



Global Vision  
Regional Hub

Interim Report 2017



# Global Vision

## Regional Hub

The cover design is inspired by Haitong International's ambition to become a leading boutique investment bank in the Asia Pacific Region. The decorative pattern embodies the essence of various regions and reflects our inclusive corporate culture.

Haitong International attracts talents from many countries and regions and has marked great milestones by combining this diversity with its innovative spirit. With the wisdom and insight of our talented employees the Company aspires to be a pioneer in the financial markets and to generate new opportunities and long-term value for shareholders, customers and stakeholders.



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# FINANCIAL HIGHLIGHTS

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## RESULTS

	Six months ended		Percentage change Increase
	30.6.2017	30.6.2016	
Revenue (HK\$'000)	2,943,016	2,449,825	20
Net Profit Attributable to Shareholders (HK\$'000)	1,038,206	810,014	28
Return on Shareholders' Funds (%) <sup>(Note 1)</sup>	4.57	3.83	–
<b>Per share</b>			
Basic Earnings Per Share (HK Cents)	19.53	15.37	27
Diluted Earnings Per Share (HK Cents)	18.01	15.31	18
Share Price			
– Highest (HK\$)	4.95	4.72	5
– Lowest (HK\$)	4.12	3.54	16

## FINANCIAL POSITION

	30.6.2017	31.12.2016	Percentage change Increase/ (Decrease)
Total Assets (HK\$'000)	127,066,532	131,505,248	(3)
Number of Shares in Issue <sup>(Note 2)</sup>	5,339,720,741	5,336,534,474	0.06
NAV Per Share (HK\$)	4.35	4.21	3

Notes:

- Computation of return on shareholders' funds is based on net profit attributable to shareholders divided by the weighted average shareholders' funds.
- Certain equity rights conferred on share option holders were exercised during the period. Hence, the total number of shares of the company was increased to 5,339,720,741 as at 30 June 2017.

# MANAGEMENT DISCUSSION AND ANALYSIS

With the arrival of the 20<sup>th</sup> anniversary of Hong Kong's return to China along with the 10th anniversary since Haitong International's commencement of its business in Hong Kong, Haitong International (or the "Company") has emerged as a financial services provider in Hong Kong offering the most comprehensive set of financial products such as stocks, futures, warrants/CBBCs, currency, bullion brokerage and private wealth management products and services for retail clients. It also provides refinancing services such as mergers and acquisitions, listing, issuance of bonds, placement of securities for corporate clients, and provides diversified financial products and services such as securities, bonds, Exchange Traded Funds, options, asset-linked notes, stock borrowing and lending and prime brokerage for institutional clients. To better serve its nearly 200,000 institutional, corporate and retail clients around the world, Haitong International has established its presences in major international financial hubs including New York, London, Singapore, Tokyo and Mumbai.

## MARKET REVIEW

During the first half of 2017, two rate hikes were announced by the Federal Reserve as planned but were received calmly by the capital market. Overall, the global economy trended upwards: The U.S. continued its mild growth with slower pace; countries in the Eurozone and Japan gained traction attributable to resuscitation of manufacturing and exports. In the wake of the panic-stricken 2016, economies in the world stepped into a recovery period and most major stock markets were bullish. The S&P 500 index, Dows Jones Industrial Average and NASDAQ index were up 8.25%, 8.03% and 14.07%, representing the historic highs since 2009. Thanks to the favorable external economic conditions and capital influx from the Mainland, Heng Sang index surged for 6 consecutive months, representing an increase of almost 16.32% when compared with that in the beginning of 2017.

China's economy saw a vivacious pickup during the first half of 2017 with a year-on-year GDP growth of 6.9%, a stark contrast to the downturn for the past 5 years. The growth trend was steady though there was a mild decline in the 2nd quarter. The key tasks in terms of finance, as suggested in the National Financial Work Conference held in July, are to improve the real economy, keep financial risks at bay and deepen the financial reform.

## PERFORMANCE REVIEW AND ANALYSIS

In the first half of 2017, Haitong International recorded a revenue of HK\$2.94 billion, representing a growth of 20% over the first half of last year and the net profit was HK\$1.04 billion, representing a growth of 28% over the first half of last year though its assets and liability scale diminished. Other than the improved atmosphere in the market this year, it was primarily due to Haitong International's refined business structure and operations, namely the endogenous growth of the Company. Recently, Haitong International has been devoting to sharpening its competitive edges by shifting from the combination of inorganic growth and organic growth models to the focus on organic growth model by strengthening critical systems like risk management. Sticking to its development goal of "expanding sell-side businesses, strengthening capital-based intermediary businesses and developing buy-side businesses", Haitong International strived to optimize its business structure, enhance its professionalism, augment its service quality and deepen its global presence continuously. All this paid off with rewarding financial services, trading and assets management businesses in the first half of 2017.

## MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

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### 1. Stable and proactive financial services with record high results

The financial services targeting corporate clients that Haitong International is primarily engaged in equity financing, debt financing and mergers and acquisition services. Setting sail from Hong Kong capital market, Haitong International aims to navigate across the Pan-Asia capital markets and established a global presence.

For Hong Kong capital market, during the first half of 2017, Haitong International ranked second among all Hong Kong financial services providers in terms of number of IPO projects; it ranked third in terms of number of equity financing projects (including IPOs, placement in the secondary market and rights issues); it ranked top among all Chinese financial services providers in Hong Kong in terms of financing amount of equity financing business. Meanwhile, our Singaporean and Indian subsidiaries completed their first IPO project in the Main Board of the Singapore Exchange Limited and Bombay Stock Exchange respectively with the oversubscription of 170 times for the Indian IPO project, being an all-time high subscription in the Bombay Stock Exchange.

On the debt financing side, Haitong International completed a total of 53 bond issuances; among non-bank financial services providers in Hong Kong, Haitong International ranked top in terms of debt financing amount and number of issuance. Moreover, it also ranked top among international financial institutions in terms of financing amount and number of issuance for the high-yield US bonds in Asia ex Japan.

### 2. Trading services with the self-developed one-stop boutique financial product trading platforms

The trading business that Haitong International devotes to covers institutional equities, fixed income, currency and commodities and retail brokerage. Capitalizing on it, Haitong International endeavors to provide retail, corporate and institutional clients around the world with a secured, reliable, comprehensive and quality one-stop financial product trading platform.

Leveraging the cash equities trading platform, Haitong International has created a research network covering 430 and more stocks in the Greater China region, Japan, India and South Korea through which securities research, institutional sales and trading services can be obtained by over 1,000 institutional investors. During the first half of 2017, the Company newly launched the macroeconomic research products. As for the derivatives, Haitong International provides a comprehensive range of derivatives including warrants, CBBCs, options, securities lending, market making for exchange traded funds. Up to the moment, Haitong International is the only one warrant and CBBC issuer among all the listed Chinese financial services providers in Hong Kong.

## MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

The fixed income, currency and commodities business remained on the steady track as recent years during the first half of 2017. The global sales network of fixed income was further enlarged, serving as a springboard for the take-off of our debt capital market business. During the first half of 2017, Haitong International secured 64 new institutional clients, among which, over 60% are international institutional clients. In addition, the transaction volume of Asian USD high-yield bonds in the secondary market registered a year-on-year growth of 30%, manifesting the synergistic effect between the primary and secondary markets. Moreover, there were breakthroughs for currency and commodities products. Haitong International became the first market maker for RMB-denominated options on the Hong Kong Stock Exchange as well as one of the first market makers for offshore RMB and USD physically delivered bullion futures. Boosting its fixed income sales teams around the world, Haitong International has developed the entire business chain covering investment grade bonds, high yield bonds and credit derivatives in terms of trading of Asian G3 bonds. As such, it generates stable profit and income, which lays a solid foundation for the next level of global development.

To keep abreast of the new trend in the fintech aspect, Haitong International demonstrated its philosophy of persistent pursuit of outstanding services for clients by creation and development of innovative platforms. To address the demand for low-touch DMA and algorithmic trading, Haitong International launched “New Algorithm Execution Services” during the first half, becoming the first Hong-Kong based Chinese financial services provider with its self-developed electronic trading platform to better serve its global institutional clients. The iBest App, the brand new mobile online trading and wealth management platform specifically designed for retail clients, will come into the market after test and trial.

### **3. Asset management with outstanding results in products, clients and business models**

With persistent innovation and development of products and businesses, Haitong International’s asset under management saw a steady growth.

To perfect its product line and launch competitive products in Hong Kong market in time, Haitong International launched several new fund products in the first half of 2017 to enrich its product structure tremendously. Besides, its client onboarding progressed well with fostered relationship with existing investors. Despite the impact brought along by the lasting global market fluctuations, Haitong International achieved preeminent investment results in the first half and two funds under its management ranked top among their peer groups in the Lipper ranking and 1 ranked second among its peer group in the Lipper ranking. Moreover, Haitong MPF Conservative Fund also earned the Company the Best 1 Year Performance — MPF Conservative Fund in the 2017 MPF Awards held by Asia Asset Management for the second year.

## MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

### THE EVER-DEVELOPING OPERATING AND RISK MANAGEMENT CAPABILITIES

#### 1. Ever-strengthening middle and back office management

During the first half of 2017, the credit risk control, IT, finance, treasury and operation divisions followed the Company's strategic guidelines closely and kept strengthening, improving and assisting in management based on the needs of the front office efficiently in line with the overall development of the Company. Haitong International actively implemented fintech by launching an electronic trading platform specifically designed for institutional and retail clients. More than this, the platform was also incorporated into daily operations of every department.

#### 2. Enhancing real-time risk management

As stated in the National Financial Work Conference in July, prevention of systematic financial risks shall always be the core of the financial businesses. Active prevention and elimination of systematic financial risks should be considered as a higher priority with scientific prevention, identification, alert, revelation and handling put in place as soon as possible to mitigate and avoid risks in the major areas and to reinforce the lines of defense and contingency mechanism. At present, Haitong International's financial risk management regime and processes are full-fledged and comprehensive against market risks, liquidity risks, credit risks and operating risks. In the face of market pressure and impact, Haitong International always keeps an eye on its risk management and pays full attention to its risk control measures adopted for its business lines. With a prescient view, it has adopted proper measures to facilitate positive growth of every risk management indicators.

Besides, to cope with foreign exchange and liquidity risks, Haitong International has established measures like hedging strategy against foreign exchange risk and implemented a periodic liquidity risk reporting mechanism. For market risk management perspective, not only did Haitong International further perfect its trading architecture, it also heightened its business management standards. Meanwhile, it has also mitigated market risks by introducing a diversified trading asset portfolio.



## MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

### FUTURE PROSPECTS AND STRATEGIES

Macroscopically, economic resuscitation and growth will continue, but the pace of recovery of different countries may differ. Europe has lifted itself out of the abyss and it is expected that its economy will rally further. Although the economic recovery in the U.S. still persists, it has begun to lose momentum and there is still a spate of uncertainties plaguing the world. The sway of monetary policies and geopolitical fluctuations from time to time may undermine the path of recovery. As the 5-year downturn has drawn to an end, China saw a positive growth during the first half and it is expected that the trend will continue steadily in the second half. The recent National Financial Work Conference has set the general guideline for serving the real economy, keeping financial risks at bay and deepening the financial reform. The upcoming 19th National Congress of the Communist Party of China will also create a stable and favorable environment for economic development.

During the second half of 2017, Haitong International will focus on development, the utmost priority of the Company, in order to maintain steady growth and enhance its core competitiveness to boost endogenous growth. Meanwhile, the Company will move forward with stronger and better back office development with the application of fintech, intensive employment training and recruitment. With market pressures and challenges ahead, Haitong International believes that “a cause with public participation and public support is sure to achieve success”. With this in mind, the Group will maintain its cohesion and preserve the momentum of growth and continue to serve as a strategic overseas platform for our parent Haitong Securities so as to live up to every one’s expectations and create success continually.

# FINANCIAL REVIEW

## FINANCIAL PERFORMANCE

### Revenue

Revenue of the Group for the six months ended 30 June 2017 was HK\$2,943.0 million (six months ended 30 June 2016: HK\$2,449.8 million). A summary of the revenue from different business segments of the Group is set out below:

	For the six months ended 30 June			
	2017		2016	
	HK\$'000	%	HK\$'000	%
Brokerage	1,115,410	37.9	1,171,011	47.8
Corporate finance	910,151	30.9	631,415	25.8
Asset management	131,112	4.5	32,409	1.3
Fixed income, currency and commodities	440,039	14.9	388,343	15.9
Institutional equities	300,362	10.2	282,012	11.5
Investment holdings	45,942	1.6	(55,365)	(2.3)
	<b>2,943,016</b>	<b>100.0</b>	<b>2,449,825</b>	<b>100.0</b>

### Share of results of investment accounted for under equity method

Share of results of investments accounted for under equity method for the six months ended 30 June 2017 was HK\$162.8 million (six months ended 30 June 2016: HK\$47.6 million), representing a 242% increase. Increase in share of results of investment accounted for under equity method is due to significant increase in net profit of certain investment funds (classified as associates and joint ventures) held by the Group.

## FINANCIAL REVIEW (CONTINUED)

## Operating expense

Operating expenses and finance costs for the six months ended 30 June 2017 amounted to HK\$1,869.6 million (six months ended 30 June 2016: HK\$1,518.3 million). An analysis of these expenses is as follows:

	For the six months ended 30 June			
	2017		2016	
	HK\$'000	%	HK\$'000	%
Salaries and allowances, bonuses and pension	502,115	26.9	389,610	25.7
Commission to account executives	131,185	7.0	120,971	8.0
Finance costs	824,505	44.1	668,952	44.1
Depreciation	28,436	1.5	18,444	1.2
Other expenses	383,331	20.5	320,274	21.0
	<b>1,869,572</b>	<b>100.0</b>	<b>1,518,251</b>	<b>100.0</b>

Salaries, allowances and bonuses and pension increased by 28.9% during the current 6-month period, mainly due to increase in headcount, coupled with salary increment and increase in provision for bonuses and incentives. Increase in headcount is partly due to acquisition of Haitong Securities India Private Limited in the second half of 2016 and Haitong International Financial Services (Singapore) Private Limited ("Haitong International Financial Services") in the current six-month period. Acquisition of Haitong International Financial Services is detailed in note 36 of the condensed consolidated financial statements.

Commission to account executives increased due to increase in commission on securities dealing and broking, but was partly offset by decrease in commission on futures and options dealing and broking.

Finance cost increased by 23.3% due to increase in average bank loans and other borrowings during the current 6-month period (such as convertible bonds issued in October 2016) in order to support different business activities (such as investment in financial assets) of the Group. Details of the Group's loans and borrowings as of 30 June 2017 are detailed in note 29 of the condensed consolidated financial statements.

Depreciation and amortization increased during the current 6-month period due to acquisition of computer hardware and computer software and capitalization of costs incurred in developing electronic trading platform.

Other expenses went up by 19.7% due to impairment allowances recognized during the current 6-month period, exchange loss in retranslating net monetary assets denominated in currencies other than functional currencies, and additional expenses incurred in supporting different business initiatives.

## FINANCIAL REVIEW (CONTINUED)

### Net Profit Attributable to Shareholders

Net profit attributable to shareholders for the six months ended 30 June 2017 was HK\$1,038.2 million, as compared with HK\$810.0 million for the six months ended 30 June 2016.

### TREASURY POLICIES

The Group generally finances its business operations with internally generated cash flow, bank borrowings and funding from capital markets. On 16 March 2017, the Group entered into a facility agreement (the "Facility Agreement") with a syndicate of banks whereby the Group obtained a loan facility in an aggregate amount of HK\$6,680 million for a term of up to 3 years. Other than the syndicate loan facilities, the Group's banking facilities are mainly renewable on a yearly basis and are subject to floating interest rates.

It has also been the Group's practice to support long term funding requirements via accessing to funding from capital markets, subject to market conditions. Moreover, within 2017, drawdown of CNY1,494 million has been made out from the Medium Term Note Programme, with a minimum tenor of 1 year. It has been the policy of the Group to maintain adequate liquidity at all times to meet its obligations and commitments as and when they fall due.

The Group's financial risk management strategies include active managing firm level liquidity and interest rate profile via obtaining substantial long and short-term funding sources, with diversifying term structures and funding instruments.

### LIQUIDITY AND FINANCIAL RESOURCES

The financial position of the Group remained sound and healthy during the current 6-month period. As at 30 June 2017, the Group's cash balance totaled HK\$6,205.6 million, compared with HK\$7,171.2 million at the beginning of the year. Cash held on behalf of customers reduced to HK\$19,369.8 million as well, compared with HK\$20,186.8 million as at 31 December 2016. The current ratio of the Group was healthy at 1.19 times, improving from 1.15 times as of 31 December 2016. As at 30 June 2017, the Group's gearing ratio was 235%, compared with 265% as at 31 December 2016. Decrease in gearing ratio is due to decrease in loans and borrowings. In addition, our operating cash flow remains adequate for financing our recurrent working capital requirements as well as any business opportunities that may arise. Besides, the Group has unutilised banking facilities of HK\$24,315 million (including syndicate loan facilities), while our capital commitments are not significant. Except for the guarantees provided to the banks for securing normal banking facilities for our subsidiaries, the Group has no other significant contingent liabilities.

### CAPITAL STRUCTURE

As at 30 June 2017, the total issued share capital of the Group stood at HK\$534.0 million, comprising 5,339,720,741 shares of HK\$0.10 each.

## FINANCIAL REVIEW (CONTINUED)

### EMPLOYEES AND REMUNERATION POLICY

As at 30 June 2017, the Group employed a total of 949 (31 December 2016: 902) permanent staff.

The Group reckons that a good talent pool of human capital is crucial in leading to success. Hence, it has established clear policies on its employees' training/development and remuneration. The Group also encourages its staff to pursue further studies and qualifications to seek self development in professional fields. In first half of 2017, the Group hosted over 40 internal training sessions covering topics such as the global investment market, A-share market, new financial products and regulations, and granted training sponsorship 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.

The Group will determine the remuneration of its employees based on various factors, including the nature of job, the market pay data, the employee's experiences, qualifications, and capabilities. The Group's remuneration framework has a strong linkage between pay and performance. Base salary is being reviewed on an annual basis, and discretionary bonus is paid on annual basis by making references to market, business results, individual's performance and fulfillment of compliance requirements. The annual review aims to reward employees for their contributions over the past year and to retain and inspire talented and experienced employees to continue creating values for the Group. Also, share options and share awards have been granted to employees and Directors in recognition of their contributions to the Group. Other benefits offered by the Group include mandatory provident fund scheme, group insurance and benefits schemes.

Details of employees' remuneration are set out in note 7 to the condensed consolidated financial statements.

# CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

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	NOTES	Six months ended	
		30.6.2017 HK\$'000 (unaudited)	30.6.2016 HK\$'000 (unaudited)
Revenue	6	2,943,016	2,449,825
Other income and gains or losses	6	19,639	2,313
		<b>2,962,655</b>	<b>2,452,138</b>
Employee benefits costs:			
Salaries and allowances, bonuses and pension scheme contributions	7	(502,115)	(389,610)
Commission to accounts executives	7	(131,185)	(120,971)
Depreciation and amortisation		(28,436)	(18,444)
Other operating expenses		(383,331)	(320,274)
		<b>(1,045,067)</b>	<b>(849,299)</b>
Finance costs	7	(824,505)	(668,952)
Share of result of investments accounted for using the equity method		162,824	47,626
<b>Profit before tax</b>	7	<b>1,255,907</b>	<b>981,513</b>
Income tax expense	8	(217,701)	(171,499)
<b>Profit for the period attributable to owners of the Company</b>		<b>1,038,206</b>	<b>810,014</b>
<b>Earnings per share attributable to owners of the Company</b>	9		
— Basic (HK cents per share)		<b>19.53</b>	<b>15.37</b>
— Diluted (HK cents per share)		<b>18.01</b>	<b>15.31</b>

# CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	NOTES	Six months ended	
		30.6.2017 HK\$'000 (unaudited)	30.6.2016 HK\$'000 (unaudited)
<b>Profit for the period attributable to owners of the Company</b>		<b>1,038,206</b>	<b>810,014</b>
<b>Other comprehensive income (expense):</b>			
<i>Items that may be reclassified subsequently to profit or loss:</i>			
Cash flow hedge		11,613	1,750
Changes in fair value of available-for-sale investments		(201,916)	(356,705)
Disposal and deemed disposal of available-for-sale investments	6	(154,318)	–
Exchange differences on translating foreign operations arising during the period		84,211	(17,398)
Other comprehensive expense for the period		(260,410)	(372,353)
Total comprehensive income for the period attributable to owners of the Company		<b>777,796</b>	<b>437,661</b>

# CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	NOTES	30.6.2017 HK\$'000 (unaudited)	31.12.2016 HK\$'000 (audited)
<b>ASSETS</b>			
<b>Non-current assets</b>			
Investments accounted for using the equity method	11	6,080,278	4,425,547
Property and equipment	12	135,514	129,665
Goodwill	13	223,985	218,460
Other intangible assets		47,360	50,423
Other assets		92,066	73,445
Available-for-sale investments	14	11,958,779	17,846,297
Held-to-maturity investments	15	–	93,357
Other loans and receivables	17	1,952,372	43,477
Deferred tax assets		1,237	1,237
Prepayments, deposits and other receivables	19	47,440	90,365
		20,539,031	22,972,273
<b>Current assets</b>			
Advances to customers in margin financing	16	17,765,841	20,817,335
Other loans and receivables	17	8,577,717	8,083,096
Accounts receivable	18	4,913,902	5,113,753
Prepayments, deposits and other receivables	19	882,487	959,106
Tax recoverable		31,844	30,188
Held-to-maturity investments	15	94,002	–
Derivative financial instruments	20	252,631	575,280
Financial assets at fair value through profit or loss	21	26,578,917	25,252,697
Financial assets designated at fair value through profit or loss	22	17,135,696	16,742,585
Financial assets held under resale agreements	23	4,719,019	3,600,953
Cash held on behalf of customers	26	19,369,841	20,186,813
Cash and cash equivalents		6,205,604	7,171,169
		106,527,501	108,532,975
<b>Total assets</b>		<b>127,066,532</b>	<b>131,505,248</b>
<b>EQUITY AND LIABILITIES</b>			
Capital and Reserves			
Share capital	30	533,972	533,653
Reserves		21,749,310	21,488,448
Proposed interim/final dividend	10	960,895	426,923
<b>Total equity</b>		<b>23,244,177</b>	<b>22,449,024</b>



## CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)

	NOTES	30.6.2017 HK\$'000 (unaudited)	31.12.2016 HK\$'000 (audited)
<b>Liabilities</b>			
<b>Non-current liabilities</b>			
Convertible bonds	29	3,835,387	3,802,531
Non-convertible bonds	29	10,053,620	9,973,074
Non-convertible notes	29	453,648	996,642
Deferred tax liabilities		18,207	18,443
		<b>14,360,862</b>	<b>14,790,690</b>
<b>Current liabilities</b>			
Accounts payable	27	27,196,296	28,240,926
Other payables and accruals		837,876	965,602
Other liabilities	25	891,721	2,512,113
Tax payable		378,212	171,921
Financial liabilities at fair value through profit or loss	28	2,388,740	3,143,726
Financial liabilities designated at fair value through profit or loss	22	16,967,853	14,216,393
Derivative financial instruments	20	454,869	250,864
Non-convertible notes	29	1,266,283	1,551,252
Financial assets sold under repurchase agreements	31	10,604,685	9,586,163
Loans and other borrowings	29	28,474,958	33,626,574
		<b>89,461,493</b>	<b>94,265,534</b>
<b>Total liabilities</b>		<b>103,822,355</b>	<b>109,056,224</b>
<b>Total equity and liabilities</b>		<b>127,066,532</b>	<b>131,505,248</b>
<b>Net current assets</b>		<b>17,066,008</b>	<b>14,267,441</b>
<b>Total assets less current liabilities</b>		<b>37,605,039</b>	<b>37,239,714</b>

# CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2017

	Attributable to owners of the Company														
	Share capital	Share premium account <sup>1</sup>	Share option reserve <sup>1</sup>	Share award reserve <sup>1</sup>	Shares held for employee share award scheme <sup>1&amp;2</sup>	Capital redemption reserve <sup>1</sup>	Contributed surplus <sup>1</sup>	Capital reserve <sup>1</sup>	Investment revaluation reserve <sup>1</sup>	Exchange reserve <sup>1</sup>	Hedging reserve <sup>1</sup>	Convertible bond reserve <sup>1</sup>	Proposed cash/scrip dividend	Retained profits <sup>1</sup>	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 January 2017 (audited)	533,653	17,118,104	23,760	13,345	(128,020)	5,102	21	40,383	114,869	(14,115)	(28,184)	200,538	426,923	4,142,645	22,449,024
Profit for the period	-	-	-	-	-	-	-	-	-	-	-	-	-	1,038,206	1,038,206
Other comprehensive income (expense) for the period	-	-	-	-	-	-	-	-	(356,234)	84,211	11,613	-	-	-	(260,410)
Total comprehensive income (expense)	-	-	-	-	-	-	-	-	(356,234)	84,211	11,613	-	-	1,038,206	777,796
Recognition of equity-settled share-based payment — note 35	-	-	-	8,538	-	-	-	-	-	-	-	-	-	-	8,538
Vesting of shares for the share award scheme	-	(4,677)	-	(9,804)	14,481	-	-	-	-	-	-	-	-	-	-
Shares issued under share option scheme — note 30	319	8,500	-	-	-	-	-	-	-	-	-	-	-	-	8,819
Share options lapsed	-	518	(518)	-	-	-	-	-	-	-	-	-	-	-	-
Proposed 2017 interim dividend — note 10	-	-	-	-	-	-	-	-	-	-	-	-	533,972	(533,972)	-
At 30 June 2017 (unaudited)	533,972	17,122,445	23,242	12,079	(113,539)	5,102	21	40,383	(241,365)	70,096	(16,571)	200,538	960,895	4,646,879	23,244,177
At 1 January 2016 (audited)	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
Profit for the period	-	-	-	-	-	-	-	-	-	-	-	-	-	810,014	810,014
Other comprehensive income (expense) for the period	-	-	-	-	-	-	-	-	(356,705)	(17,398)	1,750	-	-	-	(372,353)
Total comprehensive income (expense)	-	-	-	-	-	-	-	-	(356,705)	(17,398)	1,750	-	-	810,014	437,661
Recognition of equity-settled share-based payment — note 35	-	-	3,945	4,795	-	-	-	-	-	-	-	-	-	-	8,740
Shares issued under share option scheme — note 30	287	9,358	-	-	-	-	-	-	-	-	-	-	-	-	9,645
Share options lapsed	-	1,564	(1,564)	-	-	-	-	-	-	-	-	-	-	-	-
2015 final dividend declared and settled in shares and cash — note 10	3,389	140,781	-	-	-	-	-	-	-	-	-	-	(211,597)	(112)	(67,539)
Proposed 2016 interim dividend — note 10	-	-	-	-	-	-	-	-	-	-	-	-	399,501	(399,501)	-
At 30 June 2016 (unaudited)	532,668	17,070,054	4,669	4,795	(128,020)	5,102	21	40,383	(396,803)	(11,545)	(8,278)	5,374	399,501	3,699,372	21,217,293

## CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (CONTINUED)

For the six months ended 30 June 2017

- 1 These reserve accounts represent the unaudited consolidated reserves other than share capital and proposed cash/scrip dividend of approximately HK\$21,749 million (31 December 2016: approximately HK\$21,488 million) in the unaudited condensed consolidated statement of financial position.
  
- 2 As at 30 June 2017, the trustee of the share award scheme held 19,266,739 ordinary shares of the Company (30 June 2016: 21,724,000 shares) 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. The trustee purchased 21,724,000 ordinary shares during the year ended 31 December 2015 with total cost (including related transaction costs) of approximately HK\$128 million. During the 6 months ended 30 June 2017, 4,246,234 (30 June 2016: 7,865,506 award shares) awarded shares were granted by the Company. There was no awarded shares lapsed in respect of the grant during 6 months ended 30 June 2017, and 222,231 shares and 19,817 shares were lapsed during 6 months ended 30 June 2017 and 6 months ended 30 June 2016 respectively in relation to the grant by the Company during the 6 months ended 30 June 2016. In addition, 2,457,261 shares were vested during current six-month period in relation to the grant by the Company during the 6 months ended 30 June 2016. Amount transferred from "Shares held for employee share award scheme" to "Share premium account" represents shares vested during current six-month period, and amount transferred from "Share award reserve" to "Share premium account" represents cumulative equity-settled share based payment amount recognised on awarded shares vested during the current six-month period.

Details of the share award scheme of the Company has been disclosed in the Group's annual financial statements for the year ended 31 December 2016 and should be read in conjunction with the relevant announcements of the share award scheme made by the Company.

# CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2017

	Six months ended	
	30.6.2017 HK\$'000 (unaudited)	30.6.2016 HK\$'000 (unaudited)
<b>OPERATING ACTIVITIES</b>		
Operating cash flows before movements in working capital	718,835	235,530
(Increase) decrease in other assets	(18,621)	37,586
Decrease (increase) in advances to customers in margin financing	2,979,144	(4,522,127)
Increase in other loans and receivables	(2,403,516)	(159,436)
Decrease (increase) in accounts receivable	246,985	(2,707,366)
Decrease (increase) in prepayments, deposits and other receivable	114,951	(101,468)
Increase in financial assets at fair value through profit or loss	(1,326,220)	(197,334)
(Increase) decrease in financial assets designated at fair value through profit or loss	(393,111)	300,491
Decrease in cash held on behalf of customers	938,774	1,852,407
(Decrease) increase in accounts payable	(1,340,712)	158,967
Increase in financial assets sold under repurchase agreements	1,018,522	2,324,864
Increase in financial assets held under resale agreements	(1,118,066)	(2,930,788)
(Decrease) increase in financial liabilities at fair value through profit or loss	(754,986)	2,218,395
Increase (decrease) in financial liabilities designated at fair value through profit or loss	2,751,460	(265,248)
Increase in derivative financial instruments	538,267	1,029,925
Decrease in other payables and accruals	(115,215)	(354,427)
Other operating cash flows	–	43,073
Cash from (used in) operations	1,836,491	(3,036,956)
Interest received	1,114,749	1,223,373
Dividend received	43,441	100,965
Interest paid	(725,818)	(605,418)
Tax paid	(13,302)	(64,039)
<b>NET CASH FROM (USED IN) OPERATING ACTIVITIES</b>	<b>2,255,561</b>	<b>(2,382,075)</b>

## CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS (CONTINUED)

For the six months ended 30 June 2017

	NOTES	Six months ended	
		30.6.2017 HK\$'000 (unaudited)	30.6.2016 HK\$'000 (unaudited)
<b>INVESTING ACTIVITIES</b>			
Proceeds from disposal of property and equipment		831	6
Proceeds from disposal of available-for-sale investments		5,635,560	2,686,758
Proceeds from redemption of held-to-maturity investments		–	6,304
Interest received from investment in debt securities		2,524	2,857
Purchases of property and equipment		(31,926)	(13,671)
Purchases of available-for-sale investments		(1,431,890)	(10,542,356)
Purchase of investments accounted for using equity method		(1,490,937)	(1,908,631)
Disposal of investments accounted for using equity method		–	698,400
Net cash inflow on acquisition of a subsidiary	36	123,229	–
<b>NET CASH FROM (USED IN) INVESTING ACTIVITIES</b>		<b>2,807,391</b>	<b>(9,070,333)</b>
<b>FINANCING ACTIVITIES</b>			
Proceeds from issuance of non-convertible notes		226,413	1,953,506
Proceeds from share issued upon exercise of share options		8,819	9,645
Net (repayment) proceeds for bank and other borrowings raised		(5,151,616)	10,353,585
Dividends paid to shareholders		–	(67,539)
Non-convertible notes issuing cost paid		–	(764)
Repayment of non-convertible notes		(1,112,133)	(1,017,900)
<b>NET CASH (USED IN) FROM FINANCING ACTIVITIES</b>		<b>(6,028,517)</b>	<b>11,230,533</b>
<b>NET DECREASE IN CASH AND CASH EQUIVALENTS</b>		<b>(965,565)</b>	<b>(221,875)</b>
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD</b>		<b>7,171,169</b>	<b>6,405,963</b>
<b>CASH AND CASH EQUIVALENTS AT END OF PERIOD</b>		<b>6,205,604</b>	<b>6,184,088</b>
<b>ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS</b>			
Cash and cash equivalents		6,205,604	6,184,088

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

## 1. GENERAL

Haitong International Securities Group Limited 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 (the “Stock Exchange”).

During the six months ended 30 June 2017, the Company and its subsidiaries (collectively named as the “Group”) was involved in the following principal activities:

- securities, futures, options and bullion contracts brokerage
- 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 in debt securities, bullion contracts and leveraged foreign exchange trading
- the provision of equity research, institutional sales and trading and equity derivative products
- investments holdings

This unaudited condensed consolidated interim financial statements are presented in HK dollars (“HK\$”), unless otherwise stated.

## 2. BASIS OF PREPARATION

The unaudited condensed consolidated financial statements have been prepared in accordance with Hong Kong Accounting Standard 34 (“HKAS 34”) Interim Financial Reporting issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”) as well as with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”).

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

### 3. PRINCIPAL ACCOUNTING POLICIES

The unaudited condensed consolidated financial statements have been prepared on the historical cost basis except for available-for-sale investments, financial assets and liabilities at and designated at fair value through profit or loss (including derivative financial instruments), which are measured at fair values.

Except as described below for the application of amendments to Hong Kong Financial Reporting Standards (“HKFRSs”) issued by the HKICPA, the accounting policies and methods of computation used in the unaudited condensed consolidated financial statements for the six months ended 30 June 2017 are the same as those followed in the preparation of the Group’s audited consolidated financial statements for the year ended 31 December 2016.

In the current interim period, the Group has applied, for the first time, the following amendments to HKFRSs issued by the HKICPA that are relevant for the preparation of the Group’s unaudited condensed consolidated financial statements:

Amendments to HKAS 7	Disclosure initiative
Amendments to HKAS 12	Recognition of deferred tax assets on unrealised losses
Amendments to HKFRS 12	As part of the annual improvements to HKFRSs 2014–2016 cycle

The application of the above amendments to HKFRSs in the current interim period has had no material effect on the amounts reported in these unaudited condensed consolidated financial statements and/or disclosures set out in these unaudited condensed consolidated financial statements, but additional disclosures about changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes on application of amendments to HKAS 7 will be provided in the consolidated financial statements for the year ending 31 December 2017.

### 4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group’s accounting policies, 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.

In preparing the unaudited condensed consolidated interim financial statements, the significant judgments made by management in applying the Group’s accounting policies and the key sources of estimation uncertainty were the same as those that applied to the audited consolidated financial statements for the year ended 31 December 2016.

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

### 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.

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

- (a) the brokerage 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, and provision of financing solutions to corporate clients of the Group for their corporate actions and shareholder activities, including takeovers, mergers and acquisitions;
- (c) the asset management segment engages in provision of fund management and wealth management services;
- (d) the fixed income, currency and commodities segment engages in trading and market making in debt securities, bullion contracts and leveraged foreign exchange trading;
- (e) the institutional equities segment engages in the provisions of equity research services, institutional sales and trading, equity derivatives products (including warrants, swaps, callable bull/bear contracts, options and market making for exchange tradable funds etc.) and stock borrowing and lending business; and
- (f) the investment holdings segment comprises investment in funds, equity and debt securities. The directors considered that investments accounted for using equity method are part of the Group's investment holding business given majority of these investments are investment funds and, therefore, decided to include share of result of investments accounted for using equity method within the investment holdings segment. Comparative information has been reclassified to conform to the current period's presentation.



## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

### 5. SEGMENT INFORMATION (CONTINUED)

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

	Brokerage		Corporate finance		Asset management		Fixed income, currency and commodities		Institutional equities		Investment holdings		Consolidated	
	For the six months ended 30 June													
	2017 HK\$'000	2016 HK\$'000	2017 HK\$'000	2016 HK\$'000	2017 HK\$'000	2016 HK\$'000	2017 HK\$'000	2016 HK\$'000	2017 HK\$'000	2016 HK\$'000	2017 HK\$'000	2016 HK\$'000 (restated)	2017 HK\$'000	2016 HK\$'000
Segment revenue:														
Sales to external customers	1,115,410	1,171,011	910,151	631,415	131,112	32,409	440,039	388,343	300,362	282,012	45,942	(55,365)	2,943,016	2,449,825
Other income	1,475	-	946	1,108	-	-	566	-	1,792	-	14,860	1,205	19,639	2,313
Segment results	442,951	534,282	498,870	383,162	51,516	20,457	197,735	154,437	57,358	53,104	(155,347)	(211,555)	1,093,083	933,887
Share of result of investments accounted for using the equity method	-	-	-	-	-	-	-	-	-	-	162,824	47,626	162,824	47,626
Profit (loss) before tax	442,951	534,282	498,870	383,162	51,516	20,457	197,735	154,437	57,358	53,104	7,477	(163,929)	1,255,907	981,513
Depreciation and amortisation	(10,059)	(13,319)	(7,197)	(771)	(1,036)	(12)	(3,480)	(929)	(6,184)	(1,780)	(480)	(1,633)	(28,436)	(18,444)
Finance costs	(212,518)	(255,377)	(169,053)	(78,235)	-	-	(176,745)	(107,626)	(61,937)	(83,350)	(204,252)	(144,364)	(824,505)	(668,952)

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

### 6. REVENUE AND OTHER INCOME AND GAINS OR LOSSES

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

	Six months ended	
	30.6.2017 HK\$'000 (unaudited)	30.6.2016 HK\$'000 (unaudited)
<b>Revenue</b>		
Commission and fee income:		
Commission on securities dealing and broking	215,852	196,145
Commission on futures and options dealing and broking	70,896	92,900
Commission on underwriting and placing	249,137	239,421
Financial advisory and consultancy fee income	276,419	214,326
Asset management fee and performance fee income	131,112	32,409
Handling, custodian and other service fee income	27,535	33,814
	<b>970,951</b>	<b>809,015</b>
Interest income:		
Interest income from advances to customers in margin financing	718,767	865,467
Interest income from other loans and receivables	293,621	162,769
Interest income from other activities	67,443	42,323
	<b>1,079,831</b>	<b>1,070,559</b>
Net investment gains:		
Net gains arising from financial assets/liabilities at fair value profit or loss	541,006	280,678
Net gains arising from disposal of available-for-sale investments	154,318	–
Interest income from available-for-sale investments	150,907	163,915
Dividend income	43,441	122,746
Interest income from held-to-maturity investments and others	2,562	2,912
	<b>892,234</b>	<b>570,251</b>
	<b>2,943,016</b>	<b>2,449,825</b>
<b>Other income and gains or losses</b>		
Others	19,639	2,313

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

### 6. REVENUE AND OTHER INCOME AND GAINS OR LOSSES (CONTINUED)

To better reflect the major revenue sources of the Group and its proportion to the total revenue, the Group has decided to classify revenue items into three major categories: "Commission and fee income", "Interest income" and "Net investment gains" for the purpose of preparing the annual consolidation financial statements for the year ended 31 December 2016. A consistent presentation has been adopted in the current period. Accordingly, comparative information has been reclassified to conform with the current period's presentation.

Included in "net gains arising from disposal of available-for-sale investments" is deemed disposal gain of HK\$150,495,000 arising from de-consolidation of a consolidated structured entity. Details of this deemed disposal gain are disclosed in note 25.

### 7. PROFIT BEFORE TAX

	Six months ended	
	30.6.2017 HK\$'000 (unaudited)	30.6.2016 HK\$'000 (unaudited)
Profit before tax has been arrived at after charging(crediting):		
Employee benefits costs (including directors' remuneration)		
Salaries, bonuses and allowances	494,357	384,021
Commission to accounts executives	131,185	120,971
Net pension scheme contributions	7,758	5,589
	<b>633,300</b>	<b>510,581</b>
Impairment loss on advances to customers in margin financing (note 16)	102,757	67,941
Impairment loss reversed in respect of advances to customers in margin financing (note 16)	(30,407)	–
Finance costs:		
— bank loans and overdrafts	406,781	374,023
— convertible bonds	33,725	2,336
— non-convertible bonds	223,503	221,080
— non-convertible notes	49,728	69,248
— other loans	110,768	2,265
	<b>824,505</b>	<b>668,952</b>

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

### 8. INCOME TAX EXPENSE

	Six months ended	
	30.6.2017 HK\$'000 (unaudited)	30.6.2016 HK\$'000 (unaudited)
Current taxation		
— Hong Kong	215,483	166,916
— PRC and other jurisdictions	2,454	1,931
	<b>217,937</b>	<b>168,847</b>
Deferred tax		
— Current period	(236)	2,652
	<b>217,701</b>	<b>171,499</b>

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

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

### 9. EARNINGS PER SHARE

#### Basic earnings per share

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

	Six months ended	
	30.6.2017 (unaudited)	30.6.2016 (unaudited)
<b>Earnings</b>		
Profit for the period attributable to owners of the Company (HK\$'000)	1,038,206	810,014
<b>Number of shares</b>		
Weighted average number of ordinary shares in issue less shares held for the share award scheme (in thousands) (note (a))	5,316,954	5,271,784
Basic earnings per share (HK cents per share)	19.53	15.37

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

### 9. EARNINGS PER SHARE (CONTINUED)

#### 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.

	Six months ended	
	30.6.2017 (unaudited)	30.6.2016 (unaudited)
<b>Earnings</b>		
Profit for the period attributable to owners of the Company (HK\$'000)	1,038,206	810,014
Effect of dilutive potential ordinary shares		
— Interest on convertible bonds (net of tax) (note (b)) (HK\$'000)	28,160	1,950
Earnings for the purpose of diluted earnings per share (HK\$'000)	1,066,366	811,964
<b>Number of shares</b>		
Weighted average number of ordinary shares in issue less shares held for the share award scheme (in thousands) (note (a))	5,316,954	5,271,784
Effect of dilutive potential ordinary shares:		
— Convertible bonds (in thousands) (note (b))	598,889	28,523
— Share options (in thousands) (note (c))	3,236	3,686
— Share awards (in thousands)	3,418	1,120
Weighted average number of ordinary shares for the purpose of diluted earnings per share (in thousands)	5,922,497	5,305,113
Diluted earnings per share (HK cents per share)	18.01	15.31

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

### 9. EARNINGS PER SHARE (CONTINUED)

#### Diluted earnings per share (continued)

Notes:

- (a) As at 30 June 2017, the trustee of the share award scheme held 19,266,739 ordinary shares of the Company (30 June 2016: 21,724,000) for the share award scheme, which was adopted by 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 six-month period, award of 4,246,234 shares (30 June 2016: 7,865,506 shares) were granted by the Company to the selected employees and, among these awarded shares, no awarded shares were lapsed in respect of this grant. 222,231 shares and 19,817 shares were lapsed during the current six-month period and prior six-month period respectively in relation to the grant by the Company during the prior six months ended 30 June 2016. During the current six-month period, award of 2,457,261 shares (30 June 2016: Nil) have been vested in relation to the grant by the Company during the prior six months ended 30 June 2016. Details of the share award scheme of the Company have been disclosed in note 35 and should be read in conjunction with the relevant announcements of the share award scheme made by the Company.

- (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 issued convertible bonds of HK\$1,164 million. On 25 October 2016, the Company further issued convertible bonds of HK\$3,880 million.

Details of the convertible bonds issued by the Company are set out in note 29.

As at 30 June 2017, the convertible bonds issued in 2013, 2014 and 2016 that remain outstanding are convertible into ordinary shares of the Company at a conversion price of HK\$2.87 (31 December 2016: HK\$2.87), HK\$4.80 (31 December 2016: HK\$4.80) and HK\$6.8112 (31 December 2016: HK\$6.8112) respectively, at the option of the holders of the convertible bonds, which created a potential dilutive effect to the 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 period. The net profit is adjusted to eliminate the relevant 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 six months ended 30 June 2017 and with the adjustment for the share options lapsed or exercised during the period.

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

### 10. DIVIDENDS

At a meeting of the Board held on 9 March 2017, the directors recommended the payment of a final dividend of HK8 cents per share in cash with a scrip option for the year ended 31 December 2016. The final dividend was subsequently paid on 18 August 2017, with a total of HK\$93,470,000 cash dividend paid to the shareholders and 78,617,528 shares issued in scrip form with the amount of HK\$333,709,000.

At a meeting of the Board held on 29 August 2017, the Board resolved to declare an interim dividend of HK10 cents per share in cash for the six months ended 30 June 2017 (six months ended 30 June 2016: interim dividend of HK7.5 cents per share in cash), to shareholders whose names appear on the register of members of the Company on Friday, 6 October 2017. Shareholders will be given the option to receive the interim dividend in new shares in lieu of cash. The interim dividend is expected to be paid on or about Tuesday, 21 November 2017. The overall amount of cash dividends under distribution will be calculated according to such actual number of shares of the Company in issue on the record date for the cash dividend distribution.

### 11. INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD

	30.6.2017 HK\$'000 (unaudited)	31.12.2016 HK\$'000 (audited)
Associates:		
Cost of unlisted investment in associates	412,096	7,757
Share of post-acquisition loss and other comprehensive expense, net of dividend received	(33,458)	(3,315)
	<b>378,638</b>	<b>4,442</b>
Joint ventures:		
Cost of unlisted investment in joint ventures	5,706,916	4,620,318
Share of post-acquisition loss and other comprehensive expense, net of dividend received	(5,276)	(199,213)
	<b>5,701,640</b>	<b>4,421,105</b>
	<b>6,080,278</b>	<b>4,425,547</b>



## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

### 11. INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD (CONTINUED)

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Details of investments accounted for using equity method:

Name of entity	Country of incorporation	Interests held by the Group		Principal activities
		As at 30 June 2017	As at 31 December 2016	
<i>Joint venture</i>				
Haitong Freedom Multi-Tranche Bond Fund (note a)	The Cayman Islands	23.56%	28.65%	Investment holding
Haitong Multi-Tranche Investment Fund II S.P. (note a)	The Cayman Islands	93.83%	60.20%	Investment holding
<i>Associate</i>				
China Grand Automotive Group Limited (note b)	The Cayman Islands	34.61%	34.61%	Investment holding
Haitong International Investment Fund SPC — Fund I S.P. (note c)	The Cayman Islands	20.18%	68.05%	Investment holding

Except for China Grand Automotive Group Limited as disclosed in note 11(b), all of the associates and joint ventures of the Group are accounted for using the equity method in these unaudited condensed consolidated interim financial statements. The directors consider the above joint ventures and associates are not significant to the Group's unaudited condensed consolidated statement of financial position.

Notes:

- (a) As of 30 June 2017 and 31 December 2016, the Group held the interests of non-participating shares of Haitong Freedom Multi-Tranche Bond Fund and Haitong Multi-Tranche Investment Fund II S.P. (collectively referred to the "Funds") as disclosed above. The non-participating shares provide the Group with the share of returns from the Funds but not any decision-making power nor any voting right in daily operation of the Funds. As of 30 June 2017 and 31 December 2016, the Group held 50% of the management shares in the Funds and the other 50% management shares are held by an independent third party. The management shareholders 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. As such, the interests of the Group in the Fund are classified as a joint venture.

There is no unfilled capital commitment to the Funds. The current carrying amount of HK\$4,753 million (31 December 2016: HK\$3,562 million) for Haitong Freedom Multi-Tranche Bond Fund and HK\$773 million (31 December 2016: HK\$681 million) of Haitong Multi-Tranche Investment Fund II S.P. in the unaudited condensed consolidated statement of financial position represent the Group's maximum exposures from these investments.

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

### 11. INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD (CONTINUED)

Notes: (continued)

- (b) For both six months ended 30 June 2017 and year ended 31 December 2016, the directors of the Company considered the Group was able to exercise significant influence over China Grand Automotive Group Limited (“CGAGL”) through its shareholding that had 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 30 to the unaudited condensed consolidated financial statements.

As at 30 June 2017, the Group held a total return swap contract with the underlying investment of CGAGL 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”).

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. As at 30 June 2017, the total return swap transaction has been recognised as and included in current portion of “financial liabilities designated at fair value through profit or loss” with the fair value of HK\$2,433 million (31 December 2016: current portion of “financial liabilities designated at fair value through profit or loss” with the fair value of HK\$2,060 million) in the unaudited condensed consolidated financial statements as set out in note 22 and the details of disclosure for fair value measurement are set out in note 34.

- (c) As at 31 December 2016, the Group held the interest of non-participating shares of Haitong International Investment Fund SPC — Fund I S.P. (the “Fund”) as disclosed above that the non-participating shares provide the Group with the share of returns from the Funds but not any decision-making power nor any voting right in daily operation of the Funds. As of 31 December 2016, the Group held 100% of the management shares in the Fund. The management shareholders are empowered to make all the key financing and operating decisions in the Fund. As at 31 December 2016, the interests of the Group in the Fund have been classified as a subsidiary.

During the current period, the Group redeemed part of the interest of non-participating shares of the Fund while retaining 20.18% interest of non-participating shares. In the opinion of the directors, the variable returns that the Group is exposed to the Fund are no longer significant after the redemption and therefore the Group has reclassified interests held from subsidiary to associate. Income and expenses of the Fund are consolidated into the Group’s unaudited condensed consolidated financial statements from 1 January 2017 to the date of redemption, while the results of the Fund subsequent to the date of redemption have been presented under the “Share of results of investments accounted for using the equity method” in the unaudited condensed consolidated statement of profit or loss.

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

### 12. 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
<b>30 June 2017 (unaudited)</b>					
At 1 January 2017					
Cost	3,092	65,303	58,133	468,722	595,250
Accumulated depreciation	(1,524)	(49,237)	(42,854)	(371,970)	(465,585)
Net carrying values	1,568	16,066	15,279	96,752	129,665
At 1 January 2017, net of accumulated depreciation	1,568	16,066	15,279	96,752	129,665
Arising from acquisition of a subsidiary (note 36)	–	60	114	637	811
Additions	–	4,802	1,392	25,732	31,926
Disposal	–	(232)	(870)	(204)	(1,306)
Depreciation	(39)	(3,646)	(2,735)	(19,162)	(25,582)
At 30 June 2017, net of accumulated depreciation	1,529	17,050	13,180	103,755	135,514
At 30 June 2017					
Cost	3,092	69,933	58,769	494,887	626,681
Accumulated depreciation	(1,563)	(52,883)	(45,589)	(391,132)	(491,167)
Net carrying values	1,529	17,050	13,180	103,755	135,514

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

### 12. PROPERTY AND EQUIPMENT (CONTINUED)

	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
<b>30 June 2016 (unaudited)</b>					
At 1 January 2016					
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
At 1 January 2016, net of accumulated depreciation					
Additions	–	1,809	4,811	7,051	13,671
Disposal	–	–	–	(6)	(6)
Depreciation	(39)	(3,017)	(2,501)	(10,030)	(15,587)
At 30 June 2016, net of accumulated depreciation	1,606	15,601	14,909	67,121	99,237
At 30 June 2016					
Cost	3,092	61,796	55,014	423,566	543,468
Accumulated depreciation	(1,486)	(46,195)	(40,105)	(356,445)	(444,231)
Net carrying values	1,606	15,601	14,909	67,121	99,237

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

### 13. GOODWILL

	30.6.2017 HK\$'000 (unaudited)	31.12.2016 HK\$'000 (audited)
<b>Cost</b>		
At the beginning of the period/year	218,460	157,697
Goodwill arising on acquisition (note 36)	5,525	60,763
	<b>223,985</b>	<b>218,460</b>

### 14. AVAILABLE-FOR-SALE INVESTMENTS

	30.6.2017 HK\$'000 (unaudited)	31.12.2016 HK\$'000 (audited)
Listed equity investments, at fair value	849,247	1,270,516
Listed debt investments, at fair value	–	1,171,111
Unlisted fund investments, at fair value (note (a))	8,222,490	7,928,146
Unlisted partnership investments, at fair value (note (b))	527,229	894,197
Unlisted equity investments, at fair value	688,831	719,055
Unlisted debt investments, at fair value	1,670,982	5,863,272
	<b>11,958,779</b>	<b>17,846,297</b>

Notes:

- (a) The Group invested in investment funds. These investment funds mainly invest in listed equity/debt 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 funds. The current carrying amount of HK\$8,222 million (31 December 2016: HK\$7,928 million) in the unaudited condensed consolidated statement of financial position represents the Group's maximum exposure.

- (b) As at 30 June 2017, the unfilled capital commitment to the partnerships are HK\$780 million (31 December 2016: HK\$788 million).

Details of disclosure for fair value measurement are set out in note 34.

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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### 15. HELD-TO-MATURITY INVESTMENTS

	30.6.2017 HK\$'000 (unaudited)	31.12.2016 HK\$'000 (audited)
Unlisted debt securities	94,002	93,357
	<b>94,002</b>	<b>93,357</b>

The debt securities held by the Group are having contractual interest rate 4.1% per annum (31 December 2016: 4.1% per annum) and with maturity in 2018 (31 December 2016: ranging from 2017 to 2018).

As at 30 June 2017, the fair value of the held-to-maturity investments was approximately HK\$93,777,000 (31 December 2016: HK\$92,429,000). Details of disclosure for fair value measurements are set out in note 34.

### 16. ADVANCES TO CUSTOMERS IN MARGIN FINANCING

	30.6.2017 HK\$'000 (unaudited)	31.12.2016 HK\$'000 (audited)
Loans to margin clients	17,939,747	20,918,891
Less: Impairment allowances	(173,906)	(101,556)
	<b>17,765,841</b>	<b>20,817,335</b>

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

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

### 16. ADVANCES TO CUSTOMERS IN MARGIN FINANCING (CONTINUED)

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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 30 June 2017, advances to customers in margin financing of HK\$17,766 million (31 December 2016: HK\$20,817 million) were secured by securities pledged by the customers to the Group as collateral with undiscounted market value of HK\$80,507 million (31 December 2016: HK\$96,819 million).

The advances to customers in margin financing have been reviewed by the 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\$173,906,000 (31 December 2016: HK\$101,556,000) which were fully impaired as at 30 June 2017, there was no impaired debt as at 30 June 2017.

In determining the allowances for impaired loans to securities margin clients, the management of the Group also takes into account margin shortfall by comparing the market value of stock portfolio and the outstanding balance of loan to securities margin clients individually. Impairments are made for those clients with significant margin shortfall as at the period end and with no settlement or executable settlement plan and arrangement after the period end. Movements in the allowances for impaired debts in respect of loans to securities margin clients are as follows:

	30.6.2017 HK\$'000 (unaudited)	31.12.2016 HK\$'000 (audited)
Balance at beginning of the period/year	101,556	6,961
Impairment losses recognised	102,757	94,595
Amounts recovered	(30,407)	–
Balance at end of the period/year	173,906	101,556

In addition to the individually assessed allowances for impaired debts, the Group has also assessed, on a collective basis, a loan impairment allowance for advances to customers in margin financing arising from the business of dealing in securities with margin clients that are individually insignificant or advances to customers in margin financing where no impairment has been identified individually. Objective evidence of collective impairment could include the Group's past experience of collecting payments, internal credit rating and observable changes in national or local economic conditions that correlate with default on receivables. No significant amount of collective impairment allowance is considered necessary based on the Group's evaluation.

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 CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

### 17. OTHER LOANS AND RECEIVABLES

	30.6.2017 HK\$'000 (unaudited)	31.12.2016 HK\$'000 (audited)
Other loans and receivables	4,703,572	4,025,065
Debt securities classified as receivables	5,826,517	4,101,508
Less: Non-current portion	(1,952,372)	(43,477)
Current portion	<b>8,577,717</b>	<b>8,083,096</b>

Analysis of other loans and receivables by collateral types is as follows:

	30.6.2017 HK\$'000 (unaudited)	31.12.2016 HK\$'000 (audited)
Secured by listed securities	4,887,448	4,165,807
Secured by unlisted securities	<b>5,442,457</b>	<b>3,486,277</b>

The majority of these other loans and receivables are secured and/or guaranteed with contractual maturity within 1 years from the reporting date. Credit limits are set for borrowers and regular reviews on these other loans and receivables are conducted by the credit control department, the risk management department and the risk management committee of the Group based on the latest status of these other loans and receivables, and the latest announced or available information about the borrowers and the underlying collaterals held. Apart from collateral monitoring, the Group seeks to maintain effective control over its loans in order to minimise credit risk by reviewing the borrowers' and/or guarantors' financial positions.

Included in the carrying amount of other loans and receivables as at 30 June 2017 is the accumulated impairment losses of HK\$103 million (31 December 2016: HK\$103 million) which was the impairment losses provided and recognised by the Group during the year ended 31 December 2016 for a secured corporate loan due to a significant drop of the fair value of collateral pledged to the Group and past due for more than 270 days but less than 360 days (31 December 2016: more than 90 days but less than 180 days) as at 30 June 2017. During the current six-month period, the management considered there is neither additional impairment losses nor recovery shall be recognised given there is no significant change in the fair value of the collateral.



## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

### 17. OTHER LOANS AND RECEIVABLES (CONTINUED)

As at 30 June 2017, included in the other loans and receivables of HK\$10,530 million (31 December 2016: HK\$8,127 million) is the other loans and receivables of HK\$181 million (31 December 2016: HK\$181 million) to an external party for its property development project in the People's Republic of China which is past due but not impaired for more than 270 days but less than 360 days (31 December 2016: more than 90 days but less than 180 days). The management has assessed the recoverability and estimated future cash flows from the borrower by reference to the fair value of the property development project, credit protection structure and guarantee in this loan arrangement and considered the recoverable amount is sufficient to cover the outstanding amount of the loan.

As at 30 June 2017, except for the impaired loan of HK\$103 million (31 December 2016: HK\$103 million) and the other loans and receivables of HK\$181 million (31 December 2016: HK\$181 million) as disclosed above, there is neither impaired nor overdue other loans and receivables as of the reporting date.

For the six months ended 30 June 2017, movement in the allowances for impairment are as follows:

	30.6.2017 HK\$'000 (unaudited)	31.12.2016 HK\$'000 (audited)
Balance at the beginning of the period/year	102,883	–
Impairment losses recognised	–	102,883
Balance at the end of the period/year	102,883	102,883

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

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

### 18. ACCOUNTS RECEIVABLE

	30.6.2017 HK\$'000 (unaudited)	31.12.2016 HK\$'000 (audited)
Accounts receivable from:		
— Clients	370,798	178,707
— Brokers, dealers and clearing house	4,341,156	4,793,929
— Clients for subscription of new shares in IPO	21,799	–
— Others (note)	180,149	141,117
	<b>4,913,902</b>	<b>5,113,753</b>

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 period and prior year end. The following is an ageing analysis of the accounts receivable based on trade date/invoice date as at period/year end:

	30.6.2017 HK\$'000 (unaudited)	31.12.2016 HK\$'000 (audited)
Between 0 and 3 months	4,880,230	5,058,551
Between 4 and 6 months	131	10,912
Between 7 and 12 months	241	9,303
Over 1 year	33,300	34,987
	<b>4,913,902</b>	<b>5,113,753</b>

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 and Shenzhen-Hong Kong Stock Connect are one day after trade date.

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

### 18. ACCOUNTS RECEIVABLE (CONTINUED)

Accounts receivable from clients arising from financing of 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 30 June 2017, the settlement dates are in the range of 6 July 2017 to 12 July 2017.

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

The Group seeks to maintain tight control over its outstanding accounts receivable in order to minimise credit risk. As at 30 June 2017, overdue balances of approximately HK\$2.9 million (31 December 2016: HK\$2.6 million) are regularly monitored by management. The management ensures that the available cash balance and listed equity securities belonged to clients in which the Group holds as a custodian are sufficient to cover the amount due to the Group.

### 19. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	30.6.2017 HK\$'000 (unaudited)	31.12.2016 HK\$'000 (audited)
Prepayments, deposits and other receivables	929,927	1,049,471
Less: Non-current portion	(47,440)	(90,365)
Current portion	882,487	959,106

Note: Included in the amount of prepayments, deposits and other receivables of HK\$930 million are the interest receivable of HK\$444 million (31 December 2016: HK\$479 million) from bank deposits, brokerage customers, and bond investments which are receivable within one year.

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

### 20. DERIVATIVE FINANCIAL INSTRUMENTS

	30.6.2017 HK\$'000 (unaudited)	31.12.2016 HK\$'000 (audited)
<b>ASSETS</b>		
Swaps — held-for-trading	24,723	33,801
Forward foreign currency exchange contracts — held-for-trading	48,730	100,443
Listed options/warrants — held for trading	152,606	51,940
Unlisted options — held for trading	26,572	389,096
	<b>252,631</b>	<b>575,280</b>
<b>LIABILITIES</b>		
Swaps — cash flow hedges (note)	16,571	28,184
Swaps — held-for-trading	28,838	36,176
Forward foreign currency exchange contracts — held-for-trading	87,668	91,095
Listed options/warrants — held-for-trading	266,881	78,610
Callable bull/bear contracts — held for trading	53,686	15,917
Unlisted options — held-for-trading	1,225	882
	<b>454,869</b>	<b>250,864</b>

Note: The notional principal amounts of the outstanding swap contracts held for cash flow hedging against the interest expenses from a note issued by the Group as at 30 June 2017 were HK\$230 million (2016: HK\$224 million). The profit or loss arising from ineffective portion of cash flow hedges is immaterial.

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

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

### 21. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	30.6.2017 HK\$'000 (unaudited)	31.12.2016 HK\$'000 (audited)
<b>Held for trading</b>		
Listed equity investments, at fair value	2,536,098	2,081,690
Exchange traded funds, at fair value	588,588	347,422
Listed preference share, at fair value	322,545	258,452
Listed debt investments, at fair value	20,184,755	20,657,129
Unlisted debt investments, at fair value	1,069,991	460,027
Unlisted investment funds, at fair value (note)	1,777,029	1,286,397
Unlisted structured products, at fair value	–	61,715
Unlisted certificated deposit, at fair value	99,911	99,865
	<b>26,578,917</b>	<b>25,252,697</b>

Note:

The Group invested in unconsolidated investment funds. These investment funds invest in including, but not limited to stocks, bonds, funds, notes, debentures, commodities, warrants, structured 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\$1,777 million (31 December 2016: HK\$1,286 million) in the unaudited condensed consolidated statement of financial position represents the Group's maximum exposure.

Details of disclosure for fair value measurement are set out in note 34.

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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

	30.6.2017 HK\$'000 (unaudited)	31.12.2016 HK\$'000 (audited)
<b>Assets</b>		
Listed equity investments, at fair value (note (c))	2,554,112	4,369,553
Listed preference shares, at fair value (note (c))	2,007,849	454,378
Listed debt investments, at fair value (note (c))	527,094	130,312
Unlisted equity investments, at fair value (notes (a), (b) & (c))	4,652,376	4,121,182
Unlisted partnership investments, at fair value (notes (a) & (c))	768,301	795,917
Unlisted preference shares, at fair value	33,480	33,480
Unlisted debt investments, at fair value (note (c))	697,403	640,039
Unlisted investment funds, at fair value (notes (a) & (c))	3,833,849	3,552,540
Unlisted structured products, at fair value (note (c))	2,057,308	2,644,280
Unlisted options, at fair value	3,924	904
	<b>17,135,696</b>	<b>16,742,585</b>
<b>Liabilities</b>		
Listed equity investments, at fair value	27,482	2,400
Unlisted issued structured products, at fair value (note (d))	16,939,517	14,212,827
Unlisted options, at fair value	854	1,166
	<b>16,967,853</b>	<b>14,216,393</b>

Details of disclosure for fair value measurements are set out in note 34.

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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

Notes:

- (a) As at 30 June 2017 and 31 December 2016, 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 24.

There is no unfilled capital commitment to these unlisted equity investments, unlisted partnership investments and unlisted investment funds. Their total current carrying amount of HK\$9,255 million (31 December 2016: HK\$8,470 million) in the unaudited condensed consolidated statement of financial position represents the Group's maximum exposure.

- (b) Included in unlisted equity investments at fair value is an investment in an associate of HK\$3,913 million (31 December 2016: HK\$3,540 million) disclosed in note 11(b) that the management considered to be exempted from applying the equity method and recognised as financial assets designated at fair value through profit or loss.

- (c) Except for listed equity investment of HK\$5 million (31 December 2016: HK\$Nil), unlisted preference shares of HK\$33 million (31 December 2016: HK\$33 million), unlisted equity investment of HK\$124 million (31 December 2016: HK\$112 million) and unlisted debt investments of HK\$646 million (31 December 2016: HK\$640 million), 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 (d) below.

These financial assets are designated at fair value as such instruments, as well as the financial instruments which they are hedging, 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.

- (d) As at 30 June 2017 and 31 December 2016, 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, unlisted debt investments, unlisted investment funds 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.

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

### 23. FINANCIAL ASSETS HELD UNDER RESALE AGREEMENTS

	30.6.2017 HK\$'000 (unaudited)	31.12.2016 HK\$'000 (audited)
Analysed by collateral type:		
Bonds	4,719,019	3,600,953
Analysed by market:		
Inter-bank market	4,719,019	3,600,953
Analysed for reporting purposes:		
Current	4,719,019	3,600,953

The financial assets (secured 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 30 June 2017, the fair value of the bonds was HK\$4,536 million (31 December 2016: HK\$3,438 million).

### 24. 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.



## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

### 24. 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 are not significant and the Group is primarily acting as an agent and subject to substantive removal rights 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 14, 21 and 22.

### 25. 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.

As at 30 June 2017, the total assets and total liabilities (excluding third party interest as stated below) of the consolidated products, which is not individually significant to the Group, were HK\$8,541 million and HK\$28 million respectively (31 December 2016: HK\$9,488 million and HK\$1,488 million).

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.

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

### 25. INTEREST IN CONSOLIDATED STRUCTURED ENTITIES (CONTINUED)

As at 30 June 2017, investment returns related to interests held by third-party unit/shareholders of HK\$12.5 million in consolidated structured entities are included in other income and gains or losses in the unaudited condensed consolidated statement of profit or loss and the interests held by third-party unit holders/shareholders amounted to HK\$892 million (31 December 2016: HK\$2,512 million) as at 30 June 2017 are included in other liabilities in the unaudited condensed consolidated statement of financial position.

During the current six-month period, the Group de-consolidated a consolidated structured entity as the Group had redeemed part of its related interest in non-participating shares, and therefore, in the opinion of directors, the variable returns that the Group was exposed to this former consolidated structure entity were no longer significant after the redemption. As a result of the de-consolidation, the Group reclassified investment revaluation reserve in relation to this former consolidated structured entity amounting to HK\$150,495,000 to the unaudited condensed consolidated statement of profit or loss. This reclassification is included within "net gains arising from disposal of available-for-sale investments" (note 6).

### 26. CASH HELD ON BEHALF OF CUSTOMERS

The Group maintains segregated accounts with authorized 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 unaudited condensed consolidated statement of financial position and recognised the corresponding accounts payable (note 27) 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.

### 27. ACCOUNTS PAYABLE

	30.6.2017 HK\$'000 (unaudited)	31.12.2016 HK\$'000 (audited)
Accounts payable to:		
— Clients	25,055,595	24,826,990
— Brokers, dealers and clearing house	1,879,364	3,257,478
— Others	261,337	156,458
	<b>27,196,296</b>	<b>28,240,926</b>

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.

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

### 27. ACCOUNTS PAYABLE (CONTINUED)

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 30 June 2017 (31 December 2016: 0.001%), all the accounts payable are non-interest bearing.

Accounts payable to clients include those payables placed in segregated accounts with authorized institutions of HK\$19,369,841,000 (31 December 2016: HK\$20,186,813,000), Hong Kong Futures Exchange Clearing Corporation Limited, Stock Exchange Options Clearing House and other futures dealers totalling HK\$943,951,000 (31 December 2016: HK\$1,454,524,000).

### 28. FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS

	30.6.2017 HK\$'000 (unaudited)	31.12.2016 HK\$'000 (audited)
<b>Held for trading</b>		
Listed equity investments, at fair value (note)	441,194	122,640
Listed debt investments, at fair value (note)	1,836,585	2,974,639
Listed preference shares, at fair value (note)	110,961	46,447
	<b>2,388,740</b>	<b>3,143,726</b>

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

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

### 29. LOANS AND OTHER BORROWINGS

	30.6.2017 HK\$'000 (unaudited)	31.12.2016 HK\$'000 (audited)
Non-current		
Convertible bonds (note (a))	3,835,387	3,802,531
Non-convertible bonds (note (b))	10,053,620	9,973,074
Non-convertible notes (note (c))	453,648	996,642
Total non-current borrowings	14,342,655	14,772,247
Current		
Non-convertible notes (note (c))	1,266,283	1,551,252
Secured borrowing		
— Bank loans (notes (d) and (e))	1,550,958	5,028,988
Unsecured borrowing		
— Bank loans (note (e) and (f))	26,884,000	28,570,000
— Other loans (note (f) and 33(a)(iv))	40,000	27,586
Total current borrowings	29,741,241	35,177,826
Total borrowings	44,083,896	49,950,073

#### Notes:

- (a) The Company has issued convertible bonds in principal amount of HK\$1,008 million, HK\$1,164 million and HK\$3,880 million in 2013, 2014 and 2016 respectively and these convertible bonds bear interest at a fixed rate with a maturity period of 5 years.

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, 4 November 2014, 12 October 2016 and 25 October 2016 for details of the bonds.

As at 30 June 2017, the conversion prices of convertible bonds issued by the Company in 2013, 2014 and 2016 are HK\$2.87 per share (31 December 2016: HK\$2.87 per share), HK\$4.80 per share (31 December 2016: HK\$4.80 per share) and HK\$6.8112 per share (31 December 2016: HK\$6.8112 per share) respectively. Please refer to the Company's annual financial statements for the year ended 31 December 2016 for the details of adjustment on conversion prices in prior years.

During the current period and prior six-month period, no convertible bonds issued by the Company in 2013, 2014 and 2016 were converted into ordinary shares of the Company.

As at 30 June 2017, the number of outstanding shares convertible under the convertible bonds issued in 2013, 2014 and 2016 are 696,864 (31 December 2016: 696,864), 28,541,666 (31 December 2016: 28,541,666) and 569,649,988 (31 December 2016: 569,649,988) respectively.

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

### 29. LOANS AND OTHER BORROWINGS (CONTINUED)

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Notes: (continued)

- (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) During the current period ended 30 June 2017, the Company has issued a medium term note under the Company's Medium Term Note Programme (the "MTN Programme") in principal amount totalling HK\$230 million with a maturity period of 1 year and repaid several medium term notes of principal amount totalling HK\$1,133 million. As at 30 June 2017, the outstanding balances of HK\$1,720 million (31 December 2016: HK\$2,548 million) represent the unsecured and unguaranteed non-convertible notes.
- (d) Bank loans of HK\$1,130 million (31 December 2016: HK\$5,029 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\$11,163 million at fair value (31 December 2016: HK\$15,371 million) and the remaining amount is secured by debt investments of HK\$1,551 million (31 December 2016: HK\$2,055 million) held by the Group and presented in "Financial assets at fair value through profit or loss" to the unaudited condensed consolidated statement of financial position.
- (e) All the Group's bank borrowings bear interest at variable interest rate based on Hong Kong Interbank Offered Rate ("HIBOR") per annum.
- (f) Bank loans and other loans are repayable on demand or within 1 year. As at 30 June 2017, 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 2016: HK\$Nil).

### 30. SHARE CAPITAL

	30.6.2017 HK\$'000 (unaudited)	31.12.2016 HK\$'000 (audited)
Authorised: 20,000,000,000 (31 December 2016: 10,000,000,000) ordinary shares of HK\$0.10 each	2,000,000	1,000,000
Issued and fully paid: 5,339,720,741 (31 December 2016: 5,336,534,474) ordinary shares of HK\$0.10 each	533,972	533,653

Note: The increase in authorised share capital was approved at the Annual General Meeting of the Company held on 30 June 2017.

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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### 30. SHARE CAPITAL (CONTINUED)

The movements in issued share capital were as follows:

	Number of shares in issue	Issued share capital HK\$'000
As at 1 January 2016	5,289,920,095	528,992
New shares issued under exercise of share option	2,873,991	287
Scrip dividend issued (note 10)	33,887,132	3,389
As at 30 June 2016	5,326,681,218	532,668
New shares issued under exercise of share option	650,000	65
Scrip dividend issued (note 10)	9,203,256	920
As at 31 December 2016 and 1 January 2017	5,336,534,474	533,653
New shares issued under exercise of share option	3,186,267	319
As at 30 June 2017	5,339,720,741	533,972

### 31. FINANCIAL ASSETS SOLD UNDER REPURCHASE AGREEMENTS

	30.6.2017 HK\$'000 (unaudited)	31.12.2016 HK\$'000 (audited)
Analysed by collateral type: Bonds and preference shares	10,604,685	9,586,163
Analysed by market: Inter-bank market	10,604,685	9,586,163
Analysed for reporting purposes: Current	10,604,685	9,586,163
	10,604,685	9,586,163

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

### 31. FINANCIAL ASSETS SOLD UNDER REPURCHASE AGREEMENTS (CONTINUED)

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 unaudited condensed consolidated financial statements but regarded as "collateral" for the liabilities because the Group retains substantially all the risks and rewards of these securities.

As at 30 June 2017, the Group entered into repurchase agreements with different financial institutions to sell bond and preferences shares recognised as financial assets at and designated at fair value through profit or loss with carrying amount of HK\$13,010 million (31 December 2016: HK\$9,628 million), which subject to the simultaneous agreements to repurchase these investments at the agreed date and price.

### 32. OPERATING LEASE ARRANGEMENTS

The Group leases certain of its office properties and data centre under operating lease arrangements. Leases for properties are negotiated for terms ranging from two to three years.

At 30 June 2017 and 31 December 2016, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	30.6.2017 HK\$'000 (unaudited)	31.12.2016 HK\$'000 (audited)
Within one year	69,779	97,775
In the second to fifth years, inclusive	53,841	103,800
	<b>123,620</b>	<b>201,575</b>

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

### 33. RELATED PARTY TRANSACTIONS

In addition to the transactions and balances detailed elsewhere in these unaudited condensed consolidated interim financial statements, the Group had the following material transactions with related parties during the period:

- (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. Pursuant to the master service agreement, the Company and Haitong Securities Co., Limited have each agreed to provide services to companies of the Group or Haitong Securities Co., Limited and its subsidiaries. Such master services agreement was expired on 31 December 2015. On 14 March 2016, the Company entered into a new master services agreement with Haitong Securities Co., Limited, for a term of 3 years from 1 January 2016 to 31 December 2018. The annual caps on continuing connected transactions were revised accordingly. Services covered under the new services agreement include broking transactions, investment management and advisory services, corporate finance transactions, fund investment, financial assistance and securities lending transactions, and underwriting services.
- (i) Income and expenses from brokerage services amounted to HK\$Nil (six months ended 30 June 2016: HK\$192,000) and HK\$317,000 (six months ended 30 June 2016: HK\$399,000) respectively for the current interim period in accordance with terms of the master services agreement.
- (ii) Income from investment management and advisory services amounted to HK\$1,088,000 (six months ended 30 June 2016: HK\$1,311,000) for provision of investment management service and investment advisory service to Haitong International Holdings Limited (the immediate holding company of the Company) and its subsidiaries. The fee is charged in accordance with the relevant investment management agreement or investment advisory agreement.
- (iii) Income from investment advisory service amounted to HK\$1,922,000 (six months ended 30 June 2016: HK\$419,000) for provision of investment advisory service to a subsidiary of Haitong Securities Co., Limited (the ultimate holding company of the Company). The fee is charged in accordance with the relevant investment advisory agreement.
- (iv) During the year ended 31 December 2013, the Company obtained a revolving unsecured loan from Haitong International Holdings Limited, the immediate holding company of the Company.

As at 30 June 2017, the Company had outstanding balance of HK\$40 million (31 December 2016: HK\$28 million). As at 30 June 2017, the unsecured loan is chargeable at an interest rate of HIBOR + 1.2750% per annum (31 December 2016: HIBOR+1.275% per annum). Interest expense for such intercompany loan for the current period amounted to HK\$395,000 (six months ended 30 June 2016: HK\$1,761,000).

- (v) During the prior six months ended 30 June 2016, the Group received EUR100,000 (equivalent to HK\$826,000) of placing fee from Haitong International Finance Holdings 2015 Limited (a subsidiary of Haitong International Holdings Limited, the immediate holding company of the Company) in connection with the issue and placement of guarantee bonds issued by Haitong International Finance Holdings 2015 Limited.



## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

### 33. RELATED PARTY TRANSACTIONS (CONTINUED)

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

	Six months ended	
	30.6.2017 HK\$'000 (unaudited)	30.6.2016 HK\$'000 (unaudited)
Short term employee benefits	25,284	13,253
Post-employment benefits	96	93
<b>Total compensation paid to key management personnel</b>	<b>25,380</b>	<b>13,346</b>

### 34. FINANCIAL RISK MANAGEMENT

#### Financial risk factors

The Group's activities expose it to a variety of financial risks: interest rate risk (including cash flow interest rate risk and fair value interest rate risk), foreign exchange risk, credit risk, liquidity risk, and price risk.

The unaudited condensed consolidated interim financial statements do not include all financial risk management information and disclosures related to the unaudited condensed consolidated financial statements, and should be read in conjunction with the consolidated financial statements for the year ended 31 December 2016.

There has been no change in the risk management policies during the current six-month period.

#### 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.

- Level 1 fair value measurements are quoted prices (unadjusted) in active market for identical assets or liabilities;
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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### 34. FINANCIAL RISK MANAGEMENT (CONTINUED)

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

An analysis of the Group's financial assets and liabilities measured at fair value as at 30 June 2017 and 31 December 2016 are as follows:

	Fair value as at 30 June 2017 HK\$'000 (unaudited)	Fair value as at 31 December 2016 HK\$'000 (audited)	Fair value hierarchy	Basis of fair value measurement/ valuation techniques and key inputs
Recurring fair value measurements:				
Available-for-sale investments				
— Listed equity investments	752,710	1,183,492	Level 1	Note (c)
— Listed equity investment with lock-up period	96,537	87,024	2016: Level 3 2017: Level 2	2016: Note (l) 2017: Note (d)
— Listed debt investments	—	971,111	Level 2	Note (e)
— Listed debt investments	—	200,000	Level 2	Note (d)
— Unlisted fund investments	8,222,490	7,928,146	Level 2	Note (a)
— Unlisted partnership investment	—	465,342	Level 2	Note (o)
— Unlisted partnership investments	264,851	192,994	Level 2	Note (d)
— Unlisted partnership investment	262,378	235,861	Level 2	Note (p)
— Unlisted equity investment	12,375	14,000	Level 2	Note (b)
— Unlisted equity investment	163,200	162,156	Level 2	Note (d)
— Unlisted equity investment	513,256	542,899	Level 2	Note (o)
— Unlisted debt investment	—	339,515	Level 3	Note (n)
— Unlisted debt investments	1,670,982	4,951,709	Level 2	Note (g)
— Unlisted debt investments	—	572,048	Level 2	Note (d)
Financial assets at fair value through profit or loss				
— Listed equity investments	2,536,098	2,081,690	Level 1	Note (c)
— Exchange traded funds	588,588	347,422	Level 1	Note (c)
— Listed preference shares	322,545	258,452	Level 2	Note (e)
— Listed debt investments	20,184,755	20,657,129	Level 2	Note (e)
— Unlisted debt investments	669,864	460,027	Level 2	Note (e)
— Unlisted debt investments	400,127	—	Level 2	Note (g)
— Unlisted investment funds	1,777,029	1,286,397	Level 2	Note (a)
— Unlisted structured product	—	61,715	Level 2	Note (f)
— Unlisted certificated deposit	99,911	99,865	Level 2	Note (g)

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

### 34. FINANCIAL RISK MANAGEMENT (CONTINUED)

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#### 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 30 June 2017 HK\$'000 (unaudited)	Fair value as at 31 December 2016 HK\$'000 (audited)	Fair value hierarchy	Basis of fair value measurement/ valuation techniques and key inputs
Financial assets designated at fair value through profit or loss				
— Listed equity investments	2,554,112	4,369,553	Level 1	Note (c)
— Listed preference shares	2,007,849	454,378	Level 2	Note (e)
— Listed debt investments	527,094	130,312	Level 2	Note (e)
— Unlisted equity investments	300,693	301,073	Level 3	Note (m)
— Unlisted equity investments	202,496	215,059	Level 2	Note (p)
— Unlisted equity investments	236,240	65,543	Level 2	Note (d)
— Unlisted equity investments in an associate	3,912,947	3,539,507	Level 3	Note (h)
— Unlisted partnership investments	768,301	795,917	Level 2	Note (o)
— Unlisted preference shares	33,480	33,480	Level 2	Note (d)
— Unlisted debt investment	546,392	542,899	Level 2	Note (d)
— Unlisted debt investments	151,011	97,140	Level 2	Note (g)
				2016: Note (d)
— Unlisted investment fund	2,450,629	2,189,185	Level 2	2017: Note (g)
— Unlisted investment funds	1,383,220	1,363,355	Level 2	Note (a)
— Unlisted structured products	4,553	8,513	Level 2	Note (f)
— Unlisted structured products	387,459	327,047	Level 2	Note (k)
— Unlisted structured products	1,665,296	2,308,720	Level 2	Note (e)
— Unlisted options	3,924	904	Level 2	Note (j)
Derivatives financial instruments				
— Swap contracts	24,723	33,801	Level 2	Note (g)
— Forward foreign currency exchange contracts	48,730	100,443	Level 2	Note (g)
— Listed options/warrants	152,606	51,940	Level 1	Note (c)
— Unlisted options (related to listed equities)	26,572	389,096	Level 2	Note (j)
	<b>55,926,023</b>	<b>60,416,859</b>		

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

### 34. FINANCIAL RISK MANAGEMENT (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 30 June 2017 HK\$'000 (unaudited)	Fair value as at 31 December 2016 HK\$'000 (audited)	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	441,194	122,640	Level 1	Note (c)
— Listed debt investments	1,836,585	2,974,639	Level 2	Note (e)
— Listed preference shares	110,961	46,447	Level 2	Note (e)
Financial liabilities designated at fair value through profit or loss				
— Listed equity investments	27,482	2,400	Level 1	Note (c)
— Structured notes	11,098,660	10,033,190	Level 2	Note (i)
— Structured notes	2,432,947	2,059,507	Level 3	Note (h)
— Structured notes	74,299	75,233	Level 3	Note (m)
— Structured notes	3,333,611	2,044,897	Level 2	Note (g)
— Unlisted options	854	1,166	Level 2	Note (j)
Derivative financial instruments				
— Swap contracts	45,409	64,360	Level 2	Note (g)
— Forward foreign currency exchange contracts	87,668	91,095	Level 2	Note (g)
— Forward foreign currency option contracts	1,225	—	Level 2	Note (g)
— Listed option/warrants	266,881	78,610	Level 1	Note (c)
— Callable bull/bear contracts	53,686	15,917	Level 1	Note (c)
— Unlisted option	—	882	Level 2	Note (j)
	<b>19,811,462</b>	<b>17,610,983</b>		

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

### 34. FINANCIAL RISK MANAGEMENT (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) The fair values was determined with reference to the quoted price provided by brokers/financial institutions.
- (f) The fair value was determined with reference to the quoted price of the underlying equities investments.
- (g) Fair value was determined based on discounted cash flow model applying various market observable financial parameters, including interest rates, forward exchange rate, credit spread, yield spread, etc.
- (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) Included in financial liabilities designated at fair value through profit or loss are the structured notes issued with return linked to equity investments, debt investments, fund investments, index of respective stock exchanges, 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. The Group managed relevant assets and liabilities on a pair basis and as such relevant liabilities are valued with directly reference to its hedging assets.
- (j) Fair value was determined based on option pricing model with market observable inputs, such as quoted market price, dividend yield, volatilities, as key parameters.
- (k) Fair value of the investments were determined based on the observable index of respective stock exchange in consideration of the contract terms.

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

### 34. FINANCIAL RISK MANAGEMENT (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)

- (l) The 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 significant unobservable input is the discount rate for lack of marketability with reference to the prices of listed securities when determining its fair value.

- (m) The fair value is determined with reference to the net asset value of the unlisted equity and partnership investments which are the deemed resale price of the investments provided by the external counter-parties. The Directors have determined that the reported net asset values represent fair value of these investments.

- (n) Fair value determined based on discounted cash flow. Future cash flows are estimated based on expected cash flows discounted at rate taking into account the credit risk of the issuer.

The significant unobservable input is the discount rate for the credit risk spread with reference to the resulting loss given the case of default based on the management judgement in assessing the recoverability of this debt investment. 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 loss given default, the lower the fair value.

- (o) Fair value is determined with reference to the net asset value of unlisted equity/partnership investment mostly determined based on the fair value of the underlying investment portfolio, which is comprised of (i) listed equity investments of which its price is quoted in active market and/or (ii) unlisted debt investment of which the fair value is determined based on quoted price provided by brokers/financial institution and/or (iii) discounted cash flow that the futures cash flows are based on the contracted value as at maturity date and discounted at a rate determined by observable market yield.

The directors of the Company considered that remaining assets or liabilities in such unlisted equity/partnership investment are not significant to the amount of overall investment and approximated to its fair value.

- (p) Fair value is determined with reference to the net asset value of the unlisted partnership/equity investments mostly determined based on the underlying investment portfolio investment of which the fair value is determined with the recent transaction price.

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.

During the current six-month period, 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 30 June 2017 and 31 December 2016, no non-financial assets or liabilities were carried at fair value.

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

### 34. FINANCIAL RISK MANAGEMENT (CONTINUED)

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

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 unaudited condensed consolidated financial statements approximate their fair values:

	30.6.2017		31.12.2016	
	Carrying amount HK\$'000 (unaudited)	Fair value HK\$'000 (unaudited)	Carrying amount HK\$'000 (audited)	Fair value HK\$'000 (audited)
Held-to-maturity investments debt investments (note i)	94,002	93,777	93,357	92,429
Convertible bonds (note ii)	3,835,287	4,078,263	3,802,531	4,043,269
Non-convertible bonds (note ii)	10,053,620	10,418,634	9,973,074	10,284,019

These assets and liabilities are classified under Level 2 in the fair value hierarchy.

#### Reconciliation of Level 3 fair value measurements

30 June 2017

	Available-for-sale investments HK\$'000 (unaudited)	Financial assets designated at fair value through profit or loss HK\$'000 (unaudited)	Financial liabilities designated at fair value through profit or loss HK\$'000 (unaudited)
Opening balance	426,539	3,840,580	(2,134,740)
Total gains (losses) in profit or loss (note iv)	–	373,060	(372,506)
Transfer into Level 2 (note vi)	(87,024)	–	–
Derecognition due to deconsolidation of a structured entity (note v)	(339,515)	–	–
Closing balance	–	4,213,640	(2,507,246)

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

### 34. FINANCIAL RISK MANAGEMENT (CONTINUED)

#### Reconciliation of Level 3 fair value measurements (continued)

31 December 2016

	Available- for-sale investments HK\$'000 (audited)	Financial assets designated at fair value through profit or loss HK\$'000 (audited)	Financial liabilities designated at fair value through profit or loss HK\$'000 (audited)
Opening balance	–	5,705,699	(4,225,698)
Total (losses) gains in profit or loss (note iv)	–	(2,191,747)	2,187,536
Total loss in other comprehensive income (note iv)	(46,132)	–	–
Transfer into Level 3 (note iii)	–	326,628	(96,578)
Purchase	472,671	–	–
Closing balance	426,539	3,840,580	(2,134,740)

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 Stock Exchange of Hong Kong Limited.
- (iii) The fair value of the unlisted instruments were 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 2015. During the year ended 31 December 2016, the fair value of these unlisted investments were determined based on significant unobservable inputs and involved significant judgment made by the management. Thus, the instrument was transferred from Level 2 to Level 3 category.
- (iv) Of the total gains or losses for the period included in profit or loss, gain of HK\$373 million (2016: loss of HK\$2,192 million) relates to financial assets designated at fair value through profit or loss and loss of HK\$373 million (2016: gain of HK\$2,188 million) relates to financial liabilities designated at fair value through profit or loss held as at 30 June 2017. Fair value gains or losses on financial assets/liabilities designated as at fair value through profit or loss are included in "Net gains arising from financial assets/liabilities at fair value through profit or loss".

For the year ended 31 December 2016, include in the total loss in the other comprehensive income is an amount of HK\$46 million loss relating to listed equity investment with lock-up period held at the end of the current reporting period and is reported as changes of investment revaluation reserve.



## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

### 34. FINANCIAL RISK MANAGEMENT (CONTINUED)

#### Reconciliation of Level 3 fair value measurements (continued)

Notes: (continued)

- (v) Available-for-sale investments amounted to HK\$427 million classified as Level 3 investments as at 31 December 2016 included an unlisted debt security amounted to HK\$340 million held by a consolidated structured entity.

During the current 6-month period, the Group de-consolidated the consolidated structured entity as the Group redeemed interest of non-participating shares of the Fund (note 25). Therefore such unlisted debt security was no longer held by the Group at the date of redemption and therefore transferred out from Level 3 investments.

- (vi) Available-for-sale investments amounted to HK\$427 million classified as Level 3 investments as at 31 December 2016 included an unlisted equity investment held by the Group amounted to HK\$87 million where the fair value is measured based on quoted price with adjustment on liquidity discount. For unlisted equity investment, the fair value as at 30 June 2017 is based on recent transaction price. Thus, the instrument was transferred from Level 3 to Level 2 category.

### 35. 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.

Details of the share option scheme of the Company has been disclosed in the Group's annual financial statements for the year ended 31 December 2016 and should be read in conjunction with the relevant announcements of the share options made by the Company.

The following table discloses movements of share options granted to the directors and employees of the Group during the period/year.

	2017		2016	
	Weighted average exercise price HK\$ per share	Number of options '000	Weighted average exercise price HK\$ per share	Number of options '000
At 1 January	2.77	9,132	2.91	12,662
Adjusted during the period/year (note)	–	–	2.77	5
Exercised during the period/year	2.77	(3,187)	3.25	(3,524)
Forfeited during the period/year	–	–	3.36	(11)
At 30 June 2017/31 December 2016	2.77	5,945	2.77	9,132

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

### 35. SHARE OPTION/AWARD SCHEME (CONTINUED)

#### 2002 Share Option Scheme (continued)

The exercise prices and exercise periods of the share options outstanding as at respective reporting dates are as follows:

30 June 2017 Number of options '000	Exercise price HK\$ per share (Note)	Exercise period
5,945	2.768	3 March 2011 to 2 March 2019

  

31 December 2016 Number of options '000	Exercise price HK\$ per share (Note)	Exercise period
9,132	2.768	3 March 2011 to 2 March 2019

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.

No new share options were granted for the six months ended 30 June 2017 and year ended 31 December 2016.

As at 30 June 2017, 3,186,267 (31 December 2016: 3,523,991) share options were exercised resulting in issuance of 3,186,267 (31 December 2016: 3,523,991) ordinary shares of the Company with new share capital of HK\$319,000 (31 December 2016: HK\$352,000) and share premium of HK\$8,500,000 (31 December 2016: HK\$11,465,000) (before issuing expenses).

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

### 35. SHARE OPTION/AWARD SCHEME (CONTINUED)

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#### 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.

Details of the share option scheme of the Company has been disclosed in the Group's annual financial statements for the year ended 31 December 2016 and should be read in conjunction with the relevant announcements of the share options made by the Company.

On 12 May 2016, the Company granted 18,100,000 share options at the exercise price of HK\$4.675 per share to its directors and employees under the 2015 Share Option Scheme with a total of 18,000,000 share options were accepted. The validity period of the share options is from 12 May 2016 to 11 May 2021. All the share options granted have a vesting period of 6 months from the date of acceptance. The closing price of the Company's shares on the date of grant was HK\$4.25 per share. The estimated fair values of the options granted under 2015 Share Option Scheme on the grant date on 12 May 2016 is approximately HK\$23.7 million, which was calculated using the Binomial Option Pricing model with the key inputs into the model as disclosed below.

Weighted average share price at the date of grant	HK\$4.25
Initial exercise price	HK\$4.675
Expected volatility	53.32%
Expected option life	5 years
Risk-free rate	0.897%
Expected dividend yield	5.176%
Early exercise multiples — directors	2.34
— employees	2.07

Expected volatility was determined using the historical volatility of the Company's share price over the previous 3.6 years at the grant date.

For the six months ended 30 June 2017, the Group has recognised an equity-settled share-based payment of HK\$Nil (six months ended 30 June 2016: HK\$3,945,000) for the share options under the 2015 Share Option Scheme in unaudited condensed consolidated statement of profit or loss.

No share options under 2015 share option scheme has been exercised during the current interim period and for the year ended 31 December 2016.

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

### 35. SHARE OPTION/AWARD SCHEME (CONTINUED)

#### 2015 Share Option Scheme (continued)

The following table discloses movements of share options granted to the directors and employees of the Group.

	2017		2016	
	Weighted average exercise price HK\$ per share	Number of options '000	Weighted average exercise price HK\$ per share	Number of options '000
At 1 January	4.674	17,807	–	–
Granted and accepted during the period/year	–	–	4.675	18,000
Adjusted during the year (Note)	–	–	4.674	7
Exercised during the period/year	–	–	–	–
Forfeited during the period/year	4.674	(400)	4.674	(200)
At 30 June 2017/31 December 2016	4.674	17,407	4.674	17,807

The exercise prices and exercise periods of the share options outstanding as at respective reporting dates are as follows:

30 June 2017 Number of options '000	Exercise price HK\$ per share (Note)	Exercise period
17,407	4.674	8 December 2016–11 May 2021

  

31 December 2016 Number of options '000	Exercise price HK\$ per share (Note)	Exercise period
17,807	4.674	8 December 2016–11 May 2021

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.

No new share options were granted for the six months ended 30 June 2017.

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

### 35. SHARE OPTION/AWARD SCHEME (CONTINUED)

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#### 2002 and 2015 Share Option Scheme

As at 30 June 2017, the Company had 5,945,390 (31 December 2016: 9,131,657) and 17,406,532 (31 December 2016: 17,806,679) share options outstanding under the 2002 Share Option Scheme and 2015 Share Option Scheme respectively, which represented approximately 0.44% (31 December 2016: 0.50%) of the Company's shares in issue as at that date.

The exercise in full of the remaining share options under the 2002 and 2015 Share Option Scheme would, under the present capital structure of the Company, result in the issue of 23,351,922 (31 December 2016: 26,938,336) additional ordinary shares of the Company and additional share capital of HK\$2,335,000 (31 December 2016: HK\$2,694,000) and share premium of HK\$95,480,000 (31 December 2016: HK\$105,811,000) (before issue expenses).

#### Share award scheme

On 19 December 2014, the Board adopted a 10-year share award scheme (the "Scheme") to incentivise selected employees or directors for their contributions to the Group and to attract suitable personnel for further development of the Group.

Details of the awarded shares granted and unvested as at 30 June 2017 are set out below.

Date of awarded shares granted	Number of awarded shares granted	Number of awarded shares vested	Number of awarded shares lapsed (note (c))	Number of awarded shares unvested	Vesting dates	Fair value as at grant date HK\$
18 April 2016	7,865,506	(2,457,261)	(539,847)	4,868,398	note (a)	31,383,000
28 April 2017	4,246,234	–	–	4,246,234	note (b)	19,320,000

For the shares granted, the fair value of the shares were measured at the market price of the Company's shares. For the six months ended 30 June 2017, the Group has recognised an equity-settled share-based payment of HK\$8,538,000 (six months ended 30 June 2016: HK\$4,795,000) for the Scheme in unaudited condensed consolidated statement of profit or loss.

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

### 35. SHARE OPTION/AWARD SCHEME (CONTINUED)

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#### Share award scheme (continued)

Notes:

- (a) Pursuant to the agreed terms, the vesting date of one-third of the award shares granted on 18 April 2016 is on 15 March 2017 while the vesting date of another one-third of award shares granted on 18 April 2016 would be on 15 March 2018 and the vesting date for the remaining would be on 15 March 2019.
- (b) Pursuant to the agreed terms, the vesting date of one-third of the award shares granted on 28 April 2017 is on 19 March 2018 while the vesting date of another one-third of award shares granted on 28 April 2017 would be on 19 March 2019 and the vesting date for the remaining would be on 19 March 2020.
- (c) Awarded Shares would lapse prior to their vesting date as a result of staff separations. Pursuant to the agreement, the lapsed shares would be held by the trustee which is subject to the approval from Administration Committee for re-selection of any Selected Participant. The lapsed awarded shares were transferred out from share award reserve to share premium as disclosed in the unaudited condensed consolidated statement of change in equity.

Movements of shares held under the Scheme during the year are as follows:

	2017		2016	
	HK\$000	Number of shares	HK\$000	Number of shares
At 1 January	128,020	21,724,000	128,020	21,724,000
Purchased during the period/year	–	–	–	–
Vested and transferred out during the period/year	(14,481)	(2,457,261)	–	–
At 30 June 2017/31 December 2016	113,539	19,266,739	128,020	21,724,000

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

### 36. ACQUISITION OF A SUBSIDIARY

On 12 December 2016, Haitong International Securities Group (Singapore) Pte. Ltd. ("Haitong Singapore", an indirectly wholly owned subsidiary of the Company) entered into a sale and purchase agreement with an independent third party seller, pursuant to which the independent third seller disposed of its interest in all issued shares of a financial intermediary to Haitong Singapore. This financial intermediary was subsequently renamed as Haitong International Financial Services (Singapore) Pte. Ltd. ("Haitong International Financial Services"). The cash consideration paid in respect of this acquisition is primarily based on net tangible assets of Haitong International Financial Services as at 30 September 2016 and a cash consideration of S\$12.5 million (approximately HK\$68.0 million) was paid by Haitong Singapore. The transaction was completed on 28 February 2017.

Haitong International Financial Services was incorporated in Singapore in 1998. The principal activity of Haitong International Financial Services is the provision of financial services in relation to exchange traded futures and options, over-the-counter leveraged foreign exchange, precious metals and outright, and Haitong International Financial Services is licensed with the Monetary Authority of Singapore and the International Enterprise Singapore to carry out its business activities.

As a result of this acquisition, the Group is expected to expand its existing business activities in Singapore (through a number of Singapore incorporated subsidiaries) into dealings in futures contracts and leveraged foreign exchange, and transforming the Group's Singapore operations into a full-licensed financial services provider.

Net assets acquired at the date of acquisition in this combination amounted to approximately HK\$62.5 million, with cash and cash equivalents of approximately HK\$191.2 million and accounts payable of approximately HK\$294.8 million being the largest asset item acquired and the largest liability assumed respectively. In addition, the directors considered the carrying value of each of the assets and liabilities acquired or assumed by the Group approximate their respective fair values.

Goodwill amounted to HK\$5.5 million, which represents the excess of consideration transferred over net assets acquired as a result of the acquisition, are recognised in the unaudited condensed consolidated statement of financial position. This disclosure presented is on a provisional basis as the initial accounting of the business combination, including the determination of the fair value of identifiable assets and liabilities acquired and measurement of goodwill or a gain from a bargain purchase are in the assessment process by the management of the Group.

Net cash inflow arising from this acquisition is disclosed in the condensed consolidated statement of cash flows.

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

### 37. TRANSFER OF FINANCIAL ASSETS

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

#### Financial assets sold under repurchase agreement

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

Details of carrying amount and fair value of transferred assets, and the assessment performed by the Group in respect of whether bonds and preference shares sold under repurchase agreements shall be derecognised are disclosed in note 31 of the unaudited condensed consolidated financial statements.

#### Transfer of rights and obligations of other loans and receivables

As part of normal course of business, the Group enters into sub-participation agreements with independent third parties to transfer (on a without recourse basis) all the rights, obligations, and relevant security arising from loans receivable to special purpose entities, which in turn issue securities or secured notes (with rights, title and interest under the sub-participations mortgaged to the such securities or notes issued) to investors. The Group may acquire some securities or secured notes, and accordingly, may retain part of the risk and rewards in relation to these loans receivable. The Group would determine whether or not derecognise these loans receivable by evaluating the extent to which the Group retains risks and rewards of these loans receivable.

During the current period, the Group entered into a sub-participation agreement with an independent third party in the normal course of business where the Group transfers a loan receivable of HK\$900 million to this independent third party on a without recourse basis, rights, obligations and relevant security of such loan receivable, for a cash consideration of HK\$900 million. This independent third party also issued secured notes amounted to HK\$900 million where the rights, title and interest of above-mentioned loan receivable under the sub-participation agreement are mortgaged to the secured notes issued. Haitong Freedom Multi-Tranche Bond Fund (a joint venture of the Group) subscribed secured notes amounted to HK\$800 million, while the Group subscribed the remaining portion amounted to HK\$100 million from such independent third party. As risk and reward relating to the loan receivable of HK\$800 million were transferred to a joint venture of the Group, the Group derecognised this loan receivable amounted to HK\$800 million from the unaudited condensed consolidated statement of financial position.



## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

### **38. RECLASSIFICATION**

Certain comparative figures have been reclassified to conform to the current interim period presentation.

### **39. APPROVAL OF THE INTERIM FINANCIAL STATEMENTS**

These unaudited condensed consolidated interim financial statements were approved and authorised for issue by the Board of Directors on 29 August 2017.

# REPORT ON REVIEW OF CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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**Deloitte.**

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TO THE BOARD OF DIRECTORS OF  
HAITONG INTERNATIONAL SECURITIES GROUP LIMITED

## INTRODUCTION

We have reviewed the condensed consolidated financial statements of Haitong International Securities Group Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 12 to 71, which comprise the condensed consolidated statement of financial position as of 30 June 2017 and the related condensed consolidated statement of profit or loss, statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the six-month period then ended, and certain explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard 34 "Interim Financial Reporting" ("HKAS 34") issued by the Hong Kong Institute of Certified Public Accountants. The directors of the Company are responsible for the preparation and presentation of these condensed consolidated financial statements in accordance with HKAS 34. Our responsibility is to express a conclusion on these condensed consolidated financial statements based on our review, and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

## SCOPE OF REVIEW

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

## CONCLUSION

Based on our review, nothing has come to our attention that causes us to believe that the condensed consolidated financial statements are not prepared, in all material respects, in accordance with HKAS 34.

**Deloitte Touche Tohmatsu**  
Certified Public Accountants

Hong Kong  
29 August 2017

# OTHER INFORMATION

## DIVIDEND AND CLOSURE OF REGISTER OF MEMBERS

The board of directors of the Company (the "Board") has declared an interim dividend of HK10 cents per share (2016: HK7.5 cents) in cash, payable on or about Tuesday, 21 November 2017 to shareholders whose names appear on the register of members of the Company on Friday, 6 October 2017. Shareholders will be given the option to receive the interim dividend in new shares in lieu of cash.

The register of members of the Company will be closed from Tuesday, 3 October 2017 to Friday, 6 October 2017, both dates inclusive, during which period no transfer of shares will be registered. In order to qualify for the interim dividend, 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 Friday, 29 September 2017. Shares of the Company will be traded ex-dividend as from Thursday, 28 September 2017.

## OTHER INFORMATION (CONTINUED)

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

As at 30 June 2017, 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 (the "Model Code"), were as follows:

## The Company

Name of directors	Class of shares	Personal interests	Family interests	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	–	–	–	875,526 (Note 1)	875,526	0.02
LIN Yong	Ordinary shares/ share options	5,181,020 (Note 2)	–	–	800,311 (Note 3)	5,981,331	0.11
LI Jianguo	Ordinary shares/ share options	2,012,486 (Note 4)	–	–	600,232 (Note 5)	2,612,718	0.05
SUN Jianfeng (appointed on 1 June 2017)	Ordinary shares/ share options	1,381,440 (Note 6)	–	–	500,193 (Note 7)	1,881,633	0.04
POON Mo Yiu	Ordinary shares/ share options	319,527 (Note 8)	–	–	2,801,557 (Note 9)	3,121,084	0.06
CHENG Chi Ming Brian	Share options	–	–	–	1,175,640 (Note 10)	1,175,640	0.02
WANG Meijuan	Share options	–	–	–	300,114 (Note 11)	300,114	0.01
William CHAN	Share options	–	–	–	300,114 (Note 12)	300,114	0.01
TSUI Hing Chuen William	Ordinary shares/ share options	200,000 (Note 13)	–	–	445,922 (Note 14)	645,922	0.01
LAU Wai Piu	Share options	–	–	–	725,640 (Note 15)	725,640	0.01
LIN Ching Yee Daniel	Share options	–	–	–	300,114 (Note 16)	300,114	0.01
WEI Kuo-chiang	Share options	–	–	–	300,114 (Note 17)	300,114	0.01

\* 3,186,267 ordinary shares were issued during the 6 months ended 30 June 2017 pursuant to exercise of share options under the Share Option Scheme adopted on 23 August 2002, the total number of issued shares of the Company was increased to 5,339,720,741 as at 30 June 2017.

## OTHER INFORMATION (CONTINUED)

## Notes:

1. Those shares would be allotted and issued to Mr. JI Yuguang upon the exercise in full of the share options granted to him under the 2002 share option scheme (as defined below) of the Company. Those share options, all of which remained exercisable as at 30 June 2017, were/will be exercisable during the period from 3 March 2011 to 2 March 2019.
2. Those shares are held by Mr. LIN Yong as beneficial owner, included 744,301 unvested awarded shares granted by the Company pursuant to the share award scheme and 173,348 awarded shares which were vested in tranches subject to the award share scheme rules on 15 March 2017.
3. Those shares would be allotted and issued to Mr. LIN Yong upon the exercise in full of the share options granted to him under the 2015 share option scheme (as defined below) of the Company. Those share options, all of which remained exercisable as at 30 June 2017, were/will be exercisable during the period from 8 December 2016 to 11 May 2021.
4. Those shares are held by Mr. LI Jianguo as beneficial owner.
5. Those shares would be allotted and issued to Mr. LI Jianguo upon the exercise in full of the share options granted to him under the 2015 share option scheme of the Company. Those share options, all of which remained exercisable as at 30 June 2017, were/will be exercisable during the period from 8 December 2016 to 11 May 2021.
6. Those shares are held by Mr. SUN Jianfeng as beneficial owner and included 295,373 unvested awarded shares granted by the Company pursuant to the share award scheme. The awarded shares will be vested in tranches subject to the award share scheme rules.
7. These shares would be allotted and issued to Mr. SUN Jianfeng upon the exercise in full of the share options granted to Mr. SUN Jianfeng under the 2015 share option scheme of the Company. Those share options, all of which remained exercisable as at 30 June 2017, were/will be exercisable during the period from 8 December 2016 to 11 May 2021.
8. Those shares are held by Mr. POON Mo Yiu as beneficial owner, included 224,994 unvested awarded shares granted by the Company pursuant to the share award scheme and 94,533 awarded shares which were vested in tranches subject to the award share scheme rules on 15 March 2017.
9. Those shares would be allotted and issued to Mr. POON Mo Yiu upon the exercise in full of the share options granted to him under the 2002 and 2015 share option schemes of the Company. Those share options, all of which remained exercisable as at 30 June 2017, were/will be exercisable (i) (Date of Grant: 3 September 2010) during the period from 3 March 2011 to 2 March 2019, and (ii) (Date of Grant: 12 May 2016) during the period from 8 December 2016 to 11 May 2021.
10. Those shares would be allotted and issued to Mr. CHENG Chi Ming Brian upon the exercise in full of the share options granted to him under the 2002 and 2015 share option schemes of the Company. Those share options, all of which remained exercisable as at 30 June 2017, were/will be exercisable (i) (Date of Grant: 3 September 2010) during the period from 3 March 2011 to 2 March 2019, and (ii) (Date of Grant: 12 May 2016) during the period from 8 December 2016 to 11 May 2021.
11. Those shares would be allotted and issued to Ms. WANG Meijuan upon the exercise in full of the share options granted to her under the 2015 share option scheme of the Company. Those share options, all of which remained exercisable as at 30 June 2017, were/will be exercisable during the period from 8 December 2016 to 11 May 2021.
12. Those shares would be allotted and issued to Mr. William CHAN upon the exercise in full of the share options granted to him under the 2015 share option scheme of the Company. Those share options, all of which remained exercisable as at 30 June 2017, were/will be exercisable during the period from 8 December 2016 to 11 May 2021.
13. Those shares are held by Mr. TSUI Hing Chuen William as beneficial owner.

## OTHER INFORMATION (CONTINUED)

14. Those shares would be allotted and issued to Mr. TSUI Hing Chuen William upon the exercise in full of the share options granted to him under the 2002 and 2015 share option schemes of the Company. Those share options, all of which remained exercisable as at 30 June 2017, were/will be exercisable (i) (Date of Grant: 3 September 2010) during the period from 3 March 2011 to 2 March 2019, and (ii) (Date of Grant: 12 May 2016) during the period from 8 December 2016 to 11 May 2021.
15. Those shares would be allotted and issued to Mr. LAU Wai Piu upon the exercise in full of the share options granted to him under the 2002 and 2015 share option schemes of the Company. Those share options, all of which remained exercisable as at 30 June 2017, were/will be exercisable (i) (Date of Grant: 3 September 2010) during the period from 3 March 2011 to 2 March 2019, and (ii) (Date of Grant: 12 May 2016) during the period from 8 December 2016 to 11 May 2021.
16. Those shares would be allotted and issued to Mr. LIN Ching Yee Daniel upon the exercise in full of the share options granted to him under the 2015 share option scheme of the Company. Those share options, all of which remained exercisable as at 30 June 2017, were/will be exercisable during the period from 8 December 2016 to 11 May 2021.
17. Those shares would be allotted and issued to Mr. WEI Kuo-chiang upon the exercise in full of the share options granted to him under the 2015 share option scheme of the Company. Those share options, all of which remained exercisable as at 30 June 2017, were/will be exercisable during the period from 8 December 2016 to 11 May 2021.

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

Save as disclosed above, as at 30 June 2017, 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 Scheme" below, at no time during the 6 months ended 30 June 2017 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 SCHEMES

The Company operates three equity-settled share-based compensation schemes including two share option schemes (collectively the "Share Option Schemes") 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.

## OTHER INFORMATION (CONTINUED)

## Share Option Scheme

- (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.

Movements of the share options under the 2002 Share Option Scheme during the 6 months ended 30 June 2017 are listed below:

Name or category of participants	Number of share options						Date of grant of share options*	Exercise period of share options	Price of Company's shares***			
	At 1 January 2017	Granted during the period	Adjusted during the period	Exercised during the period	Lapsed during the period	At 30 June 2017			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	
<b>Directors</b>												
Ji Yuguang	875,526	-	-	-	-	875,526	3 September 2010	3 March 2011 - 2 March 2019	2.768	4.79	N/A	
HUI Yee Wilson (retired on 1 June 2017)	1,751,069	-	-	(1,751,069) (Note)	-	-	3 September 2010	3 March 2011 - 2 March 2019	2.768	4.79	4.56	
POON Mo Yiu	2,101,286	-	-	-	-	2,101,286	3 September 2010	3 March 2011 - 2 March 2019	2.768	4.79	N/A	
CHENG Chi Ming Brian	875,526	-	-	-	-	875,526	3 September 2010	3 March 2011 - 2 March 2019	2.768	4.79	N/A	
TSUI Hing Chuen William	145,808	-	-	-	-	145,808	3 September 2010	3 March 2011 - 2 March 2019	2.768	4.79	N/A	
LAU Wai Piu	425,526	-	-	-	-	425,526	3 September 2010	3 March 2011 - 2 March 2019	2.768	4.79	N/A	
	6,174,741	-	-	(1,751,069)	-	4,423,672						
<b>eligible employees</b>												
In aggregate	2,956,916	-	-	(1,435,198)	-	1,521,718	3 September 2010	3 March 2011 - 2 March 2019	2.768	4.79	4.67	
	2,956,916	-	-	(1,435,198)	-	1,521,718						
	9,131,657	-	-	(3,186,267)	-	5,945,390						

\* 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.

## OTHER INFORMATION (CONTINUED)

\*\*\* 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.

Note: A total of 1,751,069 share options were exercised by Mr. HUI Yee, Wilson at the exercise price of HK\$2.768 on 7 June 2017 pursuant to the 2002 Share Option Scheme (being within the period of one month following the date of retirement).

- (II) On 8 June 2015, the shareholders of the Company approved the adoption of a new share option scheme (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. The 2015 Share Option Scheme shall be valid and effective for a period of 10 years commencing from 8 June 2015 and will expire on 7 June 2025.

Movements of the share options under the 2015 Share Option Scheme during the 6 months ended 30 June 2017 are listed below:

Name or category of participants	Number of share options						Date of grant of share options*	Exercise period of share options	Price of Company's shares***			
	At 1 January 2017	Granted during the period	Adjusted during the period	Exercised during the period	Lapsed during the period	At 30 June 2017			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	
<b>Directors</b>												
LIN Yong	800,311	-	-	-	-	800,311	12 May 2016	8 December 2016 - 11 May 2021	4.674	4.25	N/A	
LI Jianguo	600,232	-	-	-	-	600,232	12 May 2016	8 December 2016 - 11 May 2021	4.674	4.25	N/A	
HUI Yee Wilson (retired on 1 June 2017)	700,271	-	-	-	-	700,271 (Note 1)	12 May 2016	8 December 2016 - 11 May 2021	4.674	4.25	N/A	
SUN Jianfeng (appointed on 1 June 2017)	500,193	-	-	-	-	500,193	12 May 2016	8 December 2016 - 11 May 2021	4.674	4.25	N/A	
POON Mo Yiu	700,271	-	-	-	-	700,271	12 May 2016	8 December 2016 - 11 May 2021	4.674	4.25	N/A	
CHENG Chi Ming Brian	300,114	-	-	-	-	300,114	12 May 2016	8 December 2016 - 11 May 2021	4.674	4.25	N/A	
WANG Meijuan	300,114	-	-	-	-	300,114	12 May 2016	8 December 2016 - 11 May 2021	4.674	4.25	N/A	
William CHAN	300,114	-	-	-	-	300,114	12 May 2016	8 December 2016 - 11 May 2021	4.674	4.25	N/A	
TSUI Hing Chuen William	300,114	-	-	-	-	300,114	12 May 2016	8 December 2016 - 11 May 2021	4.674	4.25	N/A	
LAU Wai Piu	300,114	-	-	-	-	300,114	12 May 2016	8 December 2016 - 11 May 2021	4.674	4.25	N/A	
LIN Ching Yee Daniel	300,114	-	-	-	-	300,114	12 May 2016	8 December 2016 - 11 May 2021	4.674	4.25	N/A	
WEI Kuo-chiang	300,114	-	-	-	-	300,114	12 May 2016	8 December 2016 - 11 May 2021	4.674	4.25	N/A	
	5,402,076	-	-	-	-	5,402,076						



## OTHER INFORMATION (CONTINUED)

Name or category of participants	Number of share options						Date of grant of share options*	Exercise period of share options	Price of Company's shares***			
	At 1 January 2017	Granted during the period	Adjusted during the period	Exercised during the period	Lapsed during the period	At 30 June 2017			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	
<b>eligible employees</b>												
In aggregate	12,404,603	-	-	-	(400,147) (Note 2)	12,004,456	12 May 2016	8 December 2016 – 11 May 2021	4.674	4.25	N/A	
	12,404,603	-	-	-	(400,147)	12,004,456						
	17,806,679	-	-	-	(400,147)	17,406,532						

\* The vesting period of the share options is from the date of the acceptance 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. A total of 700,271 share options held by HUI Yee, Wilson lapsed on 1 July 2017 pursuant to the 2015 Share Option Scheme.
2. These share options lapsed during the 6 months ended 30 June 2017 as a result of staff resignation.

## 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 Scheme Rules 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.

## OTHER INFORMATION (CONTINUED)

Details of the shares awarded, vested, lapsed and unvested during the 6 months ended 30 June 2017 are set out below:

Date of awards	Number of shares awarded	Number of awarded shares vested	Number of awarded shares lapsed	Number of awarded shares unvested	Vesting dates
18 April 2016	7,865,506	2,457,261	222,231	4,868,398	15/03/2017 15/03/2018 15/03/2019
28 April 2017	4,246,234	–	–	4,246,234	19/03/2018 19/03/2019 19/03/2020

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

As at 30 June 2017, 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 or to the best of Directors' knowledge, 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")	–	3,296,842,163	–	3,296,842,163	61.74
Haitong International Holdings Limited ("HTIH")	3,296,842,163	–	–	3,296,842,163	61.74

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 30 June 2017, 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.

## OTHER INFORMATION (CONTINUED)

### **PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES**

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities during the six months ended 30 June 2017 other than as an agent for clients of the Company or its subsidiaries.

### **CORPORATE GOVERNANCE**

The Board is committed to maintaining a high standard of corporate governance practices within the Group. Throughout the six months ended 30 June 2017, 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 Listing Rules, except that 3 non-executive directors of the Company were unable to attend the annual general meeting of the Company held on 30 June 2017 as stipulated for in code provision A.6.7 of the CG Code as they had other important business engagements at that relevant time.

### **MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS**

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") set out in Appendix 10 of the Listing Rules as its code of conduct for securities transactions by the directors of the Company. Having made specific enquiry of all directors of the Company, all directors confirmed that they have complied with the required standard set out in the Model Code throughout the six months ended 30 June 2017.

### **AUDIT COMMITTEE**

The Audit Committee of the Company (the "Audit Committee") has met with the external auditor of the Group, Messrs. Deloitte Touche Tohmatsu, to review the accounting principles and practices adopted by the Group and the unaudited consolidated results for the six months ended 30 June 2017 of the Group. The Audit Committee currently comprises 4 non-executive directors of the Company and 3 of whom, including the Chairman of the Audit Committee (the "Chairman"), are independent non-executive directors. The Chairman has the appropriate professional qualification and experience in financial matters.

## OTHER INFORMATION (CONTINUED)

### DISCLOSURE PURSUANT TO RULE 13.21 OF THE LISTING RULES

On 23 May 2014, the Company (as borrower) entered into a facility agreement (the "Facility Agreement I") 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 II") 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 III") 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.

On 18 March 2016, 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\$3,840,000,000 for a term of up to 36 months and a revolving loan facility in an aggregate amount of HK\$8,960,000,000 for a term of up to 36 months.

On 16 March 2017, the Company (as borrower) entered into a facility agreement (the "Facility Agreement V") with certain financial institutions (as lenders) in respect of a term loan facility in an aggregate amount of HK\$2,004,000,000 for a term of up to 36 months and a revolving loan facility in an aggregate amount of HK\$4,676,000,000 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 which 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.

**OTHER INFORMATION (CONTINUED)**

Pursuant to the terms of the Facility Agreement V 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 more of the issued share capital in the Company than any other direct or indirect shareholder of the Company; or
- (2) HSCL does not or ceases to have management control of the Company which means, as between HSCL and the Company, that (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 III, Facility IV and Facility V were made on 23 May 2014, 10 April 2015, 26 June 2015, 18 March 2016 and 16 March 2017 respectively.

**DISCLOSURE OF THE INFORMATION OF THE BOARD PURSUANT TO RULE 13.51B(1) OF THE LISTING RULES**

Pursuant to rule 13.51B(1) of the Listing Rules, changes in the information of the Board required to be disclosed in this report are as follows:

**Mr. SUN Jianfeng**

Mr. SUN Jianfeng was appointed as an executive director of the Company with effect from 1 June 2017.

**Mr. CHENG Chi Ming Brian**

Mr. CHENG Chi Ming Brian resigned as a non-executive director of Newton Resources Ltd with effect from 23 January 2017.

**Ms. WANG Meijuan**

Ms. WANG Meijuan waived to receive the directors' fee of HK\$200,000 per year with effect from 1 January 2017 while all other terms of the service agreement of director remain unchanged.

**Mr. TSUI Hing Chuen William**

Mr. TSUI Hing Chuen William resigned as an independent non-executive director of International Entertainment Corporation with effect from 10 June 2017.

**Mr. LAU Wai Piu**

Mr. LAU Wai Piu resigned as an independent non-executive director of International Entertainment Corporation with effect from 10 June 2017.

# FINANCIAL CALENDAR

**Announcement of interim results (unaudited)**

Tuesday, 29 August 2017

**Book close dates**

Tuesday, 3 October to Friday, 6 October 2017 (both dates inclusive)

**Latest time to lodge transfers for ascertaining the entitlement to the interim dividend**

4:30 p.m. on Friday, 29 September 2017

**Record date for the interim dividend**

Friday, 6 October 2017

**Payment date for the interim dividend**

on or about Tuesday, 21 November 2017

# CORPORATE INFORMATION

## GENERAL INFORMATION

### Board of Directors

#### Executive Directors

LIN Yong	<i>Deputy Chairman and Managing Director</i>
LI Jianguo	<i>Deputy Chairman</i>
SUN Jianfeng	

#### Non-executive Directors

JI Yuguang	<i>Chairman</i>
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

LO Wai Ho

### External Auditor

Deloitte Touche Tohmatsu

### 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

Tricor Investor Services Limited  
Level 22, Hopewell Centre  
183 Queen's Road East  
Hong Kong

### Website

[www.htisec.com](http://www.htisec.com)

## CORPORATE INFORMATION (CONTINUED)

### BOARD COMMITTEES

#### Audit Committee

LIN Ching Yee Daniel *Chairman*  
WANG Meijuan  
TSUI Hing Chuen William  
LAU Wai Piu

#### Executive Committee

LIN Yong *Chairman*  
SUN Jianfeng  
ZHANG Xinjun  
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*  
LIN Yong  
LI Jianguo  
CHENG Chi Ming Brian  
William CHAN