial services and others HK\$'000	Unallocated HK\$'000	Total HK\$'000
Finance costs	-	-	(166,510)	(28,123)	(1,702)	(196,335)
Net provision for impairment of other loans and debt instruments	-	-	(240,125)	-	-	(240,125)
Net provision for impairment of accounts receivable and others	-	-	(331,941)	-	-	(331,941)
Net provision for impairment of advances to customers in margin financing	(7,633)	-	-	-	-	(7,633)
Net provision for impairment of finance lease receivables	-	-	-	(194,280)	-	(194,280)
Net provision for impairment of financial assets at fair value through other comprehensive income	-	-	(45,458)	-	-	(45,458)

4. Operating segment information (continued)

(b) Geographical information

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

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	
	For the six months ended		31 December	
	30 June		30 June	31 December
	2023	2022	2023	2022
	(Unaudited)	(Unaudited)	(Unaudited)	(Audited)
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Hong Kong	63,006	109,774	11,638	36,537
Mainland China	1,430	26,115	5	5
	64,436	135,889	11,643	36,542

Note: Non-current assets excluded financial assets.

(c) Information about major customers

During the six months period ended 30 June 2023, one external customer contributed more than 10% of total revenue of the Group (2022: 10%):

	30 June	30 June
	2023	2022
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Customer A from asset management and direct investment	–	18,666
Customer B from asset management and direct investment	29,734	9,458

5. Revenue

The Group's revenue is disaggregated as follows:

	For the six months ended 30 June	
	2023 (Unaudited) HK\$'000	2022 (Unaudited) HK\$'000
<i>Revenue from contracts with customers</i>		
Commission and fee income (note (i)):		
Fee and commission income on securities dealing and brokerage	736	3,323
Consultancy and financing advisory fee income	4,307	8
Management fee income	1,014	809
Other service income	62	63
	6,119	4,203
<i>Revenue from other sources</i>		
Interest income:		
Interest income calculated using the effective interest method		
Interest income from other loans and debt instruments	40,830	49,237
Interest income from finance lease receivables	1,430	25,187
Interest income from margin financing activities	2,015	2,166
	44,275	76,590
Interest income – others:		
Interest income from financial assets at fair value through profit or loss	7,337	27,137
Interest income from financial assets at fair value through other comprehensive income	6,705	7,824
	14,042	34,961
Total interest income	58,317	111,551
Investment income:		
Dividend income	–	20,135
Total revenue	64,436	135,889

5. Revenue (continued)

Note:

- (i) Disaggregated revenue information for revenue from contracts with customers

	For the six months ended 30 June	
	2023 (Unaudited) HK\$'000	2022 (Unaudited) HK\$'000
Services transferred at a point in time	5,105	3,394
Services transferred over time	1,014	809
Total revenue from contracts with customers	6,119	4,203

6. Finance costs

	For the six months ended 30 June	
	2023 (Unaudited) HK\$'000	2022 (Unaudited) HK\$'000
Interest on bank borrowings	46,609	21,714
Interest on repurchase agreements and other activities	1,963	5,922
Interest on a loan from a fellow subsidiary	1,288	1,437
Interest on loans from an immediate holding company	50,386	50,298
Interest on loans from an intermediate holding company	62,217	115,262
Interest on lease liabilities	384	1,702
	162,847	196,335

7. Loss before tax

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

	For the six months ended 30 June	
	2023 (Unaudited) HK\$'000	2022 (Unaudited) HK\$'000
Depreciation of property, plant and equipment	937	6,289
Depreciation of right-of-use assets	24,758	25,396
Auditor's remuneration – interim review	1,380	1,763
Legal and professional fee	2,054	14,780
Employee benefit expenses (including directors' remuneration)	13,829	31,672
Net provision for impairment of other loans and debt instruments	59,591	240,125
Net provision for impairment of accounts receivable and others	–	331,941
Net provision for impairment of advances to customers in margin financing	9,929	7,633
Net provision for impairment of finance lease receivables	33,278	194,280
Net provision for impairment of financial assets at fair value through other comprehensive income	30,153	45,458

8. Income tax

During the six months ended 30 June 2023 and 30 June 2022, no provision for Hong Kong Profits Tax has been made as the Group did not generate any assessable profits arising in Hong Kong.

Under the Law of the People's Republic of China on Enterprise Income Tax (the "EIT Law") and Implementation Regulation of the EIT Law, the tax rate of the PRC subsidiaries is 25% for the period (2022: 25%).

	For the six months ended 30 June	
	2023 (Unaudited) HK\$'000	2022 (Unaudited) HK\$'000
Current tax:		
Mainland	722	–
Over provision in prior years:		
Hong Kong	–	(20,439)
Total tax charge/(credit) for the period	722	(20,439)

9. Loss per share attributable to ordinary equity holders of the Company

The calculations of basic loss per share attributable to ordinary equity holders of the Company is as follows:

	For the six months ended 30 June	
	2023 (Unaudited) HK\$'000	2022 (Unaudited) HK\$'000
Loss		
Loss for the period attributable to ordinary equity holders of the Company, used in the basic loss per share calculation	(658,804)	(1,457,379)
	Number of shares	
	2023 (Unaudited) '000	2022 (Unaudited) '000
Number of shares		
Weighted average number of ordinary shares in issue during the period used in the basic loss per share calculation	8,709,586	8,709,586

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

10. Financial assets at fair value through profit or loss

	30 June 2023 (Unaudited) HK\$'000	31 December 2022 (Audited) HK\$'000
Financial assets at fair value through profit or loss ("FVTPL")		
Non-current:		
Unlisted fund investments (note (i))	615,760	533,830
Listed fixed income securities	150,682	217,175
Unlisted fixed income securities (note (ii))	300,317	–
	1,066,759	751,005
Current:		
Unlisted fund investments (note (i))	176,240	479,717
Listed equity investments	21,766	63,492
Listed fixed income securities	86,502	55,583
Unlisted fixed income securities (note (ii))	4,244	394,651
	288,752	993,443
Total financial assets at FVTPL	1,355,511	1,744,448

Notes:

- (i) The Group expects to realise the unlisted fund investments of approximately HK\$176,240,000 (31 December 2022: HK\$479,717,000) within the next twelve months and has accordingly classified them as current assets.
- (ii) The coupon rates of these unlisted fixed income securities range from 7% to 8% (31 December 2022: from 7% to 8%) per annum as at 30 June 2023. The Group expects to transfer such unlisted fixed income securities of approximately HK\$4,244,000 (31 December 2022: HK\$394,651,000) to third parties within the next twelve months.

11. Financial assets at fair value through other comprehensive income

	30 June 2023 (Unaudited) HK\$'000	31 December 2022 (Audited) HK\$'000
Non-current:		
Fixed income securities, at fair value	79,448	158,251
Current:		
Fixed income securities, at fair value	96,587	47,164
	176,035	205,415

During the period, the loss in respect of changes in fair value of the Group's financial assets at FVTOCI recognised in other comprehensive income amounted to approximately HK\$20,180,000 (2022: loss of approximately HK\$91,968,000). During the period, the Group has net provision for impairment of financial assets at fair value through other comprehensive income included in profit or loss of HK\$30,153,000 (2022: HK\$45,458,000). Total allowances for impairment as at 30 June 2023 are approximately HK\$460,409,000 (31 December 2022: HK\$431,129,000). During the period, the Group did not dispose of financial assets at FVTOCI to independent third parties (2022: disposal loss of approximately HK\$19,337,000 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 fair value through other comprehensive income" within "revenue".

12. Investment accounted for using the equity method and amount due from an associate

Name of entity	Country of incorporation	Interest held by the Group		Principal activities
		30 June 2023	31 December 2022	
Hua Rong Bo Run International Investment Holdings Limited	Hong Kong	40%	40%	Investment holding

The carrying amount of total investment in an associate using the equity method (comprised of the cost of unlisted investment in an associate, share of results of an associate and exchange differences) were nil as at 30 June 2023 and 31 December 2022.

The share of profit arisen from Hua Rong Bo Run International Investment Holdings Limited for the period ended 30 June 2023 and 30 June 2022 were nil.

The gross amount of amount due from the associate, Hua Rong Bo Run International Investment Holdings Limited, with an interest rate of 7% per annum, repayable on 21 May 2022, is HK\$307,979,000 (31 December 2022: 306,386,000). Upon the maturity of the amount due from an associate, there is no repayment of principal from the associate. Provision for impairment of HK\$307,979,000 (31 December 2022: HK\$306,386,000) has been made against the amount due from the associate as at 30 June 2022 due to significant financial difficulty of the associate. The carrying amount of the amount due from the associate was nil as at 30 June 2023 (31 December 2022: nil).

13. Financial lease receivables

The finance lease receivables as at 30 June 2023:

	30 June 2023 (Unaudited) HK\$'000
Current	97,808
Total	97,808

	30 June 2023	
	Minimum finance lease receivables HK\$'000	Present value of minimum finance lease receivables HK\$'000
Within one year	791,755	791,072
After one year but within two years	-	-
	791,755	791,072
Less: Unearned finance income	(683)	-
	791,072	791,072
Less: Allowance for expected credit losses ("ECL")	(693,264)	(693,264)
Carrying amount of finance lease receivables	97,808	97,808

13. Financial lease receivables (continued)

The finance lease receivables as at 31 December 2022:

	31 December 2022 (Audited) HK\$'000
Current	376,565
Total	376,565

	31 December 2022	
	Minimum finance lease receivables HK\$'000	Present value of minimum finance lease receivables HK\$'000
Within one year	1,125,516	1,124,282
After one year but within two years	–	–
Less: Unearned finance income	1,125,516 (1,234)	1,124,282 –
Less: Allowance for expected credit losses	1,124,282 (747,717)	1,124,282 (747,717)
Carrying amount of finance lease receivables	376,565	376,565

13. Financial lease receivables (continued)

Movement of ECL:

	HK\$'000
At 1 January 2022 (audited)	468,128
Net provision for impairment for the year	337,520
Amount written off during the year	(3,668)
Exchange differences on translation of foreign operations	(54,263)
At 31 December 2022 and 1 January 2023 (audited)	747,717
Net provision for impairment for the period	33,278
Amount written off during the period	(65,649)
Exchange differences on translation of foreign operations	(22,082)
At 30 June 2023 (unaudited)	693,264

At 30 June 2023 and 31 December 2022, finance lease receivables were all secured by the lease assets which are mainly machineries, motor vehicles and equipment. Interest rates of the above finance leases ranged from 6.80% to 9.75% per annum (31 December 2022: 6.80% to 9.75% per annum).

14. Other loans and debt instruments

	30 June 2023 (Unaudited) HK\$'000	31 December 2022 (Audited) HK\$'000
Other loans and debt instruments	1,299,652	1,282,822
Less: Allowance for expected credit losses	(848,718)	(789,127)
	450,934	493,695
Analysed as:		
Non-current	213,060	255,821
Current	237,874	237,874
	450,934	493,695

As at 30 June 2023, other loans and debt instruments included loans to independent third parties which are secured and/or backed by guarantees and collaterals, with contractual interest rates ranging from 8% to 9.5% per annum (31 December 2022: 8% to 9.5% per annum).

14. Other loans and debt instruments (continued)

As at 30 June 2023, other loans and debt instruments with a carrying amount of approximately HK\$450,934,000 were secured by equity interests in companies listed in Hong Kong and land and properties in Mainland China (31 December 2022: HK\$493,695,000 were secured by equity interests in companies listed in Hong Kong and land and properties in Mainland China).

As at 30 June 2023, other loans and debt instruments with a carrying amount of approximately HK\$237,874,000 (31 December 2022: approximately HK\$237,874,000) were overdue and the remaining balances were novation loans with no maturity date. No ageing analysis is disclosed as in the opinion of the directors of the Company, the ageing analysis does not give additional value.

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

The management of the Group estimates the amount of loss allowance for expected credit loss on these credit impaired loan receivables by assessing the present value of estimated future cash flows with the consideration of expected future credit loss of the respective loans which are 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 assessment of the credit risk and therefore expected cash flows of the respective loan involves a high degree of estimation and uncertainty. In the opinion of the directors of the Company, the impairment provision for the current period is sufficient.

As at 30 June 2023, the gross carrying amount for 12-month ECL, lifetime ECL (not credit-impaired) and lifetime ECL (credit-impaired) were nil (31 December 2022: nil), HK\$135,014,000 (31 December 2022: HK\$153,118,000) and HK\$1,164,638,000 (31 December 2022: HK\$1,129,704,000) respectively.

As at 30 June 2023, the average loss rate for 12-month ECL, lifetime ECL (not credit-impaired) and lifetime ECL (credit-impaired) were nil (31 December 2022: nil), 5% (31 December 2022: 0.01%) and 72% (31 December 2022: 70%) respectively.

As at 30 June 2023, the contractual amount outstanding on other loans and debt instruments that have been written off was nil (31 December 2022: HK\$580,639,000).

14. Other loans and debt instruments (continued)

Novation loans

The Hong Kong economy has been greatly impacted by the US and China trade tariff dispute and worsened further by the recent Coronavirus outbreak, certain margin clients concerned have been unable to repay the margin loans as scheduled despite the vigorous efforts by the Group to demand repayment. The margin loan recovery plan has met these major obstacles unexpected and not been able to deliver satisfactory results to date.

According to Paragraphs 3.10 and 6.4 of Guidelines for Securities Margin Financing Activities (“**SMF Guidelines**”), a Securities Margin Financing (“**SMF**”) broker should assess the concentration risks of individual securities collateral by estimating the impact on its excess liquid capital of the hypothetical stress scenario of the securities held as collateral being valued at zero by the FRR for liquid capital calculation purposes and a SMF broker should also take reasonable steps to avoid excessive exposure to outstanding margin calls.

In order to comply with the requirements of the SMF Guidelines, a subsidiary of the Company (“**subsidiary A**”) had notified the Securities and Futures Commission (“**SFC**”) as at 6 March 2020 that it has worked out various alternative measures.

Thereafter, subsidiary A of the Company had taken action to restructure certain margin loans and underlying collaterals into certain loans backed by security interest and guarantee (if any) by assigning the debts and other rights and interests to subsidiary B of the Company (“**subsidiary B**”) through executing agreements with certain margin customers and their guarantors (if any). Subsidiary A has signed deeds of assignment with certain margin customers which were effective on 30 April 2020 and the subsidiary A thereby assigned certain advances to customers in margin financing to subsidiary B. Subsidiary B also signed side deeds during 2020 with subsidiary A that, in consideration for the abovementioned assignment of debts and other rights and interests, subsidiary B will pay a gross amount of HK\$2,447,008,000 at transaction price to subsidiary A for the transfer within 3 years. This balance is unsecured and interest-free. No repayment has been made by subsidiary B upon the maturity of amount outstanding.

As at 30 June 2023, there was a further reduction in the carrying amount of the assigned loans as compared to the position as at the assignment date as a result of increase of provision for impairment. The assigned loans have gross amount of HK\$743,388,000 (31 December 2022: HK\$881,325,000) and allowance for expected credit losses of HK\$530,328,000 (31 December 2022: HK\$625,504,000), resulting in a net balance of HK\$213,060,000 (31 December 2022: HK\$255,821,000).

15. Advances to customers in margin financing

	30 June 2023 (Unaudited) HK\$'000	31 December 2022 (Audited) HK\$'000
Advances to customers in margin financing	117,527	126,283
Less: Allowance for expected credit losses	(93,154)	(83,228)
	24,373	43,055

The advances to customers in margin financing are interest-bearing and secured by the underlying pledged securities. The Group maintains a list of approved securities for margin lending at a specific loan to collateral ratio. Any excess in the lending ratio will trigger a margin call in the case of which the customers have to make additional funds 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 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 its credit risk. Advances to customers margin financing are secured by the pledge of customers' securities as collateral. The credit facility limits to customers in margin financing are determined by the market value of the collateral securities accepted by the Group. Overdue balances are reviewed regularly by the management.

As at 30 June 2023, the Group has concentration of credit risk as 90% (31 December 2022: 86%) of the total gross carrying amount of loans to securities margin clients due from the Group's five largest securities margin clients.

15. Advances to customers in margin financing (continued)

In determining the allowances for credit impaired loans to margin clients, the management of the Group also takes into account the shortfall by comparing the market 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. The management of the Group estimates the amount of expected credit loss allowance on these credit impaired loan receivables by assessing the present value of estimated future cash flows with the consideration of expected future credit losses of the respective loans which are 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 market value of the collateral received from the customers in determining the impairment with the involvement of independent qualified valuers, if necessary. The assessment of the credit risk and therefore expected cash flows of the respective loan involves a high degree of estimation and uncertainty. In the opinion of the directors of the Company, the impairment provision for the current period is sufficient.

As at 30 June 2023, the gross carrying amount for 12-month ECL, lifetime ECL (not credit-impaired) and lifetime ECL (credit-impaired) were HK\$23,910,000 (31 December 2022: HK\$33,008,000), nil (31 December 2022: nil) and HK\$93,617,000 (31 December 2022: HK\$93,275,000) respectively.

As at 30 June 2023, the average loss rate for 12-month ECL, lifetime ECL (not credit-impaired) and lifetime ECL (credit-impaired) were 1.41% (31 December 2022: 0.09%), nil (31 December 2022: nil), and 99% (31 December 2022: 89%) respectively.

16. Accounts receivable

	30 June 2023 (Unaudited) HK\$'000	31 December 2022 (Audited) HK\$'000
Accounts receivable from:		
– securities dealing services		
– clients	354	344
– brokers, dealers and clearing houses	424	422
– corporate finance and asset management	6,358	18,993
– direct investment and others	262,849	654,444
	269,985	674,203
Less: Allowance for expected credit losses	(73,188)	(133,289)
	196,797	540,914

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 and dealers.

Normal settlement terms of accounts receivable arising from the business of 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 allowance for expected credit losses, is as follows:

	30 June 2023 (Unaudited) HK\$'000	31 December 2022 (Audited) HK\$'000
0–30 days	189,388	534,982
31–90 days	–	–
91–365 days	–	–
Over 365 days	7,409	5,932
	196,797	540,914

16. Accounts receivable (continued)

The movements in allowance for expected credit losses of accounts receivable are as follows:

	30 June 2023 (Unaudited) HK\$'000	31 December 2022 (Audited) HK\$'000
At beginning of period/year	133,289	276,419
Net provision for impairment	–	365,008
Amount written off during the year	(60,101)	(508,138)
At end of period/year	73,188	133,289

For accounts receivable from clients, the management ensures that the available cash balance and listed equity securities belonging to accounts receivable client 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 the repayment schedule and assesses the latest status of the debtors.

As at 30 June 2023, accounts receivable amounting to HK\$6,358,000 (31 December 2022: HK\$18,993,000) arose from corporate finance and asset management business which is under the scope of HKFRS 15 and accounts receivable amounting to HK\$262,849,000 (31 December 2022: HK\$654,444,000) arose from direct investment business. The Group performs impairment assessment under lifetime ECL on these balance individually for debtors. As at 30 June 2023, allowance amounting to HK\$72,901,000 (31 December 2022: HK\$133,005,000) was made accordingly.

The remaining allowance for expected credit losses of accounts receivable is the provision for individually impaired accounts receivable from securities clients of approximately HK\$287,000 (31 December 2022: HK\$284,000).

17. Restricted bank balances

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

18. Cash and deposits with banks

	30 June 2023 (Unaudited) HK\$'000	31 December 2022 (Audited) HK\$'000
Cash and bank balances	1,590,323	1,670,620
Time deposits with original maturity of less than three months	900,764	302,494
Cash and cash equivalents	2,491,087	1,973,114
Time deposits with original maturity of more than three months	–	13,527
Total cash and deposits with banks	2,491,087	1,986,641

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 time deposits are deposited with creditworthy banks with no recent history of default.

As at 30 June 2023 and 31 December 2022, no time deposit has been pledged for a bank borrowing.

19. Accounts payable

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

	30 June 2023 (Unaudited) HK\$'000	31 December 2022 (Audited) HK\$'000
Current to 1 month	113,391	125,625

The accounts payable are unsecured and repayable on the settlement date of the relevant trades or upon demand from customers.

As at 30 June 2023, accounts payable with a carrying amount of approximately HK\$111,682,000 (31 December 2022: HK\$123,710,000) are interest-bearing at bank savings deposit rates.

20. Other liabilities, payables and accruals

	30 June 2023 (Unaudited) HK\$'000	31 December 2022 (Audited) HK\$'000
Non-current:		
Other payables	3,504	3,504
Current:		
Other payables	140,781	149,989
Interest payables (note (i))	48,330	46,382
Accruals	3,152	3,322
Receipt in advance	300	65
	192,563	199,758
	196,067	203,262

Other payables and accrued liabilities are non-interest-bearing.

Note:

- (i) Included in interest payables are the interest payables amounting to HK\$19,122,000 (31 December 2022: HK\$19,244,000) in relation to the loans from an intermediate holding company of an aggregate amount of US\$280,115,000 (31 December 2022: US\$280,115,000) at annual interest rates ranging from 4.3% to 7.98% (31 December 2022: 4.3% to 7.98%) and interest payables of HK\$5,032,000 (31 December 2022: HK\$4,278,000) in relation to bank borrowings. Moreover, interest payables of HK\$20,269,000 (31 December 2022: HK\$21,464,000) are related to the loans from an immediate holding company and HK\$3,907,000 (31 December 2022: HK\$1,396,000) is related to an unsecured loan from a fellow subsidiary.

21. Interest-bearing borrowings

	30 June 2023 (Unaudited) HK\$'000	31 December 2022 (Audited) HK\$'000
Non-current:		
Unsecured loans from an intermediate holding company	2,195,333	2,183,984
Unsecured loans from an immediate holding company	843,630	2,034,482
An unsecured loan from a fellow subsidiary	–	55,974
	3,038,963	4,274,440
Current:		
Unsecured bank borrowings	1,599,000	1,599,000
An unsecured loan from a fellow subsidiary	54,231	–
Unsecured loans from an immediate holding company	1,201,424	–
	2,854,655	1,599,000
Total interest-bearing borrowings	5,893,618	5,873,440

	30 June 2023 (Unaudited) HK\$'000	31 December 2022 (Audited) HK\$'000
The carrying amounts of the above borrowings are repayable based on scheduled repayment dates set out in the loan agreements:		
On demand or within one year	2,854,655	1,599,000
Within a period of more than one year but not exceeding two years	247,717	1,497,624
Within a period of more than two years but not exceeding five years	1,294,424	1,287,732
More than five years	1,496,822	1,489,084
	5,893,618	5,873,440

21. Interest-bearing borrowings (continued)

	30 June 2023 (Unaudited) HK\$'000	31 December 2022 (Audited) HK\$'000
Denominated in:		
HK\$	1,599,000	1,599,000
US\$	4,240,387	4,218,466
RMB	54,231	55,974
	5,893,618	5,873,440

The bank borrowings as at 30 June 2023 carry variable interest at Hong Kong Interbank Offered Rate (“**HIBOR**”) plus 1.25% to 2.45% per annum (31 December 2022: HIBOR plus 1.25% to 2.45% per annum).

In addition, the Group had loans amounting to approximately US\$280,115,000 (equivalent to approximately HK\$2,195,333,000) (31 December 2022: US\$280,115,000 (equivalent to approximately HK\$2,183,984,000)) from its intermediate holding company, for the operation of the Group’s business. The loans bear interest at fixed interest rates ranging from 4.3% to 7.98% per annum (31 December 2022: 4.3% to 7.98% per annum) and are repayable in one year and within seven years (31 December 2022: in one year and within seven years) from the end of the reporting period.

Furthermore, the Group had loans amounting to approximately US\$260,940,000 (equivalent to approximately HK\$2,045,054,000) (31 December 2022: US\$260,940,000 (equivalent to approximately HK\$2,034,482,000)) from its immediate holding company, for the operation of the Group’s business. The loans bear interest at fixed interest rates ranging from 3.87% to 5.81% per annum (31 December 2022: 3.87% to 5.81% per annum) and are repayable in one year and within six years (31 December 2022: after one year and within seven years) from the end of the reporting period.

In addition, the Group had a loan of RMB50,000,000 (equivalent to approximately HK\$54,231,000) (31 December 2022: RMB50,000,000 (equivalent to approximately HK\$55,974,000)) from its fellow subsidiary, for the operation of the Group’s business. The loan bears interest at a fixed interest rate 4.75% per annum (31 December 2022: 4.75% per annum) and is repayable in one year (31 December 2022: repayable in two years) from the end of the reporting period.

The carrying amounts of the interest-bearing borrowings approximate their fair values as the impact on discounting is not significant.

21. Interest-bearing borrowings (continued)

As at 30 June 2023 and 31 December 2022, the Group failed to comply with a financial condition stipulated in a bank borrowing amounting to HK\$624,000,000. In August 2023, the relevant bank granted a waiver to the Group and continued to provide normal banking facilities to the Group.

Subsequent to 30 June 2023, the Group communicated and confirmed with various banks related to certain bank borrowings. Pursuant to the agreements with the banks, the next review dates of bank borrowings of HK\$775 million, HK\$624 million and HK\$200 million will be September 2023, August 2024 and September 2023, respectively.

22. Share capital

	Number of shares '000,000	Share capital HK\$'000
Authorised:		
Ordinary shares of HK\$0.001 each at 1 January 2022, 31 December 2022, 1 January 2023 and 30 June 2023	1,000,000	1,000,000
Issued and fully paid:		
At 1 January 2022 (audited), 31 December 2022 (audited), 1 January 2023 (audited) and 30 June 2023 (unaudited)	8,710	8,710

23. Repurchase agreements

Repurchase agreements arise when the securities are sold by the Group with a concurrent agreement to repurchase at a specified later date and price. These securities are not derecognized from the Group's condensed consolidated statement of financial position and are retained within the appropriate financial assets classification. The amount received by the Group is recognized as liabilities as the Group retains substantially all risks and returns of the securities.

As at 30 June 2023, the obligations under repurchase agreements were HK\$65,684,000 (31 December 2022: HK\$107,331,000).

The following table specifies the amount included within financial assets at fair value through profit or loss and financial assets at fair value through other comprehensive income subject to repurchase agreements at the period end/year end.

	30 June 2023 (Unaudited) HK\$'000	31 December 2022 (Audited) HK\$'000
Financial assets at fair value through other comprehensive income	68,083	71,540
Financial assets at fair value through profit or loss	5,202	14,800
	73,285	86,340

24. Perpetual capital securities classified as equity instruments

	Principal HK\$'000	Distributions HK\$'000	Total HK\$'000
Balance at 1 January 2022 (audited)	2,737,154	18,627	2,755,781
Issuance of perpetual capital securities during the year	3,846,715	–	3,846,715
Redemption of perpetual capital securities during the year	(420,969)	–	(420,969)
Profit attributable to holder of perpetual capital securities	–	219,423	219,423
Distributions relating to perpetual capital securities	–	(158,466)	(158,466)
Balance at 31 December 2022 (audited) and 1 January 2023 (audited)	6,162,900	79,584	6,242,484
Profit attributable to holder of perpetual capital securities	–	200,443	200,443
Distributions relating to perpetual capital securities	–	(154,297)	(154,297)
Balance at 30 June 2023 (unaudited)	6,162,900	125,730	6,288,630

On 25 and 28 July 2023, the Group had distributed approximately HK\$22,516,000 and HK\$46,279,000 to holder of perpetual capital securities, respectively.

25. Related party transactions

In addition to the transactions and balances disclosed elsewhere to the interim financial information, the Group had the following related party transactions during the period:

- (a) Compensation of key management personnel of the Group, including directors' and the chief executive's remuneration, is as follows:

	For the six months ended 30 June	
	2023 (Unaudited) HK\$'000	2022 (Unaudited) HK\$'000
Short-term employee benefit	1,286	1,387

25. Related party transactions (continued)

- (b) During the period ended 30 June 2023 and 30 June 2022, the Group did not have any material transactions with related parties.

Details as follow:

	For the six months ended 30 June	
	2023	2022
	Finance costs (Unaudited) HK\$'000	Finance costs (Unaudited) HK\$'000
An intermediate holding company (note (i))	62,217	115,262
A fellow subsidiary (note (ii))	1,288	1,437
An immediate holding company (note (iii))	50,386	50,298

Notes:

- (i) The Group had loans amounting to approximately US\$280,115,000 (equivalent to approximately HK\$2,195,333,000) (31 December 2022: US\$280,115,000 (equivalent to approximately HK\$2,183,984,000)) from its intermediate holding company for the operation of the Group's business. Please refer to note 21 for details of the loans and note 20 for the interest payable of the loans. As a result, finance cost of HK\$62,217,000 (2022: HK\$115,262,000) was resulted for the period ended 30 June 2023.
- (ii) During the period, the Group had a loan denominated in RMB of approximately RMB50,000,000 (equivalent to approximately HK\$54,231,000) (31 December 2022: approximately RMB50,000,000 (equivalent to approximately HK\$55,974,000)) from its fellow subsidiary, for the operation of the Group's business. Please refer to note 21 for details of the loan and note 20 for the interest payable of the loan. As a result, finance cost of HK\$1,288,000 (2022: HK\$1,437,000) was resulted for the period ended 30 June 2023.
- (iii) During the period, the Group had loans amounting to approximately US\$260,940,000 (equivalent to approximately HK\$2,045,054,000) (31 December 2022: approximately US\$260,940,000 (equivalent to approximately HK\$2,034,482,000)) from its immediate holding company for the operation of the Group's business. Please refer to note 21 for details of the loans and note 20 for the interest payable of the loans. As a result, finance cost of HK\$50,386,000 (2022: HK\$50,298,000) was resulted for the period ended 30 June 2023.

The Group is indirectly controlled by China Huarong. The MOF is the major shareholder of China Huarong as at 30 June 2023. For the current period, in addition to those disclosed above, the Group has undertaken transactions with certain entities directly or indirectly owned by the PRC government, including but not limited to receiving loan facilities. The Group is of opinion that these transactions are in normal business terms that do not require separate disclosure.

26. Fair value measurements of financial instruments

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

30 June 2023 (Unaudited)

	Fair value measurement using			Total HK\$'000
	Quoted prices in active markets (Level 1) HK\$'000	Significant observable inputs (Level 2) HK\$'000	Significant unobservable inputs (Level 3) HK\$'000	
Assets				
Non-current				
Financial assets at fair value through other comprehensive income	–	79,448	–	79,448
Financial assets at fair value through profit or loss				
– Unlisted fund investments	–	1,545	614,215	615,760
– Listed fixed income securities	–	150,682	–	150,682
– Unlisted fixed income securities	–	–	300,317	300,317
	–	231,675	914,532	1,146,207
Current				
Financial assets at fair value through other comprehensive income	–	96,587	–	96,587
Financial assets at fair value through profit or loss				
– Unlisted fund investments	–	19,673	156,567	176,240
– Listed equity investments	21,766	–	–	21,766
– Listed fixed income securities	–	86,502	–	86,502
– Unlisted fixed income securities	–	–	4,244	4,244
	21,766	202,762	160,811	385,339
Total financial assets measured at fair value	21,766	434,437	1,075,343	1,531,546

26. Fair value measurements of financial instruments (continued)

31 December 2022 (Audited)

	Fair value measurement using			Total HK\$'000
	Quoted prices in active markets (Level 1) HK\$'000	Significant observable inputs (Level 2) HK\$'000	Significant unobservable inputs (Level 3) HK\$'000	
Assets				
Non-current				
Financial assets at fair value through other comprehensive income	–	158,251	–	158,251
Financial assets at fair value through profit or loss				
– Unlisted fund investments	–	23,916	509,914	533,830
– Listed fixed income securities	–	217,175	–	217,175
	–	399,342	509,914	909,256
Current				
Financial assets at fair value through other comprehensive income	–	47,164	–	47,164
Financial assets at fair value through profit or loss				
– Unlisted fund investments	–	186,622	293,095	479,717
– Listed equity investments	63,492	–	–	63,492
– Listed fixed income securities	–	55,583	–	55,583
– Unlisted fixed income securities	–	–	394,651	394,651
	63,492	289,369	687,746	1,040,607
Total financial assets measured at fair value	63,492	688,711	1,197,660	1,949,863

27. Fair value and fair value hierarchy of financial instruments

Fair value of the Group's financial assets

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

An analysis of the Group's financial assets measured at fair value as at 30 June 2023 and 31 December 2022 are as follows:

	Fair value as at 30 June 2023 (Unaudited) HK\$'000	Fair value as at 31 December 2022 (Audited) HK\$'000	Fair value hierarchy	Valuation technique(s) and key input(s)	Significant unobservable inputs	Reasonable change in key inputs +/-	Increase/(decrease) in fair value of financial instruments by reasonable changes in significant inputs
Financial assets at FVTPL							
(1) Financial assets at FVTPL	Listed equity investments: - HK\$21,766	Listed equity investments: - HK\$63,492	Level 1	Note (a)	N/A	N/A	N/A
(2) Financial assets at FVTPL	Listed fixed income securities: - HK\$237,184	Listed fixed income securities: - HK\$272,758	Level 2	Note (b)	N/A	N/A	N/A
(3) Financial assets at FVTPL	Unlisted fund investments: - HK\$21,218	Unlisted fund investments: - HK\$210,538	Level 2	Note (c)	N/A	N/A	N/A
(4) Financial assets at FVTPL	Unlisted fund investment: - HK\$261,097	Unlisted fund investment: - HK\$293,095	Level 3	Note (d)	Net asset value	10% unit value	Increase/decrease in net asset value of HK\$26,110,000/HK\$(26,110,000)

27. Fair value and fair value hierarchy of financial instruments (continued)

Fair value of the Group's financial assets (continued)

	Fair value as at 30 June 2023 (Unaudited) HK\$'000	Fair value as at 31 December 2022 (Audited) HK\$'000	Fair value hierarchy	Valuation technique(s) and key input(s)	Significant unobservable inputs	Reasonable change in key inputs +/-	Increase/(decrease) in fair value of financial instruments by reasonable changes in significant inputs
Financial assets at FVTPL							
(5) Financial assets at FVTPL	Unlisted fund investments: - HK\$509,685	Unlisted fund investments: - HK\$509,914	Level 3	Notes (d) and (e) Net asset value		10% unit value	Increase/decrease in net asset value of HK\$50,969,000/HK\$(50,969,000)
(6) Financial assets at FVTPL	Unlisted convertible bonds: - HK\$304,561	Unlisted convertible bonds: - HK\$394,651	Level 3	Note (f)	Discount rate	0.5% of the discount rate	Increase/decrease of HK\$(3,391,000)/HK\$3,446,000
Financial assets at FVTOCI							
(7) Financial assets at FVTOCI	Listed fixed income securities: - HK\$176,035	Listed fixed income securities: - HK\$205,415	Level 2	Note (b)	N/A	N/A	N/A

Notes:

- Quoted price in an active market.
- The fair value was determined with reference to quoted prices provided by brokers/financial institutions.
- Dealing price of the investment funds derived from the net asset values of the investment funds with reference to observable quoted prices of underlying investment portfolio in active markets.
- The fair value is determined with reference to the net asset value of the investment fund after taking into account the credit risk of underlying investments of the fund.
- The fair value is determined with reference to the net asset value of the unlisted equity investments after taking into account the credit risk of the underlying investments of the fund.
- The fair value is determined based on the probability-weighted scenario analysis. The key unobservable input is the 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.

27. Fair value and fair value hierarchy of financial instruments (continued)

Fair value of the Group's financial assets (continued)

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

	30 June 2023 (Unaudited) HK\$'000	30 June 2022 (Unaudited) HK\$'000
Financial assets:		
At beginning of the period	1,197,660	1,543,687
Transfer into level 3	–	13,537
Disposed during the period	–	(231,394)
Total loss in profit or loss	(122,316)	(53,425)
At end of the period	1,075,344	1,272,405

For the period ended 30 June 2023, the total loss for the period included in profit or loss was HK\$122,316,000 (2022: loss of HK\$53,425,000) which relates to financial assets at FVTPL at the end of each reporting period. Fair value gains or losses on financial assets at FVTPL are included in “net loss on financial assets at fair value through profit or loss”.

28. Contingent liabilities

The Group had no material contingent liabilities at 30 June 2023 and 31 December 2022.

29. Dividends

No dividend was paid to the shareholders of the Company for the six months ended 30 June 2023 and 30 June 2022.

The Board has resolved not to declare the payment of any interim dividend for the six months ended 30 June 2023 and 30 June 2022.

30. Deed of undertaking to a fund

A subsidiary of the Company ("**subsidiary X**") acted as general partner for a fund ("**the Fund**") set up in 2016. Third party A acting as the sole limited partner invested HK\$950 million into the Fund. Third party B and another subsidiary of the Company ("**subsidiary Y**") both acted as fund managers. Third party A and third party B are related parties to each other. Subject to the terms of the limited partnership agreement, if the investment return is greater than or equal to 6% per annum, third party A is entitled to receive a return of 6% per annum from the Fund's assets. Third party B is entitled to receive management fee of 0.5% per annum of the capital commitment of each limited partner. If the investment return is greater than 6% per annum, the excess will be received by subsidiary Y as performance fee. Subsidiary Y is also entitled to receive management fee of 1% per annum of the capital commitment of each limited partner. The business substance of the Fund is for third party A to lend money to third party C.

Subsidiary Y entered into a deed of undertaking to the Fund in 2016. The Company also issued a comfort letter to third party A. Subsidiary Y undertakes to the Fund to use all feasible endeavours to facilitate the Fund to perform its obligations. Subsidiary Y also undertakes to the Fund to serve as liquidity provider. Neither the comfort letter nor the deed of undertaking constitutes guarantee obligations of the Company, subsidiary X or subsidiary Y as at 31 December 2022 and 30 June 2023.

On 22 December 2022, third party A commenced legal proceedings in the courts of both Hong Kong and the Cayman Islands. In both sets of proceedings, third party A seeks payment of certain sums which it alleges are due and unpaid under the limited partnership agreement entered into between third party A and subsidiary X. Third party A also claims damages and/or compensation for alleged breaches of fiduciary, contractual and/or statutory duties by subsidiary X. Further, third party A alleges breaches of the comfort letter and the deed of undertaking by the Company and subsidiary Y respectively. The legal proceedings in the courts of the Cayman Islands are ongoing. Based on currently available information, the Company's board of directors considers that the claims will have no material impact on the Group's normal business and operation as at the date of this report.

SUPPLEMENTARY INFORMATION

Interests and short positions of substantial shareholders

As at 30 June 2023, so far as was known to the Directors and the chief executive of the Company, the following persons or corporations (other than a Director or chief executive of the Company) who had interests 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	Number of Shares held	Approximate percentage of the issued share capital of the Company as at 30 June 2023
China Huarong (Notes 1, 2 and 3)	Interests in controlled corporation	4,441,556,104 (L)	51.00%
	Interests in controlled corporation (security interest)	2,144,097,429 (L)	24.62%
CHIH (Notes 1 and 3)	Interests in controlled corporation	4,441,556,104 (L)	51.00%
	Interests in controlled corporation (security interest)	135,000,000 (L)	1.55%
Right Select (Note 1)	Beneficial owner	2,611,438,440 (L)	29.98%
Camellia Pacific (Note 1)	Beneficial owner	1,830,117,664 (L)	21.01%
Shinning Rhythm Limited (Note 2)	Security interest	2,009,097,429 (L)	23.07%
China Huarong Overseas Investment Holdings Co., Limited (Note 2)	Interests in controlled corporation (security interest)	2,009,097,429 (L)	23.07%
Huarong Huaqiao Asset Management Co., Ltd. (Note 2)	Interests in controlled corporation (security interest)	2,009,097,429 (L)	23.07%
Huarong Zhiyuan Investment & Management Co., Ltd. ("Huarong Zhiyuan") (Note 2)	Interests in controlled corporation	2,009,097,429 (L)	23.07%

Name of Shareholder	Capacity/Nature of interest	Number of Shares held	Approximate percentage of the issued share capital of the Company as at 30 June 2023
Hero Link Enterprises Limited (Note 4)	Beneficial owner	129,000,000 (L)	1.48%
China Tian Yuan International Finance Limited (Note 4)	Beneficial owner	646,220,529 (L)	7.42%
	Interests in controlled corporation	129,000,000 (L)	1.48%
China Tian Yuan Finance Group (Holdings) Limited (Note 4)	Interests in controlled corporation	775,220,529 (L)	8.90%
Ningxia Tianyuan Manganese Industry Group Co., Ltd. (Note 5)	Interests in controlled corporation	996,517,500 (L)	11.44%
Tian Yuan Manganese Limited (Note 5)	Interests in controlled corporation	996,517,500 (L)	11.44%
China Tian Yuan Manganese Finance (Holdings) Limited (Note 5)	Interests in controlled corporation	996,517,500 (L)	11.44%
China Tian Yuan Asset Management Limited (“ Tian Yuan Asset Management ”) (Note 5)	Beneficial owner	996,517,500 (L)	11.44%
Mr. Jia Tianjiang (Notes 4 and 5)	Interests in controlled corporation	1,771,738,029 (L)	20.34%
Ms. Dong Jufeng (Notes 4 and 5)	Interests of spouse	1,771,738,029 (L)	20.34%
(L) Long position			

Notes:

- (1) 1,830,117,664 Shares are beneficially owned by Camellia Pacific and 2,611,438,440 Shares are beneficially owned by Right Select. Both Camellia Pacific and Right Select are wholly owned by CHIH. CHIH is owned as to 84.84% by China Huarong and 15.16% by Huarong Zhiyuan. Huarong Zhiyuan is wholly owned by China Huarong. Therefore, each of China Huarong and CHIH is deemed or taken to be interested in all the Shares beneficially owned by Camellia Pacific and Right Select by virtue of the SFO.

- (2) 129,000,000 Shares held by Hero Link Enterprises Limited, 646,220,529 Shares held by China Tian Yuan International Finance Limited and 996,517,500 Shares held by China Tian Yuan Asset Management Limited are pledged to Shinning Rhythm Limited, while 237,359,400 Shares held by Power Tiger Investments Limited are pledged to Tian Yuan Investment Holding Co., Limited, which in turn has assigned such security interest to Shinning Rhythm Limited. Shinning Rhythm Limited is a wholly-owned subsidiary of China Huarong Overseas Investment Holdings Co., Limited, which is in turn a wholly-owned subsidiary of Huarong Huaqiao Asset Management Co., Ltd. Huarong Huaqiao Asset Management Co., Ltd. is owned as to 91% by Huarong Zhiyuan. Huarong Zhiyuan is a wholly-owned subsidiary of China Huarong. Accordingly, each of China Huarong Overseas Investment Holdings Co., Limited, Huarong Huaqiao Asset Management Co., Ltd., Huarong Zhiyuan and China Huarong is deemed to be interested in the security interest in the 2,009,097,429 underlying Shares held by Shinning Rhythm Limited by virtue of the SFO.
- (3) Fresh Idea Ventures Limited holds direct security interest in 135,000,000 underlying Shares and is a wholly-owned subsidiary of Linewear Assets Limited. Linewear Assets Limited is a wholly-owned subsidiary of the Company, which in turn is owned as to 51% collectively by Camellia Pacific and Right Select. Accordingly, each of CHIH and China Huarong is deemed to be interested in the security interest in the 135,000,000 underlying Shares held by Fresh Idea Ventures Limited by virtue of the SFO.
- (4) China Tian Yuan Finance Group (Holdings) Limited is deemed or taken to be interested in (i) 129,000,000 Shares held by Hero Link Enterprises Limited which is held as to 82% by China Tian Yuan International Finance Limited; and (ii) 646,220,529 Shares held by China Tian Yuan International Finance Limited. China Tian Yuan International Finance Limited is a wholly-owned subsidiary of China Tian Yuan Finance Group (Holdings) Limited, which in turn is wholly-owned by Mr. Jia Tianjiang. Accordingly, each of China Tian Yuan International Finance Limited, China Tian Yuan Finance Group (Holdings) Limited, Mr. Jia Tianjiang and his spouse Ms. Dong Jufeng is deemed to be interested in the 775,220,529 Shares beneficially held by Hero Link Enterprises Limited and China Tian Yuan International Finance Limited by virtue of the SFO.
- (5) 996,517,500 Shares are held by China Tian Yuan Asset Management Limited, which is a wholly-owned subsidiary of China Tian Yuan Manganese Finance (Holdings) Limited, which is in turn a wholly-owned subsidiary of Tian Yuan Manganese Limited, which is in turn a wholly-owned subsidiary of Ningxia Tianyuan Manganese Industry Group Co., Ltd. Ningxia Tianyuan Manganese Industry Group Co., Ltd. is owned as to 99.96% by Mr. Jia Tianjiang. Accordingly, each of China Tian Yuan Manganese Finance (Holdings) Limited, Tian Yuan Manganese Limited, Ningxia Tianyuan Manganese Industry Group Co., Ltd., Mr. Jia Tianjiang and his spouse Ms. Dong Jufeng is deemed to be interested in the 996,517,500 Shares beneficially held by China Tian Yuan Asset Management Limited.

Saved as disclosed above, as at 30 June 2023, 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.

Purchase, sale or redemption of the Company's listed securities

Neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities during the Period.

Compliance with Corporate Governance Code

Throughout the Period, the Company has adopted and complied with all the applicable and implemented code provisions of the Corporate Governance Code as set out in Appendix 14 to 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 a 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 Period.

Changes in information of Directors

Pursuant to Rule 13.51B of the Listing Rules, changes in information of Directors or chief executive of the Company subsequent to the date of the 2022 annual report of the Company are as follows:

- (1) Dr. LAM Lee G., an independent non-executive Director, has been appointed as an independent non-executive director of New Huo Technology Holdings Limited (Stock Code: 1611) with effect from 21 April 2023.
- (2) Mr. Chen Qinghua, an executive Director and Chief Executive Officer of the Company, ceased to be a director of CHIH with effect from 25 June 2023.
- (3) Mr. Ma Lishan, an independent non-executive Director, ceased to be a non-executive director of Silver Base Group Holdings Limited (in Liquidation) (Stock Code: 00886) since 30 June 2023.
- (4) Mr. Hung Ka Hai Clement, an independent non-executive Director, has been appointed as an independent non-executive director of JX Energy Ltd. (Stock Code: 3395) with effect from 1 August 2023.
- (5) Dr. LAM Lee G., an independent non-executive Director, served as a non-executive director of National Arts Group Holdings Limited (the “**National Arts**”, a company incorporated in the Cayman Islands and continued in Bermuda with limited liability, the shares of which were listed on GEM of the Hong Kong Stock Exchange (stock code: 8228), and its listing status was subsequently cancelled on 28 August 2023) from June 2017 to July 2022. The principal activities of National Arts include film production and distribution, the provision of management services to artistes, event coordination, provision of travel related products and operations of film studio and hotels. On 28 June 2023, National Arts was ordered to be wound up by the High Court of Hong Kong under the HCCW 398/2022 order, and the Official Receiver was appointed as the provisional liquidator of National Arts. As a non-executive director, Dr. Lam had no management role in National Arts. No claim has been made against Dr. Lam since his resignation as a non-executive director of National Arts and he is not aware of any claims against him as a result of National Arts's winding-up. The Board considers that the relevant events do not in any way relate to the affairs of the Group, and there is no evidence casting doubt upon the suitability of Dr. Lam to serve as an independent non-executive Director, and the Board considers that it is appropriate for Dr. Lam to continue to serve as an independent non-executive Director.

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

As at 30 June 2023, 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:

Facility Agreement I

The Company, as the borrower, entered into a facility letter with a bank as the lender in relation to an uncommitted revolving loan facility in an aggregate amount of up to US\$100,000,000 or equivalent in Hong Kong dollars (the "**Facility I**") on 28 November 2016, which was supplemented by three supplementary facility letters dated 21 February 2019, 28 April 2021 and 17 May 2022 (the facility letter together with the supplementary facility letters, collectively the "**Facility Agreement I**"), respectively. The final maturity date of the Facility I shall be the date determined by the bank in its sole discretion subject to the review of the Facility I on a periodical basis to the satisfaction of the bank. China Huarong has issued a letter of comfort and has undertaken to maintain its status as the Company's controlling shareholder as long as the Facility I remains outstanding. In addition, under the Facility Agreement I, the Company shall be directly or indirectly at least 51% beneficially owned and controlled by China Huarong throughout the life of the Facility I.

As at 30 June 2023, loan amount outstanding under Facility Agreement I was HK\$775 million.

Facility Agreement II

On 21 May 2020, the Company, as the borrower, entered into a facility letter (the "**Facility Agreement II**") with a bank as the lender to renew an uncommitted revolving loan facility in an aggregate amount of US\$100,000,000 (the "**Facility II**"). Afterwards, on 26 September 2022, the Company entered into a supplemental facility letter with the bank to renew the Facility II, pursuant to which the limit of the Facility II was reduced to US\$80,000,000. The Facility II has been further renewed by entering into a supplemental facility letter dated 15 August 2023 and is subject to review of the lender on or before 2 August 2024 or on other time as deemed appropriate by the lender. The Facility II shall be repaid in full on the date as notified by the bank from time to time at its sole discretion. Under the terms of the Facility Agreement II and its supplemental facility letters, the Company shall ensure and procure that China Huarong shall maintain the status of controlling shareholder of the Company and CHIH. Moreover, China Huarong has issued a letter of comfort and has undertaken to continuously maintain control over the Company as long as the Facility II remains outstanding.

As at 30 June 2023, loan amount outstanding under Facility Agreement II was HK\$624 million.

Facility Agreement III

On 29 March 2023, the Company, as the borrower, signed a revolving loan facility letter (the “**Facility Agreement III**”) with a bank as the lender for a facility up to an aggregate amount of HK\$200,000,000 (the “**Facility III**”). The Facility III is repayable on demand by the bank. China Huarong has issued a letter of comfort and has undertaken to, among others, maintain control over the Company as long as the Facility III remains outstanding.

As at 30 June 2023, loan amount outstanding under Facility Agreement III was HK\$200 million.

Review of the interim financial information

The Audit Committee under the Board has reviewed the unaudited interim financial information of the Group for the Period, including the accounting principles and practices adopted by the Group for the Period.

The Group’s external auditor, Ernst & Young, has carried out a review of the unaudited interim financial information in accordance with Hong Kong Standard on Review Engagements 2410, “Review of Interim Financial Information Performed by the Independent Auditor of the Entity”, issued by HKICPA.

DEFINITIONS

“Board”	board of Directors of the Company
“Camellia Pacific”	Camellia Pacific Investment Holding Limited, a company incorporated in the British Virgin Islands with limited liability, a wholly-owned subsidiary of China Huarong, and directly holding 21.01% equity interest in the Company as at the date of this interim report
“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 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 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)
“controlling shareholder”	has the meaning ascribed to it under the Listing Rules
“Corporate Governance Code”	the Corporate Governance Code as set out in Appendix 14 to the Listing Rules
“Director(s)”	Director(s) of the Company
“Group”	the Company and its subsidiaries
“HK\$”	the Hong Kong dollar, the lawful currency of Hong Kong
“HKAS”	the Hong Kong Accounting Standards
“HKFRS”	the Hong Kong Financial Reporting Standards
“HKICPA”	the Hong Kong Institute of Certified Public Accountants

* For identification purposes only

“Hong Kong”	the Hong Kong Special Administrative Region of PRC
“HRIV”	Huarong Investment Stock Corporation Limited (華融投資股份有限公司), an exempted company incorporated in the Cayman Islands with limited liability and a wholly-owned subsidiary of the Company upon completion of the Privatisation of HRIV
“Last Period”	the period for the six months ended 30 June 2022
“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”	the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules
“MOF”	the Ministry of Finance of the PRC
“Period”	the period for the six months ended 30 June 2023, being the financial reporting period of this interim report
“Privatisation of HRIV”	the privatisation of HRIV by the Group by way of a scheme of arrangement under Section 86 of the Companies Law of the Cayman Islands, which became effective on 10 November 2020 (Cayman Islands time)
“Right Select”	Right Select International Limited (佳擇國際有限公司), a company incorporated in the British Virgin Islands with limited liability, a wholly-owned subsidiary of China Huarong, and which directly holding 29.98% equity interest in the Company as at the date of this interim report
“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”	The Stock Exchange of Hong Kong Limited
“US\$”	United States dollar, the lawful currency of the United States
“%”	per cent