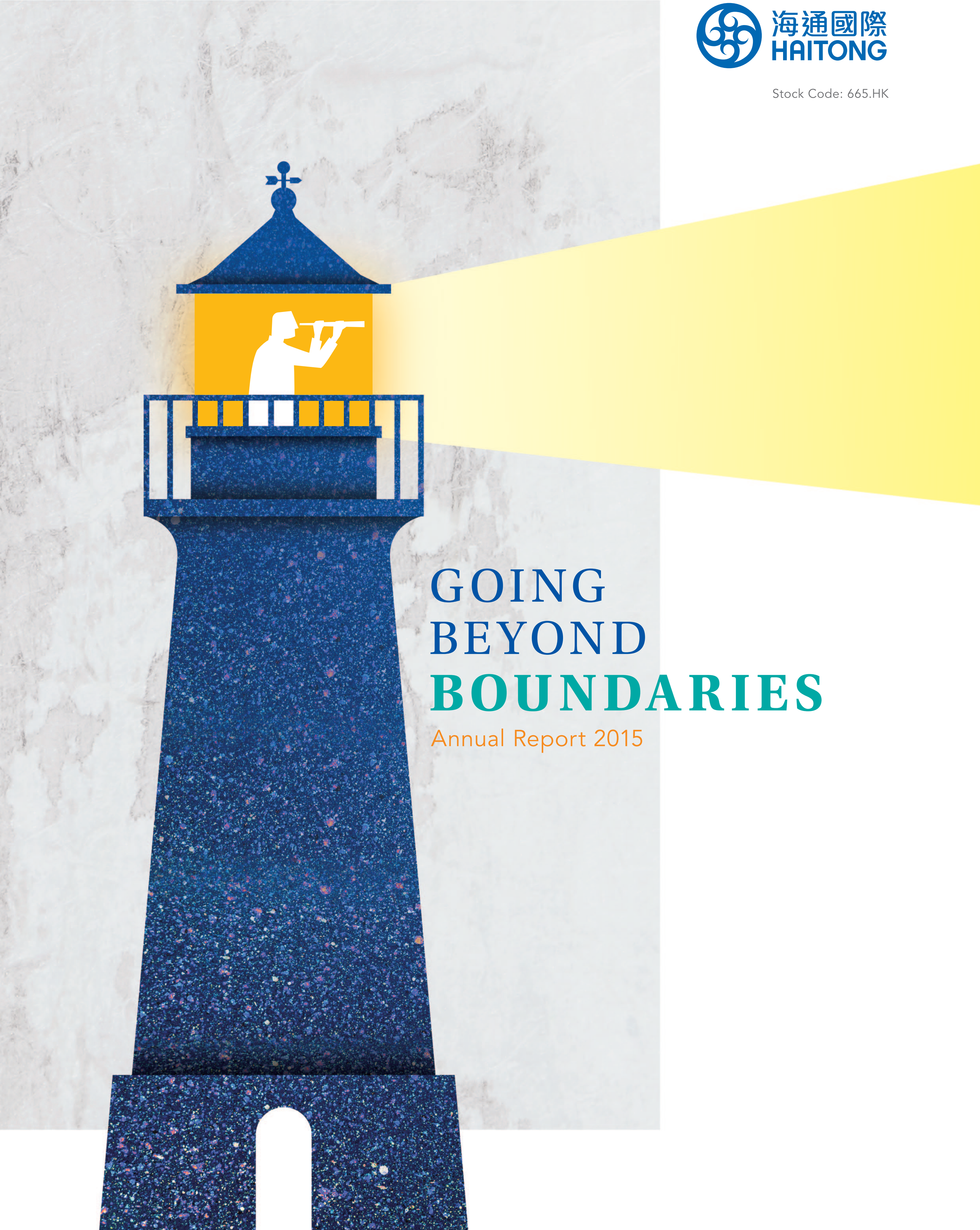
海通國際
HAITONG

Stock Code: 665.HK



GOING BEYOND BOUNDARIES

Annual Report 2015

GOING BEYOND BOUNDARIES

Guided by its profound wisdom and experience as beams of a lighthouse in the vast sea of financial industry, Haitong International goes beyond its geographical, business and personal boundaries and, by riding the wind and breaking the waves, charges ahead in search of a world of opportunities that can create values.

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FINANCIAL HIGHLIGHTS

RESULTS

	For the year ended 31 December 2015	2014	Percentage change Increase/ (Decrease)
Revenue (HK$'000)	**5,805,514**	2,713,291	114
Net Profit Attributable to Shareholders (HK$'000)	**2,510,052**	1,018,269	147
Return on Shareholders' Funds (%) (Note 1)	**15.67**	15.71	–
Per share			
Basic Earnings Per Share (HK Cents)	**62.20**	37.09	68
Diluted Earnings Per Share (HK Cents)	**60.66**	34.93	74
Share Price			
– Highest (HK$)	**8.89**	5.85	52
– Lowest (HK$)	**2.98**	3.74	(20)

FINANCIAL POSITION

	31 December 2015	31 December 2014	Percentage change Increase/ (Decrease)
Shareholders' Funds (HK$'000)	**20,828,786**	8,596,502	142
Total Assets (HK$'000)	**91,919,000**	48,159,973	91
Leverage Ratio (Note 2)	**3.47**	3.96	–
Number of Shares in Issue (Note 3)	**5,289,920,095**	2,184,397,016	142
NAV Per Share (HK$)	**3.94**	3.94	–

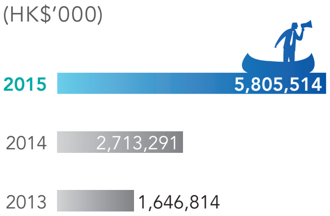
Notes:

1. Computation of return on shareholders' funds is based on net profit attributable to shareholders divided by the weighted average shareholders' funds.

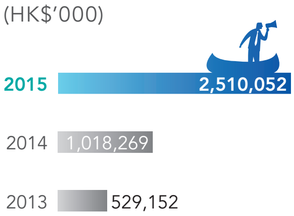
2. Leverage ratio = Total assets excluding accounts payable to clients/Shareholders' funds. Accounts payable to clients amounted to HK$19,619.1 million as at 31 December 2015 (2014: HK$14,144.9 million).

3. On 18 March 2015, the Company announced a rights issue on the basis of 1 rights share for every 1 existing share (the "Rights Issue") held by shareholders of the Company. The Rights Issue was completed on 22 May 2015 and 2,533,453,008 rights shares were issued on 26 May 2015. Moreover, certain equity rights conferred on convertible bond and share option holders were exercised during the year. Hence, the total number of shares of the Company was increased to 5,289,920,095 as at 31 December 2015.

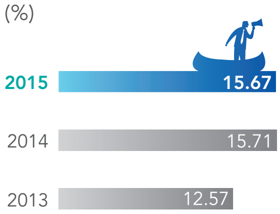
Revenue
(HK$'000)



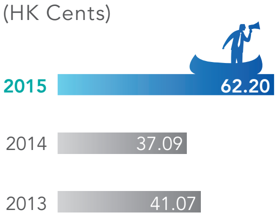
Net Profit Attributable to Shareholders
(HK$'000)



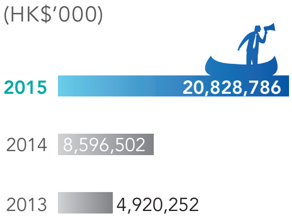
Return on Shareholders' Funds
(%)



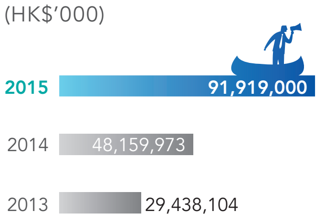
Basic Earnings Per Share
(HK Cents)



Shareholders' Funds
(HK$'000)

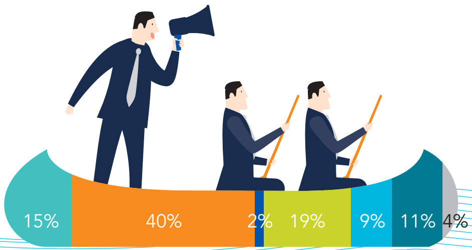


Total Assets
(HK$'000)



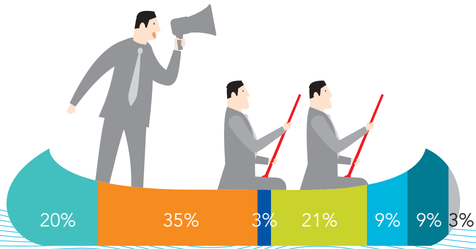
Analysis of 2015 Revenue
(For the year ended 31 December 2015)

- Corporate Finance
- Brokerage and Margin Financing
- Asset Management
- FICC
- Leveraged and Acquisition Finance
- Equity Derivatives
- Investment Holdings



Analysis of 2015 Profit
(For the year ended 31 December 2015)

- Corporate Finance
- Brokerage and Margin Financing
- Asset Management
- FICC
- Leveraged and Acquisition Finance
- Equity Derivatives
- Investment Holdings



BUSINESS HIGHLIGHTS

3 Types of Target Customers

RETAIL AND HIGH-NET-WORTH CLIENTS

- 2 Brokerage and Margin Financing
- 3 Asset Management
- 6 Equity Derivatives

Served more than

190,000 clients

Core Business of Haitong International

1 Corporate Finance

Provides corporate finance, equity capital market (ECM), debt capital market (DCM) and financial advisory services to listed companies and private enterprises.

- Ranked No.2 in terms of number of deals and No.5 in terms of total underwriting amount of equity financing projects amongst all underwriters in Hong Kong

2 Brokerage and Margin Financing

Provides full spectrum of brokerage and margin financing services to retail and institutional customers.

- With over 10 branches in Hong Kong and Macau, over 300 dedicated sales executives
- Strong growth in average daily trading volume and margin financing amount, maintain a market leading position

CORPORATE CLIENTS

1 Corporate Finance

5 Leveraged and Acquisition Finance

Served more than

300 corporate clients

3

Asset Management

Offers a range of public funds, private funds, MPF and alternative investment products, with leading edge in RMB-denominated products, as well as private wealth management services

- MPF – Top tier performance on Haitong Korea Fund, Haitong Hong Kong SAR Fund and Haitong Asia Pacific (Excluding HK) Fund
- Public Funds – Strong performance on Haitong Global RMB Fixed Income Fund amongst all Hong Kong Dim Sum bonds funds, eligible for applying Mutual Recognition of Funds(MRF)

4

Fixed Income, Currency and Commodities

Specializes in bonds market making, including RMB Dim Sum bonds and USD-denominated investment-grade & high-yield Chinese credit bonds

- Providing bilateral quotation for over 700 bonds to over 300 institutional clients worldwide
- Market maker for RMB-denominated London Aluminium/Zinc/Copper Mini Futures Contracts

INSTITUTIONAL CLIENTS

2 Brokerage and Margin Financing

3 Asset Management

4 Fixed Income, Currency and Commodities

6 Equity Derivatives

Served more than

1,500 institutional clients

5

Leveraged and Acquisition Finance

Provides various financing solutions (i.e. short term bridge loans) to listed companies for their capital market activities including M&A projects and business expansions

- Participated in large M&A deals; Provides efficient & tailor-made financing solutions to clients
- Comply with the most stringent international standards in setting up investment procedures and risk control systems

6

Equity Derivatives

Provides ETF market making, securities borrowing and lending services, as well as customized across-asset solutions to institutional, corporate and high-net-worth clients

- Largest ETF market maker in Hong Kong
- In preparation for the imminent launch of the options market making business and warrants/ CBBCs issuance

Revenue
HK$5.81 billion
Increase of **114%**

Net Profit Attributable to Shareholders
HK$2.51 billion
Increase of **147%**

Total Assets
HK$91.9 billion
Increase of **91%**

Haitong International is a youthful Chinese financial institution led by a team of passionate and energetic professionals. We are never passive followers. We are pioneers with fingers kept on the pulse of the rapidly changing financial market. Truly client-focused, we are constantly hunting for opportunities to create value for our customers.

We boast unrivalled knowledge in serving the local market with an amicable and humble heart inherited from traditional Chinese culture, while globally we shatter geographical and cultural barriers to bridge markets between the East and the West.

Unlocking frontiers by providing unparalleled services with integrity, we create tremendous value for our clients by leading them through all the challenges in the financial industry.

HIGHLIGHTS OF THE YEAR

MAR

Haitong International completed acquisition of Japaninvest, built on Japaninvest's pan-Asia equity research and sales network, and steadily expanded its business coverage from Hong Kong and Singapore to the United States, the United Kingdom and Japan

AAM

Awarded as the "Longevity Award - Best 10 Year Performance - Equity Fund (HK & China)"

2014 Annual Results Announcement

APR

Haitong International awarded "Best ETF Market Maker" & "Best ETF Manager for Investor Education" by Asia Asset Management

MAY

Haitong International named "Securities Company of the Year" by Bloomberg Businessweek

AUG

Haitong International awarded as "Best Equity Derivatives House-Rising Star in Hong Kong" by《The Asset》

Haitong International becomes Constituent of Hang Seng Composite LargeCap & MidCap Index

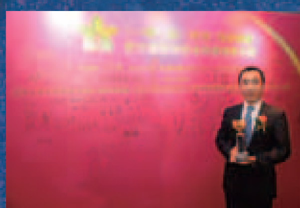
2015 Interim Results Announcement

Haitong International included in the Shanghai-Hong Kong Stock Connect Program

OCT

Haitong International's CSI300 Index ETF named "Most Innovative Product" and "Best Tracking Error" in 2015 HKCAMA-Bloomberg Offshore China Fund Awards

NOV



Haitong International Securities Group Limited received "The Best IB Award" in the 2015 China Securities Golden Bauhinia Award

DEC

Received "Hong Kong Corporate Governance Excellence Award" from The Chamber of Hong Kong Listed Companies

A LINKAGE BETWEEN THE EAST AND THE WEST

THAT CAN CAPTURE THE OPPORTUNITIES ARISING FROM "ONE BELT, ONE ROAD".

CHAIRMAN'S STATEMENT

JI Yuguang
Chairman

MARKET REVIEW

Global economic growth remained weak in 2015. International capital flew back to the US and Europe from emerging markets, and the price of commodities kept dropping. The pace of economic growth varied considerably between regions. In the US, the pace of recovery was still slow due to the Fed rate rise and an uncertain economic outlook. The S&P index fell 0.7% over the year. The EU economy stabilized on the back of the ECB's QE. The UK, France and Germany all grew steadily in 2015. Although Japan recovered slightly from the zero growth in 2014, domestic demand was still weak. By contrast, emerging markets were under great pressure due to the slowdown in China's economy and the normalization of US monetary policy. China adapted to the "New Normal" in 2015 with a slowdown in economic growth, accelerated structural reform and a transformation in the growth drivers. In December 2015, the IMF announced that the RMB "met all existing criteria" to be included into the SDR basket as a reserve currency, further supporting efforts to open up China's financial markets and pushing forward the internationalization of RMB. In addition, the establishment of the Asian Infrastructure Investment Bank will provide strong support to the "One Belt, One Road" strategy.

The Hong Kong stock market was volatile in 2015. Strong upward momentum came in the first half with the liquidity surge in the A-share market and the associated policy easing, with the Hang Seng Index reaching a new post-2008 high in April of 28,588. In the second half, momentum stalled and then sentiment reversed on the back of the increasingly gloomy global economic outlook and the exceptional volatility in the A-share market, leaving the Hang Seng Index down 7.2% for the year. On a brighter note, Hong Kong managed to reclaim its number one ranking in the IPO market for the first time since 2011, with total IPO fundraising size reaching HK$261.3 billion. The Shanghai-Hong Kong Stock Connect ran smoothly in 2015 and gained increasing recognition amongst overseas institutional investors. The mutual fund recognition program was introduced on 1 July, and three northward funds and four southward funds were approved on 18 December, which was another connectivity milestone for the Hong Kong and mainland capital markets.

In 2015, Haitong International successfully built up the infrastructure of a modern investment bank based on the demands of three categories of clients: corporate, institutional and retail/high-net-worth clients and witnessed fast growth in all business segments. The Group once again recorded marked scale and revenue growth against the high 2014 base, with net asset value of more than HK$20 billion and net profit of HK$2.51 billion. The group also acquired Japaninvest during the year, expanding its institutional cash equities reach into New York, London and Tokyo, forming a strong Pan-Asian franchise with Hong Kong at its core .

PROSPECTS

The global capital market is full of challenges but also opportunities in 2016. The recent small rise in US rates has probably marked the bottom in US easing. The emerging markets are experiencing a deleveraging cycle. Energy costs remain very low, with little prospect of an imminent turnaround and the risk premium keeps rising. However 2016 is also the breakthrough year for China's "New Normal". Supply side reform will become the leading theme of this "New Normal". The core of the supply side reforms aims to put market forces at the forefront of resource allocation in order to resolve overcapacity whilst de-bottlenecking supply constraints in the newly-emerging sector. Supply side reform may increase downward pressures on the economy in the short term, but this is an unavoidable aspect of China's economic transformation. We are optimistic that this painful transition period will lead to better economic growth in the future.

Despite a complicating international economic environment, the "One Belt, One Road" strategy represents a further step in China's economic transformation and internationalization. The strategy presents great opportunities for Hong Kong, which remains China's premier international financial centre and will therefore play an extremely important role in raising the substantial investment capital required. This should, in turn, spur further financial innovation in fields relating to securities issuance, fund creation and financial intermediation. We expect global investors to pay more attention to China during 2016, as "Shenzhen-Hong Kong Stock Connect" comes to fruition, alongside a potential further boost from the long anticipated "MSCI inclusion". As a leading Hong Kong-based financial institution with a strong Pan-Asian focus, Haitong International should derive substantial benefits from these developments as they unfold. In anticipation of a more complicated financial environment in Hong Kong during 2016, Haitong International will take initiatives to seize opportunities and stay flexible to embrace the new challenges ahead.

In 2016, Haitong International will continue to leverage its strengths and to build its core competencies, even as global competitors retrench, with the aim of becoming a leading Pan-Asian investment bank, with a strong focus on our talented employees and valued clients and shareholders.

JI Yuguang
Chairman

Hong Kong, 10 March 2016

INNOVATIVE

Following the principle of innovation, we drive the Company into new realms by thorough understanding of the needs of our clients.

MANAGING DIRECTOR'S REVIEW

In 2015, the financial markets in Hong Kong and elsewhere in the world took investors on a roller coaster ride. The US Fed's kick-off of a new rate-hike cycle, fluctuations in the Renminbi exchange rate, sharp stock market corrections both in Hong Kong and on the Chinese Mainland and other unexpected events put a dampener on Hong Kong's capital market. Nonetheless, the IMF's decision to include Renminbi into the Special Drawing Right basket, the successive launches of favourable policies such as Mutual Recognition of Funds (MRF) between the Mainland and Hong Kong and Hong Kong's triumph as the world's leading centre for initial public offerings underscored the city's importance in the course of Renminbi internationalisation. Already a pivotal player in Hong Kong, Haitong International held fast to the business philosophy of "expanding sell-side businesses, strengthening capital-based intermediary businesses and developing buy-side businesses" amid the intricate complexion in 2015. The Company continued to reach new heights and was pleased to deliver strong business growth for its shareholders.

2015 was a milestone year for Haitong International. With its net assets gaining 142% year on year to HK$20.8 billion, Haitong International was admitted as a constituent of the Hang Seng Composite LargeCap & MidCap Index and also one of the eligible stocks under Shanghai-Hong Kong Stock Connect. The Company recorded operating revenue of HK$5.8 billion, increasing by 114% over the corresponding period of last year. Net profit grew 147% year on year to HK$2.51 billion from the high base of over 80% growth for three straight years from 2012 through 2014, signalling a historic breakthrough in its business performance. In December, Haitong International garnered the "Hong Kong Corporate Governance Excellence Award", which indicated the industry's recognition of its corporate governance standards, board leadership capabilities and prudent risk control and compliance management. As a listed company rooted in Hong Kong for over 40 years, Haitong International showed the market its strong profitability and sound risk management.

In 2015, Haitong International maintained its BBB investment-grade credit rating upon the annual review by Standard & Poor's. The Company fully exploited its advantageous position as a listed issuer with an independent credit rating to raise funds through various channels, allowing it to set another record by raising over HK$30 billion through, among others, rights issue, syndicated loans and issuance of USD bonds and medium term notes, the proceeds of which have provided strong support to rapid business growth of the Company and to development of its new capital-based intermediary and capital investment businesses.

EXPAND SELL-SIDE BUSINESSES, STRENGTHEN CAPITAL-BASED INTERMEDIARY BUSINESSES AND DEVELOP BUY-SIDE BUSINESSES

In 2015, the Corporate Finance segment sustained its strong performance and completed altogether 18 IPO projects, outperforming all other investment institutions in Hong Kong in terms of the number of projects managed and rendering Haitong International the first securities firm to top the list in the latest three years. Haitong International also endeavoured to strengthen its capability to underwrite projects for certain key sectors, and fared particularly well underwriting certain deals, notably in the financial, life sciences and healthcare sectors. The successful completion of IPOs for well-known companies such as Legend Holdings, Bank of Qingdao, China Railway Signal & Communication and Bank of Zhengzhou provided strong proof of Haitong International's growing capability for IPO-underwriting. Meanwhile, secondary share sales managed by Haitong International also grew sharply in the year, with a total of 36

placings, rights issues and other similar projects completed. Altogether Haitong International completed 54 equity financing deals throughout the year, placing it second among Hong Kong's financial institutions in terms of the number of projects completed and fifth by total underwriting amount according to Bloomberg League Tables. For its debt financing business, Haitong International offers a full range of offshore bond-funding options including Renminbi-denominated dim sum bonds, US dollar bonds and euro-denominated bonds. It completed a total of 27 debt financing projects in the year, including the well-known bond issuance projects of Shanghai Electric and HNA Tourism.

Thanks to the strong execution power of its business units, Haitong International duly completed the business integration of Ji Asia in the first half of 2015. A new cash equities platform with business focus on equity research and institutional trading and sales was briskly set up and completed over 1,000 research reports of various types in the year, with the coverage rate of the Northeast Asian markets soaring to 49% and trading volume of institutional clients posting a spectacular year-on-year upsurge. To date, Haitong International has achieved a relatively broad coverage over mainstream institutional clients around the globe.

With over three years of advance preparation, the equity derivatives segment of Haitong International has moved first to successfully extend its product line. Haitong International became the largest ETF market maker in Hong Kong, providing liquidity for 23 ETFs listed in Hong Kong and its market making volume surging by 54% year on year. With such brilliant results, Haitong International was named the "Best ETF Market Maker for 2015" by *Asia Asset Management*, rendering it the first financial institution to have received such an honour. During the year, efforts were also made to strengthen the offering of financial products geared towards clients' specific needs, including

LIN Yong
Deputy Chairman and Managing Director

MANAGING DIRECTOR'S REVIEW (CONTINUED)

bespoke financial advisory services and investment solutions palatable to institutional, corporate and high-net-worth individual clients. Besides, the newly launched securities borrowing and lending business targeted specifically at institutional clients helped enrich the derivatives product mix and also boosted the segment's profitability. Meanwhile, Haitong International launched its warrants and callable bull/bear contracts business and recently obtained approval for the debut issuance of two warrants, making it the only listed Chinese securities company to have issued warrants approved by HKEx. The two approved warrants were listed and began trading on 7 March 2016. Looking ahead, Haitong International's derivatives business will steadfastly uphold the innovation philosophy and delve deeply into the real needs of clients to enhance further the servicing quality of the entire Group.

As one of the largest bond market makers in Hong Kong, Haitong International has always placed its business focus on Renminbi products and sought to continuously diversify its product mix, in an effort to create a distinguished fixed income, currency and commodities sales and trading platform. In 2015, Haitong International's bond market making business turned more balanced in terms of both coverage scope and product type. For the first time, Haitong International offered market making services for Asian (non-Chinese) investment-grade credit bonds, expanding its presence in the Southeast Asian markets. The number of bonds covered surged 100% year on year and bond trading volume also grew 155% over the corresponding period of last year thanks to the expanded client base comprised of more than 300 institutional bond-trading clients from, among others, Asia Pacific, Europe and the US. Having been granted a market maker permit for Renminbi-denominated commodity futures contracts by HKEx in December 2014, Haitong International also offers market making services for, among others, Renminbi-denominated London Aluminium/Zinc/Copper Mini Futures Contracts. Currently, the HKEx has plans to launch more Renminbi-denominated commodity futures products and is striving hard to set up a cross-market "Commodities Connect" platform, which heralds the lucrative growth prospects for commodities trading. In view of this, Haitong International has moved first to lay a firm foundation and established prominent advantages in this area.

Present in Hong Kong for more than 40 years, Haitong International's client base is one of the biggest locally among securities firms. In 2015, its average daily turnover on the Hong Kong stock exchange jumped by 71% and its margin finance loan book more than doubled, translating into lucrative commission income and interest income for the Company. Besides expanding customer base and trading size, Haitong International also took initiative to identify market needs and seized firmly the opportunities arising from Hong Kong's triumph as the world's largest IPO hub to promote its IPO margin financing services, successfully boosting the accumulated margin financing amount to exceed HK$100 billion. Looking forward, Haitong International will capitalise on its large client base to delve into the needs of core high-net-worth clients, with the focus put on developing the private wealth management business for continuous growth of the client asset base.

As regards the leveraged and acquisition finance segment, the division made its market positioning clearer by focusing on offering

various financing solutions to listed companies for their large merger and acquisition ("M&A") projects and corporate actions and providing funds to assist corporate clients with their capital market initiatives. During the year, Haitong International participated in a number of large M&A projects and was known for its efficient preparation of the best financing solutions for clients, allowing it to steadily establish a reputation in the industry. In order to keep business risk in check, Haitong International put in place a comprehensive set of investment procedures and risk control systems based on the most stringent international standards to ensure stringent and scientific approval of projects.

In order to keep business risk in check, HAITONG INTERNATIONAL put in place a comprehensive set of investment procedures and risk control systems based on the most stringent international standards.

In 2015, the large asset management platform of Haitong International took its initial shape. Assets under management jumped by 34% year on year and many of its funds were rated among the industry's best performers. For instance, Haitong Korea Fund ranked No.1 among the 458 MPF products in Hong Kong, with an investment return of 21.56%; Haitong Asia Pacific (Excluding HK) Fund ranked No.4 among the 31 players and Haitong Hong Kong SAR Fund ranked No.2 out of 56 players. Moreover, Haitong CSI300 Index ETF became the third largest RQFII equity ETF product in Hong Kong. The index outperformed all its local counterparts by exhibiting the least tracking deviation. In addition, the Mainland-Hong Kong Mutual Recognition of Funds (MRF) scheme rolled out in 2015 has presented Haitong International with further growth potential, as Haitong Global RMB Fixed Income Fund is so far the only fund issued by a Hong Kong-based Chinese brokerage firm that is eligible for northbound selling. In the future, Haitong International will step up northbound fund selling through the MRF scheme, in hopes of sending its asset base to a new height. Based on the

MANAGING DIRECTOR'S REVIEW (CONTINUED)

concept of a large asset management platform, an equity fund was also set up in the year. The fund mainly invests in the high-tech, healthcare, financials, big consumption and clean-energy sectors and seeks to attract external fund investors with its decent investment return to expand further its asset scale.

During the year, Haitong International ventured into the direct investment territory and already signed holistic and strategic cooperation agreements with several globally-reputed direct investment firms. Leveraging its fully-fledged servicing capabilities in Hong Kong and its sound capital base, Haitong International seeks to create mutual benefits through sharing of resources to seize opportunities brought by the return of China concept stocks, asset restructurings and industry consolidation.

Haitong International always attaches great importance to stringent risk control and operational compliance. In 2015, the Company held over 110 hours of compliance training for internal staff, which was aimed at ensuring proper implementation of the relevant compliance policies in daily operations and reinforcing staff's compliance awareness. As regards risk management, efforts were made to refine the segregation of duties and professional requirements for market risk, operational risk, credit risk and liquidity risk functions. The multi-tier risk control system was rationalised on all fronts as well.

STRONG PLAYERS TIDE OVER HEADWINDS TO EMBRACE THE OPPORTUNITIES THAT LIE AHEAD

Boosted by its takeover of Taifook Securities some six years ago, Haitong International has

already doubled its capital base, earnings and profit margin. All its business segments have remained at industry's vanguard nowadays, gradually transforming the Company from a traditional retail brokerage firm to a financial institution with great significance in the Hong Kong market. Building on its strong foundation in Hong Kong, Haitong International successfully expanded its network to other major financial centres in 2015, including New York, London, Singapore and Tokyo, with the aim of expanding market coverage both vertically and horizontally. The Singapore branch has obtained an asset management license required for provision of asset management services to institutional and high-net-worth individual clients. With its business focus put on asset management and bond market making, the branch aims to set up a large asset management platform and an investment-grade bond market making centre to further expand its presence in Singapore as well as other Southeast Asian markets. In 2015, Haitong International also filed an application with Taiwan's Financial Supervisory Commission to set up a representative office in Taiwan, which may turn Haitong International into the first Chinese brokerage firm to have set up a representative office in Taiwan, emblematic of another strategic milestone for Haitong International's foray into the Greater China region.

PROSPECTS

Looking forward, as the measures taken by the Chinese government to deepen economic reform and adjust economic structure have started to bear fruit, the supply-side reform, capacity upgrade and SOE reform will spell new opportunities for the investment banking sector. In this context, Haitong International will embark on a new round of transformation on all business fronts to ultimately rank among Hong Kong's top investment banks and among the top performers in the realms of equity and debt financing, M&A, derivatives, retail business, bond market making and research. Moreover, Haitong International will consolidate its foundation in Hong Kong while seeking more exposure to pan-Asia. It will also capitalise on its strong sell-side resources to support revenue growth of the buy-side businesses and continuously increase the significance of the Haitong Brand to eventually turn itself into an industry leader in both Hong Kong and the pan-Asian markets.

LIN Yong
Deputy Chairman and Managing Director

Hong Kong, 10 March 2016

COURAGEOUS

Our vigorous management style and dedication for business breakthrough are well recognised by our peers and honoured with the “Corporate Governance Excellence Award".

CORPORATE GOVERNANCE REPORT

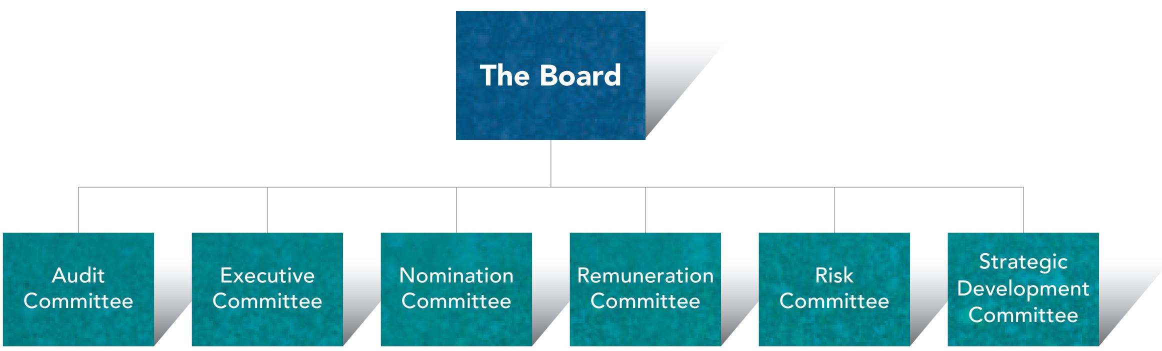
CORPORATE GOVERNANCE PRACTICES

The board of directors of the Company (the "Board") is committed to maintaining a high standard of corporate governance practices within the Group. Throughout the year ended 31 December 2015, the Company has fully complied with the code provisions set out in the Corporate Governance Code (the "CG Code") as contained in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"), except that the chairman of the Board, an executive director, 3 non-executive directors and an independent non-executive director of the Company, were unable to attend the special general meeting of the Company held on 21 April 2015 as stipulated for in code provisions A.6.7 and E.1.2 of the CG Code and 3 non-executive directors of the Company were unable to attend the annual general meeting and special general meeting of the Company held on 8 June 2015 as stipulated for in code provision A.6.7 of the CG Code as they had other important business engagements at that relevant time.

The followings summarise how the Company has applied the principles of the CG Code in its corporate governance practices:

CORPORATE GOVERNANCE STRUCTURE

The Board believes that a well-balanced corporate governance structure will enable the Company to better manage its business risks and thereby ensure the Company is run in the best interests of its shareholders and other stakeholders. The following diagram depicts the overall corporate governance structure of the Company. The Board is primarily responsible for setting directions, formulating strategies, monitoring performance and managing risks of the Group. At the same time, it is also charged with the duty to enhance the effectiveness of the corporate governance practices of the Group. Under the Board, there are currently 6 board committees, namely Audit Committee, Executive Committee, Nomination Committee, Remuneration Committee, Risk Committee and Strategic Development Committee (each a "Board Committee"). All these committees perform their distinct roles in accordance with their respective terms of reference and assist the Board in supervising certain functions of the senior management.



The following table shows the attendance of each director of the Company (the "Director(s)") and members of the respective Board Committees at the Board and the respective Board Committee meetings and general meeting held during the year ended 31 December 2015:

Name of members of the Board/the respective Board Committees	Attendance/number of meetings held (Note 1)						
	Board meeting	Audit Committee meeting	Executive Committee meeting	Nomination Committee meeting	Remuneration Committee meeting	Strategic Development Committee meeting	General meeting
The Board							
Chairman and Non-executive Director							
JI Yuguang	4/4	n/a	n/a	1/1	2/2	2/2	2/3
Deputy Chairman and Executive Director							
LI Jianguo	4/4	n/a	n/a	n/a	n/a	2/2	3/3
Deputy Chairman, Managing Director and Executive Director							
LIN Yong	4/4	n/a	14/14	n/a	n/a	2/2	3/3
Executive Directors							
POON Mo Yiu (Note 2)	4/4	n/a	12/14	n/a	n/a	n/a	2/3
HUI Yee Wilson	4/4	n/a	12/14	n/a	n/a	n/a	3/3
Non-executive Directors							
CHENG Chi Ming Brian	2/4	n/a	n/a	n/a	1/2	2/2	0/3
WANG Meijuan	4/4	2/2	n/a	n/a	n/a	n/a	0/3
William CHAN	4/4	n/a	n/a	n/a	n/a	2/2	0/3
Independent Non-executive Directors							
TSUI Hing Chuen William	4/4	2/2	n/a	1/1	2/2	n/a	3/3
LAU Wai Piu	4/4	2/2	n/a	1/1	2/2	n/a	2/3
LIN Ching Yee Daniel	4/4	2/2	n/a	n/a	n/a	n/a	3/3
WEI Kuo-chiang	4/4	n/a	n/a	n/a	2/2	n/a	3/3

CORPORATE GOVERNANCE REPORT (CONTINUED)

Name of members of the Board/the respective Board Committees	Attendance/number of meetings held (Note 1) Board meeting	Audit Committee meeting	Executive Committee meeting	Nomination Committee meeting	Remuneration Committee meeting	Strategic Development Committee meeting	General meeting
Other Executive Committee Members							
ZHANG Xinjun	n/a	n/a	14/14	n/a	n/a	n/a	n/a
SUN Jianfeng	n/a	n/a	14/14	n/a	n/a	n/a	n/a
SUN Tong	n/a	n/a	13/14	n/a	n/a	n/a	n/a
LO Wai Ho	n/a	n/a	13/14	n/a	n/a	n/a	n/a
ZHANG Yibin	n/a	n/a	12/14	n/a	n/a	n/a	n/a
SHI Ping	n/a	n/a	11/14	n/a	n/a	n/a	n/a
KONG Weipeng	n/a	n/a	12/14	n/a	n/a	n/a	n/a
JI Qingyu (Note 3)	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Average attendance:	**96%**	**100%**	**91%**	**100%**	**90%**	**100%**	**67%**

Notes:

1. The Risk Committee was established on 31 December 2015. No meeting was held during the year ended 31 December 2015.

2. Mr. POON Mo Yiu has been re-designated from executive Director to non-executive Director with effect from 16 February 2016.

3. Ms. JI Qingyu has been appointed as an executive committee member with effect from 16 February 2016.

THE BOARD

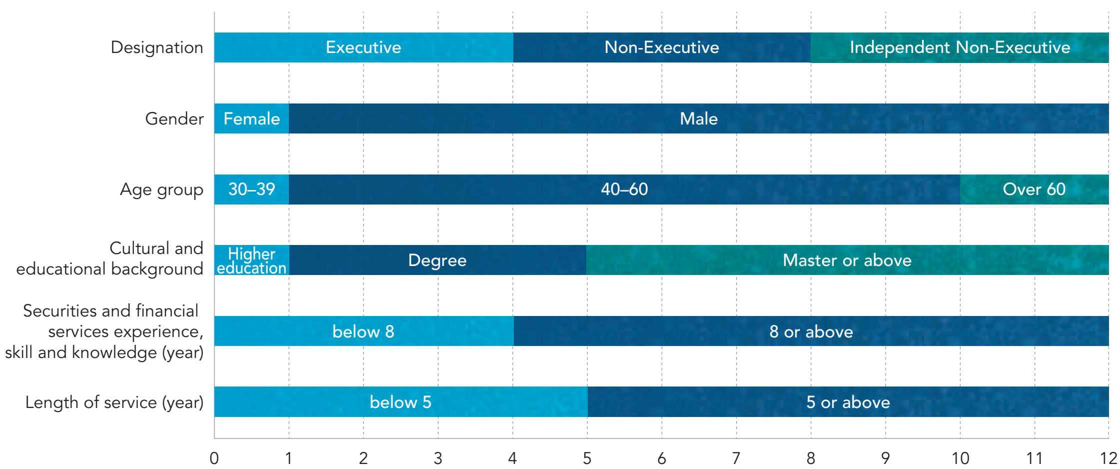
Composition

The Board currently comprises a total of 12 Directors, with 3 executive Directors, namely Mr. LI Jianguo (Deputy Chairman), Mr. LIN Yong (Deputy Chairman and Managing Director) and Mr. HUI Yee Wilson; 5 non-executive Directors, namely Mr. JI Yuguang (Chairman), Mr. POON Mo Yiu, Mr. CHENG Chi Ming Brian, Ms. WANG Meijuan and Mr. William CHAN; and 4 independent non-executive Directors, namely Mr. TSUI Hing Chuen William, Mr. LAU Wai Piu, Mr. LIN Ching Yee Daniel and Mr. WEI Kuo-chiang. Biographical details of the Directors as of the date of this report are set out in the "Board of Directors" section in pages 50 to 54 of this Annual Report.

Board Diversity Policy

The Board has adopted a policy concerning the diversity of Board members (the "Board Diversity Policy"), with the recommendation from the Nomination Committee, in November 2013. The Company recognises and embraces the benefits of having a diverse Board to enhance the quality of its performance. With a view to achieving sustainable and balanced development, the Company sees increasing diversity at the Board level as an essential element in supporting the attainment of its strategic objectives and its sustainable development. In designing the Board's composition, Board diversity has been considered from a number of aspects, including but not limited to gender, age, cultural and educational background, professional experience, skills, knowledge and length of service. All Board appointments will be based on meritocracy, and candidates will be considered against objective criteria, having due regard for the benefits of diversity on the Board.

Selection of candidates will be based on a range of diversity perspectives, including but not limited to gender, age, cultural and educational background, professional experience, skills, knowledge and length of service. The ultimate decision will be based on merit and contribution that the selected candidates will bring to the Board. The Nomination Committee reviews annually the Board's composition under diversified perspectives and monitors the implementation of the Board Diversity Policy. During the year, the Nomination Committee has reviewed its practice on Board diversity perspectives (including but not limited to gender, age, cultural and educational background, professional experience, skills, knowledge and length of service), and has come to the conclusion that it is a balanced Board. For the year ended 31 December 2015, the Board's composition under major diversified perspectives was summarised as follows:



Meetings

The Board meets regularly at least 4 times a year at quarterly intervals and will meet at other times when the Board thinks appropriate. In general, notice of at least 14 days is given for a regular Board meeting so as to give all Directors an opportunity to attend. Agenda and meeting materials for each meeting are normally circulated to all Directors 7 days in advance of the date of the meeting. Senior management may, from time to time, be invited to attend the Board meetings for making presentation and/or answering any queries that may be raised by the Board. During the year, 4 Board meetings were held with an average turnout of 96%.

Proceedings of the Board and the Respective Board Committee Meetings

The company secretary of the Company (the "Company Secretary") assists the Chairman and the respective Board Committees in setting agenda for meetings, and each Director is given an opportunity to include any matters to be transacted in the agenda. Where any Director is considered to be having a conflict of interest in any transactions, the Director concerned will not be counted in the quorum of the relevant meeting. All draft minutes of meetings of the Board and the respective Board Committees are circulated to all Directors and Board Committee members for comment before submission to the chairman of the meetings for approval. To further enhance better communication with the Directors as to the business transacted at the Board and the respective Board Committee meetings, an exclusive intranet site is maintained to enable all Directors to gain access to minutes of the meetings of the Board and the respective Board Committees. Minutes of the Board and the respective Board Committee meetings will be posted on this exclusive site within a reasonable timeframe for the information of all Directors and Board Committee members.

In addition, the Company has established a procedure for its Directors to seek independent professional advice in appropriate circumstances at the Company's expense in discharging their duties to the Company. In order to safeguard the interest of individual Directors, the Company has also arranged directors' and officers' liability insurance for the directors of the Group.

Chairman and Chief Executive Officer

There is a clear segregation of roles between the Chairman and the Chief Executive Officer (the "CEO"). This segregation ensures a clear distinction between the Chairman's responsibility to manage the Board and the CEO's responsibility to manage the Company and its subsidiaries' businesses. The duties of the Chairman and the CEO are currently carried out respectively by Mr. JI Yuguang and Mr. LIN Yong. There is no financial, business, family or other material/relevant relationships between the Chairman and the CEO.

Non-executive Directors

The non-executive Directors (including independent non-executive Directors) have served a significant role in the Board by bringing independent judgment on the performance, development and risk management of the Group. Except the services agreement of Mr. JI Yuguang, the Chairman and a non-executive Director of the Company, was renewed with a term of 2 years commencing on 16 January 2016, all non-executive Directors of the Company are appointed for a specific term of 3 years subject to the retirement and re-election provisions in the New bye-laws of the Company (the "Bye-laws").

Throughout the year ended 31 December 2015, the Company complied with the requirements of the Listing Rules relating to the appointment of at least one-third independent non-executive Directors and at least one of which have appropriate professional qualifications or accounting or related financial management expertise.

Pursuant to the requirement of the Listing Rules, the Company has received from each of the independent non-executive Directors a written confirmation of his independence to the Company. The Company considers that all the independent non-executive Directors were independent in accordance with the Listing Rules throughout the year ended 31 December 2015.

Appointment and Re-election

Except the services agreement of Mr. JI Yuguang, the Chairman and a non-executive Director of the Company, was renewed with a term of 2 years commencing on 16 January 2016, all Directors are appointed for a specific term of 3 years subject to the retirement and re-election provisions in the Bye-laws. One third of the Directors are required to retire from office by rotation and, being eligible, may offer themselves for re-election at each annual general meeting in accordance with the Bye-laws. Any new Director appointed by the Board will be subject to re-election by the shareholders at the first general meeting after his/her appointment. The names of Directors who are eligible for re-election at general meetings will be disclosed in the notice of the relevant general meetings and their biographical details will be provided in the accompanying circulars. The election of each Director will be subject to the votes of shareholders by way of separate resolutions.

Induction and Continuous Professional Development

An induction kit is provided to each newly appointed Director immediately upon his/her appointment by the Company which contains a package of orientation materials on the operations and businesses of the Group, together with information relating to the duties and responsibilities of directors under statutory regulations and the Listing Rules. The Company Secretary updates the Directors on the latest developments of and changes to the Listing Rules and the applicable legal and regulatory requirements governing the areas in relation to the discharge of their duties. Same as before, the Company provides all members of the Board with monthly updates on the Company's performance, financial position and prospects.

CORPORATE GOVERNANCE REPORT (CONTINUED)

Directors are encouraged to participate in continuing professional development to develop and refresh their knowledge and skills. They are required to submit to the Company annually details of training sessions undertaken by them in each financial year for the Company to maintain a training record for its Directors. According to the training records maintained by the Company, the training received by each of the Directors during the year ended 31 December 2015 is summarised as follows:

	Regulatory updates or corporate governance related materials	Other trainings relevant to directors' profession or other relevant topics
Chairman and Non-executive Director		
JI Yuguang	✓	✓
Deputy Chairman and Executive Director		
LI Jianguo	✓	✓
Deputy Chairman, Managing Director and Executive Director		
LIN Yong	✓	✓
Executive Directors		
POON Mo Yiu (Note)	✓	✓
HUI Yee Wilson	✓	✓
Non-executive Directors		
CHENG Chi Ming Brian	✓	✓
WANG Meijuan	✓	✓
William CHAN	✓	✓
Independent Non-executive Directors		
TSUI Hing Chuen William	✓	✓
LAU Wai Piu	✓	✓
LIN Ching Yee Daniel	✓	✓
WEI Kuo-chiang	✓	✓

Note: Mr. POON Mo Yiu has been re-designated from Executive Director to Non-executive Director with effect from 16 February 2016.

Corporate Governance Function

The Board is collectively responsible for performing such corporate governance duties as:

(a) to develop, review and update the Company's policy and practices on corporate governance;

(b) to review and monitor the training and continuous professional development of Directors and senior management;

(c) to review and monitor the Company's policies and practices on compliance with legal and regulatory requirements;

(d) to develop, review and monitor the code of conduct and compliance manual (if any) applicable to employees and directors;

(e) to review the Company's compliance with the CG Code and disclosure in the "Corporate Governance Report"; and

(f) to perform such other corporate governance duties and functions set out in the CG Code (as amended from time to time) for which the Board is responsible.

Directors' Securities Transactions

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 to the Listing Rules (the "Model Code") as its code of conduct for securities transactions by the Directors.

Having made specific enquiry of all Directors, all Directors confirmed that they have complied with the required standard set out in the Model Code throughout the year ended 31 December 2015. Securities interests in the Company and its associated corporations held by each of the Directors are set out in the "Report of the Board of Directors" section in pages 55 to 73 of this Annual Report.

BOARD COMMITTEES

Audit Committee

The Audit Committee currently comprises 3 independent non-executive Directors, namely Messrs. LIN Ching Yee Daniel (Chairman of the Audit Committee), TSUI Hing Chuen William and LAU Wai Piu and a non-executive Director, namely Ms. WANG Meijuan. The Chairman of the Audit Committee has the appropriate financial-related professional qualification and experience. The Audit Committee will meet no less than twice a year to review all business affairs managed by the executive Directors, in particular those related to connected transactions and continuing connected transactions, if any, and to review the interim and annual financial statements of the Group before their submission to the Board for approval. It will also review the effectiveness of the internal control and risk management system of the Group. The Audit Committee has reviewed the accounting principles and practices adopted by the Group and the consolidated results for the year ended 31 December 2015 of the Group. The terms of reference of the Audit Committee are aligned with the requirements of the Listing Rules and the recommendations set out in "A Guide for Effective Audit Committee" published by the Hong Kong Institute of Certified Public Accountants and any updates thereof. A copy of the terms of reference of the Audit Committee has been posted on the Company's website.

During the year ended 31 December 2015, the Audit Committee met on 2 occasions with the presence of the external auditor and discharged its responsibilities to review the interim and annual results and the effectiveness of the internal control and risk management system of the Group. The work performed by the Audit Committee for the year ended 31 December 2015 included reviews of the following:

- the directors' report and the consolidated financial statements for the year ended 31 December 2014 of the Group, with a recommendation to the Board for approval;
- the consolidated financial statements for the 6 months ended 30 June 2015 of the Group, with a recommendation to the Board for approval;
- the audit fees for the year ended 31 December 2015 proposed by the external auditor, with a recommendation to the Board for approval;
- the new accounting policies and practices adopted by the Group;
- the continuing connected transactions undertaken by the Group;
- the internal control and risk management system of the Group;
- the findings and recommendations of the Group's internal auditor on the Group's operations and of the regulatory review carried out by the regulators;
- compliance status of the Group with the applicable regulatory and other legal requirements;
- the Group's investment policy and the adequacy of provision made for diminution in value for the Group's investments;
- the litigation cases of the Group;
- the adequacy of the provision for bad debts; and
- the error trades occurred during the 6 months ended 30 June 2015.

Executive Committee

The Executive Committee is currently composed of 2 executive Directors, namely Messrs. LIN Yong (Chairman of the Executive Committee) and HUI Yee Wilson as well as heads of certain major business divisions of the Group. The Executive Committee is duly authorised by the Board to manage the day-to-day business of the Group.

Nomination Committee

The Nomination Committee is currently composed of 1 non-executive Director, namely Mr. JI Yuguang (Chairman of the Nomination Committee) and 2 independent non-executive Directors, namely Messrs. TSUI Hing Chuen William and LAU Wai Piu. The Nomination Committee is responsible for reviewing the structure, size and composition of the Board, including the skills, knowledge, experience of Directors and the time devoted by the Directors in fulfilling their responsibilities, making recommendations on any proposed changes to the Board to complement the Company's corporate strategy; making recommendations in respect of the appointment or reappointment and the succession plan of Directors, including but not limited to the Chairman and the CEO, to the Board for its approval and implementation, and assessing the independence of the independent non-executive Directors as set out in Rule 3.13 of the Listing Rules. The Nomination Committee will meet at least once a year to discharge its responsibilities in accordance with its term of reference.

During the year ended 31 December 2015, the work performed by the Nomination Committee included reviews of the followings:

- the structure, size and composition of the Board (including the skills, knowledge and experience of directors), with recommendations made on any proposed changes to the Board to complement the Company's corporate strategy;
- the Board's composition under diversified perspectives; and
- the proposal regarding the formation of the Risk Committee.

Information relating to the Board Diversity Policy and the Board's composition under major diversified perspective are set out in the section headed "Board Diversity Policy" above.

Remuneration Committee

The Remuneration Committee is currently composed of 3 independent non-executive Directors, namely Messrs. TSUI Hing Chuen William (Chairman of the Remuneration Committee), LAU Wai Piu and WEI Kuo-chiang and 2 non-executive Directors, namely Messrs. JI Yuguang and CHENG Chi Ming Brian. The responsibilities of the Remuneration Committee include setting remuneration policy of the Group and fixing remuneration packages of the Directors in accordance with the Listing Rules and the Bye-laws. Details of the remuneration paid to the respective Directors are set out in note 8 to the financial statements. No Directors can determine their own remuneration packages. The Remuneration Committee is provided with sufficient resources to discharge its duties.

The chairman of the Remuneration Committee will report their findings and recommendations to the Board for consideration and approval. The Remuneration Committee will meet at least once a year to discharge its responsibilities in accordance with its terms of reference.

During the year ended 31 December 2015, the work performed by the Remuneration Committee included reviews of the following:

- the proposal for 2015 remuneration adjustment;
- the proposal for 2014 bonus distribution; and
- the new service agreement of Mr. POON Mo Yiu, Mr. CHENG Chi Ming Brian, Ms. WANG Meijuan, Mr. TSUI Hing Chuen William and Mr. LAU Wai Piu.

Risk Committee

The Risk Committee was established on 31 December 2015 and currently composed of 2 non-executive directors of the Company, namely Mr. William CHAN (Chairman of the Risk Committee) and Ms. WANG Meijuan and 2 independent non-executive directors of the Company, namely Messrs. LAU Wai Piu and WEI Kuo-chiang. The Risk Committee is responsible for advising the Board on the Group's risk appetite statement(s), risk principles and other risk-related issues including corporate actions and proposed strategic transactions such as mergers, acquisitions and disposals; considering major investigation findings on risk management matters as delegated by the Board or on its own initiative and management response to these findings; approving the Group's risk policies and risk tolerances; considering emerging risks relating to the Group's business and strategies to ensure that appropriate arrangements are in place to control and mitigate the risks effectively; reviewing risk reports and breaches of risk tolerances and policies; reviewing and assessing regularly the adequacy and effectiveness of the Group's risk management framework, internal control system and risk management policies and procedures in identifying, measuring, monitoring and controlling risk, and overseeing their effective operation, implementation and maintenance; reviewing and assessing the effectiveness of the Group's risk control/mitigation tools including the enterprise risk management programme, the risk management systems, the internal audit function relating to risk management and the Group's contingency plans; and reviewing the Group's capital adequacy and solvency level. The Risk Committee will meet at least 4 times a year at approximately quarterly intervals to discharge its responsibilities in accordance with its terms of reference.

Strategic Development Committee

The Strategic Development Committee is currently composed of 3 non-executive Directors, namely Messrs. JI Yuguang (Chairman of the Strategic Development Committee), CHENG Chi Ming Brian and William CHAN and 2 executive Directors, namely Messrs. LI Jianguo and LIN Yong. The main responsibility of the Committee is to assist the Board in formulating medium to long term business development strategies and directions for the Group.

COMPANY SECRETARY

The Company Secretary, namely Ms. LAU Yik Chi, is a full time employee of the Company and has day-to-day knowledge of the Company's affairs. The Company Secretary is responsible for advising the Board on corporate governance matters. During the year ended 31 December 2015, the Company Secretary has confirmed that she has taken no less than 15 hours of relevant professional training.

INTERNAL CONTROL FRAMEWORK

The Group has established a robust system of internal controls to promote effectiveness and efficiency of business activities and operations, increase reliability of financial reporting and comply with applicable laws and regulations. Internal controls are activities or procedures designed to provide reasonable assurance that the Group's business activities and operations are functioning and working properly and reduce the likelihood that significant errors or fraud will occur and remain undetected. The Group's risk management mechanism is also embodied by the three lines of defence for risk management. All executing units serve as the main responsible parties for their respective business risks and are taken as the front line and also the first line of defence for risk management. The Compliance and the Group's Risk Management Department ("GRM") together constitute the second line of defence for risk management. Different from the business supporting units, the Compliance and the GRM perform their management functions independently of the business units. Charged with the major duty of independent oversight of risks, the Compliance is responsible for managing compliance risks, whereas the GRM is tasked with overall management of financial risks. The Internal Audit Department instead serves as the third line of defence.

RISK MANAGEMENT

The Group's principal businesses are exposed to two major types of business risk, namely financial and non-financial risks. Financial risks include liquidity risk, credit risk, market risk and operational risk, whereas non-financial risks mainly cover legal and compliance risks. The Group's management firmly believes that an effective risk management mechanism and a sound risk management culture are fundamental to both continued existence and successful development of the Group in any business and economic environment. As such, the Group has developed a comprehensive and stringent risk management mechanism in line with the international practices as the basis for risk management, which includes a three-tier system for risk management and three lines of defence for risk control on top of its risk management infrastructures. Proactive efforts have also been made to promote and foster a risk management culture taking the three principles of risk management as its core to ensure effective risk management.

Risk Management Mechanism and Culture

The effectiveness of the Group's risk management mechanism lies in its clearly-defined risk management objectives and mandates, as well as a fully-fledged risk control system with clear structures, well-defined functions, roles and responsibilities, as well as a comprehensive set of policies and procedures and their respective implementation rules. The prime objective is to have all the business risks effectively identified, measured, analysed and controlled, such as having them measured against defined limits, monitored, reported and managed (including mitigation and elimination of risks), followed by the pursuit of business development on the premise of keeping risks in check.

The Group's risk management mechanism is embodied by the three-tier system, with the Board and the Risk Committee, a standing committee established by the Board and the Group's management which includes the Executive Committee, the Capital Allocation and Investment Committee, the Risk Management Committee and the Credit Approval Committee being the first and second tiers respectively, whereas the executing units, including all business units, business supporting units, Legal, Compliance and GRM, together constitute the third tier. The Board determines the Group's risk management strategies, including risk appetite and tolerance, as well as guiding principles for overall risk management. The Risk Committee is responsible for overseeing the Group's overall risk management framework and advising the Board on the Group's risk-related matters. On the other hand, the Executive Committee, through its Capital Allocation and Investment Committee, the Risk Management Committee and the Credit Approval Committee, is responsible for and guiding the implementation of the Group's risk management strategies as well as the formulation and execution of overall risk management policies, while all the business units within the Group constitute the main body for implementing the risk management policies and procedures.

The GRM, led by the Group Chief Risk Officer, works under the guidance of Risk Management Committee. In line with the international practices, the department has established three functional units for managing credit risk, market risk and operational risk respectively. The GRM is also responsible for the Group's liquidity risk management.

In line with the risk management infrastructures is a sound risk management culture within the Group, which stresses on the three principles for risk management, namely the principles of independence, partnership and prudence. Such a culture echoes with the underlying mechanism, where the risk management mechanism is put in place to embody the culture while the culture in turn ensures effective implementation of the mechanism.

Liquidity Risk

Liquidity risk mainly refers to the risk of capital deficiency when the Group performs its obligations in relation to its financial liabilities and the risk of selling securities collateral with poor liquidity at a discount over their respective market prices. Liquidity risk management constitutes an essential part of the Group's risk management function.

The Group is required to meet various statutory liquidity requirements as prescribed by the relevant regulatory authorities and has put in place a monitoring system to ensure that it maintains adequate liquid capital to fund its business commitments and to comply with the relevant Financial Resources Rules. In accordance with the policy on liquidity risk management, the Treasury Department closely monitors the Group's cash flow as well as its assets and liabilities. The Group maintains substantial long-term and other stand-by banking facilities to meet any contingency in its operations. Even in periods of extreme market volatility, the management believes that the Group's working capital is adequate to meet its financial obligations. In addition, the Group performs analyses over liquidity risk of securities collateral and carries out regular tests to ensure adequate liquidity of securities collateral, thus minimising both liquidity risk and cost.

Credit Risk

Credit risk refers to the risk of economic losses stemming from failure of any counterparty, borrower or bond issuer to meet their contractual obligations. The Risk Management Committee is the ultimate credit decision-making unit of the Group, where Credit Approval Committee is responsible for approving special lending projects, including general equity financing and leveraged and acquisition financing projects, approving credit and trading limits for clients and stock lending ratio.

The credit approval team is responsible for developing security margin financing monitoring and control measures, including the daily monitoring of changes in clients' positions, financing ratios and their account changes; observing strictly the approved financing and credit policies to make margin calls and perform forced liquidation; reporting to the management regularly and when abnormalities arise; closely monitoring the unusual movements and trading halts of individual stocks and timely identifying non-performing debts; and demanding higher margin requirements to step up risk control for particular clients or products. The credit approval team and the management monitor closely the changes in loan balances and positions of any single major client. In the event of any sudden adverse change in market conditions, the relevant salesperson will be urged to take prompt remedial action, such as requesting clients to reduce positions, depositing funds or improving quality of their stock portfolio to maintain risks at a level acceptable to the Group. Meanwhile, to avoid over concentration of credit risk, the Group has set upper limits on client concentration risk and stock concentration risk and imposed caps on margin lending secured against a single stock for individual clients.

The leveraged and acquisition financing risk management team also serves as the credit control unit for the business. It performs due diligence reviews to examine the background of applicants and project authenticity before any sizable loan applications are submitted for approval. In the course of project approval, the team provides suggestions on risk prevention and control over critical risk factors of projects and delivers separate risk analysis reports. As for post-financing management, the responsible business team and the leveraged and acquisition financing risk management team perform on-going monitoring over existing projects and pay heed to any change in the operating and financial position of borrowers and investment projects. They also monitor the quality of the relevant collaterals, perform internal rating for the approved projects based on their latest credit standing and issue a warning to the management when abnormalities arise. The monitoring findings will be reported to the management on a monthly basis.

Besides, the GRM conducts stress tests on a regular basis, so as to timely identify any problems in clients' accounts amid market turbulence and to assess the Group's credit risk exposure and capital adequacy taking into account the potential change in future economic conditions.

Market Risk

The Group is exposed to market risk which is originated from the relevant business lines and mainly covers risks associated with equity, interest rate and foreign exchange rate fluctuations. The market risk management team is the major risk control unit put in place to cater for the development of all the business lines. The Group has developed a comprehensive set of policies, procedures and systems for market risk management, enabling full coverage of the basic components of market risk management, including stringent product definition, the defining, measuring and quota-setting of risk factors and overall risk exposure (such as Value at Risk), risk control model and system, as well as risk reporting and management, in a bid to ensure all major market risks are duly identified, assessed and controlled.

The Group's interest rate and foreign exchange risk exposure also stems from its overall asset and liability portfolio. The Group uses appropriate hedging tools when it is exposed to material interest rate risk. The foreign currencies used by the Group are mainly the US dollar and Renminbi. The Group is not exposed to material foreign exchange risk due to Hong Kong's currency peg with the US dollar. As for exchange rate of Renminbi against Hong Kong dollar, the exposure is mainly managed by asset and liability management and the residual exposure is monitored and actively hedged by both market risk management team and Treasury team.

Operational Risk

Operational risk refers to the risk of loss stemming from external incidents, defects in management over internal procedures, failure of IT systems or misconduct of personnel, etc. Under GRM the operational risk management team serves as the key functional unit. The Internal Audit Department is responsible for the oversight function, whereas all business and supporting units are tasked with monitoring operational risk based on their assigned duties.

The Group performs operational risk management based on actual business conditions. Future development of new businesses of the Group requires operational risk analyses and control measures in such areas as workflow, manpower configuration, system operation and risk control. As for existing business lines, the respective workflow and risk management measures are reviewed and updated from time to time or when necessary to ensure effective management and availability of monitoring measures. Moreover, Business Continuity Plans are developed to prevent accidental business suspension and to strengthen post-disaster business recovery capabilities of the Group.

INTERNAL AUDITOR

The Group has an independent internal audit team, which provides objective assurance and internal control consultancy service to safeguard the Group's operations. On a yearly basis, the head of the internal audit team will present a report and express an opinion on the internal control environment of the Group to the Audit Committee. A group-wide internal control self-assessment is conducted yearly in order to help departments to self-assess their internal control environment and risks. The annual audit work plan takes the risk-based approach and covers major activities and processes of the Group's operating business. Moreover, ad hoc reviews will also be conducted on specific areas of concern identified by the Audit Committee and senior management.

EXTERNAL AUDITOR

During the year, the Group has engaged its external auditor, Deloitte Touche Tohmatsu, to provide the following audit and taxation services and their respective fees are shown below:

	Fee charged For the year ended 31 December	
Type of Services	**2015 HK$'000**	2014 HK$'000
Audit fee for the Group	**3,700**	2,600
Taxation services	**475**	339

COMMUNICATION WITH SHAREHOLDERS

The Board and senior management maintain a continuing dialogue with the shareholders and investors through various channels including the Company's annual general meeting. The Chairman, other Board members and the external auditor attend the annual general meeting. The Directors will answer questions raised by the shareholders on the performance of the Group. The Company holds press and analyst conferences at least twice a year following the release of interim and annual results announcements at which the executive Directors and senior management of the Group are available to answer questions regarding the performance of the Group.

Our corporate website which contains corporate information, interim and annual reports, announcements and circulars issued by the Group as well as the recent developments of the Group enables the shareholders to have timely and updated information of the Group. Shareholders can refer to the "Shareholders' Communication Policy" posted on the Company's website for more details.

Besides, the Company arranges media luncheons, invites media to attend corporate events, maintains regular communication with them via interviews and article contribution covering diverse topics and uses its corporate website to disseminate its press releases, financial and other information relating to the Group and its business to the public in order to foster effective communication.

SHAREHOLDERS' RIGHTS

Shareholders' rights are set out in a number of sources, such as the Bye-laws, the Companies Act 1981 (the "Act") and the Listing Rules. With reference to the above sources, the Company sets out below details of shareholders' rights in the following aspects:

1. The way in which shareholders can convene a special general meeting

Pursuant to Bye-law 58 of the Bye-laws and Section 74 of the Act, shareholders holding at the date of deposit of the requisition not less than one-tenth of the paid-up capital of the Company carrying the right of voting at general meetings of the Company shall at all times have the right, by written requisition to the Board or the Company Secretary, to require a special general meeting to be called by the Board for the transaction of any business specified in such requisition.

The requisition must be signed by the requisitionists and deposited at the registered office of the Company at 22nd Floor, Li Po Chun Chambers, 189 Des Voeux Road Central, Hong Kong (the "Registered Office") for the attention of the Company Secretary.

The requisition will then be verified with the Company's Branch Share Registrar and Transfer Office in Hong Kong and upon its confirmation that the requisition is proper and in order, the Company Secretary will forward the requisition to the Board and the Board shall convene and hold such a general meeting within 2 months after the deposit of such requisition. Moreover, if within 21 days of such deposit, the Board fails to proceed to convene such a general meeting, the requisitionists, or any of them representing more than one half of the total voting rights of all of them, may themselves convene a meeting, but any meeting so convened shall not be held after the expiration of 3 months from the said date.

2. The procedures for sending enquiries to the Board

Shareholders and other stakeholders may send their enquiries and concerns in writing to the Board by addressing them to the Company Secretary at the Registered Office and the Company Secretary shall then forward the same to the appropriate executives of the Company or members in the Board for further handling.

3. The procedures for making proposals at shareholders' meetings

To put forward proposals at an annual general meeting or a special general meeting, the shareholders shall submit a written notice of those proposals with the detailed contact information to the Company Secretary at the Registered Office. The request will be verified with the Company's Branch Share Registrar and Transfer Office in Hong Kong and upon its confirmation that the request is proper and in order, the Company Secretary will ask the Board to include the resolution in the agenda for the general meeting.

Moreover, the notice period concerning the notice to be given to all the shareholders for consideration of the proposals submitted by the shareholders concerned varies as follows pursuant to Bye-law 59(1) of the Bye-laws:

(a) for an annual general meeting or any special general meeting at which the passing of a special resolution is to be considered, it shall be called by not less than 21 clear days' notice (the notice period must include 20 clear business days under the Listing Rules' requirement); and

(b) for all other special general meetings, they may be called by not less than 14 clear days' notice (the notice period must include 10 clear business days under the Listing Rules' requirement).

CONSTITUTIONAL DOCUMENTS

There is no significant change in the constitutional documents of the Company during the year.

SINCERE

We fully perform our duties as a good corporate citizen through the Haitong International Charitable Foundation and Caring Ambassadors.

CORPORATE SOCIAL RESPONSIBILITY REPORT

Haitong International has a long-term commitment to the role of a good corporate citizen. As a Hong Kong-based listed financial institution, Haitong International not only focuses on its business development but also endeavours to undertake corporate social responsibilities in various aspects to serve the interests of the community.

Through the establishment of the "Haitong International Charitable Foundation", the Group is able to contribute more and to build a better community by leveraging resources in a more focused, tactful and sustainable manner. As a token of appreciation for its commitment to caring for the well-being of the community, the Group has been recognized as a "Caring Company" by The Hong Kong Council of Social Service since 2004, and received the "10 Years Plus Caring Company" logo for the first time in 2015. In early 2016, the "Haitong International Charitable Foundation" was also presented the "Caring Organization" logo.

Over the years, Haitong International has made continuous efforts in four key aspects, namely customers, employees, shareholders and investors as well as the community, in order to fully play its part as a good corporate citizen.

CUSTOMERS

Haitong International strives to keep up with the ever-quickening pace of change in the marketplace. The Company is dedicated to the development of innovative financial products and services in response to the specific needs of global and local customers. Also, it has established a long-term and trusted relationship with more than 190,000 customers, and always endeavours to provide comprehensive financial products and services to global and local corporate, institutional as well as individual clients.

Shortly after the launch of Shanghai-Hong Kong Stock Connect on 17 November 2014, Haitong International instantly upgraded the software and hardware systems to get in line with the new mechanism. These upgrades included enhancement of the trading and settlement systems. To cope with the promotion and investor education of the program, we tailored-made training on A-share trading policies, regulations and industry outlook for all front, middle and back office employees. Moreover, we organized investment seminars for retail and institutional clients and heightened communications and sharing of research reports with the parent company, Haitong Securities. A range of comprehensive services has also been put in place to support customers on A-share investments.

同心展關懷 ®

caringorganisation 2015/16

Awarded by The Hong Kong Council of Social Service
香港社會服務聯會頒發

Through various channels, the business team of Haitong International is providing customers with the latest products and services, instant investment information and research reports. To fulfill customers' appetite for information, the Group has launched a Facebook Fan-page named "Investment Strategy – Haitong International" and a Weixin public platform providing instant market information and investment strategy to customers on each trading day, aiming to help customers to refine their investment strategy.

Customers' opinions and feedbacks are instrumental to our corporate development. To fully gauge our customer experiences, Haitong International is conducting quarterly customer satisfaction and opinion survey, with an objective to enhance service quality.

Haitong International strictly adheres to the procedures of risk management and internal control. Therefore a series of training sessions has been provided to front, middle and back office staff to ensure that product details, service terms and internal procedures are up to legal and regulatory standards, and that customers are fully aware of the features and risk exposure of an investment before they make their decision.

EMPLOYEES

Haitong International always cares about the mental and physical well-being of its employees. The Company encourages staff to maintain work-life balance and has made continuous efforts to improve staff welfare. The "Haitong International Staff Club" regularly organizes recreational activities for its staff and their family members, which include singing contest, basketball match and snooker competition. A number of hobby classes have also been organized to relieve stress of staff and to encourage interactions amongst departmental colleagues. In early 2015, the Company launched the "Employee Assistance Program" for its staff, with the aim of promoting both the physical and mental well-being of staff by engaging external professionals to provide them with information and guidance on work/life issues as well as family counselling services. Besides, Haitong International continued to help its staff through the dedicated "Staff Care Fund". The fund offers immediate support to staff suffering from serious financial or livelihood problems to help them weather adversity. Haitong International also encourages its staff to pursue further studies for enhancement of their professional knowledge. In 2015, the Group hosted over 60 internal training sessions covering topics such as the global

CORPORATE SOCIAL RESPONSIBILITY REPORT (CONTINUED)

investment market, A-share market, new financial products and regulations, and offered training subsidies to ensure staff's compliance with the continuous professional training requirements for licensed persons as stipulated by the Securities and Futures Commission, and the continuous professional development requirements for insurance and MPF intermediaries and for registration with the Chinese Gold and Silver Exchange Society.

In 2015, Haitong International continued to support employees in obtaining finance-related professional qualifications by providing study leaves and examination leaves to let them prepare well for the professional examinations. Moreover, internal training on compliance was arranged for staff to enrich their industry knowledge and enhance their awareness on the latest developments of the internal compliance policy.

SHAREHOLDERS AND INVESTORS

During the year, Haitong International placed lots of effort to enhance relationships with investors. The Company organized press conferences as well as analyst meetings for the interim and final results announcement, whilst at the same time actively took part in the investor conferences organized by large scale financial institutions. Haitong International maintained close connections with over 450 institutional investors and analysts around the globe through non-deal roadshows and one-on-one meetings held in various domestic and overseas regions. These communicative channels help investors to have thorough understanding of the Group's operations, financial position and business development. Besides, there are always follow-

"Haitong International Staff Club" regularly organizes recreational activities for its staff and their family members

Haitong International hosted over 60 internal training sessions in the year

up and analysis on investors' feedbacks such that investors reports are subsequently produced for management's reference.

In 2015, Haitong International was added to the Hang Seng Composite LargeCap & MidCap Index. A total of 22 research reports on Haitong International were released by 5 financial institutions throughout the year, amongst them 3 were initial coverage reports. The Group also hosted annual shareholders' meeting to enhance communications between shareholders and the management. All announcements and press releases issued by the Group are uploaded to the corporate website timely so that investors and shareholders can refer to the information anytime. Furthermore, Haitong International also maintains a Facebook Fan-page as well as a public forum in Twitter and Weixin to keep investors and analysts posted on the latest company announcements.

Apart from maintaining close communications and exchanges with shareholders, investors and industry analysts, Haitong International also places high importance to educating investors about the Hong Kong financial market. Great efforts have been spent to assist retail investors in gaining a thorough understanding of the latest investment market trends and different types of financial products. Upholding the "multi-market, multi-channel and multi-level" approach for active investor education, the Group has been teaming up with investment experts within and outside the Group to organize regular investment seminars, workshops and discussion forums to enrich the financial product awareness and investment knowledge of local investors.

Haitong International maintains close communications and exchanges with analysts and investors through regular meetings

The Senior Management attended financial results announcement press conference

Haitong International organized investment seminars to educate retail investors on market trends and financial products

COMMUNITY

This year, Haitong International continued to work in partnership with several non-profit-making organizations through "Haitong International Charitable Foundation". The collaboration support had different formats, such as donating cash to "The Helping Hand's Cookie Campaign" for the tenth consecutive year and participating in activities such as "The 2015 Community Chest Corporate Challenge", "YO Dancical 2015" organized by Youth Outreach, "Music@Youth 2015" co-organized by Rotary Club of Hong Kong North, "The Foreign Correspondents' Club Hong Kong Charity Ball", Lingnan University's "Walking with Lingnanians Fundraising Walkathon", "iFAST Metro RACE 2015", etc. In November 2015, the Group also teamed up to join the "Bloomberg Square Mile Relay 2015".

The Group encourages its staff to contribute to the society through fundraising and volunteering. In 2015, the Group joined fundraising activities such as Community Chest's "Skip Lunch Day", "Dress Causal Day" and "Love Tooth Day" as well as the "Oxfam Rice Event". Moreover, the community service activities organised by the corporate volunteering team "Haitong International Caring Ambassadors" received overwhelming support from colleagues. During the year, the volunteering team joined a workshop organized by Christian Action to make cookies with children from new immigrant families. For the first time, Haitong International was among the major donors of the "Operation Santa Claus" event. Also, the Group sent a team of caring ambassadors to participate in an elderly home visit activity, which was jointly organized with the Foursquare Gospel Lung Hang Church Elderly Centre.

Members of Haitong International formed a team to join the "Bloomberg Square Mile Relay 2015"

"Haitong International Caring Ambassadors" participated in a home visit activity jointly organized with the Foursquare Gospel Lung Hang Church Elderly Centre.

Haitong International has become a member of "The Better Hong Kong Foundation" since 2014, striving to update the international community on the latest developments of Hong Kong's economy and community

ENVIRONMENTAL PROTECTION

In 2015, the Group hosted a used book recycling activity, with all collected books donated to Christian Action. The activity reminded colleagues to treasure resources for environmental protection while effectively reallocating resources to the needy. Furthermore, starting from 2013, the Group has begun to choose the eco-friendly papers for printing of the Group's annual report. In recognition of its eco-friendly efforts, the Group was awarded the "Class of Excellence" Wastewi$e label of the "Hong Kong Awards for Environmental Excellence" from the Environmental Campaign Committee and the Environmental Protection Department. This label is a further proof of the Group's commitment to waste reduction and environmental protection.

CONTRIBUTE TO INDUSTRY DEVELOPMENT

Each and every member of the Board and the senior management has in-depth knowledge of the financial industry. By participating actively as guest speakers in the seminars and forums organized by various professional bodies, trade associations, financial institutions and the media, they are contributing to the development of industry norms and financial products.

Since 2014, Haitong International has become a member of "The Better Hong Kong Foundation" to relay positive messages about the latest developments of Hong Kong's economy and community to the outside world. The aim is to foster a deeper understanding of Hong Kong and the Mainland China in the global community for closer cooperation relations. Dr. Lin Yong, Deputy Chairman and Managing Director of Haitong International, and other management personnel have attended various activities held by the foundation to exchange insights and ideas on local economic and financial issues with local regulators, financial institutions and industry leaders and to provide valuable opinions and suggestions, thereby contributing to the uplift of industry standards and overall international image of Hong Kong.

BOARD OF DIRECTORS

BOARD OF DIRECTORS

Executive Directors

LI Jianguo, aged 52, was appointed as an Executive Director of the Company on 13 January 2010 and a Deputy Chairman of the Board of Directors of the Company on 10 March 2010. He is also a member of the Strategic Development Committee of the Company. Mr. Li holds a Doctorate Degree in Economics from Xi'an Jiaotong University. He has 24 years of experience in the securities industry. Mr. Li was a general manager of Henan Securities Co., Ltd. from 1992 to 1998. He joined Haitong Securities Co., Ltd. ("HSCL") in 1998 and served as the deputy general manager of HSCL from 1998 to 1999. Mr. Li was the vice president and the general manager of Fullgoal Fund Management Co., Ltd. from 1999 to 2008. Mr. Li has been the assistant to the general manager of HSCL and the chairman of the board of directors of Haitong International Holdings Limited (formerly known as "Hai Tong (HK) Financial Holdings Limited") ("HTIH") since 2008 and the deputy chairman of the board of directors of HTIH since 9 August 2010.

LIN Yong, aged 46, was appointed as an Executive Director of the Company on 23 December 2009 and the Joint Managing Director of the Company on 10 March 2010. He has been a Deputy Chairman of the Board of Directors and the Managing Director of the Company as well as the Chief Executive Officer of the Group since 29 April 2011. He is also the Chairman of the Executive Committee as well as a member of the Strategic Development Committee of the Company. In addition, Mr. Lin is a director of various subsidiaries of the Company. Mr. Lin holds a Doctorate Degree in Economics from Xi'an Jiaotong University and has over 20 years of experience in the investment banking industry. Mr. Lin joined HSCL in 1996 and was a general manager of the Investment Banking Department of HSCL from 2001 to 2007. He has been appointed as an assistant to general manager of HSCL with effect from 30 December 2014 and the chief executive officer of HTIH since 2007. He is responsible for the overall operation of HTIH and the business development of the Group. In 2006, Mr. Lin was named "2006 Top Ten Outstanding Young Person in Financial Sector in Shanghai" (2006年上海首屆十大金融傑出青年) and was honoured as the "2014 Shanghai Financial Industry Leader" (2014滬上金融行業領袖) in 2014. He acts as an adjunct professor in Management College of Xiamen University since 12 May 2010. Mr. Lin has been appointed as an independent non-executive director of Zhongsheng Group Holdings Limited ("Zhongsheng Group") with effect from 31 March 2014, the shares of Zhongsheng Group are listed on The Stock Exchange of Hong Kong Limited.

HUI Yee Wilson, aged 56, joined the Group in 1995 and was appointed as an Executive Director of the Company on 29 April 2011. He is the Director of Sales and Marketing for the Group as well as a member of the Executive Committee of the Company. In addition, Mr. Hui is the Managing Director of Haitong International Futures Limited and Haitong International Securities Company Limited. He is also a director of various subsidiaries of the Company and a responsible officer of Haitong International Futures Limited, Haitong International Securities Company Limited and Haitong International Consultants Limited under the Securities and Futures Ordinance. Mr. Hui is responsible for the development and management of the Group's retail brokerage business. Mr. Hui holds a Bachelor Degree in Economics and Management Studies from The University of Hong Kong. Before joining the Group, Mr. Hui possessed 14 years of experience in the banking and securities industries. He is currently a member of the Hong Kong Institute of Directors and the Hong Kong Securities Institute as well as a director of The Hong Kong Association of Online Brokers Limited.

Non-executive Directors

JI Yuguang, aged 58, was appointed as a Non-executive Director of the Company on 13 January 2010 and the Chairman of the Board of Directors of the Company on 29 April 2011. He is also the Chairman of the Nomination Committee and the Strategic Development Committee and a member of the Remuneration Committee of the Company. Mr. Ji obtained a bachelor's degree in economics from Beijing Finance & Commerce College in July 1983 and graduated with a major in economy management as a postgraduate from Party School of Central Committee of the CPC in June 1999. He has 33 years of experience in the finance and commerce industry. Mr. Ji had worked for Beijing Municipal Planning Economy Committee (currently known as "Beijing Municipal Committee of Development and Reform") for 6 years and Bank of Communications Beijing Branch for 8 years. Mr. Ji joined HSCL in 1995 and was the general manager of HSCL Beijing Langjiayuan Branch from 1995 to 1997. Mr. Ji has been the deputy general manager of HSCL since 1997 and a director of the Overseas Business Committee of HSCL since February 2011. In addition, Mr. Ji has been a director of HTIH since 9 August 2010 and the chairman of the board of directors of HTIH since 17 March 2011.

POON Mo Yiu, aged 51, joined the Group in August 2008 and was appointed as an Executive Director of the Company on 1 July 2009 and was the Chief Operating Officer of the Group as well as a member of the Executive Committee of the Company prior to his re-designation as a Non-executive Director on 16 February 2016. He is currently an Executive Board Member and the Chief Financial Officer of Haitong Bank S.A., a wholly-owned subsidiary of HTIH. Mr. Poon holds a Master of Business Administration Degree from The Chinese University of Hong Kong. He is a fellow of both the Association of Chartered Certified Accountants and the Hong Kong Institute of Certified Public Accountants ("HKICPA") and a member of the Institute of Chartered Accountants in England & Wales. Mr. Poon has extensive experience in financial management, management of information systems, accounting projects as well as various aspects of mergers and acquisitions. Prior to joining the Group, Mr. Poon worked for Sun Hung Kai & Co. Limited as the Group Chief Operating Officer and the Group Chief Financial Officer. He was also previously the Vice President in Finance of JPMorgan Chase Bank and the Group Financial Controller of Jardine Fleming Group in Asia before its merger with JPMorgan Chase Bank.

CHENG Chi Ming Brian, aged 33, joined the Group in June 2009 and was appointed as an Executive Director of the Company on 1 July 2009. He was re-designated as a Non-executive Director of the Company on 13 January 2010. Mr. Cheng is also a member of the Remuneration Committee and the Strategic Development Committee of the Company. Mr. Cheng holds a Bachelor of Science Degree from Babson College in Massachusetts, U.S.A. Mr. Cheng is currently an executive director of NWS Holdings Limited, chairman and non-executive director of Integrated Waste Solutions Group Holdings Limited, non-executive director of Newton Resources Ltd., Wai Kee Holdings Limited and Beijing Capital International Airport Company Limited. The shares of all these companies are listed on The Stock Exchange of Hong Kong Limited. Mr. Cheng is also a director of certain subsidiaries of NWS Holdings Limited. He is mainly responsible for overseeing the infrastructure business and the merger and acquisition affairs of NWS Holdings Limited and its subsidiaries. In addition, Mr. Cheng is a director of Sino-French Holdings (Hong Kong) Limited, Sino-French Energy Development Company Limited, The Macao Water Supply Company Limited as well as a director of a number of companies in Mainland China. Mr. Cheng has previously worked as a research analyst in the Infrastructure and Conglomerates sector for CLSA Asia-Pacific Markets.

BOARD OF DIRECTORS (CONTINUED)

WANG Meijuan, aged 51, was appointed as a Non-executive Director of the Company on 1 September 2012 and is a member of the Audit Committee and the Risk Committee of the Company. She holds a Bachelor Degree and a Master Degree from the Shanghai University of Finance and Economics. Ms. Wang is a senior accountant in the People's Republic of China and possesses the qualification of securities practitioner in the People's Republic of China. She has worked as a lecturer for the department of management engineering of the Shanghai Institute of Building Materials and the senior manager of Da Hua Certified Public Accountants Co. Ltd. Ms. Wang has over 15 years of experience in the securities industry. From May 2001 to June 2003, she worked respectively as the assistant to the general manager and the deputy general manager of the audit department of Haitong Securities Company Limited. After joining HSCL in July 2003, Ms. Wang has worked as the deputy general manager of the monitoring and audit department, the deputy general manager of the risk control headquarters and the chief inspector and the deputy general manager for risk control. Currently, Ms. Wang is respectively a director and the chief supervisor of Haitong Capital Investment Co., Ltd. and Haitong Futures Co., Ltd., the group companies of HSCL, and a member of the Brokerage Business Committee of HSCL and the general manager of the audit department of HSCL.

William CHAN, aged 49, was appointed as a Non-executive Director on 2 January 2015 and is the Chairman of the Risk Committee and a member of the Strategic Development Committee of the Company. He is also the Chief Executive Officer and Chief Investment Officer of Harveston Asset Management Pte. Ltd., a joint venture company of Haitong International Investment (Singapore) Pte. Ltd., an indirect wholly-owned subsidiary of the Company. Mr. CHAN was awarded a Master of Business Administration Degree from National University of Singapore and a Bachelor Degree in Shipbuilding from Dalian University of Technology in China. He is currently the Investment Director of Tze San Investment Pte Ltd and has extensive experience in equity and bond analysis, trading and portfolio construction, currency trading, distress investment, quantitative research and derivative trading. Mr. CHAN previously worked for China Aviation Oil (Singapore) Pte Ltd as Head of Strategic Investment. He was also previously the Credit and Finance Manager of treasury department and financial risk unit for Asia Pacific of Dow Chemical Singapore.

Independent Non-executive Directors

TSUI Hing Chuen William JP, aged 64, was appointed as an Independent Non-executive Director of the Company on 1 July 2004 and is the Chairman of the Remuneration Committee, a member of the Audit Committee and the Nomination Committee of the Company. Mr. Tsui is the founder partner of Messrs. Lo, Wong & Tsui, Solicitors & Notaries since 1980. He has been a solicitor of the High Court of Hong Kong since 1977, a solicitor of the Supreme Court of England & Wales since 1980 as well as a barrister and solicitor of the Supreme Court of Victoria, Australia since 1983. He has also been an advocate and solicitor of the Supreme Court of Republic of Singapore since 1985 and a notary public appointed by the Archbishop of Canterbury, England since 1988. Mr. Tsui was appointed as a Justice of the Peace by the Government of Hong Kong in 1997. He was admitted to the Roll of Honour of The Law Society of Hong Kong in 2013. Mr. Tsui is currently an independent non-executive director of International Entertainment Corporation, Mongolia Energy Corporation Limited and Vision Values Holdings Limited (formerly known as "New World Mobile Holdings Limited"). The shares of all these companies are listed on The Stock Exchange of Hong Kong Limited.

LAU Wai Piu, aged 51, was appointed as an Independent Non-executive Director of the Company on 1 December 2006 and is a member of the Audit Committee, the Nomination Committee, the Remuneration Committee and the Risk Committee of the Company. Mr. Lau is a member of the HKICPA and a fellow of the Association of Chartered Certified Accountants. He possesses over 20 years of extensive experience in accounting and financial management. Mr. Lau is currently an independent non-executive director of International Entertainment Corporation, Mongolia Energy Corporation Limited and Vision Values Holdings Limited (formerly known as "New World Mobile Holdings Limited"). The shares of all these companies are listed on The Stock Exchange of Hong Kong Limited.

LIN Ching Yee Daniel, aged 53, was appointed as an Independent Non-executive Director of the Company on 31 December 2012 and is the Chairman of the Audit Committee of the Company. Mr. Lin graduated from the University of Oxford and obtained a Master of Arts in Engineering Science. He is a Certified Public Accountant (Practising) in Hong Kong and a member of the HKICPA and the Institute of Chartered Accountants in England and Wales. Mr. Lin is currently the managing partner of Grant Thornton Hong Kong Limited, a member firm of Grant Thornton International Ltd. During working in London of the United Kingdom and Hong Kong, he has gained over 30 years of experience in auditing, initial public offering, financial consulting and management and has been a partner in various large international accounting firms in Hong Kong. Mr. Lin is currently a member of the Professional Conduct Committee, the Mainland Development Strategies Advisory Panel and the Convenor of the Editorial Advisory Group of the HKICPA.

BOARD OF DIRECTORS (CONTINUED)

WEI Kuo-chiang, aged 65, was appointed as an Independent Non-executive Director of the Company on 31 December 2012 and is a member of the Remuneration Committee and the Risk Committee of the Company. He was awarded a Doctor of Philosophy Degree in Finance from the University of Illinois at Urbana-Champaign in the United States, a Master of Business Administration Degree in Finance from the National Chengchi University in Taiwan, and a Bachelor of Engineering Degree in Industrial Management from the National Taiwan University of Science and Technology. Mr. Wei is currently the Chair Professor of Finance and Director of Value Partners Center for Investing at the Department of Finance at The Hong Kong University of Science and Technology ("HKUST"). He previously acted as professor, associate professor and assistant professor of finance at a number of prestigious universities, including the University of Mississippi, the University of Miami and the Indiana University at Bloomington/Indianapolis in the United States as well as the HKUST, and also served as Director of the Center for Asian Financial Markets and Director of Master of Science (Financial Analysis)/(Investment Management) Programs at the HKUST for many years. Mr. Wei has written a number of research papers on issues such as the United States and Global Capital Markets and Pricing of Assets and he was also a column writer on Hong Kong stock market and warrant trading for Hong Kong Economic Journal for many years. Moreover, he assisted to develop wealth management and investment models for, among others, Hang Seng Bank Limited and The Hongkong and Shanghai Banking Corporation Limited and also organized and conducted a consultancy project for the Government of Hong Kong and Asia-Pacific Economic Cooperation. Mr. Wei has been a council member of the Chinese Finance Annual Meeting and the Global Chinese Real Estate Congress since 2004 and 2008 respectively.

REPORT OF THE BOARD OF DIRECTORS

The board of directors of the Company (the "Board") is pleased to present its report and the audited financial statements of the Company and the Group for the year ended 31 December 2015.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. The principal activities of the Company's subsidiaries comprise securities, futures, options and bullion contracts brokerage, the provision of nominee and custodian services, the provision of corporate advisory, placing and underwriting services, the provision of asset management services, the provision of securities margin financing and leveraged and acquisition financing, trading and market making activities, structured products issuance and investments. There were no significant changes in the nature of the Group's principal activities during the year ended 31 December 2015.

BUSINESS REVIEW

The business review of the Company for the year ended 31 December 2015 is set out in the sections headed "Managing Director's Review", "Corporate Governance Report" and "Corporate Social Responsibility Report" on pages 16 to 21, pages 24 to 41 and pages 44 to 49 respectively on this Annual Report.

RESULTS AND DIVIDENDS

The Group's profit for the year ended 31 December 2015 and the state of affairs of the Company and the Group on date are set out in the financial statements on pages 76 to 198.

The Board has resolved to recommend a final dividend of HK4 cents per share in cash for the year ended 31 December 2015 to shareholders whose names appear on the register of members of the Company on Monday, 9 May 2016. Shareholders will be given the option to receive the final dividend in new shares in lieu of cash. Together with the interim dividend of HK20 cents per share paid on 27 October 2015, the total dividend payout for 2015 would be HK24 cents per share.

The proposed final dividend is subject to the approval of the Company's shareholders at the forthcoming annual general meeting. The final dividend will be paid on or about Thursday, 16 June 2016.

CLOSURE OF REGISTER OF MEMBERS FOR ENTITLEMENT TO ATTEND AND VOTE AT ANNUAL GENERAL MEETING

The register of members of the Company will be closed from Tuesday, 26 April 2016 to Thursday, 28 April 2016, both dates inclusive, during which period no transfer of shares will be registered. In order to qualify for attending and voting at the annual general meeting, unregistered holders of the shares of the Company should ensure that all completed transfer forms accompanied by the relevant share certificates must be lodged with the Company's Branch Share Registrar and Transfer Office in Hong Kong, Tricor Investor Services Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong, for registration not later than 4:30 p.m. on Monday, 25 April 2016.

CLOSURE OF REGISTER OF MEMBERS FOR ENTITLEMENT TO THE PROPOSED FINAL DIVIDEND

The register of members of the Company will be closed from Thursday, 5 May 2016 to Monday, 9 May 2016, both dates inclusive, during which period no transfer of shares will be registered. In order to qualify for the proposed final dividend, the unregistered holders of the shares of the Company should ensure that all completed transfer forms accompanied by the relevant share certificates must be lodged with the Company's Branch Share Registrar and Transfer Office in Hong Kong, Tricor Investor Services Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong, for registration not later than 4:30 p.m. on Wednesday, 4 May 2016. Shares of the Company will be traded ex-dividend as from Tuesday, 3 May 2016.

SUMMARY OF FINANCIAL INFORMATION

A summary of the published results, assets, liabilities and non-controlling interests of the Group for the year ended 31 December 2015 and the previous 10 financial periods/years, as extracted from the audited financial statements and reclassified as appropriate, is set out on page 199 of this Annual Report. This summary does not form part of the audited financial statements.

CHARITABLE CONTRIBUTIONS

During the year ended 31 December 2015, the Group made charitable contributions totalling HK$1,040,653.

RESERVES

Details of movements in the reserves of the Company and the Group during the year ended 31 December 2015 are set out in note 38 to the financial statements and in the consolidated statement of changes in equity, respectively.

DISTRIBUTABLE RESERVES

As at 31 December 2015, the Company's reserves available for distribution, calculated in accordance with the provisions of the Companies Act 1981 of Bermuda (as amended), amounted to HK$339,340,000, of which HK$211,596,804 has been proposed as a final dividend for the year ended 31 December 2015. In addition, the Company's share premium account, in the amount of HK$16,917,151,000, may be distributed in the form of fully paid bonus shares.

FIXED ASSETS

Details of movements in the fixed assets of the Company and the Group during the year ended 31 December 2015 are set out in note 14 to the financial statements.

SHARE CAPITAL

Details of movements in the Company's share capital during the year ended 31 December 2015, together with the reasons thereof, are set out in note 36 to the financial statements.

CONVERTIBLE BONDS

Details of the convertible bonds are set out in note 35 to the financial statements.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Bye-laws or the laws of Bermuda, being the jurisdiction in which the Company is incorporated, which would oblige the Company to offer new shares on a pro rata basis to its existing shareholders.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

Neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities during the year ended 31 December 2015 other than as an agent for clients of the Company or its subsidiaries and for the trustee of the share award scheme of the Company.

MAJOR CUSTOMERS AND SUPPLIERS

In the year ended 31 December 2015, the revenue attributable to the 5 largest customers of the Group accounted for less than 30% of the Group's total revenue for the year ended 31 December 2015.

None of the directors of the Company or any of their associates or any shareholders (which, to the best knowledge of the directors, own more than 5% of the Company's issued share capital) had any beneficial interest in the Group's 5 largest customers.

The Group is a provider of financial services. In the opinion of the directors of the Company, it is therefore of no value to disclose details of the Group's suppliers.

DIRECTORS

The directors of the Company during the year ended 31 December 2015 and up to the date of this report are:

Executive directors:

LI Jianguo
LIN Yong
HUI Yee Wilson

Non-executive directors:

JI Yuguang
POON Mo Yiu (redesignated from executive director to non-executive director on 16 February 2016)
CHENG Chi Ming Brian
WANG Meijuan
William CHAN

Independent non-executive directors:

TSUI Hing Chuen William
LAU Wai Piu
LIN Ching Yee Daniel
WEI Kuo-chiang

Pursuant to the Company's New Bye-laws 87(1) and (2), Messrs. POON Mo Yiu, CHENG Chi Ming Brian, LIN Ching Yee Daniel and WEI Kuo-chiang shall retire from office by rotation at the forthcoming annual general meeting and, being eligible, shall offer themselves for re-election.

No director proposed for re-election at the forthcoming annual general meeting has a service contract with the Company or any of its subsidiaries which is not determinable by the employing company within 1 year without payment of compensation, other than statutory compensation.

DIRECTORS' BIOGRAPHICAL DETAILS

Biographical details of the directors of the Company are set out on pages 50 to 54 of this Annual Report.

DIRECTORS' SERVICE CONTRACTS

No director has a service contract with the Company or any of its subsidiaries which is for a duration that may exceed 3 years or which requires the Company to, in order to terminate such contract, give a notice period of more than 1 year or pay compensation or make other payments equivalent to more than 1 year's emoluments.

DIRECTORS' INTERESTS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS

No director had a material interest, either directly or indirectly, in any transaction, arrangement or contract of significance to the business of the Group to which the Company or any of its subsidiaries was a party during the year ended 31 December 2015.

PERMITTED INDEMNITY PROVISION

The New Bye-laws of the Company provides that each director or other officer of the Company shall be entitled to be indemnified out of the assets of the Company against all losses or liabilities which he or she may sustain or incur in or about the execution of the duties of his or her office or otherwise in relation thereto. In addition, the Company has maintained appropriate directors and officers liability insurance in respect of relevant legal actions against the directors.

DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 31 December 2015, the interests and short positions of the directors of the Company in the shares, underlying shares and debentures of the Company and any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")), as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 to the Listing Rules (the "Model Code"), were as follows:

The Company

Name of directors	Class of shares	Number of shares held: Personal interests	Number of shares held: Family interests	Number of shares held: Corporate interests	Number of underlying shares held under equity derivatives	Total	Approximate percentage of the Company's total issued share capital*
JI Yuguang	Share options	–	–	–	875,199 (Note 1)	875,199	0.02
LI Jianguo	Ordinary shares	1,964,319 (Note 2)	–	–	–	1,964,319	0.04
LIN Yong	Ordinary shares	4,200,454 (Note 3)	–	–	–	4,200,454	0.08
POON Mo Yiu	Share options	–	–	–	2,100,474 (Note 4)	2,100,474	0.04
HUI Yee Wilson	Share options	–	–	–	3,565,062 (Note 5)	3,565,062	0.07
CHENG Chi Ming Brian	Share options	–	–	–	875,199 (Note 6)	875,199	0.02
TSUI Hing Chuen William	Ordinary shares/ share options	500,000 (Note 7)	–	–	145,768 (Note 8)	645,768	0.01
LAU Wai Piu	Share options	–	–	–	875,199 (Note 9)	875,199	0.02

* On 18 March 2015, the Company announced a rights issue on the basis of 1 rights share for every 1 existing share (the "Rights Issue") held by shareholders of the Company (the "Shareholders"). The Rights Issue was approved by the Shareholders on 21 April 2015 and was completed on 22 May 2015. 2,533,453,008 rights shares were issued on 26 May 2015. On 27 October 2015, 188,511,179 shares were allotted under the interim dividend for the 6 months ended 30 June 2015 in form of scrip dividend. Together with the issue of 383,558,892 ordinary shares during the year ended 31 December 2015 pursuant to (i) exercise of conversion rights in accordance with the terms and conditions of the convertible bonds due 2018 and 2019 and (ii) exercise of share options under the Share Option Scheme adopted on 23 August 2002, the total number of shares of the Company was increased to 5,289,920,095 as at 31 December 2015.

Notes:

1. Those shares would be allotted and issued to Mr. JI Yuguang upon the exercise in full of the share options granted to Mr. JI under the 2002 share option scheme (as defined below) of the Company. The number of outstanding share options was adjusted from 576,077 to 872,505 while the exercise price per share was adjusted from HK$4.208 to HK$2.778 on 26 May 2015 upon completion of Rights Issue on 22 May 2015. The number of outstanding share options was further adjusted from 872,505 to 875,199 while the exercise price per share was adjusted from HK$2.778 to HK$2.769 on 27 October 2015 consequent to the allotment of ordinary shares on the same day under interim dividend for the 6 months ended 30 June 2015 in form of scrip dividend. These share options, all of which remained exercisable as at 31 December 2015, were/will be exercisable during the period from 3 March 2011 to 2 March 2019.

2. Those shares are held by Mr. LI Jianguo as beneficial owner.

3. Those shares are held by Mr. LIN Yong as beneficial owner.

4. Those shares would be allotted and issued to Mr. POON Mo Yiu upon the exercise in full of the share options granted to Mr. POON under the 2002 share option scheme of the Company. The number of outstanding share options was adjusted from 1,382,583 to 2,094,009 while the exercise price per share was adjusted from HK$4.208 to HK$2.778 on 26 May 2015 upon completion of Rights Issue on 22 May 2015. The number of outstanding share options was further adjusted from 2,094,009 to 2,100,474 while the exercise price per share was adjusted from HK$2.778 to HK$2.769 on 27 October 2015 consequent to the allotment of ordinary shares on the same day under interim dividend for the 6 months ended 30 June 2015 in form of scrip dividend. These share options, all of which remained exercisable as at 31 December 2015, were/will be exercisable during the period from 3 March 2011 to 2 March 2019.

5. Those shares would be allotted and issued to Mr. HUI Yee Wilson upon the exercise in full of the share options granted to Mr. HUI under the 2002 share option scheme of the Company. The number of outstanding share options was adjusted from (i) (Date of Grant: 1 December 2007) from 1,194,457 to 1,809,081 while the exercise price per share was adjusted from HK$5.098 to HK$3.366; and (ii) (Date of Grant: 3 September 2010) from 1,152,153 to 1,745,008 while the exercise price per share was adjusted from HK$4.208 to HK$2.778 on 26 May 2015 upon completion of Rights Issue on 22 May 2015. The number of outstanding share options was further adjusted from (i) (Date of Grant: 1 December 2007) from 1,809,081 to 1,814,667 while the exercise price per share was adjusted from HK$3.366 to HK$3.356; and (ii) (Date of Grant: 3 September 2010) from 1,745,008 to 1,750,395 while the exercise price per share was adjusted from HK$2.778 to HK$2.769 on 27 October 2015 consequent to the allotment of ordinary shares on the same day under interim dividend for the 6 months ended 30 June 2015 in form of scrip dividend. These share options, all of which remained exercisable as at 31 December 2015, were/will be exercisable (i) (Date of Grant: 1 December 2007) during 1 June 2008 to 31 May 2016; and (ii) (Date of Grant: 3 September 2010) during the period from 3 March 2011 to 2 March 2019.

6. Those shares would be allotted and issued to Mr. CHENG Chi Ming Brian upon the exercise in full of the share options granted to Mr. CHENG under the 2002 share option scheme of the Company. The number of outstanding share options was adjusted from 576,077 to 872,505 while the exercise price per share was adjusted from HK$4.208 to HK$2.778 on 26 May 2015 upon completion of Rights Issue on 22 May 2015. The number of outstanding share options was further adjusted from 872,505 to 875,199 while the exercise price per share was adjusted from HK$2.778 to HK$2.769 on 27 October 2015 consequent to the allotment of ordinary shares on the same day under interim dividend for the 6 months ended 30 June 2015 in form of scrip dividend. Those share options, all of which remained exercisable as at 31 December 2015, were/will be exercisable during the period from 3 March 2011 to 2 March 2019.

7. Those shares are held by Mr. TSUI Hing Chuen William as beneficial owner.

8. Those shares had been/would be allotted and issued to Mr. TSUI Hing Chuen William upon the exercise in full of the share options granted to Mr. TSUI under the 2002 share option scheme of the Company. As at 1 January 2015, the number of outstanding share options held by Mr. TSUI was 576,077. 150,000 share options were exercised by Mr. TSUI on 21 April 2015 and thus 426,077 outstanding share options were held by Mr. TSUI after this exercise of the share option. The number of outstanding share options was adjusted from 426,077 to 645,320 while the exercise price per share was adjusted from HK$4.208 to HK$2.778 on 26 May 2015 upon completion of Rights Issue on 22 May 2015. 500,000 share options were further exercised by Mr. TSUI on 12 June 2015 and thus the number of share options held by Mr. TSUI was further decreased from 645,320 to 145,320. The number of outstanding share options was further adjusted from 145,320 to 145,768 while the exercise price per share was adjusted from HK$2.778 to HK$2.769 on 27 October 2015 consequent to the allotment of ordinary shares on the same day under interim dividend for the 6 months ended 30 June 2015 in form of scrip dividend. Those share options, all of which remained exercisable as at 31 December 2015, were/will be exercisable during the period from 3 March 2011 to 2 March 2019.

9. Those shares would be allotted and issued to Mr. LAU Wai Piu upon the exercise in full of the share options granted to Mr. LAU under the 2002 share option scheme of the Company. The number of outstanding share options was adjusted from 576,077 to 872,505 while the exercise price per share was adjusted from HK$4.208 to HK$2.778 on 26 May 2015 upon completion of Rights Issue on 22 May 2015. The number of outstanding share options was further adjusted from 872,505 to 875,199 while the exercise price per share was adjusted from HK$2.778 to HK$2.769 on 27 October 2015 consequent to the allotment of ordinary shares on the same day under interim dividend for the 6 months ended 30 June 2015 in form of scrip dividend. Those share options, all of which remained exercisable as at 31 December 2015, were/will be exercisable during the period from 3 March 2011 to 2 March 2019.

All the interests disclosed above represent long positions in the shares and underlying shares of the Company.

Save as disclosed above, as at 31 December 2015, none of the directors of the Company or their associates had registered any other interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) that was required to be recorded in the register kept by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed under the sections headed "Directors' Interests and Short Positions in Shares, Underlying Shares and Debentures" above and "Share Option Schemes" below, at no time during the year ended 31 December 2015 were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any director or their respective spouse or children under 18 years of age, or were any such rights exercised by them; or was the Company or any of its subsidiaries a party to any arrangement to enable the directors to acquire such rights in any other body corporate.

SHARED-BASED COMPENSATION SCHEME

The Company operates two equity-settled share-based compensation schemes including a share option scheme (the "Share Option Scheme") and a share award scheme (the "Share Award Scheme") for the purpose of assisting in recruiting, retaining and motivating key staff members. Eligible participants of the schemes include the Company's directors, including independent non-executive directors, and other employees of the Group.

Share option schemes

(I) On 23 August 2002, the shareholders of the Company approved the adoption of the Share Option Scheme (the "2002 Share Option Scheme"). The 2002 Share Option Scheme was expired on 22 August 2012. Share options granted under the 2002 Share Option Scheme prior to its expiry continued to be valid and exercisable pursuant to the terms of the 2002 Share Option Scheme. A summary of the principal terms of the 2002 Share Option Scheme, as disclosed in accordance with the Listing Rules, is set out as follows:

Purpose of the 2002 Share Option Scheme:

To attract, retain and motivate talented employees to strive towards long term performance targets set by the Company and its subsidiaries and at the same time to allow the participants to enjoy the results of the Company attained through their effort and contribution.

Participants of the 2002 Share Option Scheme:

Any full time employees, executive and non-executive directors of the Company or any of its subsidiaries or associates.

Total number of shares available for issue under the 2002 Share Option Scheme and percentage of the Company's issued share capital immediately before the expiry:

The maximum number of shares which may be issued upon exercise of all options to be granted under the 2002 Share Option Scheme and any other share option schemes of the Company shall not in aggregate exceed 10% of the total number of shares in issue as at the date of adoption of the 2002 Share Option Scheme (the "Scheme Mandate Limit") but the Company may seek approval of its shareholders at general meetings to refresh the Scheme Mandate Limit, save that the maximum number of shares in respect of which options may be granted by directors of the Company under the 2002 Share Option Scheme and any other share option schemes of the Company shall not exceed 10% of the issued share capital of the Company as at the date of approval by the shareholders of the Company at general meetings where such limit is refreshed. Options previously granted under the 2002 Share Option Scheme and any other share option schemes of the Company (including those outstanding, cancelled, lapsed or exercised options) will not be counted for the purpose of calculating such 10% limit as refreshed. Notwithstanding the aforesaid in this paragraph, the maximum number of shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the 2002 Share Option Scheme and any other share option schemes of the Company shall not exceed 30% (or such higher percentage as may be allowed under the Listing Rules) of the total number of shares in issue from time to time.

Immediately before the expiry, the total number of shares available for issue under the 2002 Share Option Scheme was 71,503,270 shares, which represented approximately 7.81% of the issued share capital of the Company at that day.

Maximum entitlement of each participant under the 2002 Share Option Scheme:

The maximum number of shares issued and to be issued upon exercise of the options granted to each participant under the 2002 Share Option Scheme and any other share option schemes of the Company (including both exercised and outstanding options) in any 12-month period shall not exceed 1% of the total number of the Company's shares in issue. Any further grant of share options in excess of this limit is subject to approval by the shareholders of the Company at a general meeting.

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

The period within which the shares must be taken up under an option and the minimum period for which an option must be held before it can be exercised:

The exercise period of the share options granted is determinable by the Board, and such period shall commence not earlier than 6 months from the date of the grant of the options and expire not later than 10 years after the date of grant of the options.

The amount payable on application or acceptance of the option and the period within which payments or calls must or may be made or loans for such purposes must be paid:

The offer of a grant of share options may be accepted within 30 days from the date of the offer upon payment of a consideration of HK$1 by the grantee.

The basis of determining the exercise price:

The exercise price of the share options is determinable by the Board, and shall be at least the highest of (i) the closing price of the Company's shares as stated in the Stock Exchange's daily quotations sheet on the offer date; (ii) the average closing price of the Company's shares as stated in the Stock Exchange's daily quotations sheets for the 5 trading days immediately preceding the offer date; and (iii) the nominal value of the Company's shares.

The remaining life of the 2002 Share Option Scheme:

The 2002 Share Option Scheme was expired on 22 August 2012. However, the share options granted under the 2002 Share Option Scheme prior to its expiry are still exercisable pursuant to the terms of this scheme.

Details of movement of share options under the 2002 Share Option Scheme during the year ended 31 December 2015 were as follows:

	Number of share options								Price of Company's shares***	
Name or category of participants	At 1 January 2015	Granted during the year	Adjusted during the year	Exercised during the year	Lapsed during the year	At 31 December 2015	Date of grant of share options*	Exercise period of share options	Exercise price of share options** HK$ per share	At immediately preceding the grant date of share options HK$ per share	At immediately preceding the exercise date of share options HK$ per share
Directors											
JI Yuguang	576,077	–	299,122 (Note 1)	–	–	875,199	3 September 2010	3 March 2011– 2 March 2019	2.769 (Note 1)	4.79	N/A
LI Jianguo	921,722	–	–	(921,722)	–	–	3 September 2010	3 March 2011– 2 March 2019	4.208 (Note 2)	4.79	9.45
LIN Yong	921,722	–	–	(921,722)	–	–	3 September 2010	3 March 2011– 2 March 2019	4.208 (Note 2)	4.79	6.49
POON Mo Yiu	1,382,583	–	717,891 (Note 1)	–	–	2,100,474	3 September 2010	3 March 2011– 2 March 2019	2.769 (Note 1)	4.79	N/A
HUI Yee Wilson	1,194,457	–	620,210 (Note 1)	–	–	1,814,667	1 December 2007	1 June 2008– 31 May 2016	3.356 (Note 1)	5.69	N/A
	1,152,153	–	598,242 (Note 1)	–	–	1,750,395	3 September 2010	3 March 2011– 2 March 2019	2.769 (Note 1)	4.79	N/A
CHENG Chi Ming Brian	576,077	–	299,122 (Note 1)	–	–	875,199	3 September 2010	3 March 2011– 2 March 2019	2.769 (Note 1)	4.79	N/A
TSUI Hing Chuen William	576,077	–	219,691 (Note 1)	(650,000)	–	145,768	3 September 2010	3 March 2011– 2 March 2019	(i) 4.208 (ii) 2.778 (iii) 2.769 (Notes 1&3)	4.79	7.60
LAU Wai Piu	576,077	–	299,122 (Note 1)	–	–	875,199	3 September 2010	3 March 2011– 2 March 2019	2.769 (Note 1)	4.79	N/A
	7,876,945	–	3,053,400	(2,493,444)	–	8,436,901					

REPORT OF THE BOARD OF DIRECTORS (CONTINUED)

Name or category of participants	Number of share options						Date of grant of share options*	Exercise period of share options	Exercise price of share options**	Price of Company's shares***	
	At 1 January 2015	Granted during the year	Adjusted during the year	Exercised during the year	Lapsed during the year	At 31 December 2015			HK$ per share	At immediately preceding the grant date of share options HK$ per share	At immediately preceding the exercise date of share options HK$ per share
Continuous contract employees											
In aggregate	8,804,134	–	591,583 (Note 1)	(8,284,827)	(40,911) (Note 4)	1,069,979	1 December 2007	1 June 2008– 31 May 2016	3.356 (Note 1)	5.69	9.49
In aggregate	10,411,723	–	1,407,487 (Note 1)	(8,662,738)	(697) (Note 4)	3,155,775	3 September 2010	3 March 2011– 2 March 2019	2.769 (Note 1)	4.79	8.63
	19,215,857	–	1,999,070	(16,947,565)	(41,608)	4,225,754					
	27,092,802	–	5,052,470	(19,441,009)	(41,608)	12,662,655					

* The vesting period of the share options is from the date of the grant until the commencement of the exercise period. All share options referred to above are subject to a 6-month vesting period.

** The exercise price of the share options is subject to adjustment in the case of rights or bonus issues, or other similar changes in the Company's share capital.

*** The price of the Company's shares disclosed at immediately preceding the grant date of the share options is the Stock Exchange closing price on the trading day immediately prior to the date of the grant of the share options. The price of the Company's shares disclosed at immediately preceding the exercise date of the share options is the weighted average of the Stock Exchange closing prices over all the exercises of share options within the disclosure category.

Notes:

1. The Company completed the Rights Issue on 22 May 2015. Accordingly, the exercise price and the number of share options were adjusted to HK$3.366 (Date of Grant: 1 December 2007) and HK$2.778 (Date of Grant: 3 September 2010) with effect from 26 May 2015 (the "Adjustment due to Rights Issue"). The exercise price and the number of share options were further adjusted to HK$3.356 (Date of Grant: 1 December 2007) and HK$2.769 (Date of Grant: 3 September 2010) with effect from 27 October 2015 consequent to the allotment of ordinary shares on the same day under interim dividend for the 6 months ended 30 June 2015 in form of scrip dividend.

2. 921,722 share options were exercised by Mr. LI Jianguo and Mr. LIN Yong respectively at the exercise price of HK$4.208 before the Adjustment due to Rights Issue.

3. (i) 150,000 share options were exercised at the exercise price of HK$4.208 and (ii) 500,000 share options were exercised at the exercise price of HK$2.778 by Mr. TSUI Hing Chuen William.

4. These share options lapsed during the year ended 31 December 2015 as a result of staff resignation.

(II) The shareholders of the Company approved the adoption of a new share option scheme (the "2015 Share Option Scheme") on 8 June 2015 (the "Adoption Date"). A summary of the principal terms of the 2015 Share Option Scheme, as disclosed in accordance with the Listing Rules, is set out as follows:

Purpose of the 2015 Share Option Scheme:

To attract, retain and motivate talented employees to strive towards long term performance targets set by the Group with an opportunity to obtain an equity interest in the Company, thus linking their interest with the interest of the Group and thereby providing them with an added incentive to work better for the interest of the Group.

Participants of the 2015 Share Option Scheme:

Any director (whether executive or non-executive and whether independent or not), employee (whether full-time or part-time), of the Group (whether on an employment or contractual or honorary basis and whether paid or unpaid), who, in the absolute opinion of the Board, have contributed to the Company or the Group.

Total number of shares available for issue under the 2015 Share Option Scheme and percentage of the Company's issued share capital as at the date of this annual report:

The total number of shares which may be issued upon exercise of all options to be granted under the 2015 Share Option Scheme and any other share option schemes of the Company shall not in aggregate exceed 212,924,439 shares (the "Scheme Limit"), representing approximately 10% of the issued shares of the Company as at 30 November 2014, being the date of tentative approval of the 2015 Share Option Scheme by the management of the Company. In respect of the period of 12 months from the Adoption Date and for each of the subsequent periods of 12 months from the previous anniversary of the Adoption Date (each of those 12-months periods is hereinafter referred to as a "Scheme Year"), the total number of shares of the Company which may be issued upon exercise of the options granted in each Scheme Year shall not exceed 21,292,444 shares (the "Annual Limit"). The Company may from time to time seek approval of its shareholders and the approval of the shareholders of Haitong Securities Co., Ltd. ("HSCL") (so long as the Company is a subsidiary of HSCL under the Listing Rules) in respective general meetings to renew the Scheme Limit and/or the Annual Limit such that the total number of shares of the Company in respect of which options may be granted by directors of the Company under the 2015 Share Option Scheme (i) in respect of the Scheme Limit, shall not exceed 10% of the issued share capital of the Company as at the date of approval of the refreshment; and (ii) in respect of the Annual Limit, shall not exceed 1% of the issued share capital of the Company as at the date of approval of the refreshment. Options previously granted under the 2015 Share Option Scheme and any other share option schemes of the Company (including those outstanding, cancelled, lapsed or exercised options) will not be counted for the purpose of calculating such limits as refreshed. Notwithstanding the aforesaid in this paragraph, the maximum number of shares of the Company which may be issued upon exercise of all outstanding options granted and yet to be exercised under the 2015 Share Option Scheme and any other share option schemes of the Company shall not exceed 30% (or such higher percentage as may be allowed under the Listing Rules) of the total number of the Company's shares in issue from time to time.

As at the date of this report, the total number of shares available for issue under the 2015 Share Option Scheme was 212,924,439 shares, which represented approximately 4.03% of the issued share capital of the Company at that day.

Maximum entitlement of each participant under the 2015 Share Option Scheme:

The maximum number of shares issued and to be issued upon exercise of the options granted to each participant under the 2015 Share Option Scheme and any other share option schemes of the Company (including both exercised and outstanding options) in any 12-month period shall not exceed 1% of the total number of the Company's shares in issue. Any further grant of share options in excess of this limit is subject to approval by the shareholders of the Company at a general meeting.

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

The period within which the shares must be taken up under an option and the minimum period for which an option must be held before it can be exercised:

The exercise period of the share options granted is determinable by the Board, and such period shall commence not earlier than 6 months from the date of the grant of the options and expire not later than 5 years after the date of grant of the options.

The amount payable on application or acceptance of the option and the period within which payments or calls must or may be made or loans for such purposes must be paid:

The offer of a grant of share options may be accepted within 28 days from the date of the offer upon payment of a consideration of HK$1 by the grantee.

The basis of determining the exercise price:

The exercise price of the share options is determinable by the Board, and shall be at least the highest of (i) a price equal to 110% of the closing price of the Company's shares as stated in the Stock Exchange's daily quotations sheet on the offer date; (ii) the average closing price of the Company's shares as stated in the Stock Exchange's daily quotations sheets for the 5 business days immediately preceding the offer date; and (iii) the nominal value of the Company's share.

The remaining life of the 2015 Share Option Scheme:

The 2015 Share Option Scheme shall be valid and effective for a period of 10 years commencing from the date on which it is conditionally adopted by resolution of the Company at general meetings and will expire on 7 June 2025.

No option was granted pursuant to the 2015 Share Option Scheme for the year ended 31 December 2015.

Share Award Scheme

On 19 December 2014, the Company adopted the Share Award Scheme under which the shares of the Company (the "Awarded Shares") may be awarded to selected participants (including, without limitation, any executive directors, non-executive or independent non-executive directors) of any members of the Group (the "Selected Participants") pursuant to the terms of the Share Award Scheme and the Trust Deed of the Share Award Scheme. The Share Award Scheme became effective on the adoption date and, unless otherwise terminated or amended, will remain in force for 10 years from that date, i.e., 18 December 2024.

The aggregate number of Awarded Shares permitted to be awarded under the Share Award Scheme throughout the duration of the Share Award Scheme is limited to 10% of the issued share capital of the Company as at the adoption date (being 217,248,566 shares). The maximum number of Awarded Shares which may be awarded to each of Selected Participant in any 12-month period up to and including the date of award shall not in aggregate over 1% of the issued share capital of the Company as at the adoption date (being 21,724,856 shares).

When a Selected Participant has satisfied all vesting conditions, which might include service and/or performance conditions, specified by the Board at the time of making the award and become entitled to the shares of the Company forming the subject of the award, the trustee shall transfer the relevant Awarded Shares to that employee at no cost.

No Awarded Shares was granted to the directors of the Company for the year ended 31 December 2015.

Further details of the Share Award Scheme are disclosed in note 37 to the financial statements.

SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

As at 31 December 2015, the interests and short positions of those persons (other than the directors of the Company) in the shares and underlying shares of the Company as required to be recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO, were as follows:

Name of substantial shareholders	Number of shares held and nature of interests		Number of underlying shares held under equity derivatives	Total	Approximate percentage of the Company's total issued share capital
	Direct	Deemed			
Haitong Securities Co., Ltd. ("HSCL")	–	3,060,084,160	–	3,060,084,160	60.01
Haitong International Holdings Limited ("HTIH")	3,060,084,160	–		3,060,084,160	60.01

Note: HSCL held the entire issued share capital of HTIH. By virtue of the provisions of the SFO, HSCL is deemed to be interested in the shares in which HTIH is interested.

All the interests disclosed above represent long positions in the shares and underlying shares of the Company.

Save as disclosed above, as at 31 December 2015, no person, other than the directors of the Company, whose interests are set out in the section headed "Directors' Interests and Short Positions in Shares, Underlying Shares and Debentures" above, had registered an interest or short position in the shares or underlying shares of the Company that was required to be recorded pursuant to Section 336 of the SFO.

DIRECTORS' INTERESTS IN COMPETING BUSINESSES

Mr. LI Jianguo (a Deputy Chairman of the Company) is the deputy chairman of the board of directors of HTIH, which is a wholly-owned subsidiary of HSCL and an assistant to the general manager of HSCL. Mr. LIN Yong (a Deputy Chairman and the Managing Director of the Company) is a director and the chief executive officer of HTIH, an assistant to the general manager of HSCL. Mr. JI Yuguang (the Chairman of the Company) is the deputy general manager and a director of the Overseas Business Committee of HSCL as well as the chairman of the board of directors of HTIH. Mr. POON Mo Yiu (formerly an executive director and re-designated as a non-executive director of the Company on 16 February 2016) is an Executive Board member and the chief financial officer of Haitong Bank S.A. Ms. WANG Meijuan (a non-executive director of the Company) is respectively a director and the chief supervisor of Haitong Capital Investment Co., Ltd. and Haitong Futures Co., Ltd., the group companies of HSCL, and a member of the Brokerage Business Committee and the general manager of the audit department of HSCL. HSCL competes or may compete, either directly or indirectly, with the business of the Group.

The Board considers that, having considered the facts that:

(i) the Group is capable of, and does carry on its business independently of, and on an arm's length basis with the competing business of the HSCL Group;

(ii) the Group and the HSCL Group have each augmented its business in a way so as to optimize the synergistic effect between the Group and the HSCL Group with a view to, where that is appropriate, minimizing duplication in terms of allocation of time and resources, and promoting efficiency, effectiveness and quality in the development of their respective businesses;

(iii) the Company has established corporate governance procedures to ensure business opportunities and performance are independently assessed and reviewed from time to time;

(iv) Mr. LI Jianguo and Mr. LIN Yong (both are executive directors of the Company), Mr. JI Yuguang, Mr. POON Mo Yiu and Ms. WANG Meijuan (all are non-executive directors of the Company) (collectively, the "Relevant Directors") are fully aware of their fiduciary duty to the Group, and will abstain from voting on any matter where there is or may be a conflict of interest; and

(v) the competing business in which the HSCL Group is engaged is primarily focused in the PRC whereas the Group's business is primarily Hong Kong-based,

the Group's interest is adequately safeguarded.

Since (i) all the major and important corporate actions of the Company are and will be fully deliberated and determined by the Board; and (ii) any director(s) who is/are or deemed to be interested in any proposed transaction(s) will have his/their interest fully disclosed and will abstain from voting at the relevant resolution(s) in accordance with the applicable requirements of the New Bye-laws of the Company, the Board is of the view that each of the Relevant Directors does not, by himself/herself or in an individual capacity, competes with the Company and/or the business of the Group.

Based on the above, as at 31 December 2015, none of the directors of the Company and their associates was considered to have interests in the businesses which compete or are likely to compete, either directly or indirectly, with the businesses of the Group.

CONTINUING CONNECTED TRANSACTIONS

The continuing connected transactions undertaken by the Group are included in the transactions set out in note 43 to the financial statements.

The independent non-executive directors of the Company have reviewed the continuing connected transactions in note 43 to the financial statements and have confirmed that the continuing connected transactions have been entered into (i) in the ordinary and usual course of business of the Group; (ii) on normal commercial terms or on terms no less favourable to the Group than terms available to or from (as appropriate) independent third parties; and (iii) in accordance with the relevant agreements governing them on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

The Company's auditor was engaged to report on the Group's continuing connected transactions in accordance with Hong Kong Standard on Assurance Engagements 3000 "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants. The auditor has issued his unqualified letter containing his findings and conclusions in respect of the continuing connected transactions disclosed by the Group in note 43 to the financial statements in accordance with paragraph 14A.56 of the Listing Rules. A copy of the auditor's letter has been provided by the Company to the Stock Exchange.

DISCLOSURE PURSUANT TO RULE 13.21 OF THE LISTING RULES

On 16 May 2013, the Company (as borrower) entered into a facility agreement (the "Facility Agreement I") with certain financial institutions (as lenders) in respect of a revolving loan facility in an aggregate amount of HK$3,000,000,000 for a term of up to 3 years.

On 23 May 2014, the Company (as borrower) entered into a facility agreement (the "Facility Agreement II") with certain financial institutions (as lenders) in respect of a term loan facility in an aggregate amount of HK$1,336,000,000 for a term of up to 36 months and a revolving loan facility in an aggregate amount of HK$2,004,000,000 for a term of up to 36 months.

On 10 April 2015, the Company (as borrower) entered into a facility agreement (the "Facility Agreement III") with certain financial institutions (as lenders) in respect of a term loan facility in an aggregate amount of HK$2,400,000,000 for a term of up to 36 months and a revolving loan facility in an aggregate amount of HK$3,600,000,000 for a term of up to 36 months.

On 26 June 2015, the Company (as borrower) entered into a facility agreement (the "Facility Agreement IV") with certain financial institutions (as lenders) in respect of a term loan facility in an aggregate amount of HK$1,600,000,000 for a term of up to 36 months and a revolving loan facility in an aggregate amount of HK$2,400,000,000 for a term of up to 36 months.

Pursuant to the terms of the Facility Agreement I, Facility Agreement II, Facility Agreement III and Facility Agreement IV, if, inter alia, either of the following events of default occurs, all or any part of the facilities may be immediately cancelled and all or any part of the loans together with accrued interest and any other amounts accrued or outstanding under the facilities may become immediately due and payable or payable on demand:

(1) HSCL ceases to directly or indirectly own at least 51% of the share capital in the Company; or

(2) HSCL does not or ceases to have management control of the Company ("Management Control"). Management Control refers to (i) a majority of incumbent directors of the Company are nominees of HSCL and (ii) HSCL has control over the management strategies and policies of the Company.

Announcements regarding the entering into of Facility Agreement I, Facility Agreement II, Facility Agreement III and Facility Agreement IV were made on 16 May 2013, 23 May 2014, 10 April 2015 and 26 June 2015 respectively.

SUFFICIENCY OF PUBLIC FLOAT

Based on information that is publicly available to the Company and within the knowledge of the directors of the Company, at least 25% of the Company's total issued share capital was held by the public as at the date of this report.

CORPORATE GOVERNANCE

The Company's corporate governance principles and practices are set out in the Corporate Governance Report on pages 24 to 41 of this Annual Report.

AUDITORS

The financial statements for the year ended 31 December 2015 of the Company have been audited by Deloitte Touche Tohmatsu who will retire and, being eligible, offer themselves for reappointment.

On behalf of the Board

JI Yuguang
Chairman

Hong Kong, 10 March 2016

INDEPENDENT AUDITOR'S REPORT

Deloitte.
德勤

TO THE SHAREHOLDERS OF HAITONG INTERNATIONAL SECURITIES GROUP LIMITED
海通國際證券集團有限公司
(incorporated in Bermuda with limited liability)

We have audited the consolidated financial statements of Haitong International Securities Group Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 76 to 198, which comprise the consolidated statement of financial position as at 31 December 2015, and the consolidated statement of profit or loss, consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion solely to you, as a body, in accordance with Section 90 of the Bermuda Companies Act, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the consolidated financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Group as at 31 December 2015, and of its financial performance and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

Deloitte Touche Tohmatsu
Certified Public Accountants

Hong Kong
10 March 2016

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the year ended 31 December 2015

	Notes	2015 HK$'000	2014 HK$'000
Revenue	6	**5,805,514**	2,713,291
Other income and gains or losses	6	**9,791**	20,512
		5,815,305	2,733,803
Employee benefits costs:			
Salaries and allowances, bonuses and pension scheme contributions	7	**(913,361)**	(545,281)
Commission to accounts executives	7	**(408,285)**	(240,031)
Depreciation and amortisation	14 & 16	**(32,250)**	(33,494)
Other operating expenses		**(384,930)**	(356,986)
		(1,738,826)	(1,175,792)
Finance costs	7	**(1,036,569)**	(375,475)
Share of (loss) profit of investments accounted for using the equity method	13	**(53,522)**	33,212
Profit before tax	7	**2,986,388**	1,215,748
Income tax expense	10	**(476,336)**	(197,479)
Profit for the year attributable to owners of the Company		**2,510,052**	1,018,269
			(restated)
Earnings per share attributable to owners of the Company	11		
— Basic (HK cents per share)		**62.20**	37.09
— Diluted (HK cents per share)		**60.66**	34.93

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2015

	2015 HK$'000	2014 HK$'000
Profit for the year attributable to owners of the Company	**2,510,052**	1,018,269
Other comprehensive income (expense):		
Items that may be reclassified subsequently to profit or loss:		
Cash flow hedge	**(5,667)**	592
Changes in fair value of available-for-sale investments	**(67,877)**	(9,058)
Disposal of available-for-sale investments	**(2,845)**	(20,195)
Exchange differences on translating foreign operations arising during the year	**5,883**	–
Other comprehensive expense for the year	**(70,506)**	(28,661)
Total comprehensive income for the year attributable to owners of the Company	**2,439,546**	989,608

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2015

	Notes	2015 HK$'000	2014 HK$'000
ASSETS			
Non-current assets			
Investments accounted for using the equity method	13	**1,272,574**	2,585,166
Property and equipment	14	**101,159**	101,255
Goodwill	15	**157,697**	9,854
Other intangible assets	16	**53,256**	6,609
Other assets	18	**95,526**	151,653
Financial assets designated at fair value through profit or loss	34	**5,705,699**	–
Available-for-sale investments	22	**6,253,682**	471,083
Held-to-maturity investments	23	**92,801**	182,306
Other loans and advances	24	**529,978**	811,000
Deferred tax assets		**4,546**	6,030
Prepayments, deposits and other receivables	27	**81,687**	–
		14,348,605	4,324,956
Current assets			
Advances to customers in margin financing	25	**18,879,155**	9,619,965
Other loans and advances	24	**3,550,880**	1,819,200
Accounts receivable	26	**3,820,611**	4,401,429
Prepayments, deposits and other receivables	27	**508,071**	277,293
Tax recoverable		**92,839**	72,317
Held-to-maturity investments	23	**5,951**	3,811
Derivative financial instruments	30	**514,816**	263,027
Financial assets at fair value through profit or loss	29	**18,257,597**	9,962,803
Financial assets designated at fair value through profit or loss	34	**6,154,656**	2,485,154
Financial assets held under resale agreements	40	**1,114,496**	24,765
Cash held on behalf of customers	31	**18,265,360**	11,668,936
Cash and cash equivalents		**6,405,963**	3,236,317
		77,570,395	43,835,017
Total assets		**91,919,000**	48,159,973

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)

At 31 December 2015

	Notes	2015 HK$'000	2014 HK$'000
EQUITY AND LIABILITIES			
Capital and Reserves			
Share capital	36	**528,992**	218,440
Reserves	38	**20,088,197**	8,039,480
Proposed final dividend	12	**211,597**	338,582
Total equity		**20,828,786**	8,596,502
Liabilities			
Non-current liabilities			
Convertible bonds	35	**134,393**	1,781,445
Non-convertible bonds	35	**9,937,201**	4,580,804
Non-convertible notes	35	**234,242**	–
Loans and other borrowings	35	**387,550**	–
Deferred tax liabilities		**20,464**	12,026
Financial liabilities designated at fair value through profit or loss	34	**4,225,698**	620,000
		14,939,548	6,994,275
Current liabilities			
Accounts payable	32	**20,945,837**	15,630,644
Other payables and accruals	28	**941,348**	489,396
Other liabilities		**–**	105,795
Tax payable		**571,193**	222,184
Financial liabilities at fair value through profit or loss	33	**957,979**	326,072
Financial liabilities designated at fair value through profit or loss	34	**3,263,051**	1,645,886
Derivative financial instruments	30	**90,193**	217,793
Non-convertible notes	35	**2,227,548**	–
Loans and other borrowings	35	**27,153,517**	13,931,426
		56,150,666	32,569,196
Total liabilities		**71,090,214**	39,563,471
Total equity and liabilities		**91,919,000**	48,159,973
Net current assets		**21,419,729**	11,265,821
Total assets less current liabilities		**35,768,334**	15,590,777

The associated financial statements on pages 76 to 198 were approved and authorised for issue by the board of directors on 10 March 2016 and are signed on its behalf by:

LIN Yong
DIRECTOR

HUI Yee Wilson
DIRECTOR

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2015

	Attributable to owners of the Company													
	Share capital HK$'000	Share premium account[1] HK$'000	Share option reserve[1] HK$'000	Shares held for employee share award scheme[1 & 2] HK$'000	Capital redemption reserve[1] HK$'000	Contributed surplus[1] HK$'000	Capital reserve[1] HK$'000	Investment revaluation reserve[1] HK$'000	Exchange reserve[1] HK$'000	Hedging reserve[1] HK$'000	Convertible bond reserve[1] HK$'000	Proposed cash/scrip dividend HK$'000	Retained profits[1] HK$'000	Total HK$'000
At 1 January 2014	139,596	2,980,676	14,835	–	5,102	21	40,383	59,877	(30)	(4,953)	32,299	153,556	1,498,890	4,920,252
Profit for the period	–	–	–	–	–	–	–	–	–	–	–	–	1,018,269	1,018,269
Other comprehensive (expense) income for the year	–	–	–	–	–	–	–	(29,253)	–	592	–	–	–	(28,661)
Total comprehensive income (expense)	–	–	–	–	–	–	–	(29,253)	–	592	–	–	1,018,269	989,608
Shares issued under rights issue — note 36	69,798	2,573,521	–	–	–	–	–	–	–	–	–	–	–	2,643,319
Shares issued upon conversion of convertible bonds — note 36	8,986	318,800	–	–	–	–	–	–	–	–	(10,257)	–	–	317,529
Shares issued under share option scheme — note 36	60	2,887	(343)	–	–	–	–	–	–	–	–	–	–	2,604
Share options lapsed	–	1,283	(1,283)	–	–	–	–	–	–	–	–	–	–	–
Issuance of convertible bonds — note 35	–	–	–	–	–	–	–	–	–	–	45,091	–	–	45,091
2013 final dividend declared and settled in cash — note 12	–	–	–	–	–	–	–	–	–	–	–	(153,556)	–	(153,556)
2014 interim dividend declared and settled in cash — note 12	–	–	–	–	–	–	–	–	–	–	–	–	(168,345)	(168,345)
Proposed 2014 final dividend — note 12	–	–	–	–	–	–	–	–	–	–	–	338,582	(338,582)	–
At 31 December 2014	218,440	5,877,167	13,209	–	5,102	21	40,383	30,624	(30)	(4,361)	67,133	338,582	2,010,232	8,596,502
At 1 January 2015	218,440	5,877,167	13,209	–	5,102	21	40,383	30,624	(30)	(4,361)	67,133	338,582	2,010,232	8,596,502
Profit for the period	–	–	–	–	–	–	–	–	–	–	–	–	2,510,052	2,510,052
Other comprehensive (expense) income for the year	–	–	–	–	–	–	–	(70,722)	5,883	(5,667)	–	–	–	(70,506)
Total comprehensive income (expense)	–	–	–	–	–	–	–	(70,722)	5,883	(5,667)	–	–	2,510,052	2,439,546
Shares issued under rights issue — note 36	253,345	8,568,445	–	–	–	–	–	–	–	–	–	–	–	8,821,790
Shares issued upon conversion of convertible bonds — note 36	36,412	1,685,334	–	–	–	–	–	–	–	–	(61,759)	–	–	1,659,987
Shares issued under share option scheme — note 36	1,944	84,026	–	–	–	–	–	–	–	–	–	–	–	85,970
Share options lapsed	–	10,921	(10,921)	–	–	–	–	–	–	–	–	–	–	–
Purchases of shares held under the share award scheme[2]	–	–	–	(128,020)	–	–	–	–	–	–	–	–	–	(128,020)
2014 final dividend declared and settled in cash — note 12	–	–	–	–	–	–	–	–	–	–	–	(338,582)	–	(338,582)
2015 interim dividend declared and settled in cash and scrip — note 12	18,851	692,458	–	–	–	–	–	–	–	–	–	–	(1,019,716)	(308,407)
Proposed 2015 final dividend — note 12	–	–	–	–	–	–	–	–	–	–	–	211,597	(211,597)	–
At 31 December 2015	528,992	16,918,351	2,288	(128,020)	5,102	21	40,383	(40,098)	5,853	(10,028)	5,374	211,597	3,288,971	20,828,786

1 These reserve accounts represent the consolidated reserves other than share capital and proposed cash/scrip dividend of approximately HK$20,088 million (31 December 2014: approximately HK$8,039 million) in the consolidated statement of financial position.

2 During the year ended 31 December 2015, the trustee of the share award scheme acquired 21,724,000 ordinary shares of the Company (31 December 2014: Nil) for the share award scheme, which was adopted by the board of directors of the Company (the "Board") on 19 December 2014, through purchases in the open market at a total cost, including related transaction costs, of approximately HK$128 million. During the current year, no awarded shares were granted by the Company. Details of the share award scheme of the Company has been disclosed in note 37 and should be read in conjunction with the relevant announcements of the share award scheme made by the Company.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2015

	2015 HK$'000	2014 HK$'000
OPERATING ACTIVITIES		
Profit before tax	2,986,388	1,215,748
Adjustments for:		
Interest income	(1,792,400)	(1,045,982)
Interest income from investment in debt securities	(12,359)	(52,598)
Finance costs	1,036,569	375,475
Share of loss (profit) of investments accounted for using the equity method	53,522	(33,212)
Dividend income from listed investments	(246,785)	(24,797)
(Gain) loss on disposal of property and equipment	(21)	490
Gain on disposal of an associate	(96,995)	–
Depreciation and amortisation	32,250	33,494
Foreign exchange difference from held-to-maturity investments	1,118	14,521
Gain on disposal of available-for-sale investments	(2,845)	(20,195)
Impairment loss on held-to-maturity investments	–	33,500
Operating cash flows before movements in working capital	1,958,442	496,444
Decrease (increase) in other assets	56,127	(16,274)
Increase in advances to customers in margin financing	(9,259,190)	(1,681,544)
(Increase) decrease in other loans and advances	(1,450,658)	430,200
Decrease (increase) in accounts receivable	587,895	(2,852,702)
Decrease in prepayments, deposits and other receivables	96,787	11,628
Increase in financial assets at fair value through profit or loss	(8,806,151)	(7,720,849)
Increase in financial assets designated at fair value through profit or loss	(7,275,201)	(2,485,154)
(Increase) decrease in cash held on behalf of customers	(6,596,424)	384,623
Increase in accounts payable	5,308,378	2,223,464
Increase in financial assets sold under repurchase agreements	6,226,773	763,193
Increase in financial assets held under resale agreements	(1,089,731)	(24,765)
Increase in financial liabilities at fair value through profit or loss	631,907	181,277
Increase in other liabilities	–	5,578
Increase in financial liabilities designated at fair value through profit or loss	5,222,863	2,095,333
(Decrease) increase in derivative financial instruments	(385,056)	9,118
Increase (decrease) in other payables and accruals	1,577	(35,959)
Cash used in operations	(14,771,662)	(8,216,389)
Interest received	1,557,191	997,576
Dividend received	76,819	24,797
Interest paid	(661,505)	(182,142)
Tax paid	(147,524)	(144,920)
NET CASH USED IN OPERATING ACTIVITIES	(13,946,681)	(7,521,078)

CONSOLIDATED STATEMENT OF CASH FLOWS (CONTINUED)

For the year ended 31 December 2015

	2015 HK$'000	2014 HK$'000
INVESTING ACTIVITIES		
Proceeds from disposal of property and equipment	**108**	31
Proceeds from disposal of available-for-sale investments	**96,216**	324,348
Proceeds from redemption of held-to-maturity investments	**86,338**	533,584
Interest received from investment in debt securities	**12,268**	49,709
Purchases of property and equipment	**(25,692)**	(19,964)
Purchases of available-for-sale investments	**(5,946,692)**	(24,881)
Purchases of held-to-maturity investments	**–**	(6,218)
Purchase of investments accounted for using equity method	**(1,024,376)**	(2,373,773)
Disposal of investments accounted for using equity method	**537,572**	–
Redemption in unlisted debt securities	**–**	114,471
Net cash outflow on acquisition of subsidiaries	**(173,704)**	(130,476)
Net cash inflow on disposal of a subsidiary	**152,472**	–
NET CASH USED IN INVESTING ACTIVITIES	**(6,285,490)**	(1,533,169)
FINANCING ACTIVITIES		
Proceeds from rights issue	**8,821,790**	2,643,319
Proceeds from issuance of non-convertible bonds	**5,353,294**	4,594,678
Proceeds from issuance of non-convertible notes	**2,555,933**	–
Proceeds from issuance of convertible bonds	**–**	1,146,540
Proceeds from shares issued upon exercise of share options	**85,970**	2,604
Convertible bonds issuing cost paid	**–**	(5,002)
Non-convertible bonds issuing cost paid	**(20,120)**	(22,035)
Non-convertible notes issuing cost paid	**(2,751)**	–
Purchase of shares held under the share award scheme	**(128,020)**	–
Proceeds for bank and other borrowings raised	**7,382,868**	3,764,340
Dividends paid to shareholders	**(647,147)**	(321,901)
NET CASH FROM FINANCING ACTIVITIES	**23,401,817**	11,802,543
NET INCREASE IN CASH AND CASH EQUIVALENTS	**3,169,646**	2,748,296
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	**3,236,317**	488,021
CASH AND CASH EQUIVALENTS AT END OF YEAR	**6,405,963**	3,236,317
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS		
Cash and cash equivalents	**6,405,963**	3,236,317

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

1. GENERAL

Haitong International Securities Group Limited (the "Company") is a limited liability company incorporated in Bermuda. The principal place of business of the Company is located at 22nd Floor, Li Po Chun Chambers, 189 Des Voeux Road Central, Hong Kong.

The Company is listed on The Stock Exchange of Hong Kong Limited ("Stock Exchange").

During the year ended 31 December 2015, the Company and its subsidiaries (collectively named as the "Group") were involved in the following principal activities:

- securities, futures, options and bullion contracts brokerage
- the provision of nominee and custodian services
- the provision of corporate advisory, placing and underwriting services
- the provision of asset management services
- the provision of securities margin financing and leveraged and acquisition financing
- trading and market making activities
- structured products issuance
- investments

This consolidated financial statements are presented in HK dollars ("HK$") which is the same as the functional currency of the Company, unless otherwise stated.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRS")

The Group has applied the following amendments to HKFRSs issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") for the first time in the current year.

Amendments to HKAS 19	Defined benefit plans: Employee contributions
Amendments to HKFRSs	Annual improvements to HKFRSs 2010–2012 cycle
Amendments to HKFRSs	Annual improvements to HKFRSs 2011–2013 cycle

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2015

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRS") (CONTINUED)

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

HKFRS 9	Financial instruments[2]
HKFRS 15	Revenue from contracts with customers[2]
HKFRS 16	Leases[4]
Amendments to HKAS 1	Disclosure initiative[1]
Amendments to HKFRS 11	Accounting for acquisitions of interests in joint operation[1]
Amendments to HKAS 16 and HKAS 38	Clarification of acceptable methods of depreciation and amortisation[1]
Amendments to HKAS 10 and HKAS 28	Sale or contribution of assets between an investor and its associate or joint venture[3]
Amendments to HKAS 10, HKFRS 12 and HKAS 28	Investment entities: Applying the consolidation exception[1]
Amendments to HKFRSs	Annual improvements to HKFRSs 2012–2014 cycle[1]

1 Effective for annual periods beginning on or after 1 January 2016, with earlier application permitted.
2 Effective for annual periods beginning on or after 1 January 2018, with earlier application permitted.
3 Effective for annual periods beginning on or after a date to be determined.
4 Effective for annual periods beginning on or after 1 January 2019, with earlier application permitted.

HKFRS 9 Financial instruments

HKFRS 9 issued in 2009 introduced new requirements for the classification and measurement of financial assets. HKFRS 9 was subsequently amended in 2010 to include requirements for the classification and measurement of financial liabilities and for derecognition, and in 2013 to include the new requirements for general hedge accounting. Another revised version of HKFRS 9 was issued in 2014 mainly to include a) impairment requirements for financial assets and b) limited amendments to the classification and measurement requirements by introducing a 'fair value through other comprehensive income' (FVTOCI) measurement category for certain simple debt instruments.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRS") (CONTINUED)

HKFRS 9 Financial instruments (continued)

Key requirements of HKFRS 9 are described below:

- All recognised financial assets that are within the scope of HKAS 39 "Financial instruments: Recognition and measurement" are required to be subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. Debt instruments that are held within a business model whose objective is achieved both by collecting contractual cash flows and selling financial assets, and that have contractual terms that give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding, are generally measured at FVTOCI. All other debt investments and equity investments are measured at their fair value at the end of subsequent accounting periods. In addition, under HKFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognised in profit or loss.

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

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

- The new general hedge accounting requirements retain the three types of hedge accounting mechanics currently available in HKAS 39. Under HKFRS 9, greater flexibility has been introduced to the types of transactions eligible for hedge accounting, specifically broadening the types of instruments that qualify for hedging instruments and the types of risk components of non-financial items that are eligible for hedge accounting. In addition, the retrospective quantitative effectiveness test has been removed. Enhanced disclosure requirements about an entity's risk management activities have also been introduced.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRS") (CONTINUED)

HKFRS 9 Financial instruments (continued)

The directors of the Company anticipate that the application of HKFRS 9 in the future may affect the classification and measurement of the Group's financial assets and financial liabilities. The management is still in progress of assessing the impact of the adoption of HKFRS 9 and it is not practicable to provide a reasonable estimate of that effect until a detailed review has been completed.

The directors of the Company do not expect to adopt the HKFRS 9 early before its effective date.

HKFRS 15 Revenue from contracts with customers

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

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

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

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

The directors of the Company anticipate that the application of HKFRS 15 in the future may have impact on the amounts reported and disclosures made in the Group's consolidated financial statements. However, it is not practicable to provide a reasonable estimate of the effect of HKFRS 15 until the Group performs a detailed review.

The directors of the Company do not expect to adopt the HKFRS 15 early before its effective date.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRS") (CONTINUED)

HKFRS 16 Leases

HKFRS 16, which upon the effective date will supersede HKAS 17 *Leases*, introduces a single lessee accounting model and requires a lessee to recognise assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. Specifically, under HKFRS 16, a lessee is required to recognise a right-of-use asset representing its right to use the underlying leased asset and a lease liability representing its obligation to make lease payments. Accordingly, a lessee should recognise depreciation of the right-of-use asset and interest on the lease liability, and also classify cash repayments of the lease liability into a principal portion and an interest portion and present them in the statement of cash flows. Also, the right-of-use asset and the lease liability are initially measured on a present value basis. The measurement includes non-cancellable lease payments and payments to be made in optional periods if the lessee is reasonably certain to exercise an option to extend the lease, or not to exercise an option to terminate the lease. This accounting treatment is significantly different from the lessee accounting for leases that are classified as operating leases under the predecessor standard, HKAS 17.

In respect of the lessor accounting, HKFRS 16 substantially carries forward the lessor accounting requirements in HKAS 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently.

The directors of the Company will assess the impact of the application of HKFRS 16. For the moment, it is not practicable to provide a reasonable estimate of the effect of the application of HKFRS 16 until the Group performs a detailed review.

The directors of the Company do not expect to adopt the HKFRS 16 early before its effective date.

Amendments to HKAS 1 Disclosure initiative

The amendments to HKAS 1 "Presentation of financial statements" give some guidance on how to apply the concept of materiality in practice.

The amendments to HKAS 1 are effective for annual periods beginning on or after 1 January 2016. The directors of the Company do not anticipate that the application of these amendments to HKAS 1 will have a material impact on the amounts recognised in the Group's consolidated financial statements.

The directors of the Company do not expect to adopt the amendments to HKAS 1 early before its effective date.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2015

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRS") (CONTINUED)

Amendments to HKFRS 11 Accounting for acquisitions of interests in joint operations

The amendments to HKFRS 11 provide guidance on how to account for the acquisition of a joint operation that constitutes a business as defined in HKFRS 3 "Business combinations". Specifically, the amendments state that the relevant principles on accounting for business combinations in HKFRS 3 and other standards (e.g. HKAS 12 "Income taxes" regarding the recognition of deferred taxes at the time of acquisition and HKAS 36 "Impairment of assets" regarding impairment testing of a cash generating unit to which goodwill on acquisition of a joint operation has been allocated) should be applied. The same requirements should be applied to the formation of a joint operation if and only if an existing business is contributed to the joint operation by one of the parties that participate in the joint operation.

A joint operator is also required to disclose the relevant information required by HKFRS 3 and other standards for business combinations.

The amendments should be applied prospectively to acquisitions of interests in join operations (in which the activities of the joint operations constitute businesses as defined in HKFRS 3) occurring from the beginning of annual periods beginning on or after 1 January 2016. The directors of the Company anticipate that the application of these amendments to HKFRS 11 may have an impact on the Groups' consolidated financial statements in futures periods should such transaction arise. However, it is not practicable to provide a reasonable estimate of the effect of the amendments to HKFRS 11 until the Group performs a details review.

The directors of the Company do not expect to adopt the amendments to HKFRS 11 early before its effective date.

Amendments to HKAS 16 and HKAS 38 Clarification of acceptable methods of depreciation and amortisation

The amendments to HKAS 16 "Property, plant and equipment" prohibit entities from using a revenue-based depreciation method for items of property, plant and equipment. The amendments to HKAS 38 "Intangible assets" introduce a rebuttable presumption that revenue is not an appropriate basis for amortisation of an intangible asset. This presumption can only be rebutted in the following two limited circumstances:

(a) when the intangible asset is expressed as a measure of revenue; or

(b) when it can be demonstrated that revenue and consumption of the economic benefits of the intangible asset are highly correlated.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRS") (CONTINUED)

Amendments to HKAS 16 and HKAS 38 Clarification of acceptable methods of depreciation and amortisation (continued)

The amendments apply prospectively for annual periods beginning on or after 1 January 2016. Currently, the Group uses the straight-line method for depreciation and amortisation for its property and equipment, and intangible assets respectively. The directors of the Company believe that the straight-line method is the most appropriate method to reflect the consumption of economic benefits inherent in the respective assets and accordingly, the directors of the Company do not anticipate that the application of these amendments to HKAS 16 and HKAS 38 will have a material impact on the Group's consolidated financial statements.

The directors of the Company do not expect to adopt the amendments to HKAS 16 and HKAS 38 early before its effective date.

Amendments to HKFRS 10 and HKAS 28 Sale or contribution of assets between an investor and its associate or joint venture

The amendments to HKFRS 10 "Consolidated financial statements" and HKAS 28 "Investments in associates and joint ventures" deal with situations where there is a sale or contribution of assets between an investor and its associates or joint venture. Specifically, the amendments state that gains or losses resulting from the loss of control of a subsidiary that does not contain a business in a transaction with an associate or a joint venture that is accounted for using the equity method, are recognised in the parent's profit or loss only to the extent of the unrelated investors' interests in that associate or joint venture. Similarly, gains and losses resulting from the remeasurement of investments retained in any former subsidiary (that has become an associate or a joint venture that is accounted for using the equity method) to fair value are recognised in the former parent's profit or loss only to the extent of the unrelated investors' interests in the new associate or joint venture.

The amendments should be applied prospectively to transactions occurring in annual periods beginning on or after a date to be determined. The directors of the Company anticipate that the application of these amendments to HKFRS 10 and HKAS 28 may have an impact on the Group's consolidated financial statements in future periods should such transactions arise. However, it is not practicable to provide a reasonable estimate of the effect of the amendments to HKFRS 10 and HKAS 28 until the Group performs a detailed review.

The directors of the Company do not expect to adopt the amendments to HKFRS 10 and HKAS 28 early before its effective date.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2015

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRS") (CONTINUED)

Amendments to HKFRS 10, HKFRS 12 and HKAS 28 Investment entities: Applying the consolidation exception

The amendments to HKFRS 10 "Consolidated financial statements", HKFRS 12 "Disclosure of interests in other entities" and HKAS 28 "Investments in associates and joint ventures" clarify that the exemption from preparing consolidated financial statements is available to a parent entity that is a subsidiary of an investment entity, even if the investment entity measures all its subsidiaries at fair value in accordance with HKFRS 10. The amendments also clarify that the requirement for an investment entity to consolidate a subsidiary, whose main purpose is to provide services and activities that are related to investment activities of the investment entity parent, applies only to subsidiaries that are not investment entities themselves.

The directors of the Company do not anticipate that the application of these amendments to HKFRS 10, HKFRS 12 and HKAS 28 will have a material impact on the Group's consolidated financial statements and not expect to adopt the amendments to HKFRS 10, HKFRS 12 and HKAS 28 early before its effective date.

Annual improvements to HKFRSs 2012–2014 cycle

The Annual improvements to HKFRSs 2012–2014 cycle include a number of amendments to various HKFRSs, which are summarised below.

The amendments to HKFRS 5 introduce specific guidance in HKFRS 5 for when an entity reclassifies an asset (or disposal group) from held for sale to held for distribution to owners (or vice versa). The amendments clarify that such a change should be considered as a continuation of the original plan of disposal and hence requirements set out in HKFRS 5 regarding the change of sale plan do not apply. The amendments also clarify the guidance for when held-for-distribution accounting is discontinued.

The amendments to HKFRS 7 provide additional guidance to clarify whether a servicing contract is continuing involvement in a transferred asset for the purpose of the disclosures required in relation to transferred assets.

The amendments to HKAS 19 clarify that the rate used to discount post-employment benefit obligations should be determined by reference to market yields at the end of the reporting period on high quality corporate bonds. The assessment of the depth of a market for high quality corporate bonds should be at the currency level (i.e. the same currency as the benefits are to be paid). For currencies for which there is no deep market in such high quality corporate bonds, the market yields at the end of the reporting period on government bonds denominated in that currency should be used instead.

The directors of the Company do not anticipate that the application of these amendments will have a material effect on the Group's consolidated financial statements and not expect to adopt the Annual improvements to HKFRSs 2012-2014 cycle early before its effective date.

3. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by HKICPA. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the "Listing Rules") and by the Hong Kong Companies Ordinance ("CO").

The provisions of the new Hong Kong Companies Ordinance (Cap 622) regarding preparation of accounts and directors' reports and audits became effective for the Company for the financial year ended 31 December 2015. Further, the disclosure requirements set out in the Listing Rules regarding annual accounts have been amended with reference to the new CO and to streamline with HKFRSs. Accordingly the presentation and disclosure of information in the consolidated financial statements for the financial year ended 31 December 2015 have been changed to comply with these new requirements. Comparative information in respect of the financial year ended 31 December 2014 are presented or disclosed in the consolidated financial statements based on the new requirements. Information previously required to be disclosed under the predecessor CO or Listing Rules but not under the new CO or amended Listing Rules are not disclosed in these consolidated financial statements.

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

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2015

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basis of consolidation

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

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

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

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

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

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basis of consolidation (continued)

Changes in the Group's ownership interests in existing subsidiaries

Changes in the Group's ownership interests in subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the Company.

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

Business combinations

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. Acquisition-related costs are generally recognised in profit or loss as incurred.

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognised at their fair value, except that:

- deferred tax assets or liabilities, and assets or liabilities related to employee benefit arrangements are recognised and measured in accordance with HKAS 12 Income Taxes and HKAS 19 Employee Benefits respectively;

- liabilities or equity instruments related to share-based payment arrangements of the acquiree or share-based payment arrangements of the Group entered into to replace share-based payment arrangements of the acquiree are measured in accordance with HKFRS 2 "Share-based payment" at the acquisition date (see the accounting policy below); and

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2015

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basis of consolidation (continued)

Business combinations (continued)

- assets (or disposal groups) that are classified as held for sale in accordance with HKFRS 5 "Non-current assets held for sale and discontinued operations" are measured in accordance with that standard.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. If, after reassessment, the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquiree (if any), the excess is recognised immediately in profit or loss as a bargain purchase gain.

Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation may be initially measured either at fair value or at the non-controlling interests' proportionate share of the recognised amounts of the acquiree's identifiable net assets. The choice of measurement basis is made on a transaction-by-transaction basis. Other types of non-controlling interests are measured at fair value or, when applicable, on the basis specified in another HKFRS.

Goodwill

Goodwill arising on an acquisition of a business is carried at cost as established at the date of acquisition of the business (see the accounting policy above) less accumulated impairment losses, if any.

For the purposes of impairment testing, goodwill is allocated to each of the Group's cash-generating units (or groups of cash-generating units) that is expected to benefit from the synergies of the combination.

A cash-generating unit to which goodwill has been allocated is tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. For goodwill arising on an acquisition in a reporting period, the cash-generating unit to which goodwill has been allocated is tested for impairment before the end of that reporting period. If the recoverable amount of the cash-generating unit is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro rata basis based on the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognised directly in profit or loss. Any impairment loss recognised for goodwill is not reversed in subsequent periods.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Goodwill (continued)

On disposal of the relevant cash-generating unit, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

The Group's policy for goodwill arising on the acquisition of an associate and a joint venture is described below:

Investments in associates and joint ventures

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

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

The results and assets and liabilities of associates and joint ventures are incorporated in these consolidated financial statements using the equity method of accounting, except when the investment, or a portion thereof, is classified as held for sale, in which case it is accounted for in accordance with HKFRS 5. The financial statements of associates and joint ventures used for equity accounting purposes are prepared using uniform accounting policies as those of the Group for like transactions and events in similar circumstances. Under the equity method, an investment in an associate or a joint venture is initially recognised in the consolidated statement of financial position at cost and adjusted thereafter to recognise the Group's share of the profit or loss and other comprehensive income of the associate or joint venture. When the Group's share of losses of an associate or a joint venture exceeds the Group's interest in that associate or joint venture (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate or joint venture), the Group discontinues recognising its share of further losses. Additional losses are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate or joint venture.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2015

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investments in associates and joint ventures (continued)

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

The Group discontinues the use of the equity method from the date when the investment ceases to be an associate or a joint venture, or when the investment (or a portion thereof) is classified as held for sale. When the Group retains an interest in the former associate or joint venture and the retained interest is a financial asset, the Group measures the retained interest at fair value at that date and the fair value is regarded as its fair value on initial recognition in accordance with HKAS 39. The difference between the carrying amount of the associate or joint venture at the date the equity method was discontinued, and the fair value of any retained interest and any proceeds from disposing of a part of interest in the associate or joint venture is included in the determination of the gain or loss on disposal of the associate or joint venture. In addition, the Group accounts for all amounts previously recognised in other comprehensive income in relation to that associate or joint venture on the same basis as would be required if that associate or joint venture had directly disposed of the related assets or liabilities. Therefore, if a gain or loss previously recognised in other comprehensive income by that associate or joint venture would be reclassified to profit or loss on the disposal of the related assets or liabilities, the Group reclassifies the gain or loss from equity to profit or loss (as a reclassification adjustment) when the equity method is discontinued.

The Group continues to use the equity method when an investment in an associate becomes an investment in a joint venture or an investment in a joint venture becomes an investment in an associate. There is no remeasurement to fair value upon such changes in ownership interests.

When the Group reduces its ownership interest in an associate or a joint venture but the Group continues to use the equity method, the Group reclassifies to profit or loss the proportion of the gain or loss that had previously been recognised in other comprehensive income relating to that reduction in ownership interest if that gain or loss would be reclassified to profit or loss on the disposal of the related assets or liabilities.

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

When an investment in an associate or a joint venture is held by, or is held indirectly through, a group entity that is a venture capital organisation and similar entities, the Group may elect to measure investments in those associates and joint ventures at fair value through profit or loss in accordance with HKAS 39 "Financial instruments: Recognition and measurement".

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for services provided in the normal course of business. Revenue is recognised when it is probable that the economic benefits will flow to the Group and when revenue can be measured reliably, on the following basis:

- Commission income on securities brokerage, futures and options brokerage and bullion contracts brokerage are recorded as income on a trade date basis when the relevant contract notes are executed;

- Commission income on placing, underwriting and sub-underwriting, consultancy and financial advisory fees and commission income on wealth management are recorded as income in accordance with the terms of underlying agreements when the relevant significant acts have been completed;

- Income from fund management and custodian and other services are recorded when services are rendered;

- Interest income from a financial asset is accrued on a time basis using the effective interest method, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition;

- Realised profits or losses from available-for-sale investments, financial assets at fair value through profit or loss, financial assets designated at fair value through profit or loss, financial liabilities at fair value through profit or loss, financial liabilities designated at fair value through profit or loss, derivative and bullion contracts are recognised on the transaction dates when the relevant contract notes are executed whilst the unrealised profits or losses are recognised from valuation at the end of the reporting period in accordance with the accounting policies for financial instruments (see the accounting policies below).

- Income from leveraged foreign exchange transactions are recorded as income on a trade data basis when the relevant contract notes are executed;

- Dividend income, when the shareholders' right to receive payment has been established.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Property and equipment

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

Depreciation is recognised so as to write off the cost of items of property and equipment less their residual values over their estimated useful lives, using straight line method as follows:

Leasehold land and buildings	Over the shorter of the lease terms and 2.5%
Leasehold improvements	Over the shorter of the lease terms and 20%
Furniture, fixtures and equipment	20%
Computer hardware and equipment	30%

The estimated useful lives, residual values and depreciation model are reviewed at the end of each reporting date, with the effect of any changes in estimate accounted for on a prospective basis.

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets. However, when there is no reasonable certainty that ownership will be obtained by the end of the lease term, assets are depreciated over the shorter of the lease term and their useful lives.

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

Intangible assets

Intangible assets acquired separately

Intangible assets with finite useful lives that are acquired separately are carried at cost less accumulated amortisation and any accumulated impairment losses. Amortisation for intangible assets with finite useful lives is recognised on a straight-line basis over their estimated useful lives. The estimated useful life and amortisation method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis. Intangible assets with indefinite useful lives that are acquired separately are carried at cost less any subsequent accumulated impairment losses. The estimated useful lives of computer software and system development of the Group are from 3 to 10 years.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Intangible assets (continued)

Internally-generated intangible assets — research and development expenditure

Expenditure on research activities is recognised as an expense in the period in which it is incurred. An internally-generated intangible asset arising from development activities (or from the development phase of an internal project) is recognised if, and only if, all of the following have been demonstrated:

- the technical feasibility of completing the intangible asset so that it will be available for use or sale;
- the intention to complete the intangible asset and use or sell it;
- the ability to use or sell the intangible asset;
- how the intangible asset will generate probable future economic benefits;
- the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
- the ability to measure reliably the expenditure attributable to the intangible asset during its development.

The amount initially recognised for internally-generated intangible assets is the sum of the expenditure incurred from the date when the intangible asset first meets the recognition criteria listed above. Where no internally-generated intangible asset can be recognised, development expenditure is recognised in profit or loss in the period in which it is incurred.

Subsequent to initial recognition, internally-generated intangible assets are reported at cost less accumulated amortisation and accumulated impairment losses, on the same basis as intangible assets that are acquired separately.

Intangible assets acquired in a business combination

Intangible assets acquired in a business combination are recognised separately from goodwill and are initially recognised at their fair value at the acquisition date (which is regarded as their cost).

Subsequent to initial recognition, intangible assets acquired in a business combination with finite useful lives are reported at costs less accumulated amortisation and any accumulated impairment losses/revalued amounts, being their fair value at the date of the revaluation less subsequent accumulated amortisation and any accumulated impairment losses, on the same basis as intangible assets that are acquired separately. Useful lives are also examined on an annual basis and adjustments where applicable are made on a prospective basis.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2015

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Intangible assets (continued)

Intangible assets acquired in a business combination (continued)

Alternatively, intangible assets acquired in a business combination with indefinite useful lives are carried at cost less any subsequent accumulated impairment losses (see the accounting policy in respect of impairment losses on tangible and intangible assets below).

Derecognition of intangible assets

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

Leasing

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

The Group as lessee

Assets held under finance leases are recognised as assets of the Group at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the consolidated statement of financial position as a finance lease obligation.

Lease payments are apportioned between finance expenses and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance expenses are recognised immediately in profit or loss, unless they are directly attributable to qualifying assets, in which case they are capitalised in accordance with the Group's general policy on borrowing costs (see the accounting policy below). Contingent rentals are recognised as expenses in the periods in which they are incurred.

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

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Leasehold land and building

When a lease includes both land and building elements, the Group assesses the classification of each element as a finance or an operating lease separately based on the assessment as to whether substantially all the risks and rewards incidental to ownership of each element have been transferred to the Group, unless it is clear that both elements are operating leases in which case the entire lease is classified as an operating lease. Specifically, the minimum lease payments (including any lump-sum upfront payments) are allocated between the land and the building elements in proportion to the relative fair values of the leasehold interests in the land element and building element of the lease at the inception of the lease.

To the extent the allocation of the lease payments can be made reliably, interest in leasehold land that is accounted for as an operating lease is presented as "prepaid lease payments" in the consolidated statement of financial position and is amortised over the lease term on a straight-line basis. When the lease payments cannot be allocated reliably between the land and building elements, the entire lease is generally classified as finance lease and accounted for as property, plant and equipment.

Foreign currencies

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

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are recognised in profit or loss in the period in which they arise, except for exchange differences arising on a monetary item that forms part of the Company's net investment in a foreign operation, in which case, such exchange differences are recognised in other comprehensive income and accumulated in equity and will be reclassified from equity to profit or loss on disposal of the foreign operation. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in profit or loss for the period, except for exchange differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognised directly in other comprehensive income, in which cases, the exchange differences are also recognised directly in other comprehensive income.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2015

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Foreign currencies (continued)

For the purposes of presenting consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Group (i.e. Hong Kong dollars) using exchange rates prevailing at the end of each reporting period. Income and expense items are translated at the average exchange rates for the period, unless exchange rates fluctuate significantly during that period, in which case, the exchange rates prevailing at the dates of the transactions are used. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity under the heading of foreign currency translation reserve.

Goodwill and fair value adjustments on identifiable assets acquired arising in an acquisition of a foreign operation are treated as assets and liabilities of that foreign operation and translated at the rate of exchange prevailing at the end of each reporting period. Exchange differences arising are recognised in other comprehensive income.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets until such time as the assets are substantially ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

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

Employee benefits

Pension scheme

The Group operates a defined contribution Mandatory Provident Fund retirement benefits scheme (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance, for those employees who are eligible to participate in the MPF Scheme. Contributions are made based on a percentage of the employees' basic salaries and recognised as expenses when employees have rendered services entitling them to the contributions.

The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The Group's employer contributions vest fully with the employees when contributed into the MPF Scheme, except for the Group's employer voluntary contributions, which are refunded to the Group when an employee leaves employment prior to the contributions vesting fully, in accordance with the rules of the MPF Scheme. The refunded contribution is recognised in the consolidated statement of profit or loss to offset the current year contribution made.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Employee benefits (continued)

Paid leave carried forward

The Group provides paid annual leave to its employees under their employment contracts on a calendar year basis. Employee entitlements to annual leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave as a result of services rendered by employees up to the end of the reporting period.

Bonus plans

The Group recognises a liability and an expense for bonuses and profit-sharing, where appropriate, based on approved formulas that take into consideration the profit attributable to the Group after certain adjustments. The Group recognises a provision where contractually obliged or where there is a past practice that has created a constructive obligation.

Share-based payment transactions

Share options granted to employees

The Company operates share option schemes for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Employees (including directors) of the Group receive remuneration in the form of share-based payment transactions, whereby employees render services as consideration for equity instruments ("equity settled transactions").

The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Group's estimate of equity instruments that will eventually vest, with a corresponding increase in equity (share option reserve).

At the end of each reporting period, the Group revises its estimate of the number of equity instruments expected to vest. The impact of the revision of the original estimates, if any, is recognised in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to share option reserve.

For share options that vest immediately at the date of grant, the fair value of the share options granted is expensed immediately to profit or loss.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2015

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Employee benefits (continued)

Share-based payment transactions (continued)

Share award scheme to employees

The Company adopted a 10-year share award scheme to incentivise selected employees and directors for their contributions to the Group.

For any awarded shares granted, the fair value of the employee services received is determined by reference to the fair value of awarded shares granted at the grant date and is expensed on a straight-line basis over the vesting period, with a corresponding increase in equity (employee share-based compensation reserve). At the end of each reporting period, the Group revises its estimates of the number of awarded shares that are expected to ultimately vest. The impact of the revision of the estimates, if any, is recognised in profit or loss, with a corresponding adjustment to the employee share-based compensation reserve.

For any shares of the Company ("Scheme Shares") that are purchased under the share award scheme, the consideration paid, including any directly attributable incremental costs, would be presented as "Shares held for Employee share award scheme" and deducted from equity. When the Scheme Shares are transferred to the awardees upon vesting, the related costs of the Scheme Shares are eliminated against the employee share-based compensation reserve and the remaining balances will be transferred to retained profits. No share award had been granted for both years ended 31 December 2015 and 31 December 2014. For the own shares acquired by the Company for the scheme, the details have been disclosed in the consolidated statements of changes in equity.

Taxation

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Taxation (continued)

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

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

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

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

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

Current and deferred tax are recognised in profit or loss, except when they relates to items that are recognised in other comprehensive income or directly in equity, in which case the deferred tax are also recognised in other comprehensive income or directly in equity respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2015

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments

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

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

Financial assets

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

Effective interest method

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

Interest income is recognised on an effective interest basis for debt instruments other than those financial assets classified as at FVTPL.

Financial assets at FVTPL

Financial assets are classified as at FVTPL when the financial asset is (i) contingent consideration that may be paid by an acquirer as part of a business combination to which HKFRS 3 applies, (ii) held for trading, or (iii) it is designated as at FVTPL.

A financial asset is classified as held for trading if:

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments (continued)

Financial assets (continued)

Financial assets at FVTPL (continued)

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

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

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

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

Financial assets at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognised in profit or loss. The net gain or loss recognised in profit or loss includes any dividend or interest earned on the financial assets. Fair value is determined in the manner described in note 47.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables (including other loans and advances, advances to customers in margin financing, accounts receivable, amounts due from subsidiaries, cash and cash equivalents, cash held on behalf of customers, deposits and other receivables), are measured at amortised cost using the effective interest method, less any identified impairment losses (see accounting policy on impairment loss on financial assets below).

Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity dates that the Group has the positive intention and ability to hold to maturity other than:

(a) those that the entity upon initial recognition designates as at fair value through profit or loss;
(b) those that the entity designates as available for sale; and
(c) those that meet the definition of loans and receivables.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2015

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments (continued)

Financial assets (continued)

Held-to-maturity investments (continued)

Subsequent to initial recognition, held-to-maturity investments are measured at amortised cost using the effective interest method, less any identified impairment losses (see accounting policy on impairment loss on financial assets below).

AFS financial assets

AFS investments are non-derivatives that are either designated as available-for-sale or not classified as financial assets at FVTPL, loans and receivables or held-to-maturity investments.

Equity and debt securities held by the Group that are classified as AFS financial assets and are traded in an active market are measured at fair value at the end of each reporting period. Changes in the carrying amount of AFS monetary financial assets relating to interest income calculated using the effective interest method and dividends on AFS equity investments are recognised in profit or loss. Other changes in the carrying amount of AFS financial assets are recognised in other comprehensive income and accumulated under the heading of investments revaluation reserve. When the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously accumulated in the investments revaluation reserve is reclassified to profit or loss (see the accounting policy in respect of impairment loss on financial assets below).

Dividends on AFS equity instruments are recognised in profit or loss when the Group's right to receive the dividends is established.

Impairment of financial assets

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments (continued)

Financial assets (continued)

Impairment of financial assets (continued)

For certain categories of financial assets, such as other loans and advances and advances to customers in margin financing, assets that are assessed are, in addition, assessed for impairment on a collective basis not to be impaired individually. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments and observable changes in national or local economic conditions that correlate with default on receivables.

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

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

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

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

In respect of AFS equity securities, impairment losses previously recognised in profit or loss are not reversed through profit or loss. Any increase in fair value subsequent to an impairment loss is recognised in other comprehensive income and accumulated under the heading of investments revaluation reserve. In respect of AFS debt securities, impairment losses are subsequently reversed through profit or loss if an increase in the fair value of the investment can be objectively related to an event occurring after the recognition of the impairment loss.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2015

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments (continued)

Financial liabilities and equity instruments

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

Equity instruments

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

Repurchase of the Company's own equity instruments is recognised and deducted directly in equity. No gain or loss is recognised in profit or loss on the purchase, sale, issue or cancellation of the Company's own equity instruments.

Financial liabilities at FVTPL

Financial liabilities are classified as at FVTPL when the financial liability is (i) contingent consideration that may be paid by an acquirer as part of a business combination to which HKFRS 3 applies, (ii) held for trading or (iii) those designated as at FVTPL.

A financial liability is classified as held for trading if:

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments (continued)

Financial liabilities and equity instruments (continued)

Financial liabilities at FVTPL (continued)

Financial liabilities at FVTPL are measured at fair value, with any gains or losses arising on remeasurement recognised in profit or loss. The net gain or loss recognised in profit or loss excludes any interest paid on the financial liabilities. Fair value is determined in the manner described in note 47.

Other financial liabilities

Other financial liabilities including loans and other borrowings, accounts payable, other payables and amounts due to subsidiaries are subsequently measured at amortised cost, using the effective interest method.

Effective interest method

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

Interest expense is recognised on an effective interest basis.

Compound financial instruments

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

At the date of issue, the fair value of the liability component is estimated using the prevailing market interest rate for similar non-convertible instruments. This amount is recorded as a liability on an amortised cost basis using the effective interest method until extinguished upon conversion or at the instrument's maturity date.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2015

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments (continued)

Compound financial instruments (continued)

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

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

Derivative financial instruments

Derivatives are initially recognised at fair value at the date when derivative contracts are entered into and are subsequently remeasured to their fair value at the end of the reporting period. The resulting gain or loss is recognised in profit or loss immediately unless the derivative is designated and effective as a hedging instrument, in which case the timing of the recognition in profit or loss depends on the nature of the hedge relationship.

Financial assets sold under repurchase agreements

Financial assets sold under repurchase agreements continue to be recognised, which do not result in derecognition of the financial assets, and are recorded as "financial assets at FVTPL". Financial assets sold subject to agreements with a commitment to repurchase at a specific future date are not derecognised in the consolidated statement of financial position. The proceeds from selling such assets are presented as "financial assets sold under repurchase agreements" and included in loans and borrowings in the consolidated statement of financial position. Financial assets sold under repurchase agreements are initially measured at fair value and are subsequently measured at amortised cost using the effective interest method.

Financial assets held under resale agreements

Financial assets that have been purchased under agreements with a commitment to resell at a specific future date are not recognised in the consolidated statement of financial position. The cost of purchasing such assets is presented under "financial assets held under resale agreements" in the consolidated statement of financial position. Financial assets held under resale agreements are initially measured at fair value and are subsequently measured at amortised cost using the effective interest method.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments (continued)

Hedge accounting

The Group designates certain derivatives as hedging instruments for cash flow hedges.

At the inception of the hedging relationship, the Group documents the relationship between the hedging instrument and the hedged item, along with its risk management objectives and its strategy for undertaking various hedge transactions. Furthermore, at the inception of the hedge and on an ongoing basis, the Group documents whether the hedging instrument is highly effective in offsetting changes in fair values or cash flows of the hedged item attributable to the hedged risk.

Cash flow hedges

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges are recognised in other comprehensive income and accumulated under the heading of cash flow hedging reserve. The gain or loss relating to the ineffective portion is recognised immediately in profit or loss.

Amounts previously recognised in other comprehensive income and accumulated in equity are reclassified to profit or loss in the periods when the hedged item affects profit or loss, in the same line of the consolidated statement of profit or loss and other comprehensive income as the recognised hedged item. However, when the hedged forecast transaction results in the recognition of a non-financial asset or a non-financial liability, the gains and losses previously recognised in other comprehensive income and accumulated in the cash flow hedging reserve are transferred from the cash flow hedging reserve and included in the initial measurement of the cost of the non-financial asset or non-financial liability.

Hedge accounting is discontinued when the Group revokes the hedging relationship, when the hedging instrument expires or is sold, terminated, or exercised, or when it no longer qualifies for hedge accounting. Any gain or loss recognised in other comprehensive income and accumulated in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in profit or loss. When a forecast transaction is no longer expected to occur, the gain or loss accumulated in equity is recognised immediately in profit or loss.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments (continued)

Derecognition

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognise its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

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

On derecognition of a financial asset other than in its entirety, the Group allocates the previous carrying amount of the financial asset between the part it continues to recognise, and the part it no longer recognises on the basis of the relative fair values of those parts on the date of the transfer. The difference between the carrying amount allocated to the part that is no longer recognised and the sum of the consideration received for the part no longer recognised and any cumulative gain or loss allocated to it that had been recognised in other comprehensive income is recognised in profit or loss. A cumulative gain or loss that had been recognised in other comprehensive income is allocated between the part that continues to be recognised and the part that is no longer recognised on the basis of the relative fair values of those parts.

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

Cash and cash equivalents

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Impairment on tangible and intangible assets other than goodwill and financial assets (see the accounting policy in respect of goodwill and financial assets above)

At the end of the reporting period, the Group reviews the carrying amounts of its tangible and intangible assets with finite useful lives to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. When it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

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

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

If the recoverable amount of an asset (or a cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or a cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount under another standard.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2015

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in note 3, the directors of the Company are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources.

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

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

Key sources of estimation uncertainty

Impairment of loans and advances to customers

The Group reviews its loans and advances to customers (including other loans and advances and advances to customers in margin financing) to assess impairment on a periodic basis.

Each loan and advance to customer that is individually significant is reviewed for indication of impairment at the end of each reporting period. Loans and advances to customers that are individually not significant or assessed not to be impaired individually are reviewed at the end of each reporting period on a collective portfolio basis. Objective evidence of collective impairment includes Group's past experience of collecting payments and observable changes in national or local economic conditions that correlate with default on receivables.

In assessing the individual impairment and determining whether an impairment loss should be recognised in profit or loss, the Group makes judgments as to whether there is any observable data indicating that there is an objective evidence of impairment that will have a measurable decrease in the estimated future cash flows from a portfolio of advances. Moreover, the Group also reviews the value of the securities collateral received from the customers in determining the impairment. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

Details of disclosures for other loans and advances and advances to customers in margin financing are set out in notes 24 and 25 respectively.

Fair value of derivative and financial instruments

The Group selects appropriate valuation techniques for financial instruments not quoted in an active market. Note 47 provides detailed information about the key assumptions used in the determination of the fair value of material financial instruments.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
For the year ended 31 December 2015

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (CONTINUED)

Key sources of estimation uncertainty (continued)

Estimated impairment of goodwill

Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating units to which goodwill has been allocated. The value in use calculation requires the Group to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate the present value. Where the actual future cash flows are less than expected, a material impairment loss may arise. As at 31 December 2015, the carrying amount of goodwill is HK$157,697,000. Details of the recoverable amount calculation are disclosed in note 17.

Critical judgements in applying accounting policies

Determination of consolidation scope

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

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

At the end of each reporting period, the Group assesses the variable returns arising from other equities and uses plenty of judgments, in combination with historical exposure to variable returns, to determine the consolidation scope.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2015

5. SEGMENT INFORMATION

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

The Group's majority of revenue is related to activities conducted in Hong Kong. No single customer amounts to more than 10 percent of the Group's revenue.

During the year ended 31 December 2015, the Group has re-allocated some business activities among certain existing reportable segments in order to better describe the respective activities and products in each segment. Furthermore, the reportable segment of "Investment Management" has been renamed as "Asset Management" in current year.

Comparative figures in the prior year have been restated to conform to the current year's presentation.

The segments are managed separately as each segment engages in different activities. The Group's operating and reportable segments are as follows:

(a) the brokerage and margin financing segment engages in securities, futures, options and bullion contracts brokerage and dealing, provision of margin financing to customers, and provision of custodian and other services;

(b) the corporate finance segment engages in provision of corporate advisory, placing and underwriting services;

(c) the asset management segment engages in provision of fund management and wealth management services;

(d) the leveraged and acquisition finance segment engages in the provision of financing solutions to corporate clients of the Group for their corporate actions and shareholder activities, including takeovers, mergers and acquisitions;

(e) the fixed income, currency and commodities segment engages in trading and market making in debt securities, bullion contracts and leveraged foreign exchange trading;

(f) the equity derivatives segment engages in trading and market making in equity securities and derivatives; and

(g) the investment holdings segment comprises investment in funds and equity securities.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2015

5. SEGMENT INFORMATION (CONTINUED)

The following table presents revenue and profit/(loss) for the Group's business segments:

For the year ended 31 December 2015

	Brokerage and margin financing HK$'000	Corporate finance HK$'000	Asset management HK$'000	Leveraged and acquisition finance HK$'000	Fixed income, currency and commodities HK$'000	Equity derivatives HK$'000	Investment holdings HK$'000	Consolidated HK$'000
Segment revenue:								
Sales to external customers	2,328,541	841,652	123,175	520,305	1,124,175	618,657	249,009	5,805,514
Other income	–	2,683	–	–	–	–	7,108	9,791
Segment results	1,082,348	601,452	87,045	270,294	640,343	272,360	86,068	3,039,910
Share of loss of investments accounted for using the equity method								(53,522)
Income tax expense								(476,336)
Profit for the year								2,510,052
Depreciation and amortisation	(20,052)	(3,311)	(12)	(2,040)	(4,409)	(2,426)	–	(32,250)
Finance costs	(316,229)	–	–	(136,382)	(226,268)	(194,722)	(162,968)	(1,036,569)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2015

5. SEGMENT INFORMATION (CONTINUED)

For the year ended 31 December 2014 (restated)

	Brokerage and margin financing HK$'000	Corporate finance HK$'000	Asset management HK$'000	Leveraged and acquisition finance HK$'000	Fixed income, currency and commodities HK$'000	Equity derivatives HK$'000	Investment holdings HK$'000	Consolidated HK$'000
Segment revenue:								
Sales to external customers	1,228,275	396,294	76,476	421,206	181,707	205,109	204,224	2,713,291
Other income	–	1,852	–	–	16,192	–	2,468	20,512
Segment results	327,152	303,163	6,422	246,700	56,747	115,956	126,396	1,182,536
Share of profit of investments accounted for using the equity method								33,212
Income tax expense								(197,479)
Profit for the year								1,018,269
Depreciation and amortisation	(26,318)	–	(256)	(2,827)	(1,679)	(1,318)	(1,096)	(33,494)
Finance costs	(168,004)	–	–	(93,327)	(34,184)	(32,167)	(47,793)	(375,475)

6. REVENUE AND OTHER INCOME AND GAINS OR LOSSES

An analysis of revenue and other income and gains or losses is as follows:

	2015 HK$'000	2014 HK$'000
Revenue		
Brokerage:		
Commission on securities brokerage	**757,020**	405,280
Commission on futures and options brokerage	**194,316**	123,021
Commission on bullion contracts brokerage	**1,710**	3,274
Commission on wealth management	**25,288**	46,981
Custodian and other service fees	**78,112**	24,943
Corporate finance:		
Commission on placing, underwriting and sub-underwriting	**489,294**	180,558
Consultancy and financial advisory fees	**352,358**	215,736
Asset management:		
Management and performance fees	**123,175**	76,476
Loans and financing activities:		
Interest income from leveraged and acquisition finance activities	**520,305**	421,206
Interest income from margin financing and other activities	**1,272,095**	624,776
Trading and market making:		
Fixed income, currency and commodities:		
— Interest income from debt securities	**12,359**	52,598
— Net gain on financial assets/liabilities at fair value through profit or loss	**1,111,816**	129,109
Equity derivatives:		
— Dividend income	**66,790**	5,110
— Net gain on financial assets/liabilities at fair value through profit or loss	**551,867**	199,999
Investment holdings:		
— Dividend income	**187,760**	19,687
— Net gain on financial assets/liabilities at fair value through profit or loss	**61,249**	184,537
	5,805,514	2,713,291
Other income and gains or losses		
Gain on disposals of available-for-sale investments	**2,845**	20,195
Others	**6,946**	317
	9,791	20,512

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2015

7. PROFIT BEFORE TAX

Profit before tax has been arrived at after charging (crediting):

	2015 **HK$'000**	2014 HK$'000
Minimum lease payments under operating leases:		
Land and buildings	**77,841**	72,682
Equipment	**57,117**	47,598
Auditor's remuneration	**3,700**	2,600
Foreign exchange differences, net	**43,537**	24,809
(Gain) loss on disposal of property and equipment	**(21)**	490
Repair and maintenance (including system maintenance)	**41,186**	58,056
Quotemeter services	**1,540**	3,964
Marketing, advertising and promotion expense	**9,436**	16,932
Bad debts recovery	**(150)**	(1,593)
Employee benefits costs (including directors' remuneration and five highest paid employees):		
Salaries, bonuses and allowances	**903,462**	536,542
Commission to accounts executives	**408,285**	240,031
Net pension scheme contributions	**9,899**	8,739
	1,321,646	785,312
Impairment loss on held-to-maturity investments (note 23)	**–**	33,500
Finance costs:		
— bank loans and overdrafts wholly repayable within 5 years	**506,988**	245,513
— convertible bonds wholly repayable within 5 years	**20,879**	50,642
— non-convertible bonds wholly repayable within 5 years	**426,302**	61,001
— non-convertible notes wholly repayable within 5 years	**58,924**	–
— other loans wholly repayable within 5 years (note 35 and note 43 (a)(iii))	**23,476**	18,319
	1,036,569	375,475

8. DIRECTORS' AND CHIEF EXECUTIVE'S EMOLUMENTS

Directors' remuneration for the year is as follows:

	2015 HK$'000	2014 HK$'000
Fees:		
Executive directors	**300**	300
Non-executive directors	**699**	600
Independent non-executive directors	**850**	850
	1,849	1,750
Other emoluments:		
Executive directors:		
Salaries and allowances	**8,906**	8,482
Bonuses (note (a))	**32,090**	28,512
Pension scheme contributions	**69**	66
	41,065	37,060
	42,914	38,810

Note:

(a) Bonuses include performance related bonuses, in which certain executive directors of the Company are entitled to bonus payments which are determined as a percentage of the profit after tax of the Group.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2015

8. DIRECTORS' AND CHIEF EXECUTIVE'S EMOLUMENTS (CONTINUED)

Independent non-executive directors

For the year ended 31 December 2015

	Fees HK$'000	Salaries and allowances HK$'000	Bonuses HK$'000	Employee share option benefits HK$'000	Pension Scheme contributions HK$'000	Total remuneration HK$'000
Lin Ching Yee, Daniel	200	–	–	–	–	200
Wei Kuo-chiang	200	–	–	–	–	200
Tsui Hing Chuen, William	250	–	–	–	–	250
Lau Wai Piu	200	–	–	–	–	200
	850	–	–	–	–	850

For the year ended 31 December 2014

	Fees HK$'000	Salaries and allowances HK$'000	Bonuses HK$'000	Employee share option benefits HK$'000	Pension Scheme contributions HK$'000	Total remuneration HK$'000
Lin Ching Yee, Daniel	200	–	–	–	–	200
Wei Kuo-chiang	200	–	–	–	–	200
Tsui Hing Chuen, William	250	–	–	–	–	250
Lau Wai Piu	200	–	–	–	–	200
	850	–	–	–	–	850

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

8. DIRECTORS' AND CHIEF EXECUTIVE'S EMOLUMENTS (CONTINUED)

Executive directors and non-executive directors

For the year ended 31 December 2015

	Fees HK$'000	Salaries and allowances HK$'000	Bonuses HK$'000	Employee share option benefits HK$'000	Pension Scheme contributions HK$'000	Total remuneration HK$'000
Executive directors:						
Li Jianguo (note a)	300	–	–	–	15	315
Lin Yong (note b)	–	3,778	15,220	–	18	19,016
Poon Mo Yiu (note a)	–	2,699	8,300	–	18	11,017
Hui Yee, Wilson (note a)	–	2,429	8,570	–	18	11,017
	300	8,906	32,090	–	69	41,365
Non-executive directors:						
Ji Yuguang (note c)	100	–	–	–	–	100
Cheng Chi Ming, Brian (note c)	200	–	–	–	–	200
Wang Meijuan (note c)	200	–	–	–	–	200
William Chan (note c)	199	–	–	–	–	199
	699	–	–	–	–	699
	999	8,906	32,090	–	69	42,064

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2015

8. DIRECTORS' AND CHIEF EXECUTIVE'S EMOLUMENTS (CONTINUED)

Executive directors and non-executive directors (continued)

For the year ended 31 December 2014

	Fees HK$'000	Salaries and allowances HK$'000	Bonuses HK$'000	Employee share option benefits HK$'000	Pension Scheme contributions HK$'000	Total remuneration HK$'000
Executive directors:						
Li Jianguo	300	–	–	–	15	315
Lin Yong	–	3,599	14,256	–	17	17,872
Poon Mo Yiu	–	2,570	7,128	–	17	9,715
Hui Yee, Wilson	–	2,313	7,128	–	17	9,458
	300	8,482	28,512	–	66	37,360
Non- executive directors:						
Ji Yuguang	200	–	–	–	–	200
Cheng Chi Ming, Brian	200	–	–	–	–	200
Wang Meijuan	200	–	–	–	–	200
	600	–	–	–	–	600
	900	8,482	28,512	–	66	37,960

Notes:

(a) The executive directors' emoluments shown above were mainly for their services in connection with the management of the affairs of the Company and the Group. There was no arrangement under which a director waived or agreed to waive any remuneration during the year.

(b) Mr. Lin Yong is also the Chief Executive of the Group and his emoluments disclosed above include those for services rendered by him as the Chief Executive Officer. No apportionment has been made as the director consider that it is impracticable to apportion this amount among his services to the Company, its holding companies, its subsidiary and its fellow subsidiaries. There was no arrangement under which a director or the chief executive waived or agreed to waive any remuneration during the year.

(c) The non-executive directors' emoluments shown above were mainly for their services as directors of the Company or its subsidiaries. There was no arrangement under which a director waived or agreed to waive any remuneration during the year.

9. EMPLOYEES' REMUNERATION

Five highest paid employees

The five highest paid employees during the current and prior year included three directors, details of each director's remuneration are set out in note 8 above.

The total remuneration of two non-directors for the year ended 31 December 2015 and 31 December 2014 was as follows.

	2015 HK$'000	2014 HK$'000
Salaries, bonuses and allowances	24,942	17,928
Pension scheme contributions	36	34
	24,978	17,962

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

	2015 HK$'000	2014 HK$'000
HK$8,500,001 to HK$9,000,000	–	1
HK$9,000,001 to HK$9,500,000	–	1
HK$9,500,001 to HK$10,000,000	–	–
HK$10,000,001 to HK$10,500,000	–	–
HK$10,500,001 to HK$11,000,000	–	–
HK$11,000,001 to HK$11,500,000	–	–
HK$11,500,001 to HK$12,000,000	–	–
HK$12,000,001 to HK$12,500,000	1	–
HK$12,500,001 to HK$13,000,000	1	–
	2	2

Note: Details of the remuneration disclosed above do not include amounts paid or payable by way of commissions generated by employees of the Group.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2015

10. INCOME TAX EXPENSE

	2015 HK$'000	2014 HK$'000
Current taxation		
— Hong Kong	**441,608**	201,614
— PRC and other jurisdictions	**6,194**	1,019
	447,802	202,633
Under (over) provision in prior years:		
— Hong Kong	**18,612**	(1,966)
Deferred tax		
— Current year	**9,922**	(3,188)
	476,336	197,479

Hong Kong Profits Tax is calculated at 16.5% on the estimated assessable profits arising in Hong Kong for the current and prior year.

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

Taxation arising in other jurisdictions is calculated at the rates prevailing in the relevant jurisdictions.

10. INCOME TAX EXPENSE (CONTINUED)

The tax charge for the year can be reconciled to 'profit before tax' per the consolidated statement of profit or loss as follows:

	2015 HK$'000	2014 HK$'000
Profit before tax	**2,986,388**	1,215,748
Taxation at income tax rate of 16.5%	**492,754**	200,598
Under (over) provision in respect of prior years	**18,612**	(1,966)
Tax effect of expenses not deductible for tax purpose	**6,718**	13,136
Tax effect of income not taxable for tax purpose	**(58,854)**	(30,880)
Tax effect of utilisation of estimated tax losses previously not recognised	**(3,435)**	–
Tax effect of estimated tax losses not recognised	**10**	3,316
Effect of different tax rates of subsidiaries operating in other jurisdictions	**1,472**	905
Others	**19,059**	12,370
Income tax expense	**476,336**	197,479

The Group has estimated tax losses of approximately HK$19.4 million and HK$70 million as at 31 December 2015 and 31 December 2014, respectively, that can be carried forward indefinitely for offsetting against future taxable profits of the respective companies in which the losses arose.

Deferred tax assets have not been recognised in respect of the tax losses of HK$13 million as at 31 December 2015 (31 December 2014: HK$27 million) as it is not probable that sufficient future taxable profits will be available in the subsidiaries in which the losses arose against which the unused tax losses can be utilised in the near future.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2015

11. EARNINGS PER SHARE

Basic earnings per share

Basic earnings per share is calculated by dividing the profit for the year attributable to owners of the Company by the weighted average number of ordinary shares in issue during the year.

	2015	2014
Earnings		
Profit for the year attributable to owners of the Company (HK$'000)	**2,510,052**	1,018,269
		(restated)
Number of shares		
Weighted average number of ordinary shares in issue (in thousands) (note (a))	**4,035,346**	2,745,728
Basic earnings per share (HK cents per share)	**62.20**	37.09

Diluted earnings per share

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive ordinary shares.

	2015	2014
Earnings		
Profit for the year attributable to owners of the Company (HK$'000)	**2,510,052**	1,018,269
Effect of dilutive potential ordinary shares		
— Interest on convertible bonds (net of tax) (HK$'000) (note (b))	**17,434**	42,286
Earnings for the purpose of diluted earnings per share (HK$'000)	**2,527,486**	1,060,555
		(restated)
Number of shares		
Weighted average number of ordinary shares in issue (in thousands) (note (a))	**4,035,346**	2,745,728
Effect of dilutive potential ordinary shares:		
— Convertible bonds (in thousands) (note (b))	**125,389**	290,066
— Share options (in thousands) (note (c))	**5,653**	402
Weighted average number of ordinary shares for the purpose of diluted earnings per share (in thousands)	**4,166,388**	3,036,196
Diluted earnings per share (HK cents per share)	**60.66**	34.93

11. EARNINGS PER SHARE (CONTINUED)

Notes:

(a) During the current and prior years, the Group raised approximately HK$8,822 million and HK$2,643 million by way of rights issue on the basis of one rights share for every one existing shares and one rights share for every two existing shares held by shareholders of the Company at the price of HK$3.50 and HK$3.80 respectively, which represent a discount to the prevailing fair value at the date of rights issue of the existing shares.

The effect of the bonus element resulting from the rights issue has been included in the calculation of basic and diluted earnings per share and prior year basic and diluted earnings per share are adjusted in order to provide a comparable basis for the rights issue in the current year.

(b) On 18 July 2013 and 10 October 2013, the Company issued convertible bonds of HK$776 million and HK$232 million respectively, which had been combined legally and constitute a single series. On 4 November 2014, the Company further issued convertible bonds of HK$1,164 million. Details of the convertible bonds issued by the Company are set out in note 35.

During the current year, parts of the convertible bonds issued by the Company in the prior year have been converted into ordinary shares of the Company as set out in note 35(a), which created a potential dilutive effect to the basic earnings per share before their conversion.

As at 31 December 2015, the convertible bonds issued in 2013 and 2014 that remain outstanding are convertible into ordinary shares of the Company at a conversion price of HK$2.95 (2014: HK$3.61) and HK$4.92 (2014: HK$6), respectively, at the option of the holders of the convertible bonds, which created a potential dilutive effect to the basic earnings per share.

In the calculation of the diluted earnings per share, the convertible bonds are assumed to have been converted into ordinary shares. The weighted average number of ordinary shares outstanding is increased by the weighted average number of additional ordinary shares that would have been outstanding assuming the conversion of all dilutive potential ordinary shares was made from the date of the first issue with the adjustment if there is any conversion of the convertible bonds into ordinary shares during the year. The net profit is adjusted to eliminate the interest expense less the tax effect.

(c) The computation of diluted earnings per share assumed the exercise of the Company's outstanding share options with the exercise price lower than the average market price during the year ended 31 December 2014 and 2015 and with the adjustment for the share options lapsed or exercised during the years.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2015

12. DIVIDENDS

	2015 HK$'000	2014 HK$'000
Interim dividend paid		
— HK20 cents (2014: HK8 cents) per ordinary share	**1,019,716**	168,345
Proposed final dividend		
— HK4 cents (2014: HK15.5 cents) per ordinary share	**211,597**	338,582
	1,231,313	506,927

At a meeting of the Board held on 7 August 2014, the directors resolved to declare an interim dividend of HK8 cents per share in cash for the six months ended 30 June 2014. The interim dividend of HK$168,345,000 was paid on 11 September 2014.

At a meeting of the Board held on 11 March 2015, the directors resolved to declare a final dividend of HK15.5 cents per share in cash for the year ended 31 December 2014. A final dividend of HK$338,582,000 in respect of the year ended 31 December 2014 was paid on 7 July 2015.

At a meeting of the Board held on 25 August 2015, the directors resolved to declare an interim dividend of HK20 cents per share in cash with a scrip option for the six months ended 30 June 2015. The interim dividend was paid on 27 October 2015, with a total of HK$308,565,000 cash dividend paid to the shareholders and 188,511,179 shares were issued in scrip form with the amount of HK$711,151,000.

At a meeting of the Board held on 10 March 2016, the directors recommended the payment of a final dividend in cash with a scrip option for the year ended 31 December 2015 in the total amount of HK$211,597,000. The proposed final dividend for the year ended 31 December 2015 is subject to the approval of the Company's shareholders at the forthcoming annual general meeting.

13. INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD

	2015 HK$'000	2014 HK$'000
Associates:		
Cost of unlisted investment in associates	**7,757**	281,530
Share of post-acquisition (losses) profits and other comprehensive income, net of dividend received	**(1,641)**	29,073
	6,116	310,603
Joint ventures:		
Cost of unlisted investments in joint ventures	**1,269,970**	2,255,267
Share of post-acquisition (losses) profits and other comprehensive income, net of dividend received	**(3,512)**	19,296
	1,266,458	2,274,563
	1,272,574	2,585,166

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2015

13. INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD (CONTINUED)

Details of investments accounted for using the equity method:

Name of entity	Country of incorporation	Class of share held	Interests held by the Group As at 31 December 2015	Interests held by the Group As at 31 December 2014	Principal activities
Joint ventures					
Haitong-AC Asian Special Opportunities Fund (note a)	The Cayman Islands	Participating	43.5%	43.6%	Investment holding
		Management	50%	50%	
New Bridge China Auto Caymans L.P. (note b)	The Cayman Islands	Limited partnership	N/A	38.9%	Investment holding
Harveston Asset Management Pte. Ltd	Singapore	Ordinary	50%	50%	Fund management
Haitong Special Opportunities Fund I S.P. (note c)	The Cayman Islands	Non-participating	100%	N/A	Investment holding
		Management	50%	N/A	
Haitong China Select Investment Fund S.P. (note c)	The Cayman Islands	Non-participating	100%	N/A	Investment holding
		Management	50%	N/A	
Haitong Multi-Tranche Investment Fund II S.P. (note c)	The Cayman Islands	Non-participating (Class P)	0.94%	N/A	Investment holding
		Non-participating (Class R)	99.70%	N/A	
		Management	50%	N/A	
Associates					
Trinitus Asset Management Limited	Hong Kong	Ordinary	20%	20%	Investment management service
China Grand Automotive Group Limited (note b)	Mauritius	Ordinary	34.61%	N/A	Investment holding
Haitong CSI 300 ETF (note d)	Hong Kong	Non-participating	N/A	31.9%	Investment holding

Both joint ventures and associates are unlisted entities without quoted market price available.

All of these associates and joint ventures are accounted for using the equity method in these consolidated financial statements. The directors consider the above joint ventures and associates are not significant to the Group's consolidated statement of financial position.

13. INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD (CONTINUED)

Notes:

(a) As of 31 December 2015 and 31 December 2014, the Group held 20,000 units of participating shares, representing 43.5% (31 December 2014: 43.6%) interest in the Haitong-AC Asian Special Opportunities Fund (the "Fund"). The participating shares provide the Group with the share of returns from the Fund but not any decision-making power nor any voting right in daily operation of the Fund.

As of 31 December 2015 and 31 December 2014, the Group held 50% of the management shares in the Fund and the other 50% management shares are held by a third party. The management shareholders are empowered to make all the key financing and operating decisions in the Fund and require unanimous consent of the parties sharing control. The arrangement of sharing of control is contractually agreed by both parties. As such, the interest of the Group in the Fund is classified as a joint venture.

There is no unfilled capital commitment to the Fund. The current carrying amount of HK$201 million (31 December 2014: HK$175 million) in the consolidated statement of financial position represents the Group's maximum exposure.

(b) As of 31 December 2014, the Group held approximately 38.9% interests in New Bridge China Auto Caymans L.P. ("New Bridge") as a limited partner. The interests in New Bridge as a limited partner provide the Group with the share of returns and receive the distribution from New Bridge.

Pursuant to the limited partnership agreement of New Bridge, the business of New Bridge shall be carried on and managed by the general partner, which is a third party to the Group, with the restriction that all the key financing and operating decisions in New Bridge require unanimous consent of all limited partners and general partner. The arrangement of sharing of control in all key financing and operating decisions among the general partner and limited partners is contractually agreed by all parties. As such, the interest of the Group in New Bride is classified as joint venture.

During the year ended 31 December 2015, the general partner of New Bridge China Auto Caymans L.P. ("New Bridge"), which is a third party to the Group, has determined that a termination event of New Bridge has occurred in accordance with the limited partnership agreement that the sole underlying investment of New Bridge has been listed for public trading.

The winding up process of New Bridge has been commenced in September 2015 and the liquidation process has been completed before the current year end. As such, the directors of the Company considered the joint venture arrangement in New Bridge has been terminated in the current year.

Pursuant to the notice of termination of New Bridge, the general partner and limited partners mutually agreed that the distribution from the process of winding up of New Bridge would be in specie, which is the ordinary shares of China Grand Automotive Group Limited ("CGAGL") and allocated, to the limited partners in pro-rata basis in accordance with the limited partnership agreement. CGAGL is a private company incorporated in the Cayman Islands. As at 31 December 2015, the Group holds 34.61% of the issued ordinary shares of CGAGL through a group entity that is a venture capital organisation.

The directors of the Company considered the Group is able to exercise significant influence over CGAGL through its shareholding that has the power to involve in key financing and operating decisions of CGAGL under the Memorandum and Articles of Association of that company.

The directors of the Company recognised such investment as an associate of the Group and considered this investment was exempted from applying the equity method and were recognised as financial assets designated at fair value through profit or loss in note 34 to the consolidated financial statements.

At the same time of investing in New Bridge in 2014, the Group entered into a total return swap transaction with the underlying investment of New Bridge at a gross notional amount of HK$2,100 million (the "Equity Notional Amount") with an external third party, who initially paid cash of HK$620 million (the "Initial Exchange Amount") to the Group. The total return swap transaction will be due and expired on 4 December 2017 (the "Maturity Date").

For the year ended 31 December 2015, the underlying investments of the above-mentioned total return swap contract has been adjusted to the ordinary shares in CGAGL held by the Group in accordance with the agreed terms in this total return swap contract.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2015

13. INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD (CONTINUED)

Notes:

(b) (continued)

Upon maturity, if the fair value of the ordinary shares of CGAGL held by the Group and accumulated distribution from CGAGL during the contractual period of total return swap (the "Total Returns") are in excess of the Equity Notional Amount, the Group shall be obliged to pay such excess and return the Initial Exchange Amount paid by the counterparty, while if the Total Returns from CGAGL falls below the Equity Notional Amount, the counterparty shall be obliged to pay such shortfall to the Group up to HK$1,480 million and the Initial Exchange Amount would be netted off against such shortfall payable before returning to the counterparty.

In return, the counterparty would pay interest on a semi-annual basis at the fixed interest rate of 9.9% per annum by reference to a principal amount of HK$1,480 million to the Group until the maturity date. Based on the swap contract, the Group has the right to settle the contract by cash or physical settlement upon fulfilling certain conditions fulfilled. The total return swap transaction has been recognised as and included in non-current portion of "financial liabilities designated at fair value through profit or loss" in the consolidated financial statement as set out in note 34 and the details of disclosure for fair value measurement are set out in note 47.

(c) During the current period from 1 January 2015 to 28 June 2015, the directors assessed that the Group's interest in Haitong Special Opportunities Fund I S.P. ("SP1"), Haitong China Select Investment Fund S.P. ("SP3") and Haitong Multi-Tranche Investment Fund II S.P. ("SP6") are consolidated structured entities since the Group is the sole management shareholder of these funds, has control over these funds with significant exposure to variability of returns generated from non-participating shares.

On 29 June 2015, Hai Tong Asset Management (HK) Limited, a wholly owned subsidiary of the Company and sole management shareholder of SP1, SP3 and SP6, has entered an agreement to transfer 50% of management shares of SP1, SP3 and SP6 respectively with an external third party so as to introduce a long term strategic business partner to the Group to jointly manage the mentioned investment funds.

Pursuant to the agreement, the management shareholders for SP1, SP3 and SP6 are empowered to make all the key financing and operating decisions in the funds and require unanimous consent of the parties sharing control. The arrangement of sharing of control is contractually agreed by both parties. The non-participating shares in SP1, SP3 and SP6 provide the Group with the share of returns from the Fund but not any decision-making power nor any voting right in daily operation of the Fund.

As such, the directors consider that the interest of the Group in the SP1, SP3 and SP6 are classified as a joint venture after 50% of management shares of SP1, SP3 and SP6 are transferred on 29 June 2015.

With the immediate effect of losing the control, the Group derecognises the assets and liabilities of SP1, SP3 and SP6 (former subsidiaries) from the consolidated statement of financial position and the fair value for SP1, SP3 and SP6 of HK$113 million, HK$418 million and HK$139 million are recognised as the cost on initial recognition of investments in joint ventures respectively. No gain or loss is derived from the loss of control by the above-mentioned transfer of management shares.

(d) During the second half of the current year, the Group has significantly reduced its units holding in Haitong CSI 300 Index ETF (the "Fund ETF") through the secondary market with disposal gains of HK$94 million in the consolidated statement of profit or loss.

The directors consider that the significant reduction of holding interests to 11% in Fund ETF during the current year has resulted in the investment ceased to be an associate of the Group. With the immediate effect of losing the significant influence over the Fund ETF, the Group measured the retained interest in the Fund ETF at fair value (quoted price in an active market) at disposal date and recognised and presented it in the financial assets at fair value through profit or loss in the consolidated financial statements. The directors considered the carrying amount of retained interests in the Fund ETF at the date of losing significant influence is approximated to the fair value at that date and no gain or loss is derived.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
For the year ended 31 December 2015

14. PROPERTY AND EQUIPMENT

	Leasehold land and buildings HK$'000	Leasehold improvements HK$'000	Furniture, fixtures and equipment HK$'000	Computer hardware and equipment HK$'000	Total HK$'000
31 December 2015					
At 1 January 2015					
Cost	**3,092**	**53,004**	**42,711**	**403,126**	**501,933**
Accumulated depreciation	**(1,370)**	**(37,514)**	**(32,894)**	**(328,900)**	**(400,678)**
Net carrying values	**1,722**	**15,490**	**9,817**	**74,226**	**101,255**
At 1 January 2015, net of accumulated depreciation	**1,722**	**15,490**	**9,817**	**74,226**	**101,255**
Arising from acquisition of a subsidiary	**–**	**–**	**2,265**	**–**	**2,265**
Additions	**–**	**6,983**	**5,308**	**13,401**	**25,692**
Disposals	**–**	**–**	**(81)**	**(6)**	**(87)**
Depreciation	**(77)**	**(5,664)**	**(4,710)**	**(17,515)**	**(27,966)**
At 31 December 2015, net of accumulated depreciation	**1,645**	**16,809**	**12,599**	**70,106**	**101,159**
At 31 December 2015					
Cost	**3,092**	**59,987**	**50,203**	**416,521**	**529,803**
Accumulated depreciation	**(1,447)**	**(43,178)**	**(37,604)**	**(346,415)**	**(428,644)**
Net carrying values	**1,645**	**16,809**	**12,599**	**70,106**	**101,159**
31 December 2014					
At 1 January 2014					
Cost	3,092	46,964	39,363	363,951	453,370
Accumulated depreciation	(1,293)	(33,614)	(30,176)	(272,981)	(338,064)
Net carrying values	1,799	13,350	9,187	90,970	115,306
At 1 January 2014, net of accumulated depreciation	1,799	13,350	9,187	90,970	115,306
Additions	–	6,820	3,891	9,253	19,964
Disposals	–	(244)	(133)	(144)	(521)
Depreciation	(77)	(4,436)	(3,128)	(25,853)	(33,494)
At 31 December 2014, net of accumulated depreciation	1,722	15,490	9,817	74,226	101,255
At 31 December 2014					
Cost	3,092	53,004	42,711	403,126	501,933
Accumulated depreciation	(1,370)	(37,514)	(32,894)	(328,900)	(400,678)
Net carrying values	1,722	15,490	9,817	74,226	101,255

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2015

15. GOODWILL

	2015 HK$'000	2014 HK$'000
Cost		
At the beginning of the year	**9,854**	9,854
Goodwill arising on acquisition (Note 19)	**147,843**	–
	157,697	9,854

Particulars regarding impairment testing on goodwill are disclosed in note 17.

16. OTHER INTANGIBLE ASSETS

	Trading rights and licenses HK$'000	System and infrastructure HK$'000	Customer relationship HK$'000	Total HK$'000
COST				
At 1 January and 31 December 2014	10,131	–	–	10,131
Acquired on acquisition of a subsidiary (Note 19)	1,002	4,345	45,584	50,931
At 31 December 2015	11,133	4,345	45,584	61,062
AMORTISATION				
At 1 January and 31 December 2014	3,522	–	–	3,522
Charge for the year	–	–	4,284	4,284
At 31 December 2015	3,522	–	4,284	7,806
CARRYING VALUES				
At 31 December 2015	7,611	4,345	41,300	53,256
At 31 December 2014	6,609	–	–	6,609

Other than the trading rights and licenses and system and infrastructure, which have indefinite useful lives, the intangible asset of customer relationship is amortised over the expected useful life of 15 years.

16. OTHER INTANGIBLE ASSETS (CONTINUED)

Upon the adoption of HKAS 38 "Intangible assets" in 2005, the Group's eligibility rights to trade on or through the Stock Exchange and The Hong Kong Futures Exchange Limited of net carrying amount of HK$4,609,000 (2014: HK$4,609,000) are considered to have indefinite lives, which are not amortised, as the trading rights have no expiry date. The accumulated amortisation is brought forward from prior years before the adoption of HKAS 38.

The remaining HK$2,000,000 and HK$1,002,000 represents the Group's investment in throttle rate for trading order to be transmitted to the Automated Matching System of the Stock Exchange and regulatory licenses of acquired subsidiary (note 19) for carrying on regulation business in respective jurisdictions (including Hong Kong and overseas). This intangible asset has no expiry date.

Particulars regarding impairment testing on trading rights are disclosed in note 17.

17. IMPAIRMENT TESTING ON GOODWILL AND OTHER INTANGIBLE ASSETS (TRADING RIGHTS) WITH INDEFINITE USEFUL LIVES

Impairment testing on goodwill

For the purpose of impairment testing, goodwill set out in note 15 which is acquired through business combinations has been allocated into three individual cash-generating units (CGUs) for impairment testing:

- Wealth management cash-generating unit;
- Asset management cash-generating unit; and
- Equity research and sales advice cash-generating unit

The carrying amount of goodwill allocated to each of the cash-generating units is as follows:

	Equity research and sales advice HK$'000	Wealth management HK$'000	Asset management HK$'000	Total HK$'000
Carrying amount of goodwill	147,843	854	9,000	157,697

During the years ended 31 December 2015 and 31 December 2014, management of the Group determined that there are no impairments of any of its CGUs containing goodwill as the recoverable amounts of Unit A, Unit B and Unit C (defined below) exceed their respective carrying amounts.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2015

17. IMPAIRMENT TESTING ON GOODWILL AND OTHER INTANGIBLE ASSETS (TRADING RIGHTS) WITH INDEFINITE USEFUL LIVES (CONTINUED)

Impairment testing on goodwill (continued)

The basis of the recoverable amounts of the above CGUs and their major underlying assumptions are summarised below:

(i) Wealth management cash-generating unit ("Unit A")

The recoverable amount of Unit A has been determined based on value in use calculation using cash flow projections covering a five-year period approved by senior management.

The discount rate applied to the cash flow projections is 5% (2014: 5%) and cash flows are using a growth rate of 10% (2014: 10%) which is determined based on past performance and management's expectations for the market development. The discount rate used reflects specific risks relating to Unit A.

(ii) Asset management cash-generating unit ("Unit B")

The recoverable amount of the asset management services cash-generating unit has been determined based on value in use calculation using cash flow projections covering a five-year period approved by senior management. The discount rate applied to the cash flow projections is 5% (2014: 5%) and a growth rate of 6% (2014: 6%).

The discount rate used reflects specific risks relating to Unit B.

Other key assumptions for the value in use calculations relate to the estimation of cash inflows/outflows which include budgeted income and gross margin. Such estimation is based on the units' past performance and management's expectations for the market development and efficiency improvement.

(iii) Equity research and sale advice cash-generating unit ("Unit C")

The recoverable amount of Unit C has been determined based on value in use calculation using cash flow projections covering a five-year period approved by senior management.

The valuation used the discounted cash flow approach and is based on a five-year performance projection and certain key assumptions (updated with latest market data) including an average growth rate of 9.7% from 2016 to 2018 and 3.65% from 2019 to 2020, a sustainable growth rate of 3% beyond 2020 and a discount rate of 15.22% which is determined based on past performance and management's expectations for the market development. The discount rate used reflects specific risks relating to Unit C.

17. IMPAIRMENT TESTING ON GOODWILL AND OTHER INTANGIBLE ASSETS (TRADING RIGHTS) WITH INDEFINITE USEFUL LIVES (CONTINUED)

Impairment testing on goodwill (continued)

Management believes that any reasonably possible change in any of these assumptions would not cause the aggregate carrying amount of Unit A Unit B and Unit C to exceed their respective aggregate recoverable amount.

Impairment testing on trading rights with indefinite useful lives

The carrying amount of intangible assets of trading rights allocated to the following cash generating unit are as follows:

	Brokerage business HK$'000
Carrying amount of trading rights	7,611

The trading rights held by the Group are considered by the directors of the Company as having indefinite useful lives because they are expected to contribute net cash inflows indefinitely. The trading rights and licenses will not be amortised until their useful life is determined to be finite. Instead, they will be tested for impairment annually and whenever there is an indication that they may be impaired. The respective recoverable amounts of the cash generating units relating to brokerage business, whereby these trading rights are allocated to, using a value in use calculation, exceed the carrying amounts.

Accordingly, there is no impairment of the trading rights as at 31 December 2015 and 31 December 2014.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2015

18. OTHER ASSETS

	2015 HK$'000	2014 HK$'000
At cost:		
Deposits with the Stock Exchange:		
— Compensation fund	**650**	650
— Fidelity fund	**350**	350
— Mainland Securities and Settlement Deposit	**50,593**	94,195
Dealers' deposit with Hong Kong Securities and Futures Commission ("SFC")	**350**	350
Stamp duty deposits	**500**	500
Contributions to The Central Clearing and Settlement System Guarantee Fund	**30,123**	26,377
Admission fees paid to Hong Kong Securities Clearing Company Limited	**300**	300
Reserve fund with The SEHK Options Clearing House Limited	**6,291**	17,396
Deposits with HKFE Clearing Corporation Limited in contribution to the reserve fund	**3,172**	8,338
Cost of membership for a seat at The Chinese Gold and Silver Exchange Society	**486**	486
Compensation fund paid to The Shenzhen Stock Exchange Co., Ltd.	**300**	300
Settlement Risk Fund paid to The Shanghai Securities Central Clearing & Registration Corporation	**387**	387
Others	**2,024**	2,024
	95,526	151,653

19. INVESTMENT IN SUBSIDIARIES

	2015 HK$'000	2014 HK$'000
Unlisted shares, at cost	**959,855**	105,377
Deemed contribution	**785,331**	854,478
	1,745,186	959,855

The deemed contribution represents the imputed interest on non-current interest free loan to subsidiaries calculated with reference to Hong Kong Accounting Standard 39 "Financial instruments: Recognition and measurement".

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2015

19. INVESTMENT IN SUBSIDIARIES (CONTINUED)

The particulars of principal subsidiaries of the Company as at 31 December 2015 are as follows:

Name	Place of incorporation/ registration and operations	Paid-up register capital	Percentage of equity attributable to the Company Direct %	Indirect %	Principal activities
Hai Tong Asset Management (HK) Limited	Hong Kong	HK$20,000,000	–	100 (2014: 100)	Provision of fund management services
Haitong International Asset Management Limited	Hong Kong	HK$13,000,000	–	100 (2014: 100)	Investment holding and asset management
Haitong International Bullion Limited	Hong Kong	HK$7,000,000	–	100 (2014: 100)	Bullion contracts dealing and trading
Haitong International Capital Limited	Hong Kong	HK$20,000,000	–	100 (2014: 100)	Provision of corporate advisory services
Haitong International Charitable Foundation Limited (note a)	Hong Kong	N/A	100 (2014: 100)	–	Corporation
Haitong International Consultants Limited	Hong Kong	HK$5,000,000	–	100 (2014: 100)	Provision of financial advisory services
Haitong International Finance Company Limited	Hong Kong	HK$300,000,002 (Non-voting deferred HK$100,700,001) (note b)	–	100 (2014: 100)	Investment holding, money lending and securities trading
Haitong International Financial Products Limited	Hong Kong	HK$50,000,000	–	100 (2014: 100)	Investment in financial products
Haitong International Financial Solutions Limited	Hong Kong	HK$1,000,000	–	100 (2014: 100)	Provision of financial solutions
Haitong International Futures Limited	Hong Kong	HK$400,000,000	–	100 (2014: 100)	Futures and options brokerage and trading
Haitong International Immigration Consultants Limited	Hong Kong	HK$100,000	–	100 (2014: 100)	Provision of immigration consultancy services

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2015

19. INVESTMENT IN SUBSIDIARIES (CONTINUED)

Name	Place of incorporation/ registration and operations	Paid-up register capital	Percentage of equity attributable to the Company Direct %	Indirect %	Principal activities
Haitong International Information Systems Limited	Hong Kong	HK$11,000,000	–	100 (2014:100)	Provision of information technology solutions
Haitong International Investment Managers Limited	Hong Kong	HK$47,000,000	–	100 (2014:100)	Provision of asset and fund management services
Haitong International Management Services Company Limited	Hong Kong	HK$2	–	100 (2014:100)	Provision of management services
Haitong International Research Limited	Hong Kong	HK$1,000,000	–	100 (2014:100)	Provision of research services
Haitong International Securities Company Limited	Hong Kong	HK$8,500,000,000	–	100 (2014:100)	Securities brokerage and dealing and leveraged foreign exchange trading
Haitong International Securities (Singapore) Pte. Ltd.	Republic of Singapore	SG$5,000,001	–	100 (2014:100)	Securities and futures contracts brokerage
Haitong International Securities Nominees Limited	Hong Kong	HK$2	–	100 (2014:100)	Provision of nominee and custodian services
Haitong International Wealth Management Limited	Hong Kong	HK$3,708,000	–	100 (2014:100)	Provision of financial planning services and financial and insurance products brokerage
演天資訊科技(深圳)有限公司 (note c)	People's Republic of China ("PRC")	HK$10,000,000	–	100 (2014:100)	Provision of software development services
Haitong Middle Kingdom Fund (note 20)	Cayman Islands	N/A	–	27.31 (2014: 65.14) (note d)	Fund investment
Haitong Special Opportunities Fund I S.P. (note 13(c))	Cayman Islands	N/A	–	100 (2014: 100) (note d)	Fund investment

19. INVESTMENT IN SUBSIDIARIES (CONTINUED)

Notes:

(a) Incorporated as a company limited by guarantee and not having a share capital.

(b) The non-voting deferred shares carry no rights to dividends, attend or vote at general meetings and receive any surplus in a return of capital, winding-up or otherwise in respect of the first HK$100,000,000,000,000 thereof.

(c) Entity registered as wholly-foreign-owned enterprises under the law in PRC.

(d) The interest holding does not empower the Group for any voting right since they are the investment funds. Details of consolidated structured entities are set out in note 20.

The above table lists out the subsidiaries of the Group which, in the opinion of the directors of the Company, principally affected the results or assets of the Group. To give details of other subsidiaries would, in the opinion of the directors of the Company, result in particulars of excessive length. At the end of the reporting year, the Company has other subsidiaries that are not material to the Group.

Acquisition of a subsidiary

On 31 March 2015 (London time), the court in the United Kingdom has sanctioned the acquisition offered by Haitong International (BVI) Limited ("Haitong BVI"), a wholly owned subsidiary of the Company, to acquire 100% issued shares of Japaninvest Group plc ("Japaninvest") for a consideration of ¥2,878,200,000 or equivalent to HK$187,831,000. Japaninvest was a listed company on the Tokyo Stock Exchange and was delisted with the effect from 26 March 2015 (Japan time) after obtaining the approval from the court in the United Kingdom and shareholders on 2 March 2015.

Japaninvest is engaged in providing pan-Asia equity research, analysis and sales advice for the benefit of investing clients. Japaninvest was acquired so as to extend the reach of its business network to international markets and to establish an extensive institutional client base through research report releases and in turn presenting new business opportunities to the Group.

This acquisition has been accounted for using the acquisition method of accounting.

Consideration transferred

	2015 HK$'000
Cash	187,831

Acquisition-related costs amounting to HK$1.89 million have been excluded from the consideration transferred and have been recognised as an expense in the current year, within the other operating expenses in the consolidated statement of profit or loss.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2015

19. INVESTMENT IN SUBSIDIARIES (CONTINUED)

Acquisition of a subsidiary (continued)

Assets acquired and liabilities recognised at the date of acquisition

	2015 HK$'000
Property and equipment	2,265
Intangible assets	50,931
Accounts receivable	7,077
Prepayment and other receivables	9,028
Deferred tax assets	1,035
Cash and cash equivalents	14,127
Accounts payable	(6,815)
Tax liabilities	(568)
Other payables	(753)
Deferred tax liabilities	(10,064)
Accruals and deferred income	(26,275)
Net assets acquired at the date of acquisition	39,988

In the opinion of the directors of the Company, the fair values of the accounts and other receivables acquired (which principally comprised accounts receivable and other receivables) approximate the gross contractual amounts, the best estimate at acquisition date of the contractual cash flows of the receivables which are expected to be collected.

Goodwill arising on acquisition

	2015 HK$'000
Consideration transferred	187,831
Less: Net identifiable assets acquired	(39,988)
Goodwill arising on acquisition	147,843

Goodwill arose in the acquisition of Japaninvest because the cost of the combination included a control premium. In addition, the consideration paid for the combination effectively included amounts in relation to the benefit of expected synergies, revenue growth, future market development and the assembled workforce of Japaninvest. These benefits are not recognised separately from goodwill because they do not meet the recognition criteria for identifiable intangible assets.

None of the goodwill arising on these acquisitions is expected to be deductible for tax purposes.

19. INVESTMENT IN SUBSIDIARIES (CONTINUED)

Acquisition of a subsidiary (continued)

Net cash outflow on acquisition of a subsidiary

	2015 HK$'000
Consideration paid in cash	187,831
Less: cash and cash equivalent balances acquired	(14,127)
Net cash outflow on acquisition of a subsidiary	173,704

Impact of acquisitions of Japaninvest on the results of the Group

Included in the profit for the current year is HK$6.2 million attributable to the additional business generated by Japaninvest. Revenue for the current period includes HK$32 million generated from Japaninvest.

Had the acquisition been completed on 1 January 2015, total group revenue for the current year would have been HK$5,825 million, and profit for the current year would have been HK$2,981 million. The pro forma information is for illustrative purposes only and is not necessarily an indication of revenue and results of operations of the Group that actually would have been achieved had the acquisition been completed on 1 January 2015, nor is it intended to be a projection of future results.

In determining the 'pro-forma' revenue and profit of the Group had Japaninvest been acquired at the beginning of the current year, the directors have calculated depreciation of property and equipment acquired on the basis of the fair values arising in the initial accounting for the business combination rather than the carrying amounts recognised in the pre-acquisition financial statements.

Debt securities issued by subsidiaries

None of the subsidiaries had issued any debt securities during the current and prior year except for Haitong International Finance 2015 Limited and Haitong International Finance 2014 Limited which have issued US$700 million and US$600 million of guaranteed bonds, respectively during current and prior year. Details of the debt securities issued are set out in note 35.

Significant restriction

Cash and cash equivalents held by subsidiaries in the Mainland China are subject to exchange control restrictions. The carrying amount of these restricted assets in the consolidated financial statements at 31 December 2015 was approximately of HK$8.6 million (31 December 2014: HK$7.5 million).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2015

20. INTEREST IN CONSOLIDATED STRUCTURED ENTITIES

The Group had consolidated certain structured entities including asset management products. For the asset management products where the Group involves as manager and also as investor, the Group assesses whether the combination of investments it held together with its remuneration creates exposure to variability of returns from the activities of the asset management products that is of such significance that it indicates that the Group is a principal.

Third-party interests in consolidated structured entities consist of third-party unit/shareholders' interests in consolidated structured entities which are reflected as a liability since they can be put back to the Group for cash. The realisation of net assets attributable to third-party unit/shareholders' interests in consolidated structured entities cannot be predicted with accuracy since these represent the interests of third-party unit holders in consolidated investment funds that are subject to the actions of third-party unit holders.

On the other hand, the Group has deconsolidated one of its products, which is not individually significant to the Group, during the year with total assets of HK$259 million mainly including HK$254 million of FVTPL and HK$5 million of assets measured at amortised cost and total liabilities of HK$0.8 million mainly including other payables on the dates ceased to be controlled by the Group with the proportion of attributable to other product unit holders amounted to HK$106 million recognised as other liabilities including the redemption proceed to be distributed of HK$106 million. The resulted net cash inflow is amounted HK$152 million.

For the year ended 31 December 2014, interests held by third-party unit/shareholders of HK$5.6 million in consolidated structured entities are presented in other income and gains or losses in the consolidated statement of profit or loss and the interests held by third-party unit holders/shareholders as at 31 December 2014 are included in other liabilities in the consolidated statements of financial position. There is no third-party interests in the consolidated structured entities as at 31 December 2015.

21. INTERESTS IN UNCONSOLIDATED STRUCTURED ENTITIES

The Group invested in certain structured entities, including investment funds, partnership investments and private equity investment with primary objectives for capital appreciation, investment income and selling in the near future for profit. Pursuant to subscription agreement or equivalent documents, the beneficial interests held by the Group in these structured entities are in the form of participating shares or interests which primarily provide the Group with the share of returns from the structured entities but not any decision making power nor any voting right to involve in and control the daily operation.

These structured entities are set up and managed by respective investment manager or general partner who has the power and authority to manage and make decisions for the structured entities.

21. INTERESTS IN UNCONSOLIDATED STRUCTURED ENTITIES (CONTINUED)

Among those investment funds held by the Group where the Group directly or indirectly involves as investment manager, the Group regularly assesses and determines whether:

— the Group is acting as an agent or a principal in these investment funds;
— substantive removal rights held by other parties may remove the Group as an investment fund manager; and
— the investment interests held together with its remuneration from servicing and managing these structured entities create significant exposure to variability of returns in these investment funds .

In the opinion of the directors of the Company, the variable returns that the Group to these structured entities is not significant and the Group is primarily acting as an agent and subject to substantive removal right held by other parties who may remove the Group as an investment manager. Therefore, the Group did not consolidate these structured entities.

The Group classified its investment funds as available-for-sale investments, financial assets at fair value through profit or loss and financial assets designated at fair value through profit or loss as appropriate in notes 22, 29 and 34.

22. AVAILABLE-FOR-SALE INVESTMENTS

	2015 HK$'000	2014 HK$'000
Unlisted fund investments, at fair value (note (a))	6,197,663	460,833
Unlisted equity investments, at fair value (note (b))	56,019	10,250
	6,253,682	471,083

Notes:

(a) The Group invested in equity of unconsolidated investment funds. These investment funds mainly invest in listed securities and derivatives, with a primary objective to provide the investors with capital appreciation and investment income.

There is no unfilled capital commitment to the Fund. The current carrying amount of HK$6,198 million (31 December 2014: HK$461 million) in the consolidated statement of financial position represents the Group's maximum exposure.

(b) The balance represents the unlisted promoter foreign shares of Changmao Biochemical Engineering Company Limited ("Changmao"), a company whose H Shares listed on the Stock Exchange, and the unlisted promoter foreign shares are subject to certain restrictions on transfer. Upon obtaining the requisite approvals from, among other bodies, the China Securities Regulatory Commission and the Stock Exchange, the promoter foreign shares may be convertible into listed H shares of Changmao and shall thereafter carry the same rights obligations of those listed H shares of Changmao.

Details of disclosure for fair value measurement are set out in note 47.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2015

23. HELD-TO-MATURITY INVESTMENTS

	2015 HK$'000	2014 HK$'000
Unlisted debt securities	**98,752**	186,117
Less: current portion	**(5,951)**	(3,811)
Non-current portion	**92,801**	182,306

The debt securities held by the Group are having contractual interest rate from 4.1% to 9.75% per annum (31 December 2014: 4.1% to 11.75% per annum) and with maturity periods ranging from 2016 to 2018 (31 December 2014: ranging from 2015 to 2018).

As at 31 December 2015, the fair value of the held-to-maturity investments was approximately HK$97,862,000 (31 December 2014: HK$188,541,000). Details of disclosure for fair value measurements are set out in note 47.

During the prior year, there were significant deterioration in the issuers' creditworthiness of particular debt investments which were initially classified as held-to-maturity and these isolated events that were beyond the Group's control, were non-recurring and could not have been reasonably anticipated by the Group.

The management assessed that there was objective evidence that an impairment loss on particular debt investments incurred individually. The amount of the loss was measured as the difference between the asset's carrying amount and the quoted market price of the particular debt investment. The carrying amount of the investments was reduced directly and the amount of loss has been recognised in consolidated statement of profit or loss. Details of disclosure for impairment loss are set out in note 7.

As a result of abovementioned isolated events for particular debt investments, the management considered that it was no longer appropriate to classify those investments as held-to-maturity. The amount of HK$51,191,000 had been re-classified to available-for-sale investment and remeasured at fair value. Subsequent to the reclassification to available-for-sale investment, these investments had been fully disposed of before the year ended 31 December 2014.

24. OTHER LOANS AND ADVANCES

	2015 HK$'000	2014 HK$'000
Other loans and advances	**4,080,858**	2,630,200
Less: Non-current portion	**(529,978)**	(811,000)
Current portion	**3,550,880**	1,819,200

24. OTHER LOANS AND ADVANCES (CONTINUED)

There is neither impaired nor overdue other loans and advances as of the reporting date.

The majority of these other loans and advances are secured and/or backed by guarantee with contractual maturity within 2 years from the reporting date. Credit limits are set for borrowers and regular reviews on these other loans and advances are conducted by the risk management department and the risk management committee of the Group based on the latest status of these other loans and advances, and the latest announced or available information about the borrowers and the underlying collateral held. Apart from the collateral monitoring, the Group seeks to maintain effective control over its loans and advances in order to minimise credit risk by reviewing the borrowers' and/or guarantors' financial positions.

Interest income derived from other loans and advances was recognised as "interest income from leveraged and acquisition finance activities" (note 6). The carrying value of the other loans and advances is approximate to their fair value.

25. ADVANCES TO CUSTOMERS IN MARGIN FINANCING

	2015 **HK$'000**	2014 HK$'000
Loans to margin clients	**18,886,116**	9,627,076
Less: Impairment allowance	**(6,961)**	(7,111)
	18,879,155	9,619,965

The credit facility limits to margin clients are determined by the discounted market value of the collateral securities accepted by the Group.

The loans to margin clients are secured by the underlying pledged securities and interest bearing. The Group maintains a list of approved stocks for margin lending at a specified loan to collateral ratio. Any excess in the lending ratio will trigger a margin call which the customers have to make good the shortfall.

As at 31 December 2015, advances to customers of HK$18,879 million (31 December 2014: HK$9,620 million) was secured by securities pledged by the customers to the Group as collateral with undiscounted market value of HK$99,238 million (31 December 2014: HK$49,242 million).

The advances to customers in margin financing have been reviewed by management to assess impairment allowances which are based on the evaluation of collectability, ageing analysis of accounts and on management's judgement, including the current creditworthiness and the past collection statistics of individual account. Except for the amount of HK$6,961,000 (2014: HK$7,111,000) which were fully impaired, there was no other impaired debt for the years ended 31 December 2015 and 2014.

No ageing analysis is disclosed as in the opinion of the directors, the ageing analysis is not meaningful in view of the revolving nature of the business of securities margin financing.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2015

26. ACCOUNTS RECEIVABLE

	2015 HK$'000	2014 HK$'000
Accounts receivable from:		
— Clients	**776,524**	123,466
— Brokers, dealers and clearing house	**2,961,944**	3,351,970
— Clients for subscription of new shares in rights issue and IPO	**–**	872,798
— Others (note)	**82,143**	53,195
	3,820,611	4,401,429

Note: The amount represents the fees receivable from corporate finance, wealth management and fund management business.

There is no impaired accounts receivable as of the reporting dates for current and prior year end.

The following is an ageing analysis of the accounts receivable based on trade date at the reporting date:

	2015 HK$'000	2014 HK$'000
Between 0 and 3 months	**3,782,964**	4,359,117
Between 4 and 6 months	**5,171**	23,853
Between 7 and 12 months	**20,344**	6,728
Over 1 year	**12,132**	11,731
	3,820,611	4,401,429

Accounts receivable from clients, brokers, dealers and clearing house arising from the business of dealing in securities are repayable on demand subsequent to settlement date. The normal settlement terms of accounts receivable arising from the business of dealing in securities are two days after trade date and accounts receivable arising from the business of dealing in futures, options and securities trading in Shanghai-Hong Kong Stock Connect are one day after trade date.

Accounts receivable from clients arising from financing of rights issue and IPO subscriptions are required to settle their securities trading balances on the allotment date determined under the relevant market practices or exchange rules. As at 31 December 2015, there are no securities pending for settlement.

26. ACCOUNTS RECEIVABLE (CONTINUED)

Normal settlement terms of accounts receivable from advisory and wealth management, asset and fund management are determined in accordance with the contract terms, usually within one year after the service provided.

Trading limits are set for customers. The Group seeks to maintain tight control over its outstanding accounts receivable in order to minimise credit risk. As at 31 December 2015, overdue balances are approximately of HK$3.7 million (31 December 2014: HK$2.1 million) which are regularly monitored by management. The management ensures that the listed equity securities belonged to clients in which the Group holds as custodian are sufficient to cover the amounts due to the Group.

27. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	2015 **HK$'000**	2014 HK$'000
Prepayments, deposits and other receivables (note)	**589,758**	277,293
Less: Non-current portion	**(81,687)**	–
Current portion	**508,071**	277,293

Note: Included in the amount of prepayments, deposits and other receivables of HK$590 million are the interest receivable of HK$266 million (31 December 2014: HK$175 million) from bank deposits, brokerage customers and bonds investments which are receivable within one year.

28. OTHER PAYABLES AND ACCRUALS

	2015 **HK$'000**	2014 HK$'000
Other payables and accruals	**941,348**	489,396

Other payables are non-interest bearing and are repayable within one year.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2015

29. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2015 HK$'000	2014 HK$'000
Held for trading		
Listed equity investments, at fair value	**872,136**	1,485,734
Listed investment funds at fair value	**–**	533
Unlisted preference shares at fair value	**23,253**	–
Exchange traded funds at fair value	**586,976**	428,781
Unlisted debt investments, at fair value	**14,445,685**	5,942,706
Unlisted investment funds, at fair value (note)	**2,088,797**	2,105,049
Unlisted structured products, at fair value	**141,150**	–
Unlisted certificated deposit	**99,600**	–
	18,257,597	9,962,803

Note: The Group invested in unconsolidated investment funds. These investment funds invests in including, but not limited to stocks, bonds, funds, notes, debentures, commodities, warrants, structured products, access products, forwards, futures, derivatives, options, swaps and currencies, with primary objectives to provide the investors with capital appreciation, investment income and for selling in the near future for profit.

There is no unfilled capital commitment to these unconsolidated investment funds. The current carrying amount of HK$2,089 million (31 December 2014: HK$2,105 million) in the consolidated statement of financial position represents the Group's maximum exposure.

Details of disclosure for fair value measurement are set out in note 47.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
For the year ended 31 December 2015

30. DERIVATIVE FINANCIAL INSTRUMENTS

	2015 HK$'000	2014 HK$'000
ASSETS		
Swaps — held-for-trading	63,789	35,840
Equity linked notes — held-for-trading	–	31,383
Forward foreign currency exchange contracts		
— held-for-trading	87,900	195,536
Listed options — held for trading	64,518	268
Unlisted options — held for trading	298,609	–
	514,816	263,027
LIABILITIES		
Swaps — cash flow hedges	10,271	4,595
Swaps — held-for-trading	45,309	7,428
Forward foreign currency exchange contracts		
— held-for-trading	34,590	205,770
Foreign currency option contracts	23	–
	90,193	217,793

The notional principal amounts of the outstanding swap contracts held for cash flow hedging against the interest expenses from the bank borrowings as at 31 December 2015 was HK$1,239 million (31 December 2014: HK$1,000 million).

The profit or loss arising from ineffective portion of cash flow hedges is immaterial.

The maximum exposure to credit risk at the year end is the fair value of the derivative financial assets in the consolidated statement of financial position.

31. CASH HELD ON BEHALF OF CUSTOMERS

The Group maintains segregated trust accounts with authorised institutions to hold clients' monies arising from its normal course of business. The Group has classified the clients' monies as cash held on behalf of customers under the current assets section of the consolidated statement of financial position and recognised the corresponding accounts payable (note 32) to respective clients on the grounds that it is liable for any loss or misappropriation of clients' monies. The cash held on behalf of customers is restricted and governed by the Securities and Futures (Client Money) Rules under the Securities and Futures Ordinance.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2015

32. ACCOUNTS PAYABLE

	2015 HK$'000	2014 HK$'000
Accounts payable to:		
— Clients	**19,619,083**	14,144,852
— Brokers, dealers and clearing house	**896,459**	973,033
— Others	**430,295**	512,759
	20,945,837	15,630,644

The majority of the accounts payable balances are repayable on demand except where certain accounts payable to clients represent margin deposits received from clients for their trading activities under normal course of business. Only the excess amounts over the required margin deposits stipulated are repayable on demand.

No ageing analysis is disclosed as in the opinion of the directors of the Company, the ageing analysis does not give additional value in view of the nature of these businesses.

The Group has a practice to satisfy all the requests for payments immediately within the credit period.

Except for the accounts payable to clients which bear interest at 0.001% as at 31 December 2015 (31 December 2014: 0.001%), all the accounts payable are non-interest bearing.

Accounts payable to clients also include those payables placed in trust accounts with authorised institutions of HK$18,265,360,000 (31 December 2014: HK$11,668,936,000), Hong Kong Futures Exchange Clearing Corporation Limited, Stock Exchange Options Clearing House and other futures dealers totalling HK$1,019,867,000 (31 December 2014: HK$824,204,000).

33. FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS

	2015 HK$'000	2014 HK$'000
Held for trading		
Listed equity investments, at fair value (note)	**16,674**	292,145
Unlisted bond investments, at fair value (note)	**941,305**	33,927
	957,979	326,072

Note: Balance represents the fair value of equity and debt securities from short selling activities.

34. FINANCIAL ASSETS/LIABILITIES DESIGNATED AT FAIR VALUE THROUGH PROFIT OR LOSS

	2015 HK$'000	2014 HK$'000
Assets		
Unlisted equity investments, at fair value (notes (a) & (b))	7,952,460	608,901
Unlisted partnership investments, at fair value (notes (a) & (b))	608,720	315,625
Unlisted debt investments, at fair value (note (b))	100,000	14,777
Unlisted investment funds, at fair value (notes (a) & (b))	–	85,631
Listed equity investments, at fair value (note (b))	1,611,393	1,460,220
Unlisted structured products, at fair value (notes (a) & (b))	1,587,782	–
Less: Non-current portion (note 13(b))	(5,705,699)	–
Current portion	6,154,656	2,485,154
Liabilities		
Issued structured products, at fair value (note (c))		
— Unlisted	7,488,749	2,265,886
Less: Non-current portion (note 13(b))	(4,225,698)	(620,000)
Current portion	3,263,051	1,645,886

Details of disclosure for fair value measurements are set out in note 47.

Notes:

(a) As at 31 December 2015, included in financial assets designated at fair value through profit or loss are the unlisted equity investments, unlisted partnership investments and unlisted investment funds which are managed by external third parties. The directors considered the Group did not have control based on the assessment criteria set out in note 21.

There is no unfilled capital commitment to these unlisted equity, partnership investments and unlisted investment funds. The current carrying amount of HK$8,561 million (31 December 2014: HK$1,010 million) in the consolidated statement of financial position represents the Group's maximum exposure.

(b) Except for the unlisted structured product of HK$465 million and unlisted equity investment of HK$116 million (31 December 2014: Nil) which is acquired by the Group for trading and market making, these financial assets are primarily acquired by the Group which are driven by the issued structured products and become their underlying investments and hedging items for the risk of economic exposure on these issued structured products as set out in note (c) below.

These financial assets are designated at fair value as such instruments, as well as the financial instruments which they are hedging, are risk managed on a fair value basis as part of the Group's trading portfolio and the risk is reported to key management personnel on this basis.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2015

34. FINANCIAL ASSETS/LIABILITIES DESIGNATED AT FAIR VALUE THROUGH PROFIT OR LOSS (CONTINUED)

Notes: (continued)

(c) As at 31 December 2015 and 31 December 2014, included in financial liabilities designated at fair value through profit or loss are the issued structured notes which arise from selling structured products generally in the form of notes or certificates with the underlying investments related to listed equity investments in active markets and unlisted equity or partnership investments.

The risk of economic exposure on these structured products is primarily hedged using financial instruments classified as financial assets designated at fair value through profit or loss or investments accounted for using equity method. These structured products are designated at fair value through profit or loss as the risks to which the Group is a contractual party are managed on a fair value basis as part of the Group's trading portfolio and the risk is reported to key management personnel on this basis.

35. LOANS AND OTHER BORROWINGS

	2015 HK$'000	2014 HK$'000
Non-current		
Convertible bonds (notes (a))	**134,393**	1,781,445
Non-convertible bonds (note (b))	**9,937,201**	4,580,804
Non-convertible notes (note (c))	**234,242**	–
Financial assets sold under repurchase agreement (note (e))	**387,550**	–
Total non-current borrowings	**10,693,386**	6,362,249
Current		
Non-convertible notes (note (c))	**2,227,548**	–
Secured borrowing		
— Bank loans (notes (d) and (f))	**6,925,053**	3,144,969
— Financial assets sold under repurchase agreements (note (e))	**7,028,919**	1,189,696
Unsecured borrowing		
— Bank loans (notes (f) and (g))	**12,823,295**	8,074,149
— Other loans (note 43 (a)(iii))	**376,250**	1,522,612
	27,153,517	13,931,426
Total current borrowings	**29,381,065**	13,931,426
Total borrowings	**40,074,451**	20,293,675

35. LOANS AND OTHER BORROWINGS (CONTINUED)

Notes:

(a) The Company has issued convertible bonds in principal amount of HK$1,008 million and HK$1,164 million in 2013 and 2014 respectively and these convertible bonds bear interest at a fixed interest rate per annum with a maturity period of 5 years respectively. The values of the liability component and the equity conversion component were determined at the issuance of the bonds. Please refer to the Company's announcements on 18 July 2013, 10 October 2013 and 4 November 2014 for details of the bonds.

As at 31 December 2015, the conversion prices of convertible bonds issued by the Company in 2013 and 2014 are adjusted to HK$2.95 per share (31 December 2014: HK$3.61 per share) and HK$4.92 per share (31 December 2014: HK$6 per share) after the rights issue announced on 18 March 2015 as set out in note 36(b) and determination of the right to the entitlement of the final dividend as resolved by the owners of the Company on 8 June 2015 as well as the issue of new shares on 27 October 2015 under interim dividend of HK20 cents per Share for the six months ended 30 June 2015 in form of scrip dividend as set out in note 12.

During the year ended 31 December 2015, convertible bonds issued by the Company in 2013 and 2014 with the principal amount of HK$681 million (31 December 2014: HK$325 million) and HK$1,027 million (31 December 2014: Nil) were converted into ordinary shares of the Company. Details of the share capital movement are set out in note 36.

(b) On 11 September 2014, the Group's wholly owned subsidiary Haitong International Finance 2014 Limited issued guaranteed bonds in principal amount of US$600 million which is guaranteed by the Company. Please refer to the Company's related announcement on 4 and 11 September 2014 as well as 2014 audited consolidated financial statements for details of the bond.

On 29 January 2015, the Group's wholly owned subsidiary Haitong International Finance 2015 Limited issued guaranteed bonds in principal amount of US$700 million which is guaranteed by the Company. Please refer to the Company's announcements on 22, 23 and 29 January 2015 for details of the bonds.

(c) As at 31 December 2015, the non-current portion and current portion of outstanding loan balances of HK$234 million (31 December 2014: Nil) and HK$2,228 million (31 December 2014: Nil) represent the unsecured and unguaranteed non-convertible notes issued by the Company in the current year under the Company's Medium Term Note Programme (the "MTN Programme").

(d) Bank loans of HK$6,925 million (31 December 2014: HK$3,145 million) are secured by the listed shares (held by the Group as security for advances to customers in margin financing with the customers' consent) of HK$19,752 million at fair value (31 December 2014: HK$8,594 million).

(e) The balance represents consideration received under the repurchase agreements. Details on the repurchase agreements are set out in note 39 of the consolidated financial statements. The non-current portion of consideration under such arrangements is chargeable at variable interest rate. The current portion of consideration under such arrangements is chargeable at a fixed interest rate and variable interest rate.

(f) All the Group's bank borrowings bear interest at variable interest rate based on Hong Kong Interbank Offered Rate ("HIBOR") per annum.

(g) Bank loans and other loans are repayable on demand or within 1 year. As at 31 December 2015, there is no current portion of unsecured bank loans are not repayable within one year from the end of the reporting period but contain a repayment on demand clause (31 December 2014: HK$74.7 million).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2015

36. SHARE CAPITAL

	2015 HK$'000	2014 HK$'000
Authorised:		
10,000,000,000 (31 December 2014: 4,500,000,000) ordinary shares of HK$0.10 each	**1,000,000**	450,000
Issued and fully paid:		
5,289,920,095 (31 December 2014: 2,184,397,016) ordinary shares of HK$0.10 each	**528,992**	218,440

The movements in issued share capital were as follows:

	Number of shares in issue	Issued share capital HK$'000
As at 1 January 2014	1,395,959,624	139,596
New shares issued under rights issue (note (a))	697,979,812	69,798
New shares issued under exercise of convertible bonds (note 35 (a))	89,855,580	8,986
New shares issued under exercise of share options	602,000	60
As at 31 December 2014 and 1 January 2015	2,184,397,016	218,440
New shares issued under rights issue (note (b))	2,533,453,008	253,345
New shares issued under exercise of convertible bonds (note 35 (a))	364,117,883	36,412
New shares issued under exercise of share options	19,441,009	1,944
Scrip dividend issued (note 12)	188,511,179	18,851
As at 31 December 2015	5,289,920,095	528,992

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2015

36. SHARE CAPITAL (CONTINUED)

Notes:

(a) On 23 April 2014, the Company announced a rights issue on the basis of 1 rights share for every 2 existing shares held by shareholders of the Company at the record date of 8 May 2014 at the discounted price of HK$3.80 per share (the "Rights Issue II"). The Rights Issue II was subsequently completed on 30 May 2014 and 697,979,812 rights shares were issued on 3 June 2014. After deducting the expenses in connection with this Rights Issue II amounting to HK$9 million, the net proceeds from issuance were HK$2,643 million.

For the year ended 31 December 2014, approximately 44% and 33% of the raised proceeds have been used to support the Group's derivatives trading and fixed income, currency and commodity activities respectively and the remainder of approximately 23% of the raised proceeds have been used to support the Group's brokerage and margin financing activities.

(b) On 18 March 2015, the Company announced a rights issue on the basis of 1 rights share for every 1 existing shares held by shareholders of the Company at the discounted price of HK$3.50 per share (the "Rights Issue III"). The Rights Issue III was subsequently completed on 22 May 2015 and 2,533,453,008 rights shares were issued on 26 May 2015. After deducting the expenses in connection with this Rights Issue III amounting to HK$45 million, the net proceeds from issuance were HK$8,822 million.

For the year ended 31 December 2015, approximately 80% of the raised proceeds have been used to support the Group's brokerage and margin financing activities and the remainder of approximately 20% of the raised proceeds have been used to support the Group's general working capital.

37. SHARE OPTION/AWARD SCHEME

2002 Share option scheme

On 23 August 2002, the shareholders of the Company approved the adoption of a share option scheme (the "2002 Share Option Scheme"), which was expired on 22 August 2012. A summary of the principal terms of the 2002 Share Option Scheme, as disclosed in accordance with the Listing Rules, is set out as follows:

The 2002 Share Option Scheme was adopted for the purpose of attracting, retaining and motivating talented employees to strive towards long term performance targets set by the Company and its subsidiaries and at the same time allowing the participants to enjoy the results of the Company attained through their effort and contribution. Under the 2002 Share Option Scheme, options were granted to any full time employees, executive and non-executive directors of the Company or any of its subsidiaries or associates.

The maximum number of shares which may be issued upon exercise of all options to be granted under the 2002 Share Option Scheme and any other share option schemes of the Company shall not in aggregate exceed 10% of the total number of shares in issue as at the date of adoption of the 2002 Share Option Scheme (the "Scheme Mandate Limit") but the Company may seek approval of its shareholders at general meetings to refresh the Scheme Mandate Limit, save that the maximum number of shares in respect of which options may be granted by directors of the Company under the 2002 Share Option Scheme and any other share option schemes of the Company shall not exceed 10% of the issued share capital of the Company as at the date of approval by the shareholders of the Company at the general meeting where such limit is refreshed.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2015

37. SHARE OPTION/AWARD SCHEME (CONTINUED)

2002 Share option scheme (continued)

If refreshed, options previously granted under the 2002 Share Option Scheme and any other share option schemes of the Company (including those outstanding, cancelled, lapsed or exercised options) will not be counted for the purpose of calculating such 10% limit.

Notwithstanding the aforesaid in previous paragraph, the maximum number of shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the 2002 Share Option Scheme and any other share option schemes of the Company shall not exceed 30% (or such higher percentage as may be allowed under the Listing Rules) of the total number of shares in issue from time to time. The maximum number of shares issued and to be issued upon exercise of the options granted to each participant under the 2002 Share Option Scheme and any other share option schemes of the Company (including both exercised and outstanding options) in any 12-month period shall not exceed 1% of the total number of the Company's shares in issue. Any further grant of share options in excess of this limit is subject to approval by the shareholders of the Company at a general meeting.

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

The offer of a grant of share options may be accepted within 30 days from the date of the offer upon payment of a consideration of HK$1 by the grantee. The exercise period of the share options granted is determinable by the directors, and such period shall commence not earlier than 6 months from the date of grant of the options and expire not later than 10 years after the date of grant of the options. The vesting period of the share options is from the date of the grant until the commencement of the exercise period. All share options under the 2002 Share Option Scheme are subject to a 6-month vesting period.

The exercise price of the share options is determinable by the directors, and shall be at least the highest of (i) the closing price of the Company's shares as stated in the Stock Exchange's daily quotations sheet on the offer date; (ii) the average closing price of the Company's shares as stated in the Stock Exchange's daily quotations sheets for the 5 trading days immediately preceding the offer date; and (iii) the nominal value of the Company's shares.

Share options do not confer rights on the holders to dividends or to vote at shareholders' meetings.

The 2002 Share Option Scheme expired on 22 August 2012. However, the share options granted under the 2002 Share Option Scheme prior to its expiry are still exercisable pursuant to the terms of this scheme.

37. SHARE OPTION/AWARD SCHEME (CONTINUED)

2002 Share option scheme (continued)

The following table discloses movements of share options granted to the directors and employees of the Group.

	2015 Weighted average exercise price HK$ per share	2015 Number of options '000	2014 Weighted average exercise price HK$ per share	2014 Number of options '000
At beginning of the year	**4.54**	**27,093**	4.58	29,988
Adjusted during the year (note)	**2.90**	**5,052**	4.53	167
Exercised during the year	**4.31**	**(19,441)**	4.33	(602)
Forfeited during the year	**5.08**	**(42)**	4.77	(2,460)
At end of the year	**2.91**	**12,662**	4.54	27,093

The exercise prices and exercise periods of the share options outstanding as at respective reporting dates are as follows:

31 December 2015 Number of options '000	**Exercise price HK$ per share (note)**	**Exercise period**
2,884	**3.356**	**1 June 2008 to 31 May 2016**
9,778	**2.769**	**3 March 2011 to 2 March 2019**
12,662		

31 December 2014 Number of options '000	Exercise price HK$ per share (note)	Exercise period
9,999	5.098	1 June 2008 to 31 May 2016
17,094	4.208	3 March 2011 to 2 March 2019
27,093		

Note: The exercise price of the share options is subject to adjustment in the case of rights or bonus issues, scrip dividend, or bonus shares, or other similar changes in the Company's share capital.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2015

37. SHARE OPTION/AWARD SCHEME (CONTINUED)

2002 Share option scheme (continued)

No new share options were granted for the years ended 31 December 2015 and 31 December 2014.

As at 31 December 2015, 19,441,009 (31 December 2014: 602,000) share options were exercised resulting in issuance of 19,441,009 (31 December 2014: 602,000) ordinary shares of the Company with new share capital of HK$1,944,000 (31 December 2014: HK$60,200) and share premium of HK$84,026,000 (31 December 2014: HK$2,544,000) (before issuing expenses).

As at 31 December 2015, the Company had 12,662,655 (2014: 27,092,802) share options outstanding under the 2002 Share Option Scheme, which represented approximately 0.24% (2014: 1.24%) of the Company's shares in issue as at that date.

The exercise in full of the remaining share options would, under the present capital structure of the Company, result in the issue of 12,662,655 (2014: 27,092,802) additional ordinary shares of the Company and additional share capital of HK$1,266,000 (2014: HK$2,709,000) and share premium of HK$35,490,000 (2014: HK$120,196,000) (before issue expenses).

At the date of approval of these consolidated financial statements, the Company had 12,662,655 (2014: 27,092,802) share options outstanding under the 2002 Share Option Scheme, which represents approximately 0.24% (2014: 1.23%) of the Company's shares in issue at that date.

2015 Share option scheme

On 8 June 2015, the shareholders of the Company approved the adoption of a new share option scheme (the "2015 Share Option Scheme"). The 2015 Share Option Scheme was also approved by the shareholders of Haitong Securities Co., Ltd., the holding company of Haitong International Holdings Limited, the controlling shareholder of the Company, and Listing Committee of The Stock Exchange of Hong Kong Limited on 8 June 2015 respectively and 12 June 2015 respectively. A summary of the principal terms of the 2015 Share Option Scheme, as disclosed in accordance with the Listing Rules, is set out as follows:

The 2015 Share Option Scheme was adopted to attract, retain and motivate talented employees to strive towards long term performance targets set by the Group and to provide them with an incentive to work better for the interest of the Group after the expiry of its existing 2002 Share Option Scheme on 22 August 2012. Under the 2015 Share Option Scheme, share options could be granted to any full time or part-times employees, executive and non-executive (whether independent or not) directors of the Group who in the absolute opinion of the Board, have contributed to the Company or the Group.

The maximum number of shares of the Company (the "Shares") which may be issued upon exercise of all options to be granted under the 2015 Share Option Scheme and any other share option schemes shall not in aggregate exceed 212,924,439 shares, representing approximately 10% of the issued shares of the Company as at 30 November 2014, being the date of tentative approval of the 2015 Share Option Scheme by the management of the Company.

37. SHARE OPTION/AWARD SCHEME (CONTINUED)

2015 Share option scheme (continued)

In respect of the period of 12 months from the Adoption Date and for each of the subsequent periods of 12 months from the previous anniversary of the Adoption Date (each of those 12-months periods is hereinafter referred to as a "Scheme Year"), the total number of shares of the Company which may be issued upon exercise of the options granted in each Scheme Year shall not exceed 21,292,444 shares (the "Annual Limit"). The Company may from time to time seek approval of its shareholders and the approval of the shareholders of Haitong Securities Co., Ltd. ("HSCL") (so long as the Company is a subsidiary of HSCL under the Listing Rules) in respective general meetings to renew the Scheme Limit and/or the Annual Limit such that the total number of shares of the Company in respect of which options may be granted by directors of the Company under the 2015 Share Option Scheme (i) in respect of the Scheme Limit, shall not exceed 10% of the issued share capital of the Company as at the date of approval of the refreshment; and (ii) in respect of the Annual Limit, shall not exceed 1% of the issued share capital of the Company as at the date of approval of the refreshment. Options previously granted under the 2015 Share Option Scheme and any other share option schemes of the Company (including those outstanding, cancelled, lapsed or exercised options) will not be counted for the purpose of calculating such limits as refreshed.

Notwithstanding the aforesaid in previous paragraph, the maximum number of shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the 2015 Share Option Scheme and any other share option schemes of the Company shall not exceed 30% (or such higher percentage as may be allowed under the Listing Rules) of the total number of shares in issue from time to time.

As at the date of this report, the total number of shares available for issue under the 2015 Share Option Scheme was 212,924,439 shares, which represented approximately 4.03% of the issued share capital of the Company at that day.

The maximum number of shares issued and to be issued upon exercise of the options granted to each participant under the 2015 Share Option Scheme and any other share option schemes of the Company (including both exercised and outstanding options) in any 12-month period shall not exceed 1% of the total number of the Company's shares in issue. Any further grant of share options in excess of this limit is subject to approval by the shareholders of the Company at a general meeting.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2015

37. SHARE OPTION/AWARD SCHEME (CONTINUED)

2015 Share option scheme (continued)

The offer of a grant of share options may be accepted within 28 days from the date of the offer upon payment of a consideration of HK$1 by the grantee. The exercise period of the share options granted is determinable by the directors of the company and notified by the directors the company to each participant as being the period during which an option may be exercised, and in any event such period of time shall not exceed a period of 5 years commencing on the offer date and expire on the last day of such period. The 2015 Share Option Scheme does not stipulate any performance target which needs to be achieved by the participant who accepts the offer of share options (the "Grantee") before the share options can be exercised. In order to sustain a long-term employment relationship between the Company and the grantee(s), grantees must hold their share options for a holding period of not less than 6 months from the date of acceptance of the offer by the Grantee, before the share options can be exercised.

The exercise price of the share options is determinable by the directors, and shall be at least the highest of (i) the price equal to 110% of the closing price of the Company's shares as stated in the Stock Exchange's daily quotations sheet on the offer date; (ii) the average closing price of the Company's shares as stated in the Stock Exchange's daily quotations sheets for the 5 trading days immediately preceding the offer date; and (iii) the nominal value of the Company's shares.

Share options do not confer rights on the holders to dividends or to vote at shareholders' meetings.

As at 31 December 2015, no share option has been granted under 2015 Share Option Scheme.

Share award scheme

On 19 December 2014, the board of directors of the Company (the "Board") adopted a 10-year share award scheme (the "Scheme") to incentivise selected employees or directors ("Selected Participants") for their contributions to the Group and to attract suitable personnel for further development of the Group.

Pursuant to the Scheme, the ordinary shares of HK$0.1 each in the capital of the Company will be acquired by the trustee at the cost of the Company and will be held in trust for the Selected Participants before vesting. The total number of shares granted under the Scheme shall be limited to 10% of the total issued share capital of the Company as at 19 December 2014 (the "Adoption Date") or such other percentage as determined by the Board from time to time.

No award of the shares shall be granted to any single Selected Participant which would result in the maximum number of awarded shares under the Scheme in the 12-month period up to and including the date of such grant representing in aggregate over 1% of the issued share capital of the Company as at the Adoption Date.

37. SHARE OPTION/AWARD SCHEME (CONTINUED)

Share award scheme (continued)

The Board has delegated the power and authority to the Administration Committee to handle operational matters of the Scheme but all major decisions in relation to the Scheme shall be made by the Board unless expressly provided for in the scheme rules pursuant to the Scheme or the Board resolves to delegate such power to the Administration Committee.

Pursuant to the scheme rules, the Board may, from time to time, at its absolute discretion and subject to such terms and conditions as it may think fit (including the basis of eligibility of each Participant determined by the Board and recommended by the Remuneration Committee from time to time) select any participant for participation in the Scheme as a Selected Participant and determine the number of awarded shares, upon the recommendation of the Remuneration Committee.

After the selection of the Selected Participant(s) and the determination of the number of awarded shares by the Board, the Administration Committee shall inform the trustee accordingly. The Administration Committee shall also inform the Selected Participant(s) by award notice. Provided that the respective Selected Participant(s) has (have) executed the relevant acceptance form(s) and returned the same together with a counterpart of the award notice(s) to the trustee through the Company within the period prescribed in the award notice(s), the Company shall during the award period pay or cause to be paid to the trustee for purchasing the awarded shares ("Reference Amount").

After receiving the Reference Amount, the Trustee shall apply the same towards the purchase of awarded shares in the market through a broker at the prevailing market price on the Stock Exchange pursuant to the Scheme Rules and the Company would recognise as treasury shares in the consolidated statement of changes in equity.

The Administration Committee shall conduct a review of the performance conditions (if any) in relation to each Selected Participant at least once in each financial year during the award period if the award period is more than 12 months or once only during the award period if the award period is less than 12 months. The awarded shares will be vested if the Selected Participant is able to meet the relevant performance conditions during the relevant period, or lapse if the Selected Participant is unable to meet the relevant performance conditions during the relevant period.

A Selected Participant shall not exercise or direct the trustee to exercise and the trustee shall not exercise the voting rights in respect of any awarded shares held under the trust.

During the year, no share award has been granted by the Company.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2015

38. RESERVES

The amounts of the Group's reserves and the movements therein for the current year and prior year are presented in the consolidated statement of changes in equity.

The amounts of the Company's reserves and its movements are as follows:

	Shares premium account HK$'000	Share option reserve HK$'000	Share held for employee share award scheme HK$'000	Capital redemption reserve surplus HK$'000	Convertible profits HK$'000	Contributed bond reserve (note 35) HK$'000	Retained profit HK$'000	Total HK$'000
At 1 January 2014	2,979,476	14,835	–	5,102	2,697	32,299	143,299	3,177,708
Profit and total comprehensive income for the year	–	–	–	–	–	–	487,218	487,218
Shares issued under rights issue — note 36	2,573,521	–	–	–	–	–	–	2,573,521
Shares issued upon conversion of convertible bonds — note 36	318,800	–	–	–	–	(10,257)	–	308,543
Shares issued under share option Scheme	2,887	(343)	–	–	–	–	–	2,544
Issuance of convertible bonds — note 35	–	–	–	–	–	45,091	–	45,091
2014 interim dividend declared and settled in cash — note 12	–	–	–	–	–	–	(168,345)	(168,345)
Proposed final 2014 dividend — note 12	–	–	–	–	–	–	(338,582)	(338,582)
Share options lapsed	1,283	(1,283)	–	–	–	–	–	–
At 31 December 2014	5,875,967	13,209	–	5,102	2,697	67,133	123,590	6,087,698
At 1 January 2015	**5,875,967**	**13,209**	**–**	**5,102**	**2,697**	**67,133**	**123,590**	**6,087,698**
Profit and total comprehensive income for the year	**–**	**–**	**–**	**–**	**–**	**–**	**1,232,769**	**1,232,769**
Shares issued under rights issue — note 36	**8,568,445**	**–**	**–**	**–**	**–**	**–**	**–**	**8,568,445**
Shares issued upon conversion of convertible bonds — note 36	**1,685,334**	**–**	**–**	**–**	**–**	**(61,759)**	**–**	**1,623,575**
Shares issued under share option Scheme — note 36	**84,026**	**–**	**–**	**–**	**–**	**–**	**–**	**84,026**
Purchases of shares held under the share award scheme	**–**	**–**	**(128,020)**	**–**	**–**	**–**	**–**	**(128,020)**
2015 interim dividend declared and settled in cash and scrip — note 12	**692,458**	**–**	**–**	**–**	**–**	**–**	**(1,019,716)**	**(327,258)**
Proposed 2015 final dividend — note 12	**–**	**–**	**–**	**–**	**–**	**–**	**(211,597)**	**(211,597)**
Share options lapsed	**10,921**	**(10,921)**	**–**	**–**	**–**	**–**	**–**	**–**
At 31 December 2015	**16,917,151**	**2,288**	**(128,020)**	**5,102**	**2,697**	**5,374**	**125,046**	**16,929,638**

The contributed surplus of the Group arose in 1996 as a result of the group reorganisation in preparation for the listing of the Company and represented the difference between the nominal value of the share capital issued by the Company and the aggregate net asset value of the subsidiaries acquired at the date of acquisition. Under the Companies Act 1981 of Bermuda (as amended), the Company may make distributions to its members out of the contributed surplus provided certain conditions are met.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2015

38. RESERVES (CONTINUED)

The share option reserve of the Group comprises the fair value of share options granted which are yet to be exercised, as further explained in the accounting policy for share-based payment transactions in note 3 to the consolidated financial statements. The amount will be transferred to the share premium account when the related options are expired or forfeited.

The consolidated profit attributable to equity holders of the Company for the year ended 31 December 2015 includes a profit of HK$1,232,769,000 (2014: profit of HK$487,218,000) which has been dealt with in the financial statements of the Company.

39. FINANCIAL ASSETS SOLD UNDER REPURCHASE AGREEMENTS

	2015 HK$'000	2014 HK$'000
Analysed by collateral type:		
Equities	**1,191,700**	–
Bonds	**6,224,769**	1,189,696
Analysed by market:		
Over-the-counter	**1,191,700**	–
Inter-bank market	**6,224,769**	1,189,696
Analysed for reporting purposes:		
Current	**7,028,919**	1,189,696
Non-current	**387,550**	–
	7,416,469	1,189,696

Sales and repurchase agreements are transactions in which the Group sells a security and simultaneously agrees to repurchase it (or an asset that is substantially the same) at the agreed date and price. The repurchase prices are fixed and the Group is still exposed to substantially all the credit risks, market risks and rewards of those securities sold. These securities are not derecognised from the financial statements but regarded as "collateral" for the liabilities because the Group retains substantially all the risks and rewards of these securities.

As at 31 December 2015, the Group entered into repurchase agreements with a financial institution to sell bond and unlisted equity investments recognised as financial assets at and designated at fair value through profit or loss with carrying amount of HK$5,783 million (31 December 2014: HK$1,543 million) and HK$1,726 million (31 December 2014: Nil) respectively, which subject to the simultaneous agreements to repurchase these investments at the agreed date and price.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2015

40. FINANCIAL ASSETS HELD UNDER RESALE AGREEMENTS

	2015 HK$'000	2014 HK$'000
Analysed by collateral type:		
Bonds	1,114,496	24,765
Analysed by market:		
Inter-bank market	1,114,496	24,765
Analysed for reporting purposes:		
Current	1,114,496	24,765

The financial assets (collateral by bonds) held under resale agreements are those resale agreements which the external investors entered into with the Group with a commitment to purchase the specified debt securities at a future date with an agreed price. The maturities of these resale agreements are all within one year.

As of 31 December 2015, the fair value of the Bonds was HK$941.3 million (31 December 2014: HK$23.2 million).

41. OPERATING LEASE ARRANGEMENTS

The Group leases certain of its office properties and data centre under operating lease arrangements. Leases for office properties are negotiated for terms ranging from six months to five years, and those for data centre for terms of five years. At 31 December 2015 and 31 December 2014, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	2015 HK$'000	2014 HK$'000
Within one year	60,193	59,194
In the second to fifth years, inclusive	66,808	23,418
	127,001	82,612

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2015

42. CAPITAL COMMITMENT

In addition to the operating lease commitments detailed in note 41 above, the Group had the following commitments at year end.

	2015 HK$'000	2014 HK$'000
Contracted, but not provided for:		
Computer equipment	623	2,772
Others	1,692	3,004
	2,315	5,776

43. RELATED PARTY TRANSACTIONS

In addition to the transactions and balances detailed elsewhere in these consolidated financial statements, the Group had the following material transactions with related parties during the current year:

(a) On 12 November 2012, the Company entered into a master services agreement with Haitong Securities Co., Ltd., the ultimate holding company of the Company which took effect from 1 January 2013.

(i) Pursuant to the master service agreement, the Company and Haitong Securities Co., Ltd. have each agreed to provide services to companies of the Group or Haitong Securities Co., Ltd. and its subsidiaries. Services pursuant to the new master services agreement include brokerage transactions, research transactions, investment management and advisory services transactions, financing transactions, corporate finance transactions and information technology support transactions.

The income and expenses from brokerage transactions services amounted to HK$1,347,364 (2014: HK$1,081,920) and HK$2,722,967 (2014: HK$719,559) respectively for the current year in accordance with the terms of the new master services agreement.

(ii) During the current year ended 31 December 2015, the Group received a management fee of HK$4,860,000 (31 December 2014: HK$2,542,790) and performance fee of HK$nil (31 December 2014: HK$16,344,702) on provision of discretionary account management services and advisory services to Haitong International Holdings Limited, the immediate holding company of the Company, and its subsidiaries.

The fee is charged at 0.5% per annum (31 December 2014: 0.5% per annum) on the net asset value of the underlying investment portfolio at the end of each month.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
For the year ended 31 December 2015

43. RELATED PARTY TRANSACTIONS (CONTINUED)

(a) (continued)

(iii) During the year ended 31 December 2013, the Company obtained an revolving unsecured loan from Haitong International Holdings Limited, the immediate holding company of the Company. As at 31 December 2015, the Company had outstanding balance of HK$376 million (31 December 2014: HK$1,523 million).

The unsecured loan is chargeable at an interest rate from HIBOR+1.275% to 1.3963% LIBIR + 1.25% and CNH Hong Kong Interbank Offered Rate Fixing ("CNBHIBOR") + 1.25% per annum (31 December 2014: HIBOR+1.176% to HIBOR+1.213%, LIBOR+1.25% and CNBHIBOR + 1.25% per annum). Interest expense for such intercompany loan amounted to HK$20,195,486 (31 December 2014: HK$13,050,755).

(iv) During the current year ended 31 December 2015, the Group received corporate advisory fee of HK$300,000 (31 December 2014: HK$1,200,000) and HK$22,500,000 (31 December 2014: Nil) from Haitong Securities Co., Ltd and its subsidiaries in relation to the provision of advisory for the local compliance services, including the Listing Rules and SFC requirements and consulting services and corporate advisory services for debt investments trading business.

During the current year ended 31 December 2015, Haitong Securities Co., Ltd. has issued new H shares under Specific Mandate. The Company acted as one of the underwriters and received underwriting commission income of HK$68,824,223.

During the current year ended 31 December 2015, Haitong International Finance Holdings 2015 Limited and Unican Limited, the fellow subsidiaries of the Company, issued guaranteed bonds and guaranteed notes with the principal amounts of US$670 million and CNY1,000 million respectively. The Group acted as one of the underwriters for the above bonds and notes issuing with the underwriting commitments of US$335 million and CNY 500 million respectively, and received underwriting income of HK$8,166,699 and HK$1,837,127 respectively.

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

	2015 **HK$'000**	2014 HK$'000
Short term employee benefits	**107,524**	81,257
Post-employment benefits	**195**	154
Total compensation paid to key management personnel	**107,719**	81,411

44. STATEMENT OF FINANCIAL POSITION AND RESERVES OF THE COMPANY

	2015 HK$'000	2014 HK$'000
ASSETS		
Non-current assets		
Property and equipment	25,702	23,873
Investment in subsidiaries	1,745,186	959,855
Amounts due from subsidiaries	24,013,611	11,112,904
Other assets	1,095	1,095
	25,785,594	12,097,727
Current assets		
Amounts due from subsidiaries	19,271,287	11,966,653
Prepayments, deposits and other receivables	200,622	35,710
Tax recoverable	–	3,272
Cash and cash equivalents	88,203	17,320
	19,560,112	12,022,955
Total assets	45,345,706	24,120,682
EQUITY AND LIABILITIES		
Capital and Reserves		
Share capital (note 36)	528,992	218,440
Reserves (note 38)	16,929,638	6,087,698
Proposed final dividend (note 12)	211,597	338,582
Total equity	17,670,227	6,644,720
LIABILITIES		
Non-current liabilities		
Convertible bonds	134,393	1,781,445
Non-convertible notes	234,242	–
Amounts due to subsidiaries	11,123,232	5,584,696
	11,491,867	7,366,141

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2015

44. STATEMENT OF FINANCIAL POSITION AND RESERVES OF THE COMPANY (CONTINUED)

	2015 HK$'000	2014 HK$'000
Current liabilities		
Amounts due to subsidiaries	**641,485**	934,772
Other payables and accruals	**626,488**	192,434
Tax payable	**12,012**	2,501
Non-convertible notes	**2,227,548**	
Loans and other borrowings	**12,676,079**	8,980,114
	16,183,612	10,109,821
Total liabilities	**27,675,479**	17,475,962
Total equity and liabilities	**45,345,706**	24,120,682
Net current assets	**3,376,500**	1,913,134
Total assets less current liabilities	**29,162,094**	14,010,861

45. CAPITAL MANAGEMENT

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern and to maintain healthy capital ratios in order to support its business and maximise shareholder value.

The Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives, policies or processes during the year.

The Group is not subject to any externally imposed capital requirements except for certain subsidiaries engaged in securities and futures dealings and broking, corporate finance and advisory, nominee and custodian services, leveraged foreign exchange trading, and fund management, which are regulated entities under the SFC.

During the year, the subsidiaries of the Group which are subject to minimum capital requirements imposed by the SFC, complied with all the minimum capital requirements.

45. CAPITAL MANAGEMENT (CONTINUED)

The Group monitors capital using a gearing ratio, which is total borrowings divided by the total shareholders' equity.

Total borrowings include convertible bonds issued, non-convertible bonds issued, non-convertible notes issued, loan and other borrowings. Net borrowings include total borrowings net of and cash and cash equivalents.

Total equity includes all capital and reserves attributable to owners of the Company. The Group's policy is to maintain the gearing ratio at a reasonable level. The gearing ratios as at the end of the reporting period were as follows:

	2015 HK$'000	2014 HK$'000
Convertible bonds	**134,393**	1,781,445
Non-convertible bonds	**9,937,201**	4,580,804
Non-convertible notes	**2,461,790**	–
Loans and other borrowings	**27,541,067**	13,931,426
Total borrowings	**40,074,451**	20,293,675
Total equity	**20,828,786**	8,596,502
Gearing ratio	**192%**	236%
Total borrowings	**40,074,451**	20,293,675
Cash and cash equivalents	**(6,405,963)**	(3,236,317)
Net borrowings	**33,668,488**	17,057,358
Net borrowings to total equity ratio	**162%**	198%

46. FINANCIAL RISK MANAGEMENT

The Group's major financial instruments include held-to-maturity investments, advances to customers in margin financing, financial assets/liabilities at fair value through profit or loss, financial assets/liabilities designated at fair value through profit or loss, derivative financial instruments, available-for-sale investments, other loans and advances, accounts receivable, amounts due from to group companies, convertible bonds, non-convertible bonds, non-convertible notes, financial assets held under resale agreements, accounts payable, cash and cash equivalents and loans and other borrowings. Advances to customers in margin financing, other loans and advances, accounts receivable and accounts payable mainly arise from the Group's operations while cash and bank balances, loans and other borrowings, convertible bonds, non-convertible bonds and non-convertible notes are to maintain liquidity or to raise financing for the Group's operations.

The risks associated with these financial instruments include market risk (price risk, currency risk and interest rate risk), credit risk and liquidity risk. The policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in economic environment. Market risk comprises three types of risks: price risk, currency risk and interest rate risk.

The Group's exposures to market risk include price risk, currency risk and interest rate risk.

Price risk

Price risk is the risk that the fair values of equity investments, fund investments, debt securities and derivatives decrease as a result of changes in the levels of equity indices and the values of individual investment.

The Group is exposed to price risk arising from equity investments, fund investments, debt securities and derivative financial instruments that are classified as financial assets/liabilities at fair value through profit or loss, financial assets/liabilities designated at fair value through profit or loss and available-for-sale investments. Majority of the Group's equity investments are listed on The Stock Exchange of Hong Kong Limited and are valued at quoted market prices as at reporting date.

The Group has established a risk management mechanism led by the Board and the Executive Committee through its 2 sub-committees, the Risk Management Committee and the Capital Allocation and Investment Committee which is for the purposes of monitoring the positions of its proprietary trading activities.

46. FINANCIAL RISK MANAGEMENT (CONTINUED)

Market risk (continued)

Price risk (continued)

In addition, the Group's exposures are closely monitored by other relevant internal control units, including Risk Management Department, the Finance Department, the Legal and Compliance Department and the Internal Audit Department.

Listed equity investments

The table below summarises the impact of changes in the Hong Kong Hang Seng Index and other relevant indexes on the Group's profit before tax for the year and on the investment revaluation reserve. The analysis is based on the assumption that the equity index had changed by 10% with all other variables held constant and all the listed equity instruments move according to the historical correlation with the index. The directors of the Company consider Group's exposure to price risk arising from the listed equity investments acquired for the issued structured products can be offset against the Group's exposure to price risk arising from the issued structured products presented in financial liabilities designated at fair value through profit or loss.

Hong Kong Hang Seng Index and other relevant indexes

	2015	
	Impact on profit after tax HK$'000	Impact on the investment revaluation reserve in equity HK$'000
Increase by 10%	87,837	945
Decrease by 10%	(87,837)	(945)

Hong Kong Hang Seng Index and other relevant indexes

	2014	
	Impact on profit after tax HK$'000	Impact on the investment revaluation reserve in equity HK$'000
Increase by 10%	67,197	513
Decrease by 10%	(67,197)	(513)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2015

46. FINANCIAL RISK MANAGEMENT (CONTINUED)

Market risk (continued)

Price risk (continued)

Unlisted fund, equity and partnership investments

The fair value of unlisted fund, equity and partnership investments as well as unlisted structured products depend on the valuation of the respective investments or underlying investments. It is assumed that the unit price increased/decreased by 5%, profit after tax for the year would have an estimated HK$87,207,000 increase/decrease (2014: HK$87,885,000 increase/decrease), and investment revaluation reserve in consolidated statement of profit or loss and other comprehensive income would have an estimated HK$312,028,000 increase/decrease (2014: HK$23,042,000 increase/decrease).

The directors of the Company consider the Group's exposure to price risk arising from the unlisted fund, equity and partnership investments as well as unlisted structured product acquired for the issued structured products can be offset against the Group's exposure to price risk arising from the issued structured products presented in financial liabilities designated at fair value through profit or loss.

Derivative financial instruments — held for trading

The fair value of derivative financial instruments held for trading depends on the return of an underlying investment portfolio or linked index. It is assumed that the fair value of the underlying investment portfolio or linked index increase/decrease by 1%, the fair value of derivative financial instruments held for trading and profit after tax would have an estimated increase/decrease by HK$3,631,000 (2014: HK$416,000).

In management's opinion, the sensitivity analysis is unrepresentative of the price risk as the year end exposure does not reflect the exposure during the year.

46. FINANCIAL RISK MANAGEMENT (CONTINUED)

Market risk (continued)

Currency risk

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate as a result of changes in foreign exchange rates.

The Group's foreign currency risk arises principally from its leveraged foreign exchange business as well as the Group's transactions denominated in currencies other than Hong Kong dollars ("HKD"). The Group hedges economically majority of its client trades in its leveraged foreign exchange business back-to-back with external counterparties, such that the Group is not exposed to significant foreign currency risk.

The majority of the Group's assets and liabilities are denominated in HKD, United States dollars ("USD") and Renminbi ("RMB"). The directors do not expect significant foreign exchange risk arising from USD denominated monetary items in view of the Hong Kong dollar pegged system to the USD.

As at 31 December 2015, if RMB strengthened/weakened against HKD by 5% (2014: 5%) with all other variables including tax rate being constant, profit after tax for the year would have been HK$315,629,000 (2014: HK$289,266,000) higher/lower.

In the opinion of the management, the sensitivity analysis is unrepresentative of the inherent foreign exchange risk as the year end exposure does not reflect the exposure during the year.

Interest rate risk

Fair value interest rate risk

The Group's fair value interest rate risk relates primarily to investments in debt securities classified as available-for-sale investments and financial assets at or designated at fair value through profit or loss all carried at fixed interest rate. The Group currently does not have a fair value hedging policy. However, the director of the Company consider the Group's exposure to price risk arising from the unlisted fund, equity and partnership investments acquired for the issued structured products can be offset against the Group's exposure to interest risk arising from the issued structured products presented in financial liabilities designated at fair value through profit or loss.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2015

46. FINANCIAL RISK MANAGEMENT (CONTINUED)

Market risk (continued)

Interest rate risk (continued)

Fair value interest rate risk (continued)

The Group's fair value interest rate risk exposure is summarised as follows:

	2015 **HK$'000**	2014 HK$'000
Financial assets at fair value through profit or loss	**14,445,685**	5,942,706
Financial liabilities at fair value through profit or loss	**(941,305)**	(33,927)
	13,504,380	5,908,779

At 31 December 2015, if market interest rates at that date had been 25 basis points (2014: 25 basis points) higher/lower with all other variables held constant, profit after tax for the year would decrease/increase by HK$28,190,000 (2014: decrease/increase by HK$12,335,000) and other comprehensive income would decrease/increase by HK$nil (2014: decrease/increase by HK$nil).

In the opinion of the management the sensitivity analysis is unrepresentative of the fair value interest rate risk as the year end exposure does not reflect the exposure during the year.

Cash flow interest rate

The Group's cash flow interest rate risk relates primarily to the bank deposits, advances to customers in margin financing, other loans and advances, amounts due from subsidiaries, loans and other borrowings as well as other interest-bearing accounts receivable and payable carried at amortised costs with floating interest rates. The Group's held-to-maturity investments are not subject to the interest rate risk as all investments are carried at amortised cost with fixed interest rate.

The Group's cash flow interest rate risk is mainly concentrated on the fluctuation of HIBOR arising from the Group's Hong Kong dollar denominated borrowings as its interest-bearing assets and liabilities are mainly Hong Kong dollar denominated.

46. FINANCIAL RISK MANAGEMENT (CONTINUED)

Market risk (continued)

Interest rate risk (continued)

Cash flow interest rate (continued)

The Group's exposure to interest rate risk arising from the interest-bearing assets can be offset against the Group's interest-bearing liabilities. Management actively monitors the Group's net interest rate exposure through setting limits on the level of mismatch of interest rate re-pricing and duration gap and aims at maintaining an interest rate spread, such that the Group is always in a net interest-bearing asset position and derives net interest income. All the interest bearing financial assets and liabilities are subject to an interest re-pricing risk of 3 months or below. There is no concentration of interest risk exposure.

In relation to some variable rate borrowings, the Group enters into interest rate swaps to hedge against its exposures to changes in fair values of those borrowings. Interest rate swaps, denominated in Hong Kong dollars, have been entered into achieve an appropriate mix of fixed and floating rate exposure consistent with the Group's policy. As at 31 December 2015, the Group had interest rate swaps with a notional contract amount of HK$1,000 million (31 December 2014: HK$1,000 million), which is designated as cash flow hedges of the interest rate risk inherent in its variable rate bank borrowings. These interest rate swaps are designated as effective hedging instruments and hedge accounting is applied (see note 30 for details).

The Group's cash flow interest rate risk exposure is summarised as follows:

	2015 **HK$'000**	2014 HK$'000
Accounts receivable	**2,889,954**	1,923,667
Advances to customers in margin financing	**18,879,155**	9,619,965
Other loans and advances	**4,080,858**	2,630,200
Cash held on behalf of customers	**18,265,360**	11,280,674
Cash and cash equivalents	**4,493,323**	2,548,876
Accounts payable	**(19,669,057)**	(12,246,012)
Loans and other borrowings (excluding those subject to interest rate swaps)	**(20,680,048)**	(11,595,426)
	8,259,545	4,161,944

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For the year ended 31 December 2015

46. FINANCIAL RISK MANAGEMENT (CONTINUED)

Market risk (continued)

Interest rate risk (continued)

Cash flow interest rate (continued)

At 31 December 2015, if market interest rates at that date had been 25 basis points (2014: 25 basis points) higher/lower with all other variables held constant, profit after tax for the year would decrease/increase by HK$17,242,000 (2014: decrease/increase by HK$8,688,000). In the opinion of the management the sensitivity analysis is unrepresentative of the cash flow interest rate risk as the year end exposure does not reflect the exposure during the year.

The Company's interest rate risk exposure is considered insignificant.

Credit risk

As at 31 December 2015, the Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge an obligation by the counterparties is arising from the carrying amount of the respective recognised financial assets as stated in the consolidated statement of financial position.

Among the respective recognised financial assets as stated in the consolidated statement of financial position, the directors considered that the held-to-maturity investments, derivative financial instruments, advances to customers in margin financing, other loans and advances, accounts and other receivables, cash and cash equivalent and other assets represent the Group's major exposure to the credit risk arising from the default of the counterparty, with a maximum exposure equal to the carrying amounts of these financial assets in the consolidated statement of financial position.

In order to minimise the credit risk, the Credit Committee of the Group has appointed a group of authorised persons who are charged with the responsibility of approving credit limit of each customer, including the advances to customers in margin financing and other loans and advances. The Credit Committee is also responsible to the credit risk arising from the Group's investment in debt securities, classified either as held to maturity investment, other receivables or financial assets at fair value through profit or loss.

For margin lending, the committee is responsible for approval of share acceptable for margin lending, setting stock margin ratio for each approved share. The approved share list is updated bimonthly, and will be revised as and when deemed necessary by the committee. The committee will prescribe from time to time lending limits on individual share or on any individual customer and his/her associates.

46. FINANCIAL RISK MANAGEMENT (CONTINUED)

Credit risk (continued)

The Risk Management Department of the Group is responsible for overall monitoring of the credit risk of its customers and will make margin call to those customers whose trades exceed their respective limits. Any such excess is required to be made good within two days for securities and the next day for futures of the deficiency report. The deficiency report will be monitored daily by the Group's Chief Risk Officer and responsible officers. Failure to meet margin calls may result in the liquidation of the customers' positions. For each individual other loans and advances, the Risk Management Department will closely monitor financial position of the debtors and guarantors, and for the loans with collateral pledged to the Group, the Risk Management Department will ensure sufficient collateral was received and to maintain an acceptable loan to collateral value ratio.

For the other loans and advances, prior to the lending of loan, the Credit Committee will review the financial strength, purpose of the borrowing, repayment ability of the borrower to ensure that the borrower has sound financial repayment ability. The Group assesses the credit profiles of each individual debtors by analysing many factors that influence the default probability, including (but not limited to) the counterparty's financial profile, business prospects and management, macroeconomic development, industrial and sovereign risk, and historical performance. The Credit Committee also meets quarterly and reviews from time to time the financial conditions of the borrower or the guarantors.

For the Group's investment in debt securities, the Investment Committee of the Group assesses the financial performance of the issuers to ensure that the issuers can satisfy the repayment of the principal and interest as they fall due.

The Group has set portfolio size limits and single issuer limits to limit the Group's exposure to the credit risk. The Group also monitors the credit rating and market news of the issuers for any indication of potential credit deterioration.

For the other credit exposures such as the derivative financial instruments, accounts and other receivables, cash and cash equivalents and other assets, the Group ensure that the exposures are limited to reputable counterparties, such as the financial institution, brokers, dealers or clearing houses, which are governed by regulators including the Hong Kong Monetary Authority and the Hong Kong Securities and Futures Commission and other overseas regulators. The risk of default in repayment is considered to be minimal by the directors.

Other than concentration of credit risk on liquid funds which are deposited with several banks with high credit ratings, the Group does not have any other significant concentration of credit risk.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2015

46. FINANCIAL RISK MANAGEMENT (CONTINUED)

Credit risk (continued)

The management is confident in its ability to continue to control and sustain minimal exposure of credit risk arising from below major recognised financial assets as stated in the consolidated statement of financial position.

- For accounts receivables, approximately HK$752,047,000 (2014: HK$1,973,362,000) was receivables from clients arising from dealing in securities, which normally had a delivery-against payment settlement term of 2 days.

  There is no concentration of credit risk with respect to the receivables, as the Group has a large number of clients who are internationally dispersed. Most of the accounts and other receivables from clients with overdue more than 30 days are fully secured by listed securities with market value significantly higher than the carrying amount.

- Advances to customers in margin financing are backed by collateral. The Group only accepts collateral in the form of cash and liquid stocks. Advances to customer in margin financing of neither past due nor impaired are fully secured by liquid stocks as set out in note 25.

- Other loans and advances are either secured or backed by guarantees.

- For the business in relation to financial assets held under resale and repurchase agreements, the director of the Company stimulated and conducted strict due diligence and project review procedures, and controlled the credit risk relating to the business through marking the market, tracking projects closing the position and other approaches. The director of the Company focuses on the investment diversification for credit-class fixed income securities investment and closely follows up the operation condition of counter-parties and their credit rating changes. Majorities of the above-mentioned businesses were entered with the counter-parties with the issuing credit rating of Aa2 to A1.

- Held-to-maturity investments and other receivables were issued by corporations and reputable large commercial banks with issuer credit rating of B1 or above issued by Moody's or B+ or above issued by Standard & Poor's.

- Majority of derivative financial instruments were entered with reputable financial institutions with credit rating of Baa1 or above issued by Moody's.

- Majority of cash and cash equivalents were deposited in reputable large commercial banks with credit rating of Baa1 or above issued by Moody's or BBB+ or above issued by Standards & Poor's.

46. FINANCIAL RISK MANAGEMENT (CONTINUED)

Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting obligations associated with its financial liabilities. As part of the measures to safeguard liquidity, the Group has maintained substantial long term and other stand-by banking facilities, diversifying the funding sources and spacing out the maturity dates.

A number of the Group's activities in Hong Kong are subject to various statutory liquidity requirements as prescribed by the Hong Kong Securities and Futures Commission in accordance with the Hong Kong Securities and Futures Ordinance (the "HKSFO").

The Group has also put in place a monitoring system to ensure that it maintains adequate liquid capital to fund its business commitments and to comply with relevant liquid capital requirements under the HKSFO.

As at 31 December 2015, the Group has available unutilised overdrafts, and short and medium term bank loan facilities of approximately HK$11,976 million (31 December 2014: HK$3,309 million).

The table below presents the cash flows payable by the Group under non-derivative financial liabilities held for managing liquidity risk by remaining contractual maturities at the reporting date.

The amounts disclosed in the table are the contractual undiscounted cash flows. The table includes both interest and principal cash flows.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2015

46. FINANCIAL RISK MANAGEMENT (CONTINUED)

Liquidity risk (continued)

Liquidity table

	Repayable on demand or less than 3 months HK$'000	Over 3 months to 1 year HK$'000	Over 1 year to 5 years HK$'000	Over 5 years HK$'000	Total HK$'000
31 December 2015					
Liquidity tables					
Convertible bonds issued	–	869	149,087	–	149,956
Non-convertible bonds issued	206,719	206,719	11,567,373	–	11,980,811
Non-convertible notes issued	31,571	2,288,080	255,580	–	2,575,231
Loans and other borrowings (note)	20,168,162	7,058,037	387,550	–	27,613,749
Accounts payable	20,945,837	–	–	–	20,945,837
Financial liabilities at fair value through profit or loss	957,979	–	–	–	957,979
Financial liabilities designated at fair value through profit or loss	–	3,263,051	4,225,698	–	7,488,749
Other payables and accruals	941,348	–	–	–	941,348
Derivative financial instruments — net settlement	90,193	–	–	–	90,193
	43,341,809	12,816,756	16,585,288	–	72,743,853

46. FINANCIAL RISK MANAGEMENT (CONTINUED)

Liquidity risk (continued)

Liquidity table (continued)

	Repayable on demand or less than 3 months HK$'000	Over 3 months to 1 year HK$'000	Over 1 year to 5 years HK$'000	Over 5 years HK$'000	Total HK$'000
31 December 2014					
Liquidity tables					
Convertible bonds issued	–	18,698	2,017,651	–	2,036,349
Non-convertible bonds issued	87,689	92,848	5,401,959	–	5,582,496
Loans and other borrowings (note)	13,255,739	705,018	267	–	13,961,024
Accounts payable	14,468,837	1,161,807	–	–	15,630,644
Financial liabilities at fair value through profit or loss	326,072	–	–	–	326,072
Financial liabilities designated at fair value through profit or loss	–	1,645,886	620,000	–	2,265,886
Other payables and accruals	489,396	–	–	–	489,396
Other liabilities	105,795	–	–	–	105,795
Derivative financial instruments — net settlement	217,793	–	–	–	217,793
	28,951,321	3,624,257	8,039,877	–	40,615,455

Note: Bank loans with a repayment on demand clause are included in the 'repayable on demand or less than 3 months' time band in the maturity analysis. As at 31 December 2015, the aggregate undiscounted principal amounts of these bank loans amounted to HK$11,162 million (31 December 2014: HK$4,953 million). Taking into account the Group's financial position, the directors do not believe that it is probable that the banks will exercise their discretionary rights to demand immediate repayment. The directors believe that such bank loans repayment dates set out in the loan agreements. At that time, the aggregate principal and interest cash outflows will amount to HK$11,178 million.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2015

46. FINANCIAL RISK MANAGEMENT (CONTINUED)

Liquidity risk (continued)

As at 31 December 2015, the amounts of HK$7,578,518,736 (31 December 2014: HK$6,747,000,000) for financial guarantee contracts are the maximum amounts the Company could be required to settle under the arrangement for the full guaranteed amount to its subsidiaries if that amount is claimed by the counterparty to the guarantee. Based on expectations at the end of the reporting period, the Group considers that it is more likely than not that no amount will be payable under the arrangement. However, this estimate is subject to change depending on the probability of the counterparty claiming under the guarantee which is a function of the likelihood that the financial receivables held by the counterparty which are guaranteed suffer credit losses.

Stock borrowing and lending arrangement

Under the normal course of business, the Group may enter into stock borrowing and lending arrangements with other financial institutions and its customers. Equity securities may be borrowed from the other financial institutions and lent to its customers or for the Group's proprietary shortselling activity.

During the process, the Group receives cash collateral from the customers and also places cash collateral in other financial institutions as collateral.

	2015 HK$'000	2014 HK$'000
Equity securities borrowed from external financial institutions	**240,574**	449,067
Equity securities lent to customers	**902,795**	156,922
Equity securities for Group's proprietary short selling (note (33))	**16,674**	292,145
Cash collateral received from customers	**940,738**	178,865
Cash collateral held by financial institutions	**223,234**	501,296

The equity securities shorten for the Group's proprietary position is subject to price risk as included in note 46. Under the stock borrowing and lending arrangement, the Group is principally liable to repay the borrowed securities in case of any default by the customers.

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47. FAIR VALUE MEASUREMENTS OF FINANCIAL INSTRUMENTS

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

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

An analysis of the Group's financial assets measured at fair value as at 31 December 2015 and 31 December 2014 are as follows:

	Fair value as at 31 December 2015 HK$'000	Fair value as at 31 December 2014 HK$'000	Fair value hierarchy	Basis of fair value measurement/ valuation techniques and key inputs
Recurring fair value measurements:				
Available-for-sale investments				
— Unlisted fund investments	**6,197,663**	460,833	Level 2	Note (a)
— Unlisted equity investments	**56,019**	10,250	Level 2	Note (b)
Financial assets at fair value through profit or loss				
— Listed equity investments	**872,136**	1,485,734	Level 1	Note (c)
— Listed investments funds at fair value	**–**	533	Level 1	Note (c)
— Unlisted preference shares at fair value	**23,253**	–	Level 2	Note (d)
— Exchange traded funds	**586,976**	428,781	Level 1	Note (c)
— Unlisted debt investments	**14,445,685**	5,942,706	Level 2	Note (e)
— Unlisted investment funds	**2,088,797**	2,105,049	Level 2	Note (a)
— Unlisted structured products, at fair value	**141,150**	–	Level 2	Note (f)
— Unlisted certificated deposit	**99,600**	–	Level 2	Note (g)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2015

47. FAIR VALUE MEASUREMENTS OF FINANCIAL INSTRUMENTS (CONTINUED)

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

	Fair value as at 31 December 2015 HK$'000	Fair value as at 31 December 2014 HK$'000	Fair value hierarchy	Basis of fair value measurement/ valuation techniques and key inputs
Financial assets designated at fair value through profit or loss				
— Unlisted equity investments	**2,246,761**	608,901	Level 2	Note (d)
— Unlisted equity investments in an associate	**5,705,699**	–	Level 3	Note (h)
— Unlisted partnership investments	**608,720**	315,625	Level 2	Note (d)
— Unlisted debt investments	**100,000**	14,777	Level 2	2015: Note (d) 2014: Note (e)
— Unlisted investment funds	**–**	85,631	Level 2	Note (a)
— Listed equity investments	**1,611,393**	1,460,220	Level 1	Note (c)
— Unlisted structured products	**465,060**	–	Level 2	Note (d)
— Unlisted structured products	**1,122,722**	–	Level 2	Note (f)
Derivatives financial instruments				
— Swap contracts	**63,789**	35,840	Level 2	Note (i)
— Equity linked notes	**–**	31,383	Level 2	Note (j)
— Forward foreign currency exchange contracts	**87,900**	195,536	Level 2	Note (k)
— Listed options	**64,518**	268	Level 1	Note (c)
— Unlisted options (related to listed equities)	**298,609**	–	Level 2	Note (l)
	36,886,450	13,182,067		

47. FAIR VALUE MEASUREMENTS OF FINANCIAL INSTRUMENTS (CONTINUED)

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

	Fair value as at 31 December 2015 HK$'000	Fair value as at 31 December 2014 HK$'000	Fair value hierarchy	Basis of fair value measurement/ valuation techniques and key inputs
Recurring fair value measurements:				
Financial liabilities at fair value through profit or loss				
— Listed equity investments	**16,674**	292,145	Level 1	Note (c)
— Unlisted debt investments	**941,305**	33,927	Level 2	Note (e)
Financial liabilities designated at fair value through profit or loss				
— Structured notes (with the underlying investment related to listed equity investment)	**1,004,291**	1,545,851	Level 2	Note (f)
— Structured notes (with the underlying investment related to listed equity investment with lock-up period)	**4,225,698**	–	Level 3	Note (h)
— Structured notes (with the underlying investment related to unlisted equity investments)	**675,398**	705,258	Level 2	Note (d)
— Structured notes (with the underlying investment related to unlisted debt investments)	**828,946**	14,777	Level 2	Note (m)
— Structured notes (with the underlying investment of forward foreign currency exchange contract)	**1,346**	–	Level 2	Note (k)
— Structured notes (with the underlying investment related to the index of respective stock exchanges)	**753,070**	–	Level 2	Note (n)
Derivative financial instruments				
— Swap contracts	**55,580**	12,023	Level 2	Note (i)
— Forward currency option contracts	**23**	–	Level 2	Note (k)
— Forward foreign currency exchange contracts	**34,590**	205,770	Level 2	Note (k)
	8,536,921	2,809,751		

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2015

47. FAIR VALUE MEASUREMENTS OF FINANCIAL INSTRUMENTS (CONTINUED)

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

Notes:

(a) Dealing price of the investment funds derived from the net asset values of the investment funds with reference to observable quoted price of underlying investment portfolio in active markets.

(b) Fair values for unlisted equity investments have been determined based on the market value of related listed equities issued by the same listed companies.

(c) Quoted price in active markets.

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

(e) Fair values determined based on discounted cash flows. Future cash flows are estimated based on applying the interest yield curves of different types of bonds as the key parameter.

(f) The fair value was determined with reference to the quoted price of the underlying equities investments.

(g) The fair value of certificated deposit was established based on applying the interest yield curves of different certificated deposit issued.

(h) The fair value is derived from the net asset value of such unlisted direct equity investment that is mostly attributable from its underlying listed equity investment which is a restricted share with its fair value is determined with reference to the quoted market prices of the shares with an adjustment of discount for lack of marketability under the approach of discounted cash flow. The directors of the company considered that remaining assets or liabilities in such unlisted direct equity investment are not significant to the amount of overall investment and approximated to its fair value.

The significant unobservable input is the discount rate for lack of marketability with reference to the prices of listed securities when determining its fair value. The directors of the company considered that the relationship of unobservable inputs to the fair value of such investment is in negative relationship that the higher the discount rate adopted in the valuation assessment, the lower the fair value would be resulted.

(i) Discounted cash flow. Future cash flows are estimated based on forward interest rates (from observable yield curves at the end of the reporting period) and contracted interest rates, discounted at a rate that reflects the credit risk of various counterparties.

(j) The fair value of the equity linked note was determined with reference to the quoted price of the underlying listed equity investments.

(k) Fair value determined based on discounted cash flow. Future cash flows are estimated based on forward exchange rate (from observable forward exchange rates at the end of the reporting period) and contract forwards rates, discounted at a rate that reflects the credit risk of various counterparties.

(l) Fair value determined based on binomial tree model. The fair values are determined based on main inputs of the quoted market price, observable dividend yields and volatility of the underlying listed equities investments and in consideration of contract terms, including the exercise price and maturity date etc.

47. FAIR VALUE MEASUREMENTS OF FINANCIAL INSTRUMENTS (CONTINUED)

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

Notes: (continued)

(m) The fair value of the investment was determined with reference to dealing price of the underlying unlisted debt investment which is based on discounted cash flow that the future cash flows are estimated based on applying the interest yield curves of different types of bonds as the key parameter.

(n) Fair value of the investments were determined based on the observable index of respective stock exchange in consideration of the contract terms of maturity date.

During the current year, there were no transfers of financial instruments between Level 1 and Level 2. The Group's policy is to recognise transfers into and transfers out of fair value hierarchy levels as of that date of the event or change in circumstances that caused the transfer.

As at 31 December 2015 and 2014, no non-financial assets or liabilities were carried at fair value.

Except as detailed in the following table, 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:

	2015		2014	
	Carrying amount HK$'000	**Fair value HK$'000**	Carrying amount HK$'000	Fair value HK$'000
Held-to-maturity investments debt investments (note i)	**98,752**	**97,862**	186,117	188,541
Convertible bonds (note ii)	**134,393**	**148,944**	1,781,445	2,401,824
Non-convertible bonds (note ii)	**9,937,201**	**10,131,441**	4,580,804	4,620,970

These assets and liabilities are classified under Level 2 in the fair value hierarchy.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2015

47. FAIR VALUE MEASUREMENTS OF FINANCIAL INSTRUMENTS (CONTINUED)

Reconciliation of Level 3 fair value measurements

31 December 2015

	Financial assets classified at fair value through profit or loss HK$'000	Financial liabilities classified at fair value through profit or loss HK$'000
Opening balance	–	–
Total gains (losses) in profit or loss	3,605,699	(3,605,698)
Transfers into Level 3 (note iii)	2,100,000	(620,000)
Closing balance	5,705,699	(4,225,698)

During the year ended 31 December 2014, no financial assets or liabilities were classified as Level 3 instrument.

Notes:

(i) The fair values are based on discounted cash flow. The future cash flows are estimated based on applying the interest yield curves of different types of bonds as the key parameter. The most significant input is the discount rate of the instruments.

(ii) The fair values are based on the quoted price from the Singapore Exchange Securities Trading Limited and the Hong Kong Stock Exchange.

(iii) The fair value of the instrument was determined with reference to the recent transaction price of the underlying investment and therefore classified as Level 2 investment for the year ended 31 December 2014. During the current year, the underlying investment was listed with lock-up period, its fair value was determined with reference to the quoted market price and adjusted for lack of marketability. Thus, the instrument was transferred from Level 2 to Level 3 category.

48. FINANCIAL ASSETS AND FINANCIAL LIABILITIES OFFSETTING

The disclosures set out in the tables below include financial assets and financial liabilities that:

- are offset in the Group's consolidated statement of financial position; or
- are subject to an enforceable master netting arrangement or similar agreement that covers similar financial instruments, irrespective of whether they are offset in the Group's consolidated statement of financial position.

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

In addition, the Group has a legally enforceable right to set off the accounts receivable and payable with brokerage clients that are due to be settled on the same date and the Group intends to settle these balances on a net basis.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2015

48. FINANCIAL ASSETS AND FINANCIAL LIABILITIES OFFSETTING (CONTINUED)

As at 31 December 2015

	Gross amounts of recognised financial assets (liabilities) after impairment HK$'000	Gross amounts of recognised financial assets (liabilities) set off in the consolidated statement of financial position HK$'000	Net amounts of financial assets (liabilities) presented in the consolidated statement of financial position HK$'000	Related amounts not set off in the consolidated statement of financial position		Net amount HK$'000
				Financial instruments HK$'000	Collateral received HK$'000	
Financial assets						
Accounts receivable from clients, brokers, dealers and clearing house	5,047,716	(1,227,105)	3,820,611	(19,528)	(114,997)	3,686,086
Deposit placed with clearing house	95,526	–	95,526	(81,016)	–	14,510
Advances to customers in margin financing	18,879,155	–	18,879,155	(28,612)	(18,791,483)	59,060
Financial liabilities						
Accounts payable to clients, brokers, dealers and clearing house	(22,172,942)	1,227,105	(20,945,837)	129,156	–	(20,816,681)
Financial liabilities at fair value through profit or loss	(957,979)	–	(957,979)	–	957,979	–

48. FINANCIAL ASSETS AND FINANCIAL LIABILITIES OFFSETTING (CONTINUED)

As at 31 December 2014

	Gross amounts of recognised financial assets (liabilities) after impairment HK$'000	Gross amounts of recognised financial assets (liabilities) set off in the consolidated statement of financial position HK$'000	Net amounts of financial assets (liabilities) presented in the consolidated statement of financial position HK$'000	Related amounts not set off in the consolidated statement of financial position: Financial instruments HK$'000	Collateral received HK$'000	Net amount HK$'000
Financial assets						
Accounts receivable from clients, brokers, dealers and clearing house	6,220,439	(1,819,010)	4,401,429	(42,777)	(74,087)	4,284,565
Deposit placed with clearing house	57,458	–	57,458	(296)	–	57,162
Advances to customers in margin financing	9,619,965	–	9,619,965	(162,288)	(9,457,677)	–
Financial liabilities						
Accounts payable to clients, brokers, dealers and clearing house	(17,449,654)	1,819,010	(15,630,644)	205,361	–	(15,425,283)
Financial liabilities at fair value through profit or loss	(292,145)	–	(292,145)	–	292,145	–

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2015

49. IMMEDIATE AND ULTIMATE HOLDING COMPANY

Haitong International Holdings Limited, a company incorporated in Hong Kong, and Haitong Securities Co., Ltd., a company incorporated in the People's Republic of China, are the immediate holding company and the ultimate holding company of the Company respectively.

50. RECLASSIFICATION

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

51. APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements were approved by the Board of Directors on 10 March 2016.

TEN YEARS FINANCIAL SUMMARY

	31/12/2015 HK$'000	31/12/2014 HK$'000	31/12/2013 HK$'000	31/12/2012 HK$'000	31/12/2011 HK$'000	1/7/2009- 31/12/2010 HK$'000	1/1/2008- 30/6/2009 HK$'000	31/12/2007 HK$'000	31/12/2006 HK$'000	31/12/2005 HK$'000
RESULTS										
REVENUE	**5,805,514**	2,713,291	1,646,814	1,177,055	1,003,945	1,459,935	1,084,604	1,465,213	726,913	390,781
OPERATING PROFIT	**3,039,910**	1,182,536	583,319	337,656	179,058	396,827	202,058	582,362	197,689	68,663
Share of (loss) profit of investments accounted for using the equity method	**(53,522)**	33,212	15,157	–	–	1,718	6,324	198	252	335
PROFIT BEFORE TAX	**2,986,388**	1,215,748	598,476	337,656	179,058	398,545	208,382	582,560	197,941	68,998
Income tax expense	**(476,336)**	(197,479)	(68,311)	(43,034)	(25,973)	(53,386)	(20,054)	(92,329)	(22,971)	(6,040)
PROFIT FOR THE YEAR/PERIOD	**2,510,052**	1,018,269	530,165	294,622	153,085	345,159	188,328	490,231	174,970	62,958
ATTRIBUTABLE TO:										
Owners of the Company	**2,510,052**	1,018,269	529,152	293,450	153,204	345,795	188,974	484,847	172,325	62,958
Non-controlling Interests	**–**	–	1,013	1,172	(119)	(636)	(646)	5,384	2,645	–
	2,510,052	1,018,269	530,165	294,622	153,085	345,159	188,328	490,231	174,970	62,958
ASSETS, LIABILITIES AND NON-CONTROLLING INTERESTS:										
TOTAL ASSETS	**91,919,000**	48,159,973	29,438,104	14,628,101	10,962,126	11,412,151	8,904,160	7,771,610	4,405,092	3,152,524
TOTAL LIABILITIES	**(71,090,214)**	(39,563,471)	(24,517,852)	(11,368,256)	(7,900,899)	(9,234,813)	(6,973,302)	(5,906,460)	(3,221,400)	(2,148,493)
NON-CONTROLLING INTERESTS	**–**	–	–	(5,811)	(6,639)	(6,758)	(5,394)	(8,660)	(4,476)	–
SHAREHOLDERS' FUNDS	**20,828,786**	8,596,502	4,920,252	3,254,034	3,054,588	2,170,580	1,925,464	1,856,490	1,179,216	1,004,031

FINANCIAL CALENDAR

Announcement of the annual results of 2015
Thursday, 10 March 2016

For ascertaining shareholders' right to attend and vote at the annual general meeting
Book close dates
Tuesday, 26 April to Thursday, 28 April 2016
(both dates inclusive)

Latest time to lodge transfers
4:30 p.m. on Monday, 25 April 2016

Record date
Thursday, 28 April 2016

Annual General Meeting
Thursday, 28 April 2016

For ascertaining shareholders' entitlement to the proposed final dividend
Book close dates
Thursday, 5 May to Monday, 9 May 2016
(both dates inclusive)

Latest time to lodge transfers
4:30 p.m. on Wednesday, 4 May 2016

Record date
Monday, 9 May 2016

Final dividend payment date
Thursday, 16 June 2016

CORPORATE INFORMATION

GENERAL INFORMATION

Board of Directors

Executive Directors

LI Jianguo — *Deputy Chairman*
LIN Yong — *Deputy Chairman and Managing Director*
HUI Yee Wilson

Non-executive Directors

JI Yuguang — *Chairman*
POON Mo Yiu
CHENG Chi Ming Brian
WANG Meijuan
William CHAN

Independent Non-executive Directors

TSUI Hing Chuen William
LAU Wai Piu
LIN Ching Yee Daniel
WEI Kuo-chiang

Company Secretary

LAU Yik Chi

Internal Auditor

LAU Chi Keung

External Auditor

Deloitte Touche Tohmatsu

Legal Adviser in Hong Kong

Woo, Kwan, Lee & Lo

Legal Adviser on Bermuda Law

Conyers Dill & Pearman

Place of Incorporation

Bermuda

Registered Office

Clarendon House
2 Church Street, Hamilton HM 11
Bermuda

Principal Place of Business

22nd Floor, Li Po Chun Chambers
189 Des Voeux Road Central
Hong Kong

Principal Share Registrar and Transfer Office

Codan Services Limited
Clarendon House
2 Church Street, Hamilton HM 11
Bermuda

Hong Kong Branch Share Registrar and Transfer Office

Level 22, Hopewell Centre
183 Queen's Road East
Hong Kong

Website

www.htisec.com

CORPORATE INFORMATION (CONTINUED)

Principal Bankers

Standard Chartered Bank (Hong Kong) Limited
The Hongkong and Shanghai Banking Corporation Limited
China Merchants Bank Co., Ltd., Hong Kong Branch
The Bank of East Asia, Limited
OCBC Wing Hang Bank Limited
Bank of China (Hong Kong) Limited
Bank of Communications Co., Ltd., Hong Kong Branch
China CITIC Bank International Limited
Industrial Bank Co., Ltd., Hong Kong Branch
China Construction Bank (Asia) Corporation Limited
China Minsheng Banking Corp., Ltd., Hong Kong Branch
Bank of China, Macau Branch
Industrial And Commercial Bank of China (Asia) Limited
Shanghai Pudong Development Bank Co., Ltd., Hong Kong Branch
Public Bank (Hong Kong) Limited
United Overseas Bank Limited, Hong Kong Office
Chong Hing Bank Limited
Dah Sing Bank, Limited
First Commercial Bank, Hong Kong Branch
Hang Seng Bank Limited
Fubon Bank (Hong Kong) Limited
DBS Bank (Hong Kong) Limited

BOARD COMMITTEES

Audit Committee

LIN Ching Yee Daniel *Chairman*
WANG Meijuan
TSUI Hing Chuen William
LAU Wai Piu

Executive Committee

LIN Yong *Chairman*
HUI Yee Wilson
ZHANG Xinjun
SUN Jianfeng
SUN Tong
LO Wai Ho
ZHANG Yibin
SHI Ping
KONG Weipeng
JI Qingyu

Nomination Committee

JI Yuguang *Chairman*
TSUI Hing Chuen William
LAU Wai Piu

Remuneration Committee

TSUI Hing Chuen William *Chairman*
JI Yuguang
CHENG Chi Ming Brian
LAU Wai Piu
WEI Kuo-chiang

Risk Committee

William CHAN *Chairman*
WANG Meijuan
LAU Wai Piu
WEI Kuo-chiang

Strategic Development Committee

JI Yuguang *Chairman*
LI Jianguo
LIN Yong
CHENG Chi Ming Brian
William CHAN

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海通國際
HAITONG

Haitong International Securities Group Limited
22/F Li Po Chun Chambers
189 Des Voeux Road Central, Hong Kong