海通國際
HAITONG

Stock Code： 665.HK

Redefining Limits

Annual Report 2017

Redefining Limits

Haitong International excels by being innovative; responding quickly and creatively to the ever changing market place whilst putting great emphasis on forward thinking. It is becoming increasingly clear that the successful application of AI (Artificial Intelligence) to the provision of financial market solutions will become a key determinant of future success for leading investment Banks. With its sights set firmly on the future, Haitong International has been investing in AI and its related business applications at the departmental level and aims to be a thought leader in the new era of Intelligent Investment Banking.

AI sometimes uses symbols to represent information. The stellar motif on the cover page is embedded with a portfolio of symbols, denoting Haitong International's determination to develop AI and its vision to become a leading FinTech services provider.

Contents

Financial Highlights

Results

	For the year ended 31 December 2017	2016	Percentage change Increase/ (Decrease)
Revenue (HK$'000)	**7,195,021**	5,350,817	34
Net Profit Attributable to Shareholders (HK$'000)	**3,028,688**	1,680,225	80
Return on Shareholders' Funds (%) (Note 1)	**12.82**	7.82	–
Per share			
Basic Earnings Per Share (HK Cents)	**56.53**	31.76	78
Diluted Earnings Per Share (HK Cents)	**51.68**	31.18	66
Share Price			
– Highest (HK$)	**5.00**	5.59	(11)
– Lowest (HK$)	**4.12**	3.54	16

Financial Position

	31 December 2017	31 December 2016	Percentage change Increase/ (Decrease)
Shareholders' Funds (HK$'000)	**25,367,879**	22,449,024	13
Total Assets (HK$'000)	**130,223,838**	131,505,248	(1)
Number of Shares in Issue (Note 2)	**5,500,858,791**	5,336,534,474	3
NAV Per Share (HK$)	**4.61**	4.21	10

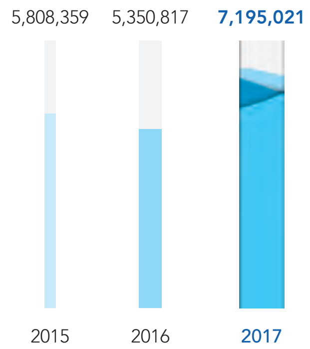
Notes:

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

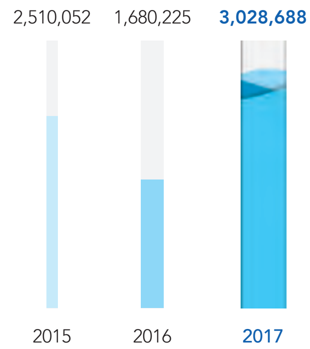
2. Certain equity rights conferred on share option holders were exercised during the year. Certain shareholders also elected for scrip dividend. Hence, the total number of shares of the company was increased to 5,500,858,791 as at 31 December 2017.

Financial Highlights

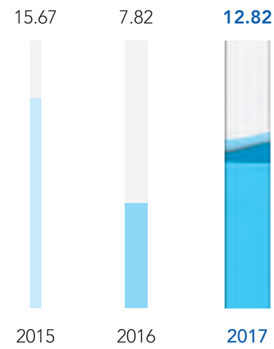
Revenue
(HK$'000)



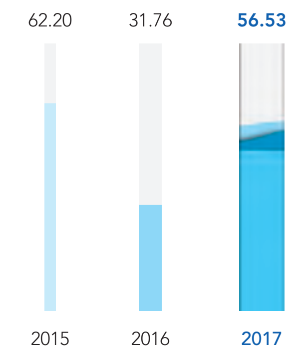
Net Profit Attributable to Shareholders
(HK$'000)



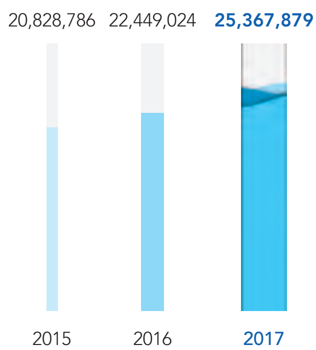
Return on Shareholders' Funds
(%)



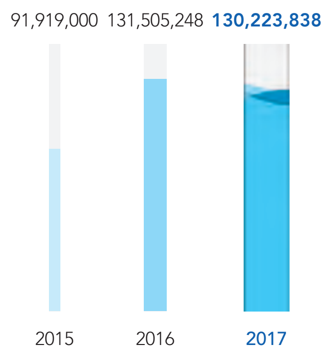
Basic Earnings per Share
(HK Cents)



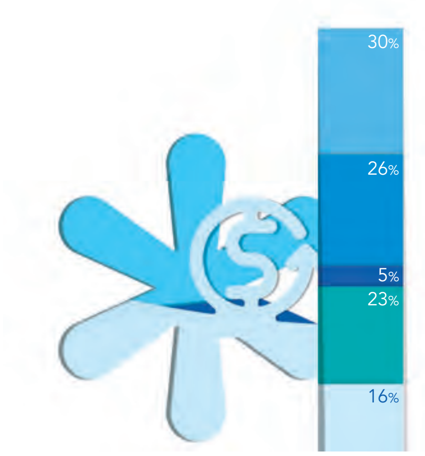
Shareholders' Funds
(HK$'000)



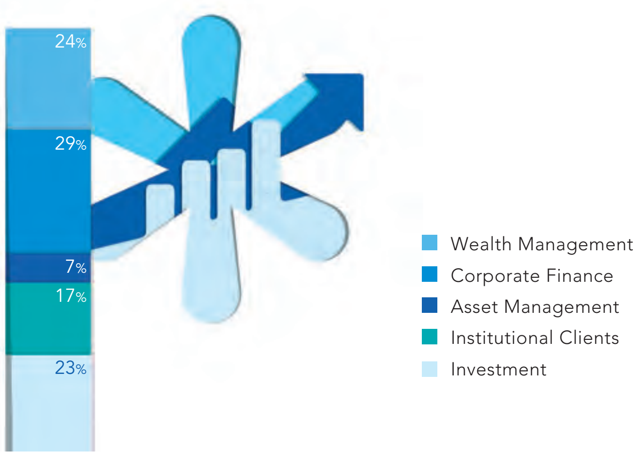
Total Assets
(HK$'000)



Analysis of 2017 Revenue
(For the year ended 31 December 2017)



Analysis of 2017 Profit
(For the year ended 31 December 2017)



Business Highlights

Global Footprint

The Company moves towards internationalization and has extended its business network from Hong Kong to Mainland China, Singapore, Japan, India, UK and US, acting as a bridge between East and West.

Business Segments = Wealth Management + Corporate Finance

Wealth Management

Engages in provision of a full range of financial services and investment solutions to retail and high-net-worth clients. Services provided include broking and dealing in securities, futures, options and bullion contracts, leveraged foreign exchange trading, over-the-counter products and risk management instruments sales, investment advisory service, financial planning service, insurance products and investment funds distribution services, custodian service as well as the provision of securities margin financing to clients.

Corporate Finance

Engages in provision of sponsoring and underwriting services to corporate clients for their fund raising activities in equity and debt capital markets, and also engages in provision of advisory service and financing solutions to corporate clients for their corporate actions such as mergers and acquisitions as well as assets restructuring, etc.

Network	Major Businesses
Hong Kong	– Investment Banking Services
Beijing, Shanghai	– Representative Offices
Singapore	– Bond Market Making – Trading in Futures* – Trading in Commodity – Custodial Services for Securities – Asset Management – Trading in Securities – Leveraged Foreign Exchange
Tokyo	– Investment Advisory
Mumbai	– Cash Equities – Investment Banking Services
London	– Investment Advisory
New York	– OTC Dealing in Corporate Equity Securities – Brokerage*

Note* Trading through local exchange members

Asset Management

Engages in provision of investment management services on diversified and comprehensive investment products including public funds, private funds, mandatory provident funds and discretionary accounts to individual, corporate and institutional clients.

Institutional Clients

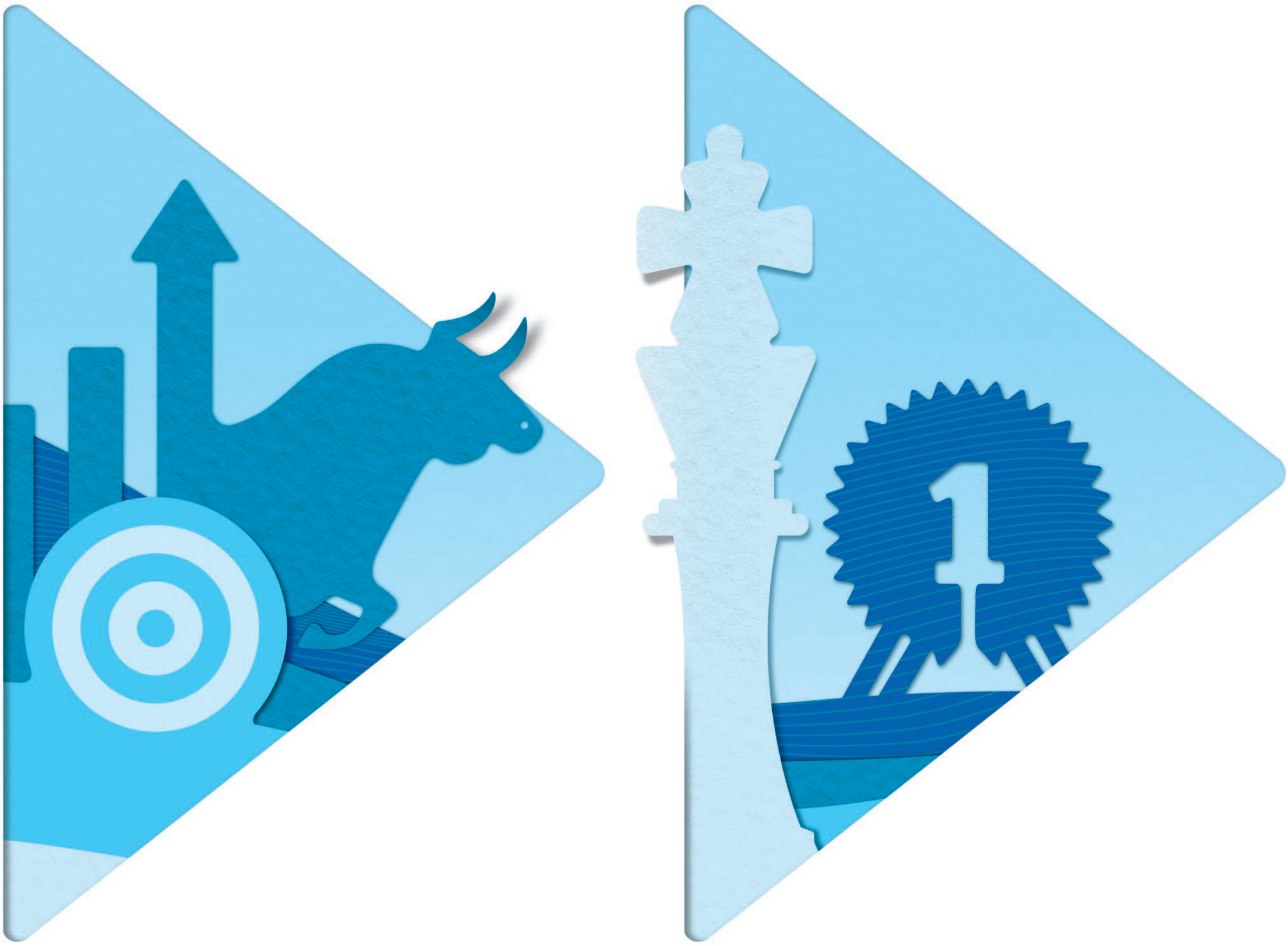
Engages in provision of cash equities sales and trading, prime brokerage, stock borrowing and lending, equity research, investment and financing solutions, and issuance and market-making for a wide variety of financial instruments, such as fixed income products, currency and commodity products, futures and options, exchange traded funds and derivative products in major financial centers across the world for global institutional clients.

Investment

Aims to enhance and intensify the synergies among various business segments of the Company through investing in investment funds and private equity investments. It focuses on exploring investment opportunities with reasonable returns, thereby expanding customer relationships and promoting the overall growth of the Company's business.

Keep One Step Ahead

Haitong International will take a step forward based on the established businesses to expand its business coverage in breadth and in depth and maintain its development momentum.



Highlights of the Year

Feb 2017

- Haitong International was once again named as the "Best ETF Market Maker - Hong Kong" in the "Best of the Best Awards 2016" organized by "Asia Asset Management"
- "Haitong MPF Conservative Fund" was named as the "Best 1 Year Performance - MPF Conservative fund" in "The 2017 MPF Awards" co-organized by "Asia Asset Management" and MPF Ratings for second consecutive year

Mar 2017

- 2016 Annual Results Announcement

April 2017

Bloomberg Businessweek
彭博商業周刊/中文版
Financial Institution Awards 2017

- Haitong International won two Excellence Awards, "M&A Deal" and "Derivatives Provider of the Year", in "Financial Institution Awards 2017" held by "Bloomberg Business Week"

May 2017

- Haitong International was named as "Best Investment Bank", "Best Broker", "Best ECM House", and "Best DCM House" among Chinese financial institutions in Hong Kong in the "FinanceAsia Country Awards 2017"

Aug 2017

- Haitong International was named as "Active Participation Award 2017 – Exchange Participant" and "Active Participation Award 2017 – Liquidity Provider"

Sep 2017

- Moody's assigned a "Baa2" long-term issuer and "Prime-2" short-term issuer ratings to Haitong International
- Haitong International named as the "Securities House of the Year" in the "Asia Risk Awards 2017"

Oct 2017

- Haitong International won Top Individual Awards in "The Thomson Reuters Analyst Awards 2017"

THOMSON REUTERS
ANALYST AWARDS
2017 WINNER

Nov 2017

- Haitong International has garnered the "Best Tracking Error 2nd Runner-Up", "Most Innovative Product", "Best ETF Participating Dealer" and "Best ETF Market Maker" awards from the "Offshore China Fund Awards 2017"

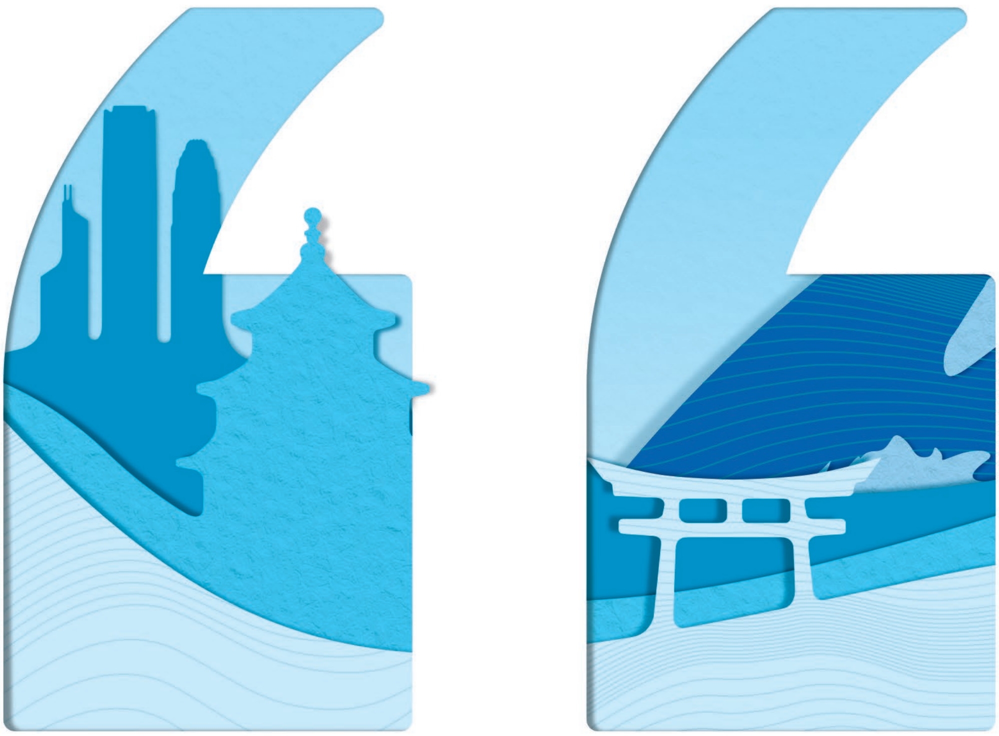
Dec 2017

- Haitong International Securities Group has garnered 14 "Best Analyst" awards, and its Hong Kong-based industrial analyst was voted as the "Best Regional Analyst" for the sector in Asiamoney Brokers Poll 2017
- Haitong International was named as the "Best Asian IB" in the "GlobalCapital Asia's Regional Capital Market Awards 2017"

2017
GlobalCapital Asia Awards

From Regional to Global

Master the Global Dynamics



Haitong International has extended its global footprint further to the two most important international financial centers – New York and London, transforming from a leading regional player that already has a strong presence in Hong Kong, Tokyo, Singapore and Mumbai to a global player.

Chairman's Statement

QU Qiuping
Chairman

Economic, Market and Business Review

In 2017, economic performance around the world was seen to outperform the expectation, evidenced by continuous economic recovery of the U.S, diminishing unemployment rate and the steady growth of manufacturing, investment and consumption. Driven by the economic upside, the three major indexes ratcheted up to the historic highs. The Eurozone, having been struggling in the quicksand over years, firmly marched into the recovery last year where enterprise profits and investor confidence came around, resulting in an accelerating economic growth. For U.S., the Fed carried forward the progress of monetary policy normalization and kicked off the balance sheet reduction in October 2017. For Europe, the ECB attempted to include the debt reduction in its agenda. However, given the fact that to strengthen the recovery is considered as a priority, the quantitative easing policy will still prevail in the short term.

The economic performance in China beat the expectation with a growth of GDP up to 6.9% for 2017, representing the first rise since 2011. Thanks to the economic premium resulting from the supply side and the policy of "cutting overcapacity, reducing excess inventory, deleveraging, lowering costs, and strengthening areas of weakness", weak enterprises have been being weeded out so that the market concentration becomes higher with better margin for the surviving companies. As the L-shaped economic growth has become steady, the economy of China is expected to take on a steady yet robust path of development. Most importantly, new dynamics – consumption and high-tech sectors are becoming important props of the Chinese economy with the quality of economic growth improved.

In the wake of a slow-paced economic growth in 2016, Hong Kong achieved a satisfactory performance in 2017 with an average growth rate of 3.9% for the first three quarters. Benefiting from the wealth effect resulting from the shortage in work force and the boom of asset market (e.g. real estate and stock markets), private consumption saw a steady growth. Fuelled by the economic rebound of the globe, retail and tourism outperformed that of the previous year. The Hang Seng Index registered a year-on-year growth of 36% and breached 30,000 points at a time, making Hong Kong become one of the focused markets in the world.

In 2017, Haitong International stepped forward to capture opportunities to develop each of its business line in a balanced fashion with improvement of its risk management system to heighten its operating efficiency. Moreover, focus was put on its organic growth. In this light, the total asset for 2017 reached HKD130.2 billion (2016: HKD131.5 billion). Keeping the balance sheet from expanding, the Company achieved the net profit of HKD3.03 billion, representing an increase of 80%. During the period, a breakthrough was made for the internationalization strategy of Haitong International – it announced the proposed acquisition of the entire share capital of Haitong UK and Haitong USA from Haitong Bank in December 2017.

Future Prospect

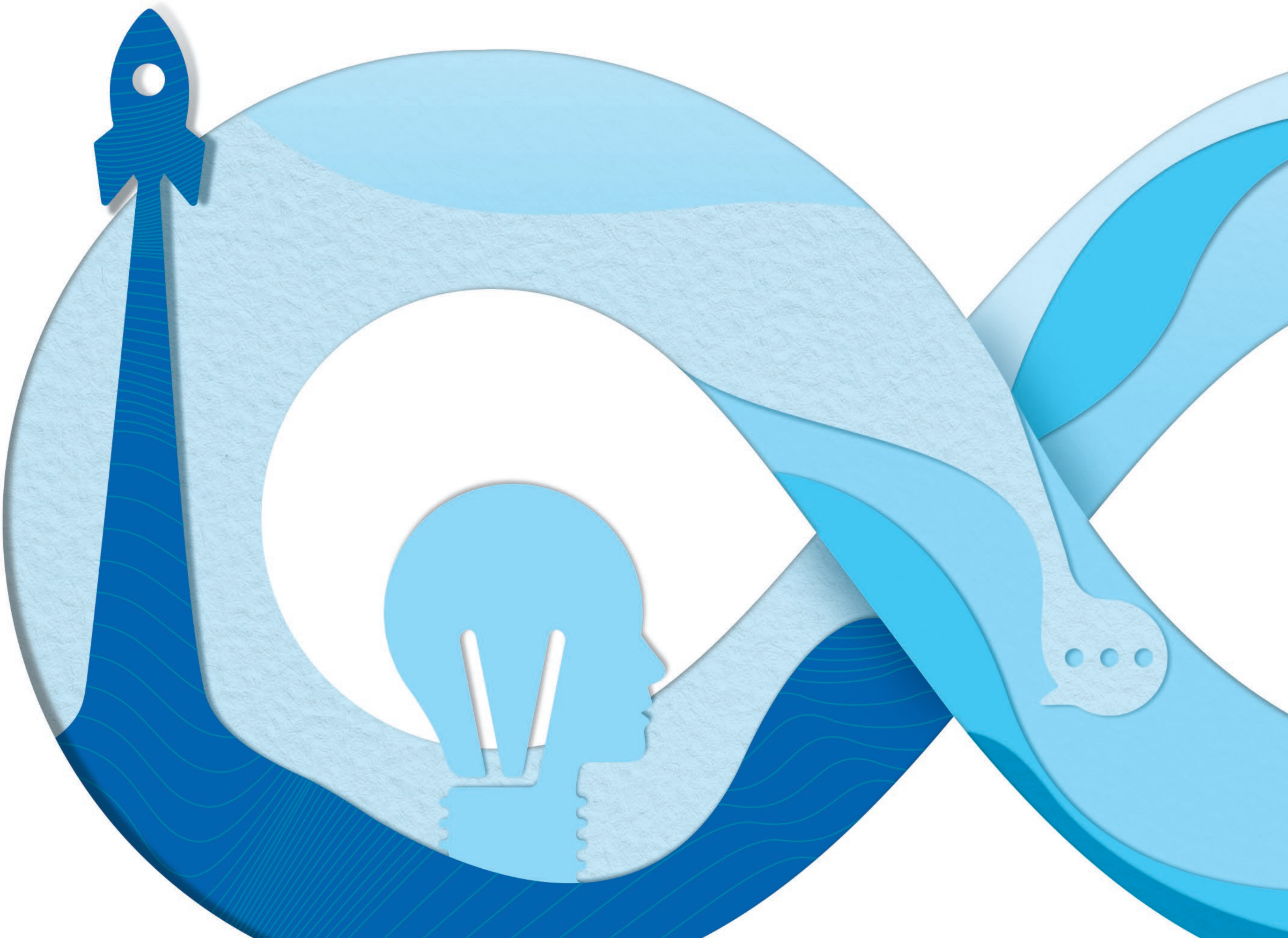
In 2018, the 40th anniversary of Chinese economic reform and the decisive stage in finishing building a moderately prosperous society in all respects, is the crucial year for 19th National Congress of the Communist Party of China and 13th Five Year Plan. It is foreseen that the Chinese economy will benefit from the structural and emerging business development and remain in a steadfast and optimistic momentum. With the progress of construction of Guangdong-Hong Kong-Macao Bay Area and the fledging Stock Connects, Hong Kong will absorb more investors from China and overseas. As a highly export-oriented economy, the prospect of Hong Kong will lie on external economies, especially the Chinese economy. As long as the Chinese economy moves upward and European and U.S. economies recover steadily, it is expected the growth of Hong Kong will remain steady provided that there is no occurrence of significant financial risks.

Despite the current burgeoning economic growth worldwide and positive market sentiment, uncertainties are still lingering. As a case in point, the monetary policy normalization carried forwarded by the Fed might set off capital flight from the emerging market. Moreover, the old problems like aging population and structural imbalance of employment force in Europe have not been settled whilst the Brexit, migrant crisis and local security issues are still in the air, posing challenges to the economic environment in the future. For China, the economy will have a bullish run in 2017. However, from a macroscopic view, the high leverage and liquidity risks are still hovering. Microscopically, the problems of excess capacity and low efficiency cannot be solved overnight. Therefore, we should keep the risks at bay while we are expanding our businesses and put our efforts on the long term reform.

Looking forward, in 2018, Haitong International will take a step forward based on the established businesses to expand its business coverage in breadth and in depth and maintain its development momentum. Moreover, the Company will also open up more new opportunities around the world and continue its internationalization. Improvement and enhancement of our middle to back infrastructure, the building of an efficient operating system and rigorous yet effective risk management system, application of fi-tech and betterment of talent management and training will be our focus. In this way, we strive to become an international investment bank with international competitiveness, systemic importance and brand influence.

QU Qiuping
Chairman

Hong Kong, 14 March 2018



Infinity Exploration

We think forward and has established the Global Markets Artificial Intelligence Trading Committee to further navigate the AI trend.

CEO's Review

In 2017, Haitong International achieved an historical high net profit of HKD3.03 billion, representing an increase of 80%, whilst total assets remained stable. The increase was attributable largely to strenuous efforts made by the Company to increase growth organically, as well as to synergistic effectors and economies of scale achieved across business lines. As one of the most comprehensive financial services providers in the Hong Kong market, Haitong International, granted the Baa2 rating and BBB long term credit rating by Moody's and Standard and Poor's respectively, has built a sophisticated risk management system, in line with market trends and international standards. Currently, the Company has set up its financial service network to cover many of the world's major international capital markets, including Hong Kong, Singapore, New York, London, Tokyo and Mumbai, with the aim of becoming an internationally competitive global financial services provider with systemic importance and brand influence.

Market Review

In 2017, the world enjoyed a period of continued economic recovery, the U.S. continued its bullish run and the Eurozone reversed its lackluster performance of the past few years. U.S. tax reform served as a shot in the arm for the market sentiment and, as uncertainties and risks waned, risk appetite in the financial market trended upwards. Last year, adhering to the overarching theme of "stable growth", the Chinese economy made headway at a blistering pace. After a round of supply-side reform, the industry structure was optimized and the quality and efficiency was improved. The new economy and new dynamics injected new surge of energy to growth.

Against the backdrop of overall economic resuscitation, the Hong Kong stock market also had a dazzling performance with the Heng Seng index up 36%, outrunning the major markets in the world. The Stock Connects provided an undiminishing thrust, shoring up Hong Kong's share prices while the trading volume in the Stock Connects chalked up new records. Likewise, the performance of the IPO market was brilliant – the number of IPOs increased by approximately 34% over the previous year and for the number of new shares listed on the Main Board and the GEM reached a historic high.

LIN Yong

Deputy Chairman and CEO

Business review and analysis

Haitong International achieved another new record for its results in 2017. The total income (including revenue; other income and gains or losses; share of results of investments accounted for using the equity method) of the Group for 2017 was HKD7.57 billion, representing a year-on-year increase of 42% when compared with HKD5.33 billion for 2016. The ratio of expense to income decreased from 63% in 2016 to 53%, indicating that the cost was contained at a reasonable rate despite the increase of income and the ratio of expense to income was optimized. As of 31 December 2017, the total assets reached HKD130.2 billion, remaining stable when comparing with that for 2016. The total liability slightly decreased from HKD109.1 billion to HKD104.9 billion. The net profit for 2017 was HKD3.03 billion, representing a significant year-on-year growth of 80% when compared with HKD1.68 billion for 2016. The strategic layout of Haitong International had been well-developed and the Company will use its organic growth to give full play to its core corporate competitiveness.

Through coordinated development of investment banking, asset management and trading business, Haitong International has secured a contingent of clients across the world, generating synergic effects through cross-selling of different business sectors. The complementary interactions between sectors expedited the development of the primary market and secondary market businesses, form integrated bond and equities chain composing investment, issuance, sales and trading. In consequence, the Company has been able to provide clients with customized and diversified financing, investment and trading solutions.

Boasting its Hong Kong accomplishments, Haitong International has been entrenching its global presence and networks. At present, the brand prestige of Haitong has proven its significance and influence in the Asian-Pacific markets. To contrive a global market-oriented business management system that can address to both local and international demands, Haitong international implements everything it considers necessary in the system in detail strictly in compliance with rules and regulations.

1. Leading Businesses in the market

In 2017, Haitong International maintained its leading position in corporate finance. For equity financing, it ranked second among the investment banks in terms of number of IPO projects underwritten. For bond financing, it has completed 110 projects in aggregate and chalked up a record. It also ranked top and third in the list of investment bankers for Chinese offshore bond issuance in terms of number of project undertaken and underwriting amount respectively. For USD dollar high-yield bonds in Asia (excluding Japan), Haitong International ranked top among the financial services institutions in the world in terms of underwriting amount and number of projects undertaken. During the year, led by and with the help of Haitong International, the issuance of offshore preference shares of Postal Savings Bank of China was successfully completed, being the largest bond issuance in Asia according by Regs and the second largest issuance in the bond issuance in the world so far. Meanwhile, the USD bond issuance of China Evergrande Group led and underwritten by Haitong International represented the largest issuance of Chinese real estate bonds.

The Company successfully upgraded its mergers and acquisitions with breakthroughs during the year. In 2017, Haitong International completed a number of local and cross-border M&A projects with the focus on the sectors like consumption, finance, energy and medicine. The projects were provided in different forms of financial derivatives in order to help its clients fulfill their M&A requirements in the capital market and gain access to Europe and North America. Therefore, the Company was well-recognized in the global cross-border M&A market. In the future, Haitong International will continue to adhere to the "Go Global" and "Belt and Road" strategy to provide one-stop cross-border M&A services for different kinds of Chinese enterprises. Haitong International has been striving for yielding long-term and stable returns for its shareholders and investors. In 2017, Haitong International fully launched its equity investment business in breadth and in depth and achieved satisfactory results in the both private equity market and open market.

Haitong International has been maintaining rapid momentum of its asset management business with its assets under management ("AUM") growing at a burgeoning rate. Not only is its performance enhanced significantly, but its collection of product offerings also becomes more rich and comprehensive with growing recognition among its peers. As at the end of 2017, the AUM of Haitong International exceeded HKD66 billion, representing a year-on-year increase of approximately 18%. With outstanding investment performance, the cumulative returns of the 4 funds launched by Haitong International for 2017 topped the list of Lipper Rating for similar funds. While beefing up existing fund management, the Company captured the opportunity in time and launched several types of funds to widen its fund spectrum. In 2017, a total of 11 new funds were launched to cater to various investment needs of customers. Moreover, Haitong International also upgraded its wealth management business during the year and launched diversified over-the-counter products and third-parties products to cater to different investment needs.

For derivatives business, the Company also garnered awards for the market making business for ETFs and options on individual stocks – it was granted the Best ETF Market Maker by the Chinese Asset Managers Association of Hong Kong (HKCAMA) and Bloomberg – Offshore China Fund Awards for the second year. During the year, the Company ranked top and third in terms of number of underlying shares covered and net capital inflow in the market. Moreover, Haitong International's derivative business took the lead in the Hong Kong callable bull/bear contract and derivatives warrant market and topped the list of the issuers. In 2017, our financial product business became more diversified and standardized to address to customers' financing needs. With standardized and bespoke financial products, the Company is able to provide its customers with one stop investment and financing solutions.

The market making platform of the fixed income, currency and commodity became full-fledged in the Asia-Pacific region during the year. For market making business for Asian USD bonds, the Company has established a comprehensive and integrated business chain. Currently, the marketing making business of Asian USD bonds covers over 1,300 investment grade and high yield bonds in the Asia-Pacific region with more than 460 active customers of all kinds. Meanwhile, Haitong International has been achieving breakthroughs in e-trading for foreign currency and commodity futures and is the first and only one liquidity provider for both RMB/USD options and RMB Gold futures on the Hong Kong Stock Exchange for years. In 2017, it was named as the "Active Market Participant" and "Liquidity Provider" for USD/CNH options by the Hong Kong Stock Exchange in 2017.

The institutional equities business yield fruitful results, fueling the Company's brand expansion in 2017. Leveraging its equities research networks in the Greater China region, Japan, India and South Korea through the institutional equities trading network, being the first Chinese financial services provider who can provide algorithm execution accessible to the American Stock Exchange during the year. Besides, the quality research of the stocks in the Asia Pacific region had been being the catalyst for the brand development of Haitong International. In 2017, the Company was awarded a record number of accolades in the internationally well respected Thomson Reuters and AsiaMoney polls.

2. Sound, rigorous and advanced middle and back office management system

In 2017, Haitong International upgraded its global client and account management system from the ground up and achieved the central management of its clients and accounts round the globe coupled with its strengthening client stratification and anti-money laundering management, to give full support to international trading and sales for its clients. Meanwhile, in Hong Kong, the Company enhanced its global operations, step by step, to facilitate business expansion in the global capital market. At the same time, the Company also augmented its compliance management, risk management and credit risk management, providing potent protection and buttress for its internationalization.

Haitong International always considers risk management as a cornerstone of its corporate development with the focus on "comprehensiveness, real-time operation, measurability and prescience". On this basis and with an overall perspective, the Company created a holistic risk management system and implemented sound risk management measures for each business. Haitong International was granted the Baa2 long term issuer rating (investment grade) and Prime-2 short term issuer rating by Moody's for the first time this year with the rating outlook as "stable". Therefore, Haitong International is the first Hong Kong-based subsidiary of the Chinese securities house receiving independent rating from Moody's, which is beneficial to reducing its financing cost in the future. In addition, for its first participation in the Asia Risk Awards 2017, it was named as the "Securities House of the Year", manifesting the recognition for its management by international pundits and medias.

Haitong International has foreseen the importance of fin-tech and has aggressively and actively deployed more resources into IT and systems, particularly in the build out of the execution platform. The Company spared no effort to put forward the construction and building of smart platform and big data management platform to develop safe and excellent broad-based IT competence.

3. Being committed to social responsibility

In 2017, Haitong International continued to be conscious of the well-being of Hong Kong and supported the charity as a contribution to Hong Kong's soundness and prosperity. Through Haitong International Charitable Foundation, Haitong International strives to promote charity projects and sustainable projects regarding financial development. For more than 10 consecutive years, Haitong International has been recognized as a "Caring Company" by The Hong Kong Council of Social Service, and has also been granted the "Caring Organization" logo since 2015. In 2017, Haitong International also supported an array of activities run by non-profit making organizations and became a member of the Better Hong Kong Foundation, a humanitarian organization. In light of this, Haitong International has been helping both to promote the development of Hong Kong, economically and socially, and to deliver positive messages in order to foster good communication, and deeper cooperation, between China, Hong Kong and other countries in the world.

In addition, Haitong International extended its social responsibility to the sport circle by joining hands with the Windsurfing Association of Hong Kong and giving full support to the windsurfing activities in Hong Kong. In this way, the Company hopes to help train windsurfing representatives for Hong Kong, and this is well-received by the community.

Future Prospects and Strategies

In 2018, we expect that the global economy will remain on a recovery track. However, the risk factors ahead should not be underestimated. With the Fed's commitment to reducing balance sheet exposure, and the ECB's commitment to scaling back, or even ending, austerity measures, the shift to monetary policies in a worldwide scale is worrisome. Moreover, previous easing financial policies also served as a hot bed for the risks and weaknesses existing in certain local markets.

Given this macroeconomic backdrop, which brings a raft of challenges, Haitong International will maintain and develop its core strategic goal, namely, "to expand sell-side businesses, to strengthen capital based intermediary businesses and to develop excellence in its buy-side businesses", by leveraging its established operations and embracing new trends and requirements. This will enable the Company to create a management system worthy of a modern international financial services provider. The Company will fully support the development of its wealth management business and enrich its product lines to cater for customer needs, using practical solutions.

As to its globalization strategy, Haitong International achieved strategic breakthroughs in the international arena in 2017. For investment banking business, the Company completed the largest IPO project for a private enterprise in India for the first time and completed the first USD bond issuance for non-Chinese enterprise and the first SGD bond issuance. Its global market business successfully secured and served clients worldwide and the number of clients (from 35 countries) has reached a new high. Moreover, its service was also extended from single trading session to round-the-clock trading. In addition, Haitong International purchased entire share capitals of Haitong U.K. and Haitong U.S. from Haitong Bank to further consolidate its licenses and businesses to identify more new customers for the positive development of overseas market.

Using its core strength in Hong Kong as a base, as ever, the Company will further solidify and grow its international presence, using its office network for international reach, and continuing to strengthen its Hong Kong foundations. It will continue to grow its talent pool, whilst tightening risk control and compliance. This will enable the Company to forge robust and effective global operation systems, using big data management and smart IT applications. Haitong International strives to be a global financial services provider with Chinese characteristics, international competitiveness, systemic importance and brand influence. This will enable the Company to open up more opportunities to Chinese enterprises in international markets, creating a bridge between China and the global community.

LIN Yong
Deputy Chairman and CEO

Hong Kong, 14 March 2018

Financial Review

Overview on the Group's Financial Performance

During the year ended 31 December 2017, the Company and its subsidiaries (collectively referred as the "Group") generated total income (including revenue, other income and gains or losses, and share of results of investments accounted for using the equity method) of HK$7,573 million, representing an increase of 42% from HK$5,330 million for the year ended 31 December 2016. Profit for 2017 was HK$3,029 million (2016: HK$1,680 million), 80% higher than that of 2016. Increase in the Group's total income is attributable to the organic growth of the Group, synergic effect by the Group's different business segments and economies of scale.

Among the major revenue streams, net investment gains increased by 88% from HK$1,608 million for 2016 to HK$3,029 million for 2017, while growth was recorded for both commission and fee income and interest income, which increased 17% (2017: HK$2,014 million; 2016: HK$1,724 million) and 7% (2017: HK$2,153 million; 2016: HK$2,018 million) respectively.

Share of results of investments accounted for using the equity method achieved a record-breaking growth from loss of HK$28 million for 2016 to gain of HK$471 million for 2017. The growth is due to significant increase in net profit of investment funds held by the Group that are classified as associates or joint ventures.

Operating costs (excluding income tax expense) increased by 20% from HK$3,338 million for 2016 to HK$4,001 million for 2017. Increase in operating costs is mainly due to increase in employee benefits costs and finance costs. On the other hand, the Group's impairment losses decreased by HK$77.4 million (or 24%) as no additional impairment provision on investments was recognized during 2017. Ratio of operating costs to total income reduced from 63% for 2016 to 53% for 2017 due to percentage increase in total income outweighed percentage increase in operating costs, coupled with prudent cost control exercised by the Group.

The Group's total assets, total liabilities and net assets remained steady as compared between 31 December 2017 and 31 December 2016. Total assets as at 31 December 2017 amounted to HK$130.2 billion (31 December 2016: HK$131.5 billion), representing a decrease of HK$1.28 billion. Total liabilities as at 31 December 2017 amounted to HK$104.9 billion (31 December 2016: HK$109.1 billion), representing a decrease of HK$4.20 billion. Net assets (which are also shareholders' equity) amounted to HK$25.37 billion (31 December 2016: HK$22.45 billion), representing an increase of HK$2.92 billion. The Group's gearing ratio (calculated by total borrowings divided by shareholders' equity) decreased from 265% as at 31 December 2016 to 227% as at 31 December 2017 due to decrease in total borrowings and increase in shareholders' equity. Net assets per share as at 31 December 2017 was HK$4.61 per share, representing an increase of 10% from HK$4.21 per share as at 31 December 2016.

Return on shareholders' funds increased from 7.82% for 2016 to 12.82% for 2017, which is due to increase in profits while shareholders' equity remained relatively stable.

Revenue

Revenue of the Group for the year ended 31 December 2017 was HK$7,195.0 million (2016: HK$5,350.8 million). The major revenue streams and its proportion to total revenue are detailed below:

Revenue	2017 HK$'000	2017 %	2016 HK$'000	2016 %
Commission and fee income	2,013,575	28.0	1,724,162	32.2
Interest income	2,152,832	29.9	2,018,263	37.7
Net investment gains	3,028,614	42.1	1,608,392	30.1
	7,195,021	100.0	5,350,817	100.0

The Group's net investment gains are mainly contributed by net investment gains derived from the Group's corporate finance, institutional clients and investment segments. During the current year, net investment gains increased by 88.3% and is accounted for the largest proportion among the key revenue streams. Analysis on net investment gains of respective segments are detailed in "Analysis by business segments" below.

The Group's commission and fee income increased by 16.8% is mainly contributed by increase in asset management fee and performance fee income, commission on securities dealing and broking, and financial advisory and consultancy fee income.

The Group's interest income increased by 6.7% is mainly contributed by increase in interest income from financing solutions provided to clients but was partly offset by decrease in interest income from margin financing (as a result of decrease in margin loan size) during the year.

Analysis by Business Segments

A summary of revenue by different business segments is set out below:

Segment revenue	2017 HK$'000	%	2016 HK$'000	%
Wealth management	2,193,303	30.5	2,018,916	37.7
Corporate finance	1,845,534	25.7	1,278,461	23.9
Asset management	328,920	4.6	175,949	3.3
Institutional clients	1,642,471	22.8	1,497,729	28.0
Investment	1,184,793	16.4	379,762	7.1
	7,195,021	100.0	5,350,817	100.0

A summary of segment profit before tax by different business segments is set out below:

Segment profit before tax	2017 HK$'000	%	Segment margin*	2016 HK$'000	%	Segment margin*
Wealth management	848,157	23.7	38%	684,516	34.4	34%
Corporate finance	1,044,032	29.2	56%	655,174	32.9	51%
Asset management	261,239	7.3	79%	140,565	7.1	80%
Institutional clients	596,328	16.7	34%	537,834	27.0	36%
Investment	822,483	23.1	58%	(25,616)	(1.4)	(7%)
	3,572,239	100.0	47%	1,992,473	100.0	37%

* Calculated based on segment profit before tax divided by the sum of segment revenue, other income and gains or losses and share of results of investments accounted for using the equity method.

Growth in revenue was recorded across all business segments of the Group. Segment margin remained relatively stable between 2017 and 2016, except for investment segment margin growing much wider.

Review on financial performance in each of the business segments are detailed below.

Wealth management segment

Wealth management segment engages in provision of a full range of financial services and investment solutions to retail and high net-worth clients. Services provided include broking and dealing in securities, futures, option and bullion contracts, leveraged foreign exchange trading, over-the-counter products and risk management instruments sales, investment advisory service, financial planning service, insurance products and investment fund distribution services, custodian service as well as the provision of securities margin financing to clients.

Analysis of results

	2017 **HK$'000**	2016 HK$'000	+/-%
Commission and fee income	**757,158**	579,157	+30.7
Interest income	**1,286,919**	1,439,759	-10.6
Net investment gains	**149,226**	–	N/A
Segment revenue	**2,193,303**	2,018,916	+8.6
Other income and gains or losses	**28,999**	–	N/A
	2,222,302	2,018,916	+10.1
Segment expenses	**(1,374,145)**	(1,334,400)	+3.0
Segment profit before tax	**848,157**	684,516	+23.9
Segment margin (%)	**38**	34	+4

Segment revenue

Increase in commission and fee income is mainly due to growth in both market share and market turnover. In addition, as result of transformation of this segment from traditional brokerage to wealth management with a wide variety of financial services and investment solutions offering, other fee-based income such as financial advisory and consultancy fee income demonstrated a significant growth.

Interest income was decreased due to drop in margin loan size. The Group's margin loans scaled down from HK$20.8 billion as of 31 December 2016 to HK$16.4 billion as of 31 December 2017. Decrease in margin loan size is due to implementation of a more prudent margin lending policy from risk management perspective. On the other hand, net investment gains, which mainly represents spread income from distribution of debt securities and over-the-counter products (such as equity-linked notes, currency-linked products, etc.) to wealth management clients was first recorded in this segment. Recognition of the spread income is also a reflection of the Group's capability in expanding product offering from margin financing to other wealth management products in meeting investment demands from retail and high net-worth clients.

Segment profit before tax and segment margin

During the transformation process in 2017, revenue streams of this segment have been diversified. Segment revenue recorded a growth of 8.6% while proportion of interest income to segment revenue decreased. As a result of change in revenue mix, finance costs allocated to this segment remained stable during the current year. Consequently, segment profit before tax increased by 23.9% and segment margin increased from 34% for 2016 to 38% for 2017.

Corporate finance segment

Corporate finance segment engages in provision of sponsoring and underwriting services to corporate clients for their fund raising activities in equity and debt capital markets, and also engages in provision of advisory service and financing solutions to corporate clients for their corporate actions such as mergers and acquisitions as well as assets restructuring, etc.

Analysis of results

	2017 HK$'000	2016 HK$'000	+/-%
Commission and fee income	**754,665**	823,265	-8.3
Interest income	**617,594**	417,846	+47.8
Net investment gains	**473,275**	37,350	+1,167.1
Segment revenue	**1,845,534**	1,278,461	+44.4
Other income and gains or losses	**2,415**	1,989	+21.4
	1,847,949	1,280,450	+44.3
Segment expenses	**(803,917)**	(625,276)	+28.6
Segment profit before tax	**1,044,032**	655,174	+59.4
Segment margin (%)	**56**	51	+5

Segment revenue

Underwriting and placing commission increased during the year. In particular, underwriting and placing commission from fund raising activities in debt capital markets increased substantially by 202.2%.

On the other hand, merger and acquisitions ("M&A") related financial advisory and consultancy fee income recorded a decrease as compared with last year, but such decrease was outweighed by increase in revenue from financing solutions provided to corporate clients in M&A projects. Interest income from financing solutions provided to corporate clients recorded an increase of 47.8%, and investment gains from M&A financing (in the form of investments) recorded a record breaking growth from HK$37.4 million for 2016 to HK$473.3 million for 2017. M&A related income contributes substantially on the growth of segment revenue.

Segment profit before tax and segment margin

Increase in segment expense is mainly attributable to increase in segment direct expenses, operating costs of supporting units allocated to this segment, and finance costs.

Percentage increase in revenue exceeded percentage increase in segment expense, leading to segment margin widening from 51% for 2016 to 56% for 2017.

Asset management segment

Asset management segment engages in provision of investment management services on diversified and comprehensive investment products including public funds, private funds, mandatory provident funds and discretionary accounts to individual, corporate and institutional clients.

Analysis of results

	2017 HK$'000	2016 HK$'000	+/-%
Segment revenue – commission and fee income	328,920	175,949	+86.9
Segment expenses	(67,681)	(35,384)	+91.3
Segment profit before tax	261,239	140,565	+85.8
Segment margin (%)	79	80	-1

Segment revenue

Increase in segment revenue is mainly attributable to increase in assets under management and the average management fee rate charged by the Group.

Segment profit before tax and segment margin

Percentage increase in segment profits before tax is less than percentage increase in segment revenue, which is due to higher percentage increase in segment expense. Increase in segment expense is due to increase in operating costs of supporting units allocated to this segment and segment direct expenses. As a result, segment margin decreased slightly from 80% for 2016 to 79% for 2017.

Institutional clients segment

Institutional clients segment engages in provision of cash equities sales and trading, prime brokerage, stock borrowing and lending, equity research, investment and financing solutions, and issuance and market-making for a wide variety of financial instruments such as fixed income products, currency and commodity products, futures and options, exchange traded funds and derivative products in major financial centers across the world for global institutional clients.

Analysis of results

	Fee and commission income		Interest income		Net investment gains		Total		
Business	**2017 HK$'000**	2016 HK$'000	**2017 HK$'000**	2016 HK$'000	**2017 HK$'000**	2016 HK$'000	**2017 HK$'000**	2016 HK$'000	+/-%
Fixed income, currency and commodities	**–**	–	**14,796**	–	**669,902**	895,427	**684,698**	895,427	–23.5
Institutional equities	**172,832**	145,791	**233,523**	160,658	**551,418**	295,853	**957,773**	602,302	+59.0
Segment revenue	**172,832**	145,791	**248,319**	160,658	**1,221,320**	1,191,280	**1,642,471**	1,497,729	+9.7
Other income and gains or losses							**7,984**	–	N/A
							1,650,455	1,497,729	+10.2
Segment expense							**(1,156,640)**	(959,895)	+20.5
							493,815	537,834	-8.2
Share of results of investments accounted for using the equity method							**102,513**	–	N/A
Segment profit before tax							**596,328**	537,834	+10.9
Segment margin (%)							**34**	36	-2

Total segment revenue (including share of results of investments accounted for using the equity method)

Decrease in revenue for fixed income, currency and commodities is attributable to the credit spreads remained at historically low levels and fluctuated in a narrow range.

All revenue streams for institutional equities business recorded an increase, in particular substantial increase of 45.4% and 86.4% were recorded for interest income and net investment gains respectively.

Increase in fee and commission income is mainly attributable to increase in brokerage commission and advisory fee income, which is due to increase in number of institutional clients on-boarded, coupled with the enhancement of sales network for the institutional equities business, such as the acquisition of Haitong Securities India Private Limited in late 2016.

Increase in interest income is attributable to the growth in stock borrowing and lending activities, and the increasing demands from institutional clients for risk management and financing solutions. Average interest-bearing assets attributable to institutional equities business also see a growth during the current year.

Increase in net investment gains is attributable to a substantial increase in the market making activities in different types of financial products such as exchange traded funds, listed options and exchanged traded derivatives (including warrants and callable bull/bear contracts), and increase in clients' demands for tailored-made financial products such as total return swap and different types of notes, which resulted in increase in spread income from financial product issuance.

Segment profit before tax and segment margin

Increase in segment expense is due to the increase of employee benefit costs arising from expansion of workforce for extending the coverage of this segment in major financial centers, and the increase in operating costs of supporting units allocated to this segment and segment direct expenses. Percentage increase in segment expense outweighed the percentage increase in total segment revenue, and thereby decreasing the segment margin from 36% for 2016 to 34% for 2017.

Investment segment

The investment segment aims to enhance and intensify the synergies among various business segments of the Group through investing in investment funds and private equity investments. It focuses on exploring investment opportunities with reasonable returns, thereby expanding customer relationships and promoting the overall growth of the Group's business.

Analysis of results

	2017 HK$'000	2016 HK$'000	+/–%
Net investment gains			
– Net gains (losses) arising from financial assets/ liabilities at fair value through profit or loss	**576,611**	(296,908)	N/A
– Net losses arising from disposal of available-for-sale ("AFS") investments	**(131,421)**	(53,697)	+144.7
– Interest income from AFS investments	**84,861**	255,647	-66.8
– Dividend income	**654,742**	474,720	+37.9
Segment revenue	**1,184,793**	379,762	+212.0
Other income and gains or losses (note)	**(132,384)**	4,910	N/A
	1,052,409	384,672	+173.6
Segment expenses	**(598,140)**	(382,630)	+56.3
	454,269	2,042	+22,146.3
Share of results of investments accounted for using the equity method	**368,214**	(27,658)	N/A
Segment profit before tax	**822,483**	(25,616)	N/A
Segment margin (%)	**58**	(7)	65

Note: This mainly represents net profit of consolidated investment funds attributable to third-party unitholders/shareholders. Details of the Group's interest in consolidated investment funds are disclosed in note 28 of the consolidated financial statements.

Total segment revenue (including share of results of investments accounted for using the equity method)

Total segment revenue for the current year is contributed by gains from disposal or redemption of investment funds and private equity investments, unrealized gain on investment funds held, and dividend income declared by investment funds. During the current year, investment return from fund-of-funds and seed money invested in investment funds managed by the Group improved substantially as compared with prior year, leading to significant growth in this segment's revenue.

Segment profit before tax and segment margin

Segment profit before tax for 2017 amounted to HK$822.5 million while segment margin for 2017 was 58%. Increase in segment expense is due to increase in employee benefit costs, operating costs of supporting units allocated to this segment, finance cost and segment direct expenses.

Operating Costs

Operating costs for the year ended 31 December 2017 amounted to HK$4,001 million (2016: HK$3,338 million).

An analysis of operating costs is as below:

	2017 HK$'000	2016 HK$'000	+/-%
Salaries and allowances, bonuses and pension	**1,148,974**	814,234	+41.1
Commission expenses	**288,467**	245,564	+17.5
Finance costs	**1,659,631**	1,395,816	+18.9
Depreciation and amortisation	**62,616**	39,980	+56.6
Impairment allowance	**246,295**	323,717	-23.9
Other expenses	**594,540**	518,274	+14.7
Operating costs	**4,000,523**	3,337,585	+19.9

Salaries and allowances, and bonuses and pension increased by 41.1% during 2017, mainly due to increase in headcount and provision for bonuses and incentives as a result of increase in the Group's net profit. Increase in headcount is partly due to acquisition of Haitong India in the second half of 2016 and Haitong International Financial Services (Singapore) Private Limited in the first half of 2017. Acquisition of new subsidiaries is detailed in note 41 of the consolidated financial statements.

Commission expenses increased due to increase in commission on securities dealing and broking, while the average payout ratio to accounts executives remained stable during 2016 and 2017.

Finance cost increased by 18.9% due to increase in average interest bearing liabilities during the current year (such as convertible bonds issued in October 2016) in order to support different business activities. Average interest rate on the Group's interest-bearing liabilities remained relatively stable between 2016 and 2017.

Depreciation and amortization increased during the current year due to procurement of computer hardware and computer software, and capitalization of costs incurred in electronic trading platform development.

Impairment allowance reduced by 23.9% as impairment losses on available-for-sale investments amounted to HK$126 million were recognised during prior year while no such investment related impairment losses occurred during the current year.

Other expenses increased due to additional expenses incurred in supporting different business initiatives.

Income Tax Expense

	2017 HK$'000	2016 HK$'000	+/-%
Income tax expense	543,551	312,248	+74.1
Effective tax rate (%)	15.2	15.7	-0.5

Income tax expense increased due to increase in profit before tax. Effective tax rate for 2017 and 2016 were 15.2% and 15.7% respectively. Decrease in effective tax rate is mainly due to utilisation of unrecognised tax loss in previous years.

Capital Structure and Regulatory Capital

	2017 HK$'000	2016 HK$'000	+/-%
Issued share capital	550,086	533,653	3.1
Number of issued shares	5,500,858,791	5,336,534,474	3.1

As at 31 December 2017, the total issued share capital of the Group stood at HK$550.086 million (31 December 2016: HK$533.653 million), comprising 5,500,858,791 shares of HK$0.10 each (31 December 2016: 5,336,534,474 shares at HK$0.10 each).

Issued share capital increased by HK$16.433 million during the current year, mainly due to scrip dividend issued in relation to 2016 final dividend and 2017 interim dividend. Details of movement of share capital during the current year are disclosed in note 36 of the consolidated financial statements.

The Group has a number of entities that are subject to regulatory capital requirements set by respective regulators. During the years ended 31 December 2017 and 31 December 2016, all these regulated entities complied with applicable regulatory capital requirements.

Impact on New Accounting Standards to the Group

The Group is required to adopt a number of new and amendments to Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants from 1 January 2018. Details are disclosed in note 2 of the consolidated financial statements. Among these new and amendments to HKFRSs, it is expected that Hong Kong Financial Reporting Standard 9 "Financial Instruments" ("HKFRS 9") shall have significant impact to the Group in respect of classification and measurement of financial assets and liabilities, and impairment of financial assets.

Details of the Group's assessment on the impact of HKFRS 9 to the Group's financial performance and financial position is disclosed in note 2 of the consolidated financial statements (pages 104 to 105).

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 CNH1,394 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 year. As at 31 December 2017, the Group's cash and bank balance amounted to HK$4,537 million, compared with HK$7,171 million at the beginning of the year. Decrease in the Group's total cash and bank balance due to the Group's effort in actively managing idle cash to reduce funding cost and achieve a higher return while ensuring the Group's ability to meet liquidity requirements imposed by regulatory authorities on licensed subsidiaries.

The Group has unutilized banking facilities of HK$23,533 million (including syndicate loan and bilateral loan facilities) to ensure the Group's ability to meet funding needs when they arise.

Commitments and contingent liabilities

Details of commitments are included in note 38 of the consolidated financial statements. The Group did not have any contingent liabilities as at 31 December 2017.

Human Resources Policy

As at 31 December 2017, the Group employed a total of 1,013 (2016: 902) permanent staff.

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.

Corporate Governance Report

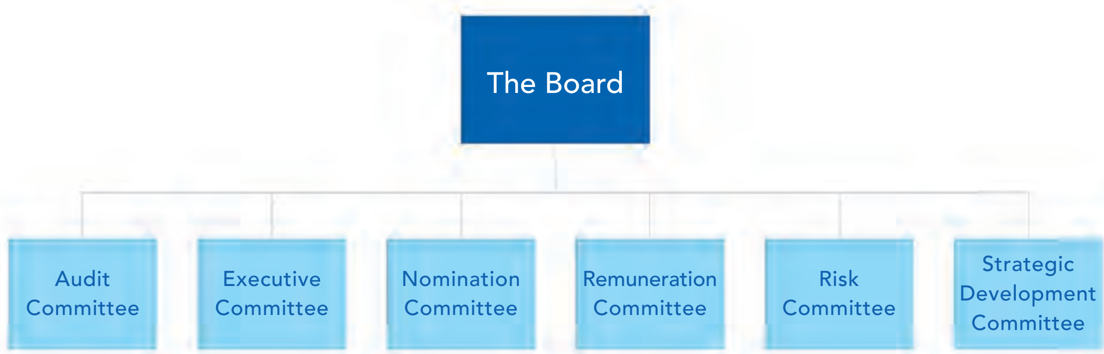
Corporate Governance Practices

The board of directors of the Company (the "Board") is committed to maintaining a high standard of corporate governance practices within the Group. Throughout the year ended 31 December 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 Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

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

Corporate Governance Structure

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



The following table shows the attendance of each director of the Company (the "Director(s)") and members of the respective Board Committees at the Board and the respective Board Committee meetings and general meetings held during the year ended 31 December 2017:

Name of members of the Board/ the respective Board Committees	Attendance/number of meetings held: Board meeting	Audit Committee meeting	Executive Committee meeting	Nomination Committee meeting	Remuneration Committee meeting	Risk Committee meeting	Strategic Development Committee meeting	General meeting
The Board								
Chairman and Non-executive Director								
JI Yuguang	4/4	n/a	n/a	2/2	2/2	n/a	2/2	1/1
Deputy Chairman, the Chief Executive Officer and Executive Director								
LIN Yong	4/4	n/a	19/19	n/a	n/a	n/a	2/2	1/1
Deputy Chairman and Executive Director								
LI Jianguo	4/4	n/a	n/a	n/a	n/a	n/a	2/2	1/1
Executive Directors								
HUI Yee Wilson *(retired on 1 June 2017)*	2/2	n/a	8/8	n/a	n/a	n/a	n/a	n/a
SUN Jianfeng *(appointed on 1 June 2017)*	2/2	n/a	11/11	n/a	n/a	n/a	n/a	1/1
Non-executive Directors								
POON Mo Yiu	4/4	n/a	n/a	n/a	n/a	n/a	n/a	0/1
CHENG Chi Ming Brian	4/4	n/a	n/a	n/a	1/2	n/a	2/2	1/1
WANG Meijuan	4/4	2/2	n/a	n/a	n/a	4/4	n/a	0/1
William CHAN	4/4	n/a	n/a	n/a	n/a	4/4	2/2	0/1
Independent Non-executive Directors								
TSUI Hing Chuen William	4/4	2/2	n/a	2/2	2/2	n/a	n/a	1/1
LAU Wai Piu	4/4	2/2	n/a	2/2	2/2	4/4	n/a	1/1
LIN Ching Yee Daniel	4/4	2/2	n/a	n/a	n/a	n/a	n/a	1/1
WEI Kuo-chiang	4/4	n/a	n/a	n/a	2/2	4/4	n/a	1/1
Other Executive Committee Members								
ZHANG Xinjun	n/a	n/a	19/19	n/a	n/a	n/a	n/a	n/a
SUN Jianfeng	n/a	n/a	8/8	n/a	n/a	n/a	n/a	n/a
SUN Tong	n/a	n/a	19/19	n/a	n/a	n/a	n/a	n/a
LO Wai Ho	n/a	n/a	19/19	n/a	n/a	n/a	n/a	n/a
ZHANG Yibin	n/a	n/a	19/19	n/a	n/a	n/a	n/a	n/a
SHI Ping	n/a	n/a	19/19	n/a	n/a	n/a	n/a	n/a
KONG Weipeng	n/a	n/a	19/19	n/a	n/a	n/a	n/a	n/a
JI Qingyu	n/a	n/a	19/19	n/a	n/a	n/a	n/a	n/a
Average attendance:	100%	100%	100%	100%	90%	100%	100%	75%

The Board

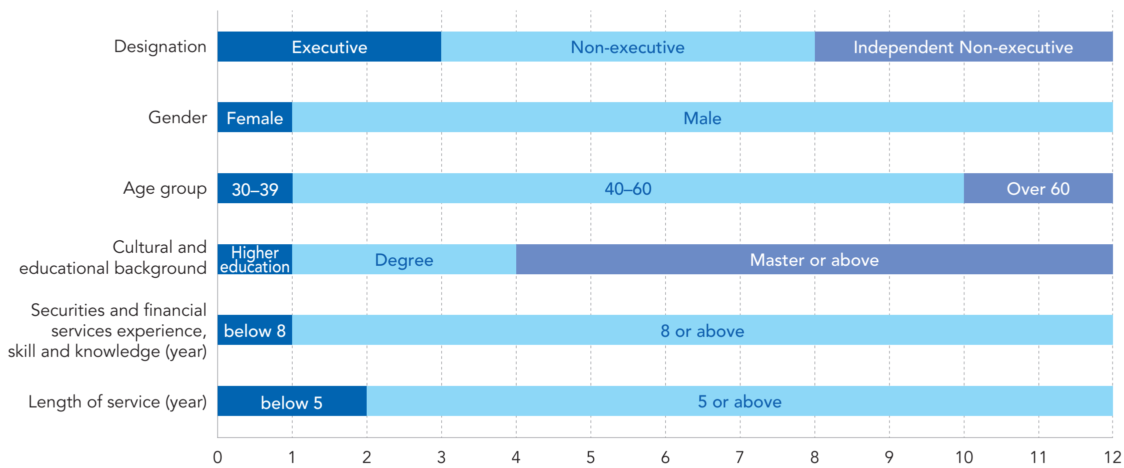
Composition

The Board currently comprises a total of 12 Directors, with 4 executive Directors, namely Mr. LIN Yong (Deputy Chairman and the Chief Executive Officer), Mr. LI Jianguo (Deputy Chairman), Mr. POON Mo Yiu and Mr. SUN Jianfeng; 4 non-executive Directors, namely Mr. QU Qiuping (also appointed Chairman on 8 February 2018), Mr. CHENG Chi Ming Brian, Ms. WANG Meijuan and Mr. William CHAN; and 4 independent non-executive Directors, namely Mr. TSUI Hing Chuen William, Mr. LAU Wai Piu, Mr. LIN Ching Yee Daniel and Mr. WEI Kuo-chiang. Biographical details of the Directors as of the date of this report are set out in the "Board of Directors" section from pages 62 to 65 of this Annual Report.

Board Diversity Policy

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

Selection of candidates will be based on a range of aforesaid Major Diversity Perspectives. The ultimate decision will be based on merit and contribution that the selected candidates will bring to the Board. The Nomination Committee reviews annually the Board's composition under Major Diversity Perspectives and monitors the implementation of the Board Diversity Policy. During the year, the Nomination Committee has reviewed its practice on Board diversity based on the Major Diversity Perspectives set forth and has come to the conclusion that it is a balanced Board. As at 31 December 2017, the Board's composition under Major Diversity Perspectives was summarised as follows:



Meetings

The Board meets regularly at least 4 times a year at quarterly intervals and will meet at other times when the Board thinks appropriate. In general, notice of at least 14 days is given for a regular Board meeting so as to give all Directors an opportunity to attend. Agenda and meeting materials for each meeting are normally circulated to all Directors 7 days in advance of the date of the meeting. Senior management may, from time to time, be invited to attend the Board meetings for making presentation and/or answering any queries that may be raised by the Board. During the year, 4 Board meetings were held with an average turnout of 100%.

Proceedings of the Board and the Respective Board Committee Meetings

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

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

Chairman and Chief Executive Officer

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

Non-executive Directors

The non-executive Directors (including independent non-executive Directors) have served a significant role in the Board by bringing independent judgment on the performance, development and risk management of the Group. All non-executive Directors of the Company are appointed for a specific term of 3 years subject to the retirement and re-election provisions in the bye-laws of the Company (the "New Bye-laws").

Throughout the year ended 31 December 2017, the Company complied with the requirements of the Listing Rules relating to the appointment of at least one-third independent non-executive Directors, of which at least one has appropriate professional qualifications or accounting or related financial management expertise.

Pursuant to the requirement of the Listing Rules, the Company has received from each of the independent non-executive Directors a written confirmation of his independence to the Company. The Company considers that all the independent non-executive Directors were independent in accordance with the Listing Rules throughout the year ended 31 December 2017.

Appointment and Re-election

All Directors are appointed for a specific term of 3 years subject to the retirement and re-election provisions in the New Bye-laws. One third of the Directors are required to retire from office by rotation and, being eligible, may offer themselves for re-election at each annual general meeting in accordance with the New Bye-laws. Any new Director appointed by the Board will be subject to re-election by the shareholders at the first general meeting after his/her appointment. The names of Directors who are eligible for re-election at general meetings will be disclosed in the notice of the relevant general meetings and their biographical details will be provided in the accompanying circulars. The election of each Director will be subject to the votes of shareholders by way of separate resolutions.

Induction and Continuous Professional Development

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

Directors are encouraged to participate in continuing professional development to develop and refresh their knowledge and skills. They are required to submit to the Company annually details of training sessions undertaken by them in each financial year for the Company to maintain a training record for its Directors. According to the training records maintained by the Company, the training received by each of the Directors during the year ended 31 December 2017 is summarised as follows:

	Regulatory updates or corporate governance related materials	Other trainings relevant to directors' profession or other relevant topics
Chairman and Non-executive Director		
JI Yuguang	✓	✓
Deputy Chairman, the Chief Executive Officer and Executive Director		
LIN Yong	✓	✓
Deputy Chairman and Executive Director		
LI Jianguo	✓	✓
Executive Directors		
SUN Jianfeng (Note)	✓	✓
Non-executive Directors		
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	✓	✓

Note: Mr. SUN Jianfeng has been appointed as an Executive Director with effect from 1 June 2017.

Corporate Governance Function

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

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

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

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

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

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

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

Directors' Securities Transactions

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

Having made specific enquiry of all Directors, all Directors confirmed that they have complied with the required standard set out in the Model Code throughout the year ended 31 December 2017. Securities interests in the Company and its associated corporations held by each of the Directors are set out in the "Report of the Board of Directors" section in pages 66 to 88 of this Annual Report.

Board Committees

Audit Committee

The Audit Committee is currently composed of 3 independent non-executive Directors, namely Messrs. LIN Ching Yee Daniel (Chairman of the Audit Committee), TSUI Hing Chuen William and LAU Wai Piu and a non-executive Director, namely Ms. WANG Meijuan. The Chairman of the Audit Committee has the appropriate financial-related professional qualification and experience. The Audit Committee will meet no less than twice a year to review all business affairs managed by the executive Directors, in particular those related to connected transactions and continuing connected transactions, if any, and to review the interim and annual financial statements of the Group before their submission to the Board for approval. It will also review the effectiveness of the internal control and risk management system of the Group. The Audit Committee has reviewed the accounting principles and practices adopted by the Group and the consolidated results for the year ended 31 December 2017 of the Group. The terms of reference of the Audit Committee are aligned with the requirements of the Listing Rules and the recommendations set out in "A Guide for Effective Audit Committees" published by the Hong Kong Institute of Certified Public Accountants and any updates thereof. A copy of the terms of reference of the Audit Committee has been posted on the Company's website.

During the year ended 31 December 2017, the Audit Committee met on 2 occasions with the presence of the external auditor and discharged its responsibilities to review the interim and annual results and the effectiveness of the internal control and risk management system of the Group. The work performed by the Audit Committee for the year ended 31 December 2017 included reviews of the following:

- the report of the board of directors and the consolidated financial statements for the year ended 31 December 2016 of the Group, with a recommendation to the Board for approval;
- the consolidated financial statements for the 6 months ended 30 June 2017 of the Group, with a recommendation to the Board for approval;
- the audit fees for the year ended 31 December 2017 proposed by the external auditor, with a recommendation to the Board for approval;
- the new accounting policies and practices adopted by the Group;
- the continuing connected transactions undertaken by the Group;
- the internal control and risk management system of the Group;
- the findings and recommendations of the Group's internal auditor on the Group's operations and of the regulatory review carried out by the regulators;
- compliance status of the Group with the applicable regulatory and other legal requirements;
- the Group's investment policy and the adequacy of provision made for diminution in value for the Group's investments;
- the litigation cases of the Group;
- the adequacy of the provision for bad debts; and
- the error trades occurred during the 6 months ended 30 June 2017.

Executive Committee

The Executive Committee is currently composed of 3 executive Directors, namely Messrs. LIN Yong (Chairman of the Executive Committee), POON Mo Yiu and SUN Jianfeng as well as heads of certain major business divisions of the Group. The Executive Committee is duly authorised by the Board to manage the day-to-day business of the Group.

Nomination Committee

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

During the year ended 31 December 2017, the work performed by the Nomination Committee included reviews of the followings:

- the structure, size and composition of the Board (including the skills, knowledge and experience of directors), with recommendations made on any proposed changes to the Board to complement the Company's corporate strategy;
- the Board's composition under Major Diversity Perspectives; and
- the proposal regarding appointment of Mr. SUN Jianfeng as an executive Director of the Company.

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

Remuneration Committee

The Remuneration Committee is currently composed of 3 independent non-executive Directors, namely Messrs. TSUI Hing Chuen William (Chairman of the Remuneration Committee), LAU Wai Piu and WEI Kuo-chiang and 2 non-executive Directors, namely Messrs. QU Qiuping and CHENG Chi Ming Brian. The responsibilities of the Remuneration Committee include setting remuneration policy of the Group and fixing remuneration packages of the Directors in accordance with the Listing Rules and the New Bye-laws. Details of the remuneration paid to the respective Directors are set out in note 10 to the financial statements. No Directors can determine their own remuneration packages. The Remuneration Committee is provided with sufficient resources to discharge its duties.

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

During the year ended 31 December 2017, the work performed by the Remuneration Committee included reviews of the following:

- the proposal for 2017 remuneration adjustment;
- the proposal for 2016 bonus distribution;
- the proposal of granting awarded shares pursuant to the share award scheme;
- the proposal of granting share options;
- the service agreement in respect of the appointment of Mr. SUN Jianfeng; and
- the new service agreement of Mr. William CHAN.

Risk Committee

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

During the year ended 31 December 2017, the work performed by the Risk Committee included reviews of the followings:

- the aggregate risk assessment report for the year ended 31 December 2016 of the Group;
- the risk assessment report for each quarter of the Group;
- the 2017 value at risk; and
- the 2017 risk policy.

Strategic Development Committee

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

Company Secretary

The Company Secretary, namely Mr. LO Wai Ho, is a full time employee of the Company and has day-to-day knowledge of the Company's affairs. The Company Secretary is responsible for advising the Board on corporate governance matters. During the year ended 31 December 2017, the Company Secretary has confirmed that he has taken no less than 15 hours of relevant professional training.

Internal Control Framework

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

Risk Management

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

Risk Management Framework and Culture

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

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

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

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

Liquidity Risk

Liquidity risk mainly refers to the risk of liquid capital deficiency when the Group performs its obligations in relation to its financial liabilities and the risk of re-hypothecating securities collateral at deep discount over their respective market prices. Liquidity risk management constitutes an essential part of the Group's risk management function.

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

Credit Risk

Credit risk refers to the risk of economic losses stemming from failure of any counterparty, borrower or bond issuer to meet their contractual obligations. For lending related business, the Credit Approval Committee is the main decision-making body for credit approvals of special lending projects, including general equity financing and leveraged and acquisition financing projects, approving credit and trading limits for clients and stock lending ratio.

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

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

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

For trading related business, the counterparty credit risk is managed by GRM credit risk management team.

Market Risk

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

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

Operational Risk

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

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

Responsibilities of Directors for the financial statements

The following responsibility statement of Directors regarding the financial statements shall be read in conjunction with the responsibility statement of the certified public accountants included in the Independent Auditor's Report of this Annual Report. Each responsibility statement shall be understood separately.

All Directors acknowledge and confirm that they have the responsibilities to compile the financial statements which can truly reflect the business results of the Company in each financial year. To the best knowledge of all Directors, there are no events or situations which may cause any material adverse impact on the ongoing operations of the Company.

Internal Auditor

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

External Auditor

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

	Fee charged For the year ended 31 December	
Type of Services	**2017 HK$'000**	2016 HK$'000
Statutory audit service fee	**4,300**	3,800
Non-statutory audit service fee	**5,521**	1,796

Communication with Shareholders

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

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

The Company maintains regular communications with media via interviews and article contribution covering diverse topics including but not limited to financial results, business development, corporate events, in order to keep shareholders and other stakeholders informed of the Company's latest status.

Shareholders' Rights

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

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

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

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

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

2. The procedures for sending enquiries to the Board

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

3. The procedures for making proposals at shareholders' meetings

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

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

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

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

Constitutional Documents

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

14 March 2018

Sustainable to

Braving the Wind and Waves

Starting from 2017, we're fully committed to supporting the development of the Hong Kong windsurfing squad and practice our corporate value of innovation, courage and sincerity through the sponsorship.


HKG
HKG

Corporate Social Responsibility Report

To live up to its good corporate citizenship, Haitong International has been placing emphasis on its customers, employees, shareholders and investors over the years. In 2014, Haitong International Charitable Foundation was founded to implement sustainable social responsibility projects more strategically by developing charitable projects with similar brand value and philosophy, while at the same time promoting the financial development enthusiastically.

As a token of appreciation for its commitment to caring for the well-being of the community, the Company has been recognized as a "Caring company" by The Hong Kong Council of Social Service for more than ten consecutive years. Since 2015, the "Haitong International Charitable Foundation" has also received the "Caring Organization" logo.

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Promoting the development of windsurfing in HK and taking the lead in the international stage

In 2017, Haitong International further extended its corporate social responsibility to the sports circle and signed a long-term sponsorship contract with the Windsurfing Association of Hong Kong to support the development of windsurfing in Hong Kong including sponsoring the windsurfing events organized by Windsurfing Association of Hong Kong and nurturing windsurfers as the representative players for Hong Kong with an aim to foster the sport that Hong Kong people take pride in. With like minds, Windsurfing Association of Hong Kong pleasantly joins hand with Haitong International to promote windsurfing for its demonstration of persevering Hong Kong spirit, which is exactly what the Company's brand value is. Haitong International is non-conformist with venturesome and courageous DNA. Therefore, each of our team members is filled with dreams and energy. In the context of the ever-changing market conditions, we allow ourselves to have flexibility and calmness to cope with every circumstance. We also have the traditional Chinese virtues like benevolence, humbleness and integrity while we are pursuing higher and higher achievements. All these are the characteristics that windsurfing athletes have.

The first spectacular event title sponsored by the Company named "Haitong International 2017 Hong Kong Open Championships" was successfully held during the year, attracting more than 140 windsurfing athletes from Hong Kong, China, Chinese Taipei, Italy, Sweden and Thailand. Thanks to the windsurfing parties and photo competitions held during the same period coupled with local media coverage of windsurfing events, the sport has soared into public consciousness. Haitong International plans to put more resources to support windsurfing athletes and encourage devotion and participation to windsurfing by the community, business circle and our employees. We hope that, windsurfing and Haitong International can stand strong together in Hong Kong and set sail to the international arena.

1. The first spectacular event title sponsored by the Company named "Haitong International 2017 Hong Kong Open Championships" was successfully held during the year, attracting more than 140 windsurfing athletes from Hong Kong, China, Chinese Taipei, Italy, Sweden and Thailand

2. With like minds, Windsurfing Association of Hong Kong pleasantly joins hand with Haitong International to promote windsurfing for its demonstration of persevering Hong Kong spirit, which is exactly what the Company's brand value is

3. Haitong International plans to put more resources to support windsurfing athletes and encourage devotion and participation to windsurfing by the community, business circle and our employees

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Customers

Haitong International has been being committed to fostering long-term relationships and trust with its customers. As such, we always keep up with times and are dedicated to meet the evolving customer needs by providing a full spectrum of innovative financial offerings for corporate, institutional and individual investors at home and abroad.

Haitong International is determined to expand its wealth management business for high-net-worth professional investors. In this regard, in October 2017, the all-new Private Wealth Management Department was established and the Private Wealth Management Centre came into operation in February 2018 to provide our high-net-worth customers and professional investors with top-notch investment solutions so as to maximize returns. Other than traditional products like securities and futures, we also provided a lineup of wealth management products including fixed income, structured products, funds, leveraged investment and financing solutions.

In line with the business development of the Stock Connects, Haitong International constantly updates its software and hardware of trading and settlement systems to meet customers' needs for new investment opportunities. To facilitate the promotion of the Stock Connects and beef up our services, we tailored-made training regarding the themes of A-share trading policies, regulations and industry outlook for all front, middle and back office employees from time to time. Moreover, we organized investment seminars and forums for clients. Boasting our preeminent research team, the Company provided over 1,000 institutional investors with research reports on about 1,100 listed companies in over 30 sectors in 9 languages. In addition, the Company also augments its cooperation and sharing of research reports with the parent company, Haitong Securities to provide investment information and strategies for clients.

Haitong International always sees communication with its customers as an essential component for our success. The company information is updated on our official website, WeChat, Weibo, Facebook and Twitter from time to time. Besides, we have Facebook Fan-page named "Investment Strategy–Haitong International" and a WeChat public platform providing instant market information and investment strategy.

Haitong International strives to provide customers with suitable products and professional services. In this light, an internal "Quality Assurance Team" was set up in 2017. This team is responsible for performing due diligence checks on a variety of products and requiring our staff to have a thorough understanding of the characteristics and risks of the relevant financial products and services. Besides, the Company places a strong emphasis on risk management and internal control by providing training regarding relevant topics for the frontline, middle, and back office staff throughout the year so as to ensure the product contents, terms of services and operation procedures are in compliance with the rules and regulations. Therefore, clients are fully informed of the characteristics and risks of the products before making relevant investment decisions. Haitong International always values clients' suggestions and feedbacks. To enhance two-way communication, survey on client satisfactory level and suggestion is conducted quarterly for a better understanding of customers' satisfaction towards our products and services, enabling us to keep on improving the operation procedures as well as the products and service quality.

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1. The all-new Private Wealth Management Department was established in Oct 2017
2. We organized investment seminars and forums for clients
3. The "Haitong International Staff Club" regularly organizes recreational activities for its staff and their family members
4. In 2017, the Company hosted over 70 internal training sessions
5. Since 2017, the Company has formed the Management Trainee Club with an aim to enhance cohesiveness and to offer opportunities of exchange

Employees

As an international financial institution, Haitong International understands that employees serve as the fuel of its sustainable growth. In the eyes of the Company, its staff members are a part of its invaluable assets. Therefore, Haitong International is committed to providing a comfortable working environment and ever-improving staff benefits for them and pays attention to their well-being.

Haitong International always cares about the mental and physical well-being of its employees and advocates a work-life balance. Therefore continuous efforts have been put to improve staff welfare over years. The "Haitong International Staff Club" regularly organizes recreational activities for its staff and their family members including barbeques, basketball matches, jogging, singing contest and interest classes. Through those activities, the Company aims to relieve stress of staff and to encourage interactions amongst departmental colleagues. The Company also launched the "Employee Assistance Program" for its staff, with the aim of promoting both the physical and mental well-being of staff by engaging external professionals to provide them with information and guidance on work/life issues as well as family counselling services. Besides, Haitong International continued to help its staff through the dedicated "Staff Care Fund". The fund offers immediate support to staff suffering from serious financial or livelihood problems to help them weather adversity effectively.

Haitong International always keeps itself from strength to strength and encourages its employees to sharpen up apace with time. With a plethora of training and sponsorship schemes, the Company helps its staff improve their professional knowhow and skills. In 2017, the Company hosted over 70 internal training sessions covering topics such as the global investment market, A-share market, Stock

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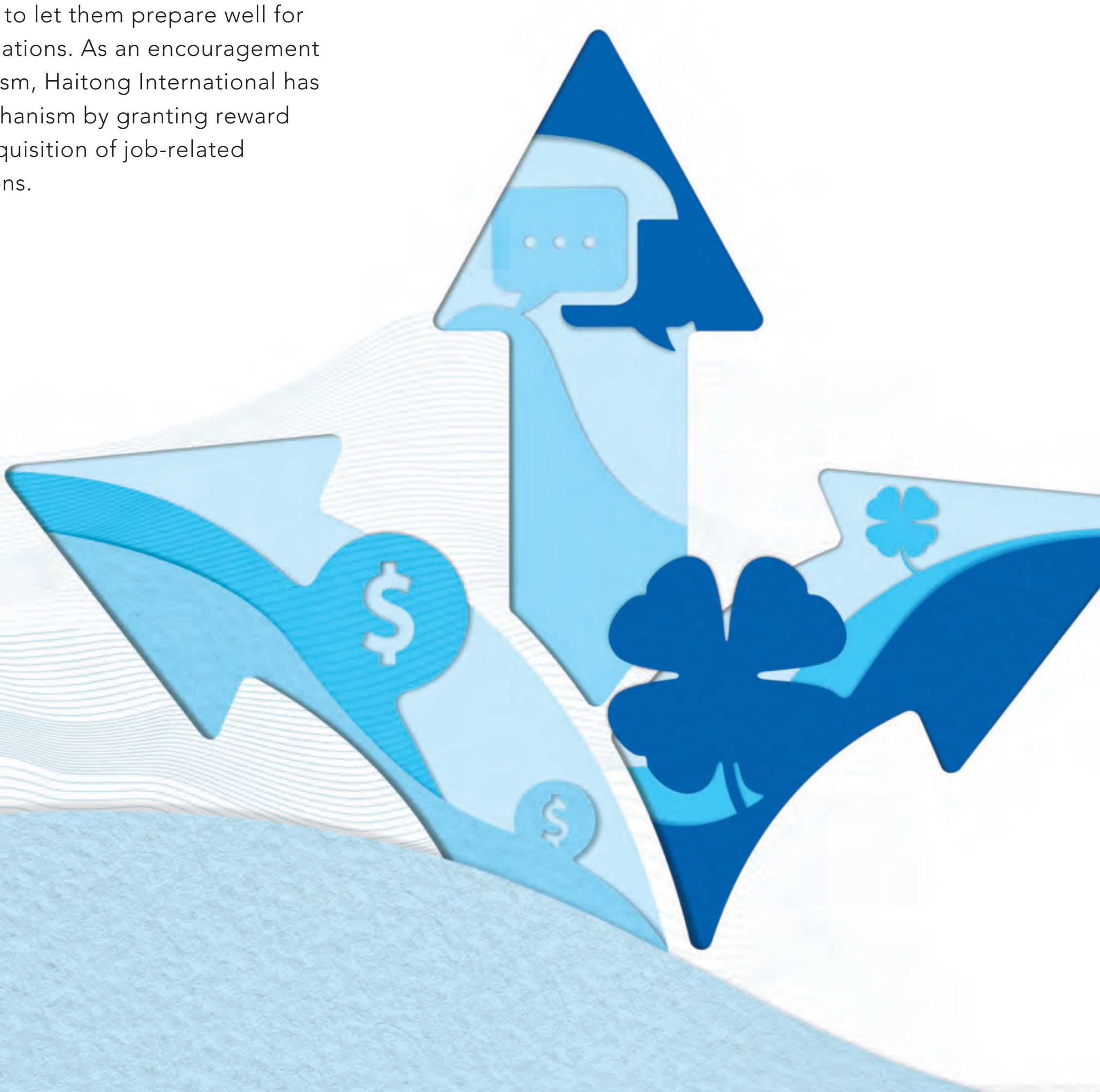
Connects, new financial products and regulations, and granted training sponsorship to ensure staff's compliance with the continuous professional training requirements for licensed persons as stipulated by the Securities and Futures Commission (SFC), and the continuous professional development requirements for insurance and MPF intermediaries and for registration with the Chinese Gold and Silver Exchange Society. Moreover, Haitong International specifically arranged a number of sessions of compliance and business training for staff to enhance their understanding on the new trend of compliance regarding business and internal operations. To smarten up our staff, the Company also provided them with communication courses and language courses to strengthen their interpersonal communication skills and Putonghua and English proficiency. Haitong International continued to support employees in obtaining finance related professional qualifications by providing study leaves and examination leaves to let them prepare well for the professional examinations. As an encouragement to achieve professionalism, Haitong International has set up an incentive mechanism by granting reward to staff members for acquisition of job-related professional qualifications.

To develop the bench strength for the Company, a "Management Trainee Scheme" has been launched since 2008 with which outstanding graduates with potential are recruited and provided with the one-year training with job rotation. Besides, since 2017, the Company has formed the Management Trainee Club with an aim to provide activities in different forms including meetings with senior management and team building events to enhance cohesiveness and to offer opportunities of exchange. As such, management trainees will have a deeper understanding of the Company's businesses and management culture.



Shareholders and Investors

During the reporting period, Haitong International proactively fostered communication with shareholders and investors by holding press conferences and analyst meetings for the interim and final results announcement, in which senior management were presented to answer questions raised by the media and sell-side analysts. Haitong International took active part in the investors conferences organized by sizable financial institutions and built up strong connections with about 300 investors and analysts across the world through non-deal road shows and one-on-one meetings held in various financial centers. With multi-channel and effective communication, the Company kept investors informed of the Group's operations, financial conditions and business development in a timely and clear fashion, whilst follow-up questions and feedbacks from investor had been properly handled and forwarded to senior management regularly such that shareholders' and investors' interest and expectation could be weighed in the process of the Company's operational and strategic decisions.

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

The Senior Management attended financial results announcement press conference

Since the share of the Company was included in the Stock Connects as an underlying share in 2016, the Company's stocks had been well received by domestic investors in China such that their combined holdings through the Stock Connects demonstrated a fast and steady growth, further reinforcing the diversification of shareholder base as well as the shares liquidity. During the year, Haitong International made a significant step in the aspect of credit rating. In April 2017, S&P Global Rating upgraded its rating outlook on the Company to Stable. In September 2017, Moody's Investors Service for the first time granted the Company with Baa2 long-term issuer rating, heightening confidence of shareholders and investors on the Company's creditability and financial strength. In this year, a total of 20 research reports on Haitong International were issued by 7 financial institutions and one of them was initial coverage. Additionally, Haitong International, as a Hong Kong-based Chinese securities house, was recommended in multiple research reports issued by its peers. The Company also organized annual general meeting (AGM) to build the connections among shareholders, investor and the management. All announcements and press releases issued by the Company are uploaded to its own website for easy access of shareholders and investors. Furthermore, the Company conveys the Group's information to investors and analysts by virtue of social media such as Facebook Fan-page, Twitter and WeChat. In addition to relationship maintenance with shareholders, investors and sell side analysts, the Company continued to promote educating investors about Hong Kong financial market and products. Upholding the "multi-market, multi-channel and multi-level" approach for proactive outreach to investors, the Company spares no effort to keep retail investors informed of market dynamics and risks, the latest trend as well as variety of financial products, by making its own experts exposed to the media for sharing their insights and experience in the industry and market trend to the investors. Moreover, the Company also regularly invited domestic and oversea experts to investment seminars, workshops and forums, for the sake of raising local investors' awareness and understanding about development trend of global financial market as well as global asset allocation.

Society

"Care for the Elderly, Care for the Brain" Project

Dr. Lin Yong, Deputy Chairman and Chief Executive Officer of the Company, holding the philosophy of "giving hopes to the people in need," initiated the establishment of the Haitong International Charitable Foundation. He believes corporate social responsibility should not be confined to donations, but should be expressed in various kinds of charitable activities which give people positivity and joie de vivre. Therefore, Haitong International Charitable Foundation has been searching for partnership with organizations in line with the philosophy in recent years for long-term and sustainable charitable projects.

Since 2016, Haitong International Charitable Foundation has cooperated with Helping Hand to unveil the Haitong International "Care for the Elderly, Care for the Brain" Project and launched various long term and sustainable charitable projects. It is anticipated to help elderly in need to improve their emotion and cognitive impairment through different kinds of activities such as horticulture, music and arts. In addition, the elder's social network can be broadened through Interest Classes which enable them to enhance their cognitive abilities and keep abreast of the times and lead a fruitful life. By the end of 2017, the program has provided 169 activity hours for 5 elderly service units of the Helping Hand and 1,840 elderly has been benefited.

Haitong International "Care for the Elderly, Care for the Brain" Project has been implemented for almost a year and is greatly supported by the Haitong International Caring Ambassador

Participated in "Care for the Elderly, Care for the Brain" Project – Lok Fu Care Home Visit

Community Contribution

This year, the caring ambassadors of Haitong International has visited Elderly Community Centers of Helping Hand for several times, besides giving them the gifts packs, they have assisted the elderly in carrying out horticultural rehabilitation activities such as planting and irrigating, helping them to improve health and cognitive abilities. More importantly, interactions and care reciprocated yesterday's social contributors with a time of bliss and reassurance. In addition, the athletes of the Company have participated in Bloomberg Square Mile Relay 2017 organized by Bloomberg.

With a strategic and long-term planning of "Haitong International Charitable Foundation", resources have been more effectively allocated to different non-profit making organizations. In 2017, apart from supporting the "Helping Hand Health Bank Cookie Campaign 2017" as ever and "YO Dancical 2" held by Youth Outreach, the Company has strengthened its cooperation with social enterprises during the year including cooperation with the Hong Kong Council of Social Service and ordering different corporate gifts for the company.

Members of Haitong International formed a team to join the "Bloomberg Square Mile Relay 2017"

Volunteers of Haitong International has made handicrafts together with elderly people

On-going Cooperation with Social Enterprises

SEs Gift Certificate

During the year, Haitong International kept on promoting the development of social enterprises in Hong Kong, among which, Hong Kong Council of Social Service is one of its partners who helped create different kinds of business gifts for the Company. Like what it did last year, the Company has given its staff the SEs Gift Certificates as Mid-Autumn festive gifts. Those certificates are applicable to over 90 social enterprises or Fairtrade Shops. In this way, the Company hopes to raise its employees' awareness of social enterprises and contribute its spending power to society in a meaningful way. In addition, social enterprises have been also included in the Company's supplier list as a token of ongoing support.

Promotion of Financial Industry

The members of the board of directors and senior management of Haitong International possess profound experience in the financial industry and have been serving as speakers in the seminars and forums held by a number of professional groups, chambers of commerce, financial institutions and media in hopes of advocating industry standards and promoting development of financial products. Since 2014, Haitong International has been joining The Better Hong Kong Foundation as a corporate member with an aim to promote economic and social developments of Hong Kong to the overseas regions, delivering positive messages and fostering communication among Hong Kong, China and countries around the world with better cooperation. Dr. Lin Yong, Deputy Chairman and Chief Executive Officer of Haitong International, together with other management members, has been actively taking part in various activities organized by the Better Hong Kong Foundation. During which, the Company exchanges, shares and discusses topics revolving around economic and financial issues in Hong Kong with regulatory bodies and leading financial institutions, and gives advice and recommendations in a bid to promote Hong Kong and its financial industry's image in the international arena.

Since 2014, Haitong International has been joining The Better Hong Kong Foundation as a corporate member with an aim to promote economic and social developments of Hong Kong to the overseas regions

Environmental Protection

Haitong International has formulated the "Environmental Protection of Procurement and Office Equipment" policy and planned the environmental protection works. We encourage employees and suppliers to support our environmental initiatives. In addition to advocating paperless workplaces, the company chose recycled paper for office paper and employee's name cards in reducing the need of lumbering for paper production. The Company has set up recycle bins at each office floor to encourage employees to recycle waste paper and facilitate suppliers' recovery works. The Company endeavors to use office furniture efficiently and avoids the production of large-scale waste, thus reducing the burden on landfills. The Company has committed to reducing air pollution generated by renovation works, thus planning to coordinate with the Property Management Office to conduct indoor air quality assessment.

In 2017, the Company participated in an electronic products recycling programme organized by "Caritas Computer Workshop" by donating its used computers to the charity group for recycling and renewing. Since 2013, the annual reports have been printed on recycled paper, showing the Company's environmentally astute attitude from every detail. As a recognition of waste reduction efforts and concerns, the Company was granted the Wastewi$e Label in Class of Excellence by Hong Kong Awards for Environmental Excellence led by Environmental Campaign Committee (ECC) and Environmental Protection Department (EPD).

Since 2017, Haitong International has followed Environmental, Social and Governance Reporting Guidelines issued by the Hong Kong Exchanges and Clearing Limited (the "HKEx") in preparing its Environmental, Social and Governance Report.

The "Class of Excellence" Wastewi$e Label

Board of Directors

(as at 14 March 2018)

Board of Directors

Executive Directors

LIN Yong, aged 48, was appointed as an Executive Director of the Company on 23 December 2009. He has been a Deputy Chairman of the Board of Directors and the Managing Director of the Company as well as the Chief Executive Officer of the Group since 29 April 2011. He is also the Chairman of the Executive Committee as well as a member of the Strategic Development Committee of the Company. In addition, Mr. Lin is a director of subsidiary of the Company and a member of the board of Haitong Bank, S.A. ("Haitong Bank") and Haitong Banco de Investimento do Brasil S.A., wholly-owned subsidiaries of Haitong International Holdings Limited (formerly known as "Hai Tong (HK) Financial Holdings Limited") ("HTIH"). He also acts as the chairman of Haitong Bank S.A. since 30 October 2017. Mr. Lin holds a Doctorate Degree in Economics from Xi'an Jiaotong University and has over 20 years of experience in the investment banking industry. Mr. Lin joined Haitong Securities Co., Ltd. ("HSCL", whose shares are listed on The Stock Exchange of Hong Kong Limited and on the Shanghai Stock Exchange) in 1996 and was a general manager of the Investment Banking Department of HSCL from 2001 to 2007. He has been appointed as an assistant to general manager of HSCL with effect from 30 December 2014 and the chief executive officer of HTIH since 2007. He is responsible for the overall operation of HTIH and the business development of the Group. In 2006, Mr. Lin was named "2006 Top Ten Outstanding Young Person in Financial Sector in Shanghai" (2006年上海首屆十大金融傑出青年) and was honoured as the "2014 Shanghai Financial Industry Leader" (2014滬上金融行業領袖) in 2014. He acts as an adjunct professor in Management College of Xiamen University since 12 May 2010. Mr. Lin is an independent non-executive director of Zhongsheng Group Holdings Limited ("Zhongsheng Group").The shares of Zhongsheng Group are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

LI Jianguo, aged 54, was appointed as an Executive Director of the Company on 13 January 2010 and a Deputy Chairman of the Board of Directors of the Company on 10 March 2010. He is also a member of the Strategic Development Committee of the Company. Mr. Li holds a Doctorate Degree in Economics from Xi'an Jiaotong University. He has 26 years of experience in the securities industry. Mr. Li was a general manager of Henan Securities Co., Ltd. from 1992 to 1998. He joined HSCL in 1998 and served as the deputy general manager of HSCL from 1998 to 1999. Mr. Li was the vice president and the general manager of Fullgoal Fund Management Co., Ltd. from 1999 to 2008. Mr. Li has been the assistant to the general manager of HSCL and the chairman of the board of directors of HTIH since 2008 and the deputy chairman of the board of directors of HTIH since 9 August 2010.

POON Mo Yiu, aged 53, joined the Group in August 2008. He was appointed as an Executive Director of the Company on 1 July 2009 and was the Chief Operating Officer of the Group as well as a member of the Executive Committee of the Company prior to his re-designation as a Non-executive Director on 16 February 2016. Mr. Poon was re-designated as an Executive Director of the Company and was appointed as a member of the Executive Committee of the Company on 8 February 2018. He is a board member of Haitong Bank. Mr. Poon holds a Master of Business Administration Degree from The Chinese University of Hong Kong. He is a fellow of the Association of Chartered Certified Accountants, the Hong Kong Institute of Certified Public Accountants ("HKICPA") and the Institute of Chartered Accountants in England & Wales. Mr. Poon has extensive experience in financial management, management of information systems, accounting projects as well as various aspects of mergers and acquisitions. Prior to joining the Group, Mr. Poon worked for Sun Hung Kai & Co. Limited as the Group Chief Operating Officer and the Group Chief Financial Officer. He was also previously the Vice President in Finance of JPMorgan Chase Bank and the Group Financial Controller of Jardine Fleming Group in Asia before its merger with JPMorgan Chase Bank.

SUN Jianfeng, aged 41, joined the Group in 2010 and was appointed as an Executive Director of the Company with effect from 1 June 2017. He is the Chairman of Corporate Finance and is leading the Corporate Finance Function to provide a wide range of corporate finance services. He is also responsible for the development and management of the Leveraged and Acquisition Finance business. He is also a member of the Executive Committee of the Company. Mr. Sun is also a director of various subsidiaries of the Company as well as a responsible officer of Haitong International Capital Limited and Haitong International Capital (HK) Limited (formerly known as Hai Tong Capital (HK) Limited) under the Securities and Futures Ordinance. Mr. Sun holds a Master of Applied Economics from Xi'an Jiaotong University. He possesses extensive experience in the corporate finance industry. He participated and completed a number of IPOs in Hong Kong and China.

Non-executive Directors

QU Qiuping, aged 56, was appointed as the Chairman of the Board and a Non-executive Director on 8 February 2018 and is the Chairman of the Nomination Committee and the Strategic Development Committee as well as a member of the Remuneration Committee of the Company. Mr. Qu is a member of the Chinese Communist Party and holds a Master degree in Economics from Fudan University. He is a senior accountant in the People's Republic of China (the "PRC") and was the accountant, deputy section chief, Youth League secretary of Nanshi District Office of the People's Bank of China Shanghai (中國人民銀行上海市南市區辦事處) from September 1980 to December 1983; the deputy section chief and section chief of Nanshi District Office of the Industrial and Commercial Bank of China Shanghai (中國工商銀行上海市南市區辦事處) from January 1984 to September 1992; the vice president of Nanshi Sub-branch of the Industrial and Commercial Bank of China Shanghai Branch (中國工商銀行上海市分行南市支行) from September 1992 to November 1995; the deputy head of the accounting and cashier department of the Industrial and Commercial Bank of China Shanghai Branch (中國工商銀行上海市分行) from November 1995 to December 1996 (He was in charge of the party and political work of Shanghai Jiading Sub-branch of the Industrial and Commercial Bank of China (中國工商銀行上海市嘉定支行) from December 1995 to December 1996); the president and deputy secretary of CPC party committee of Shanghai Baoshan Sub-branch of the Industrial and Commercial Bank of China (中國工商銀行上海市寶山支行) from December 1996 to March 1999; the head of the accounting and clearing department of the Industrial and Commercial Bank of China Shanghai Branch from March 1999 to December 1999; the assistant to the president of the Industrial and Commercial Bank of China Shanghai Branch from December 1999 to June 2000; the vice president of the Industrial and Commercial Bank of China Shanghai Branch from June 2000 to February 2005 (he was a visiting scholar at University of Pennsylvania from September 2002 to September 2003); the vice president of the Industrial and Commercial Bank of China Jiangsu Branch (中國工商銀行江蘇省分行) from February 2005 to September 2008; the deputy secretary of CPC party committee and the vice chairman of the board of directors of Bank of Shanghai (上海銀行) from September 2008 to November 2008; the president, deputy secretary of CPC party committee and the vice chairman of the board of directors of Bank of Shanghai from November 2008 to December 2010; the head of the Work Coordination Department of the Dispatched Offices of the CSRC (中國證監會派出機構工作協調部) from December 2010 to August 2012; and the head of the Department of Unlisted Public Company Supervision of the CSRC (中國證監會非上市公眾公司監管部) from August 2012 to April 2014. Mr. Qu has been the director of Self-discipline and Supervision Committee of the Securities Association of China (中國證券業協會自律監察專業委員會) since October 2015, the director of Finance Service Committee of the China Association for Public Companies (中國上市公司協會金融服務專業委員會) since November 2015, and the member of Expert Committee of the Finance Research Centre of Counselors' Office of the State Council (國務院參事室金融研究中心) since October 2016. Mr. Qu has served as an executive Director, the general manager and the deputy secretary of CPC party committee of HSCL since 25 June 2014.

CHENG Chi Ming Brian, aged 35, joined the Group in June 2009 and was appointed as an Executive Director of the Company on 1 July 2009. He was re-designated as a Non-executive Director of the Company on 13 January 2010. Mr. Cheng is also a member of the Remuneration Committee and the Strategic Development Committee of the Company. Mr. Cheng holds a Bachelor of Science Degree from Babson College in Massachusetts, U.S.A. Mr. Cheng is currently an executive director of NWS Holdings Limited, chairman and non-executive director of Integrated Waste Solutions Group Holdings Limited, non-executive director of Wai Kee Holdings Limited, Beijing Capital International Airport Company Limited and Leyou Technologies Holdings Limited and he was a non-executive director of Newton Resources Ltd till January 2017. The shares of all these companies are listed on the Stock Exchange. Mr. Cheng is also a director of certain subsidiaries of NWS Holdings Limited. He is mainly responsible for overseeing the infrastructure business and the merger and acquisition affairs of NWS Holdings Limited and its subsidiaries. In addition, Mr. Cheng is a director of Sino-French Holdings (Hong Kong) Limited, Sino-French Energy Development Company Limited, The Macao Water Supply Company Limited as well as a director of a number of companies in Mainland China. Mr. Cheng has previously worked as a research analyst in the Infrastructure and Conglomerates sector for CLSA Asia-Pacific Markets.

WANG Meijuan, aged 53, was appointed as a Non-executive Director of the Company on 1 September 2012 and is a member of the Audit Committee and the Risk Committee of the Company. She holds a Bachelor Degree and a Master Degree from the Shanghai University of Finance and Economics. Ms. Wang is a senior accountant in the PRC and possesses the qualification of securities practitioner in the PRC. She has worked as a lecturer for the department of management engineering of the Shanghai Institute of Building Materials and the senior manager of Da Hua Certified Public Accountants Co. Ltd. Ms. Wang has over 17 years of experience in the securities industry. She served in various positions in HSCL (formerly known as Haitong Securities Company Limited before its change of name in 2002), including manager of audit department from May 2001 to August 2001, assistant to general manager of audit department from August 2001 to March 2002, deputy general manager of audit department from March 2002 to May 2006, deputy general manager of risk control headquarters from May 2006 to September 2006, and the chief auditor and deputy general manager of risk control headquarters from September 2006 to March 2011. Currently, Ms. Wang is acting as an employee supervisor and the general manager of the audit department of HSCL and director or chairman of the supervisory committees of various affiliates of HSCL. She is a director of Haitong Capital Investment Co., Ltd. (海通開元投資有限公司) and Xi'an Aerospace New Energy Industry Investment Fund Co., Ltd. (西安航天新能源產業基金投資有限公司), chairman of the supervisory committees of Haitong Futures Co., Ltd. (海通期貨股份有限公司) and Haitong UniTrust International Leasing Co., Ltd. (海通恒信國際租賃股份有限公司) and also a member of the Brokerage Business Committee of HSCL.

William CHAN, aged 51, was appointed as a Non-executive Director on 2 January 2015 and is the Chairman of the Risk Committee and a member of the Strategic Development Committee of the Company. Mr. Chan was awarded a Master of Business Administration Degree from National University of Singapore and a Bachelor Degree in Shipbuilding from Dalian University of Technology in China. Mr. Chan has extensive experience in equity and bond analysis, trading and portfolio construction, currency trading, distress investment, quantitative research and derivative trading. Mr. Chan is currently a director of Harveston Asset Management Pte. Ltd. and MM River Fund Pte. Ltd.. He previously worked for China Aviation Oil (Singapore) Pte Ltd as Head of Strategic Investment and the Credit and Finance Manager of treasury department and financial risk unit for Asia Pacific of Dow Chemical Singapore.

Independent Non-executive Directors

TSUI Hing Chuen William JP, aged 66, was appointed as an Independent Non-executive Director of the Company on 1 July 2004 and is the Chairman of the Remuneration Committee, a member of the Audit Committee and the Nomination Committee of the Company. Mr. Tsui is the founder partner of Messrs. Lo, Wong & Tsui, Solicitors & Notaries since 1980. He has been a solicitor of the High Court of Hong Kong since 1977, a solicitor of the Supreme Court of England & Wales since 1981 as well as a barrister and solicitor of the Supreme Court of Victoria, Australia since 1983. He has also been an advocate and solicitor of the Supreme Court of Republic of Singapore since 1985 and a notary public appointed by the Archbishop of Canterbury, England since 1988. Mr. Tsui was appointed as a Justice of the Peace by the Government of Hong Kong in 1997. He was admitted to the Roll of Honour of The Law Society of Hong Kong in 2013. Mr. Tsui is currently an independent non-executive director of Mongolia Energy Corporation Limited and Vision Values Holdings Limited and he was an independent non-executive director of International Entertainment Corporation till June 2017. The shares of all these companies are listed on the Stock Exchange.

LAU Wai Piu, aged 53, was appointed as an Independent Non-executive Director of the Company on 1 December 2006 and is a member of the Audit Committee, the Nomination Committee, the Remuneration Committee and the Risk Committee of the Company. Mr. Lau is a member of the HKICPA and a fellow of the Association of Chartered Certified Accountants. He possesses over 20 years of extensive experience in accounting and financial management. Mr. Lau is currently an independent non-executive director of Mongolia Energy Corporation Limited and Vision Values Holdings Limited and he was an independent non-executive director of International Entertainment Corporation till June 2017. The shares of all these companies are listed on the Stock Exchange.

LIN Ching Yee Daniel, aged 55, was appointed as an Independent Non-executive Director of the Company on 31 December 2012 and is the Chairman of the Audit Committee of the Company. Mr. Lin graduated from the University of Oxford and obtained a Master of Arts in Engineering Science. He is a Certified Public Accountant (Practising) in Hong Kong and a member of the HKICPA and the Institute of Chartered Accountants in England and Wales. Mr. Lin is currently the managing partner of Grant Thornton Hong Kong Limited, a member firm of Grant Thornton International Ltd. During working in London of the United Kingdom and Hong Kong, he has gained over 30 years of experience in auditing, initial public offering, financial consulting and management and has been a partner in various large international accounting firms in Hong Kong. Mr. Lin is currently a member of Branding and Communication Advisory Panel of the HKICPA.

WEI Kuo-chiang, aged 67, was appointed as an Independent Non-executive Director of the Company on 31 December 2012 and is a member of the Remuneration Committee and the Risk Committee of the Company. He was awarded a Doctor of Philosophy Degree in Finance from the University of Illinois at Urbana-Champaign in the United States, a Master of Business Administration Degree in Finance from the National Chengchi University in Taiwan, and a Bachelor of Engineering Degree in Industrial Management from the National Taiwan University of Science and Technology. Mr. Wei is currently the Chair Professor of Financial Economics in the School of Accounting and Finance at The Hong Kong Polytechnic University. He previously acted as chair professor, professor, associate professor and assistant professor of finance at a number of prestigious universities, including the University of Mississippi, the University of Miami and the Indiana University at Bloomington/Indianapolis in the United States as well as The Hong Kong University of Science and Technology ("HKUST"), and also served as Director of Value Partners Center for Investing, Director of the Center for Asian Financial Markets and Director of Master of Science (Financial Analysis)/(Investment Management) Programs at the HKUST for many years. Mr. Wei has written a number of research papers on issues such as the United States and Global Capital Markets and Pricing of Assets and he was also a column writer on Hong Kong stock market and warrant trading for Hong Kong Economic Journal for many years. Moreover, he assisted to develop wealth management and investment models for, among others, Hang Seng Bank Limited and The Hongkong and Shanghai Banking Corporation Limited and also organized and conducted a consultancy project for the Government of Hong Kong and Asia-Pacific Economic Cooperation. Mr. Wei has been a council member of the Chinese Finance Annual Meeting and the Global Chinese Real Estate Congress since 2004 and 2008 respectively.

Report of the Board of Directors

The board of directors of the Company (the "Board") is pleased to present its report and the audited financial statements of the Company and the Group for the year ended 31 December 2017.

Principal activities

The principal activity of the Company is investment holding. The principal activities of the Company's subsidiaries comprise securities, futures, options and bullion contracts brokerage, the provision of 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 and investment holdings. There were no significant changes in the nature of the Group's principal activities during the year ended 31 December 2017.

Business Review

The business review of the Company for the year ended 31 December 2017 is set out in the sections headed, "Financial Highlights", "Chairman's Statements", "Chief Executive Officer's Review", "Financial Review", "Corporate Governance Report" and "Corporate Social Responsibility Report" on pages 2 to 3, pages 12 to 13, pages 16 to 21, pages 22 to 33, pages 34 to 49 and pages 52 to 61 respectively on this Annual Report.

Results and dividends

The Group's profit for the year ended 31 December 2017 and the state of affairs of the Company and the Group on that date are set out in the financial statements on pages 94 to 222.

The Board has declared a second interim dividend of HK18 cents per share in cash for the year ended 31 December 2017, payable on Friday, 11 May 2018 to shareholders whose names appear on the register of members of the Company on Wednesday, 4 April 2018. Shareholders will be given the option to receive the second interim dividend in new shares in lieu of cash. Together with the interim dividend of HK10 cents per share paid on Tuesday, 21 November 2017, the total dividend payout for the year ended 31 December 2017 would be HK28 cents per share.

Closure of register of members for entitlement to the second interim dividend

The register of members of the Company will be closed from Thursday, 29 March 2018 to Wednesday, 4 April 2018, both dates inclusive, during which period no transfer of shares will be registered. In order to qualify for the second interim dividend, unregistered holders of the shares of the Company should ensure that all completed transfer forms accompanied by the relevant share certificates must be lodged with the Company's Branch Share Registrar and Transfer Office in Hong Kong, Tricor Investor Services Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong, for registration not later than 4:30 p.m. on Wednesday, 28 March 2018. Shares of the Company will be traded ex-dividend as from Tuesday, 27 March 2018.

Closure of register of members for entitlement to attend and vote at annual general meeting

The register of members of the Company will be closed from Wednesday, 23 May 2018 to Tuesday, 29 May 2018, both dates inclusive, during which period no transfer of shares will be registered. In order to qualify for attending and voting at the annual general meeting, unregistered holders of the shares of the Company should ensure that all completed transfer forms accompanied by the relevant share certificates must be lodged with the Company's Branch Share Registrar and Transfer Office in Hong Kong, Tricor Investor Services Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong, for registration not later than 4:30 p.m. on Monday, 21 May 2018.

Summary of financial information

A summary of the published results, assets, liabilities and non-controlling interests of the Group for the year ended 31 December 2017 and the previous 5 financial periods/years, as extracted from the audited financial statements and reclassified as appropriate, is set out on page 223 of this Annual Report. This summary does not form part of the audited financial statements.

Charitable and other contributions

During the year ended 31 December 2017, the Group made charitable and other contributions totalling HK$1,067,255.

Reserves

Details of movements in the reserves of the Company and the Group during the year ended 31 December 2017 are set out in note 40 to the financial statements and in the consolidated statement of changes in equity, respectively.

Distributable reserves

As at 31 December 2017, the Company's reserves available for distribution, calculated in accordance with the provisions of the Companies Act 1981 of Bermuda (as amended), amounted to HK$1,703,454,000, of which HK$990,155,000 has been proposed as a second interim dividend for the year ended 31 December 2017. In addition, the Company's share premium account, in the amount of HK$17,811,292,000, may be distributed in the form of fully paid bonus shares.

Fixed assets

Details of movements in the fixed assets of the Company and the Group during the year ended 31 December 2017 are set out in note 31 to the financial statements.

Share capital

Details of movements in the Company's share capital during the year ended 31 December 2017, together with the reasons thereof, are set out in note 36 to the financial statements.

Debentures Issued

Details of loans and borrowings are set out in note 34 to the financial statements and details of the convertible bonds are set out in the Company's announcements on 18 July 2013, 10 October 2013, 4 November 2014, 12 October 2016 and 25 October 2016.

Equity-Linked Agreements

Other than the share option schemes and convertible bonds of the Company with details as respectively disclosed in this Report of the Board of Director, and note 37 to the financial statements, no equity-linked agreements were entered into by the Company that will or may result in the Company issuing shares or that require the Company to enter into any agreements that will or may result in the Company issuing shares during the year or subsisted at the end of the year.

Pre-emptive rights

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

Purchase, sale or redemption of listed securities of the Company

Neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities during the year ended 31 December 2017 other than as an agent for clients of the Company or its subsidiaries and for the trustee of the share award scheme of the Company.

Major customers and suppliers

In the year ended 31 December 2017, the revenue attributable to the 5 largest customers of the Group accounted for less than 30% of the Group's total revenue for the year ended 31 December 2017.

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

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

Directors

The directors of the Company during the year ended 31 December 2017 and up to the date of this report are:

Executive directors:

LIN Yong	
LI Jianguo	
POON Mo Yiu	(redesignated from non-executive director to executive director on 8 February 2018)
SUN Jianfeng	(appointed on 1 June 2017)
HUI Yee Wilson	(retired on 1 June 2017)

Non-executive directors:

QU Qiuping	(appointed on 8 February 2018)
JI Yuguang	(retired on 8 February 2018)
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

According to the Company's New Bye-law 86(2), Mr. QU Qiuping, who has been appointed as a non-executive director of the Company with effect from 8 February 2018, shall hold office only until the forthcoming annual general meeting and shall be eligible for election at the annual general meeting. In addition, pursuant to the Company's New Bye-laws 87(1) and (2), Mr. LIN Yong, Mr. POON Mo Yiu, Ms. WANG Meijuan and Mr. William CHAN shall retire from office by rotation at the forthcoming annual general meeting and, being eligible, offer themselves for re-election.

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

Directors' biographical details

Biographical details of the directors of the Company are set out on pages 62 to 65 of this Annual Report.

Directors' service contracts

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

Directors' interests in transactions, arrangements or contracts

No director had a material interest, either directly or indirectly, in any contract of significance to the business of the Group to which the Company or any of its subsidiaries was a party during the year ended 31 December 2017.

Permitted Indemnity Provision

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

Directors' interests and short positions in shares, underlying shares and debentures

As at 31 December 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 set out in Appendix 10 to the Listing Rules (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 (retired on 8 February 2018)	Share options	–	–	–	876,749 (Notes 1&2)	876,749	0.02
LIN Yong	Ordinary shares/ share options	5,365,551 (Note 3)	–	–	1,601,431 (Notes 1&2)	6,966,982	0.13
LI Jianguo	Ordinary shares/ share options	2,096,189 (Note 4)	–	–	901,072 (Notes 1&2)	2,997,261	0.05
POON Mo Yiu	Ordinary shares/ share options	319,527 (Note 6)	–	–	3,105,473 (Notes 1&2)	3,425,000	0.06
SUN Jianfeng (appointed on 1 June 2017)	Ordinary shares/ share options	1,381,440 (Note 5)	–	–	1,000,893 (Notes 1&2)	2,382,333	0.04
CHENG Chi Ming Brian	Share options	–	–	–	1, 477,283 (Notes 1&2)	1, 477,283	0.03
WANG Meijuan	Share options	–	–	–	300,534 (Notes 1&2)	300,534	0.01
William CHAN	Share options	–	–	–	600,534 (Notes 1&2)	600,534	0.01
TSUI Hing Chuen William	Ordinary shares/ share options	200,000 (Note 7)	–	–	746,547 (Notes 1&2)	946,547	0.02
LAU Wai Piu	Share options	–	–	–	1,026,654 (Notes 1&2)	1,026,654	0.02
LIN Ching Yee Daniel	Share options	–	–	–	600,534 (Notes 1&2)	600,534	0.01
WEI Kuo-chiang	Share options	–	–	–	600,534 (Notes 1&2)	600,534	0.01

* On 18 August 2017 and 21 November 2017, 78,617,528 and 82,378,991 shares were allotted under the final dividend for the year ended 31 December 2016 and under the interim dividend for the 6 months ended 30 June 2017 respectively in form of scrip dividend. Together with the issue of 3,327,798 ordinary shares during the year ended 31 December 2017 pursuant to exercise of share options under the Share Option Scheme adopted on 23 August 2002, the total number of shares of the Company was increased to 5,500,858,791 as at 31 December 2017.

Notes:

1. On 18 August 2017, the number of outstanding share options and the exercise price were adjusted in the following manner consequent to the allotment of ordinary shares on the same day under final dividend for the year ended 31 December 2016 in form of scrip dividend:

Name or category of participants	Date of grant of share options	Number of outstanding option before the allotment of scrip dividend	Exercise price per share option before the allotment of scrip dividend	Adjusted number of outstanding option after the allotment of scrip dividend	Adjusted exercise price per share option after the allotment of scrip dividend
JI Yuguang (retired on 8 February 2018)	3 September 2010	875,526	2.768	876,405	2.765
LIN Yong	12 May 2016	800,311	4.674	801,116	4.669
LI Jianguo	12 May 2016	600,232	4.674	600,836	4.669
POON Mo Yiu	3 September 2010	2,101,286	2.768	2,103,396	2.765
	12 May 2016	700,271	4.674	700,975	4.669
SUN Jianfeng (appointed on 1 June 2017)	12 May 2016	500,193	4.674	500,696	4.669
CHENG Chi Ming Brian	3 September 2010	875,526	2.768	876,405	2.765
	12 May 2016	300,114	4.674	300,416	4.669
WANG Meijuan	12 May 2016	300,114	4.674	300,416	4.669
William CHAN	12 May 2016	300,114	4.674	300,416	4.669
TSUI Hing Chuen William	3 September 2010	145,808	2.768	145,955	2.765
	12 May 2016	300,114	4.674	300,416	4.669
LAU Wai Piu	3 September 2010	425,526	2.768	425,953	2.765
	12 May 2016	300,114	4.674	300,416	4.669
LIN Ching Yee Daniel	12 May 2016	300,114	4.674	300,416	4.669
WEI Kuo-chiang	12 May 2016	300,114	4.674	300,416	4.669

2. On 21 November 2017, the number of outstanding share options and the exercise price were adjusted in the following manner consequent to the allotment of ordinary shares on the same day under interim dividend for the 6 months ended 30 June 2017 in form of scrip dividend:

Name or category of participants	Date of grant of share options	Number of outstanding option before the allotment of scrip dividend	Exercise price per share option before the allotment of scrip dividend	Adjusted number of outstanding option after the allotment of scrip dividend	Adjusted exercise price per share option after the allotment of scrip dividend
JI Yuguang (retired on 8 February 2018)	3 September 2010	876,405	2.765	876,749	2.764
LIN Yong	12 May 2016	801,116	4.669	801,431	4.667
LI Jianguo	12 May 2016	600,836	4.669	601,072	4.667
POON Mo Yiu	3 September 2010	2,103,396	2.765	2,104,222	2.764
	12 May 2016	700,975	4.669	701,251	4.667
SUN Jianfeng (appointed on 1 June 2017)	12 May 2016	500,696	4.669	500,893	4.667
CHENG Chi Ming Brian	3 September 2010	876,405	2.765	876,749	2.764
	12 May 2016	300,416	4.669	300,534	4.667
WANG Meijuan	12 May 2016	300,416	4.669	300,534	4.667
William CHAN	12 May 2016	300,416	4.669	300,534	4.667
TSUI Hing Chuen William	3 September 2010	145,955	2.765	146,013	2.764
	12 May 2016	300,416	4.669	300,534	4.667
LAU Wai Piu	3 September 2010	425,953	2.765	426,120	2.764
	12 May 2016	300,416	4.669	300,534	4.667
LIN Ching Yee Daniel	12 May 2016	300,416	4.669	300,534	4.667
WEI Kuo-chiang	12 May 2016	300,416	4.669	300,534	4.667

3. 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 pursuant to the award scheme rules on 15 March 2017.

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

5. 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 pursuant to the award scheme rules on 15 March 2017.

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 scheme rules.

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

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

Save as disclosed above, as at 31 December 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 Schemes" below, at no time during the year ended 31 December 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 Scheme

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.

Share Option Schemes

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

Purpose of the 2002 Share Option Scheme:

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

Participants of the 2002 Share Option Scheme:

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

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

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

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

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

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

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

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

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

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

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

The basis of determining the exercise price:

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

The remaining life of the 2002 Share Option Scheme:

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

Details of movement of share options under the 2002 Share Option Scheme during the year ended 31 December 2017 were as follows:

Name or category of participants	Number of share options: At 1 January 2017	Granted during the year	Adjusted during the year	Exercised during the year	Lapsed during the year	At 31 December 2017	Date of grant of share options*	Exercise period of share options	Exercise price of share options** HK$ per share	Price of Company's shares***: At immediately preceding the grant date of share options HK$ per share	At immediately preceding the exercise date of share options HK$ per share
Directors											
JI Yuguang (retired on 8 February 2018)	875,526	–	1,223 (Note 1)	–	–	876,749	3 September 2010	3 March 2011 – 2 March 2019	2.764 (Note 1)	4.79	N/A
HUI Yee Wilson (retired on 1 June 2017)	1,751,069	–	–	(1,751,069) (Note 2)	–	–	3 September 2010	3 March 2011 – 2 March 2019	2.768 (Note 2)	4.79	4.56
POON Mo Yiu	2,101,286	–	2,936 (Note 1)	–	–	2,104,222	3 September 2010	3 March 2011 – 2 March 2019	2.764 (Note 1)	4.79	N/A
CHENG Chi Ming Brian	875,526	–	1,223 (Note 1)	–	–	876,749	3 September 2010	3 March 2011 – 2 March 2019	2.764 (Note 1)	4.79	N/A
TSUI Hing Chuen William	145,808	–	205 (Note 1)	–	–	146,013	3 September 2010	3 March 2011 – 2 March 2019	2.764 (Note 1)	4.79	N/A
LAU Wai Piu	425,526	–	594 (Note 1)	–	–	426,120	3 September 2010	3 March 2011 – 2 March 2019	2.764 (Note 1)	4.79	N/A
	6,174,741	–	6,181	(1,751,069)	–	4,429,853					

Name or category of participants	At 1 January 2017	Granted during the year	Adjusted during the year	Exercised during the year	Lapsed during the year	At 31 December 2017	Date of grant of share options*	Exercise period of share options	Exercise price of share options** HK$ per share	Price of Company's shares*** At immediately preceding the grant date of share options HK$ per share	Price of Company's shares*** At immediately preceding the exercise date of share options HK$ per share
Continuous contract employees											
In aggregate	2,956,916	–	2,070 (Note 1)	(1,576,729)	–	1,382,257	3 September 2010	3 March 2011 – 2 March 2019	2.768 (Note 1)	4.79	4.685
	2,956,916	–	2,070	(1,576,729)	–	1,382,257					
	9,131,657	–	8,251	(3,327,798)	–	5,812,110					

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

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

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

Notes:

1. The exercise price and the number of share options were adjusted with effect from 18 August 2017 consequent to the allotment of ordinary shares on the same day under final dividend for the year ended 31 December 2016 in form of scrip dividend. The number of share options were further adjusted with effect from 21 November 2017 consequent to the allotment of ordinary shares on the same day under interim dividend for the 6 months ended 30 June 2017 in form of scrip dividend.

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

Purpose of the 2015 Share Option Scheme:

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

Participants of the 2015 Share Option Scheme:

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

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

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

As at the date of this report, the total number of shares available for issue under the 2015 Share Option Scheme was 183,696,339 shares, which represented approximately 3.34% of the issued share capital of the Company at that day.

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

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

Share options granted to a director, chief executive or substantial shareholders of the Company, or to any of their respective associates, are subject to approval in advance by the independent non-executive directors of the Company. In addition, any share options granted to a substantial shareholder or an independent non-executive director of the Company, or to any of their respective associates, in excess of 0.1% of the total number of shares of the Company in issue at the date on which such grant is proposed by the Board and with an aggregate value (based on the closing price of the Company's shares at the date on which such grant is proposed by the Board) in excess of HK$5 million, within any 12-month period, are subject to shareholders' approval in advance at a general meeting of the Company, with all connected persons of the Company shall abstain from voting (except where any connected person may vote against the relevant resolution at such general meeting provided that his intention to do so has been stated in the circular to the shareholders of the Company and that the relevant Listing Rules have been complied with).

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

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

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

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

The basis of determining the exercise price:

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

The remaining life of the 2015 Share Option Scheme:

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

Movements of the share options under the 2015 Share Option Scheme during the year ended 31 December 2017 are listed below:

Name or category of participants	Number of share options: At 1 January 2017	Granted during the year	Adjusted during the year	Exercised during the year	Cancelled during the year	Lapsed during the year	At 31 December 2017	Date of grant of share options*	Exercise period of share options	Exercise price of share options** HK$ per share	Price of Company's shares***: At immediately preceding the grant date of share options HK$ per share	At immediately preceding the exercise date of share options HK$ per share
Directors												
LIN Yong	800,311	–	1,120 (Note 1)	–	–	–	801,431	12 May 2016	8 December 2016 – 11 May 2021	4.667 (Note 1)	4.25	N/A
	–	800,000	–	–	–	–	800,000	10 November 2017	7 June 2018 – 9 November 2022	5.038	4.58	N/A
LI Jianguo	600,232	–	840 (Note 1)	–	–	–	601,072	12 May 2016	8 December 2016 – 11 May 2021	4.667 (Note 1)	4.25	N/A
	–	300,000	–	–	–	–	300,000	10 November 2017	7 June 2018 – 9 November 2022	5.038	4.58	N/A
HUI Yee Wilson (retired on 1 June 2017)	700,271	–	–	–	–	(700,271) (Note 2)	–	12 May 2016	8 December 2016 – 11 May 2021	4.674	4.25	N/A
POON Mo Yiu	700,271	–	980 (Note 1)	–	–	–	701,251	12 May 2016	8 December 2016 – 11 May 2021	4.667 (Note 1)	4.25	N/A
	–	300,000	–	–	–	–	300,000	10 November 2017	7 June 2018 – 9 November 2022	5.038	4.58	N/A
SUN Jianfeng (appointed on 1 June 2017)	500,193	–	700 (Note 1)	–	–	–	500,893	12 May 2016	8 December 2016 – 11 May 2021	4.667 (Note 1)	4.25	N/A
	–	500,000	–	–	–	–	500,000	10 November 2017	7 June 2018 – 9 November 2022	5.038	4.58	N/A

	Number of share options										Price of Company's shares***	
Name or category of participants	At 1 January 2017	Granted during the period	Adjusted during the period (Note 1)	Exercised during the period	Cancelled during the period	Lapsed during the year	At 31 December 2017	Date of grant of share options*	Exercise period of share options	Exercise price of share options** (Note 1) HK$ per share	At immediately preceding the grant date of share options HK$ per share	At immediately preceding the exercise date of share options HK$ per share
Directors												
CHENG Chi Ming Brian	300,114	–	420 (Note 1)	–	–	–	300,534	12 May 2016	8 December 2016 – 11 May 2021	4.667 (Note 1)	4.25	N/A
	–	300,000	–	–	–	–	300,000	10 November 2017	7 June 2018 – 9 November 2022	5.038	4.58	N/A
WANG Meijuan	300,114	–	420 (Note 1)	–	–	–	300,534	12 May 2016	8 December 2016 – 11 May 2021	4.667 (Note 1)	4.25	N/A
William CHAN	300,114	–	420 (Note 1)	–	–	–	300,534	12 May 2016	8 December 2016 – 11 May 2021	4.667 (Note 1)	4.25	N/A
	–	300,000	–	–	–	–	300,000	10 November 2017	7 June 2018 – 9 November 2022	5.038	4.58	N/A
TSUI Hing Chuen William	300,114	–	420 (Note 1)	–	–	–	300,534	12 May 2016	8 December 2016 – 11 May 2021	4.667 (Note 1)	4.25	N/A
	–	300,000	–	–	–	–	300,000	10 November 2017	7 June 2018 – 9 November 2022	5.038	4.58	N/A
LAU Wai Piu	300,114	–	420 (Note 1)	–	–	–	300,534	12 May 2016	8 December 2016 – 11 May 2021	4.667 (Note 1)	4.25	N/A
	–	300,000	–	–	–	–	300,000	10 November 2017	7 June 2018 – 9 November 2022	5.038	4.58	N/A
LIN Ching Yee Daniel	300,114	–	420 (Note 1)	–	–	–	300,534	12 May 2016	8 December 2016 – 11 May 2021	4.667 (Note 1)	4.25	N/A
	–	300,000	–	–	–	–	300,000	10 November 2017	7 June 2018 – 9 November 2022	5.038	4.58	N/A
WEI Kuo-chiang	300,114	–	420 (Note 1)	–	–	–	300,534	12 May 2016	8 December 2016 – 11 May 2021	4.667 (Note 1)	4.25	N/A
	–	300,000	–	–	–	–	300,000	10 November 2017	7 June 2018 – 9 November 2022	5.038	4.58	N/A
	5,402,076	3,700,000	6,580	–	–	(700,271)	8,408,385					
Continuous contract employees												
In aggregate	12,404,603	–	16,115 (Note 1)	–	–	(1,251,003) (Note 2)	11,169,715	12 May 2016	8 December 2016 – 11 May 2021	4.667 (Note 1)	4.25	N/A
	–	9,700,000	–	–	(50,000) (Note 2)	–	9,650,000	10 November 2017	7 June 2018 – 9 November 2022	5.038	4.58	N/A
	12,404,603	9,700,000	16,115	–	(50,000)	(1,251,003)	20,819,715					
	17,806,679	13,400,000	22,695	–	(50,000)	(1,951,274)	29,228,100					

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

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

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

Notes:

1. The exercise price and the number of share options were adjusted with effect from 18 August 2017 consequent to the allotment of ordinary shares on the same day under final dividend for the year ended 31 December 2016 in form of scrip dividend. The number of share options were further adjusted with effect from 21 November 2017 consequent to the allotment of ordinary shares on the same day under interim dividend for the 6 months ended 30 June 2017 in form of scrip dividend.

2. These share options were cancelled or lapsed during the year ended 31 December 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 Share Award Scheme and the Trust Deed of the Share Award Scheme. The Share Award Scheme became effective on the adoption date and, unless otherwise terminated or amended, will remain in force for 10 years from that date, i.e., 18 December 2024.

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

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

Details of the Awarded Shares granted, lapsed and unvested during the year ended 31 December 2017 are set out below:

Date of awards	Number of Awarded Shares granted	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	524,975	4,565,654	15/03/2017 15/03/2018 15/03/2019
28 April 2017	4,246,234	–	269,921	3,976,313	19/03/2018 19/03/2019 19/03/2020

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

Substantial shareholders' interests and short positions in shares and underlying shares

As at 31 December 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")	–	3,433,965,079	–	3,433,965,079	62.43
Haitong International Holdings Limited ("HTIH")	3,433,965,079	–	–	3,433,965,079	62.43

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

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

Save as disclosed above, as at 31 December 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.

Directors' Interests in Competing Businesses

Mr. LIN Yong (a Deputy Chairman and the Chief Executive Officer of the Company) is a director and the chief executive officer of HTIH, an assistant to the general manager of HSCL, a board member of Haitong Bank, S.A. and Haitong Banco de Investimento do Brasil S.A. and the chairman of Haitong Bank, S.A. Mr. LI Jianguo (a Deputy Chairman of the Company) is the deputy chairman of the board of directors of HTIH, which is a wholly-owned subsidiary of HSCL and an assistant to the general manager of HSCL. Mr. QU Qiuping (the Chairman of the Company) is the general manager and the deputy secretary of CPC Party committee of HSCL as well as the chairman of the board of HTIH. Mr. POON Mo Yiu (formerly the chief financial officer of Haitong Bank, S.A. and re-designation as an executive director of the Company on 8 February 2018) is a board member of Haitong Bank, S.A.. Ms. WANG Meijuan (a non-executive director of the Company) is respectively a director and the chairman of supervisory committee of Haitong Capital Investment Co., Ltd. and Haitong Futures Co., Ltd., the group companies of HSCL, and the general manager of the audit department of HSCL. HSCL and its subsidiaries (other than the Group) (collectively the "HSCL Group") competes or may compete, either directly or indirectly, with the business of the Group.

The Board considers that, having considered the facts that:

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

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

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

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

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

the Group's interest is adequately safeguarded.

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

Based on the above, as at 31 December 2017, none of the directors of the Company and their associates was considered to have interests in the businesses which compete or are likely to compete, either directly or indirectly, with the businesses of the Group.

Continuing Connected Transactions

The continuing connected transactions undertaken by the Group are included in the transactions set out in note 39 to the financial statements.

The independent non-executive directors of the Company have reviewed the connected transactions and continuing connected transactions in note 39 to the financial statements and have confirmed that the connected transactions and continuing connected transactions have been entered into (i) in the ordinary and usual course of business of the Group; (ii) on normal commercial terms or on terms no less favourable to the Group than terms available to or from (as appropriate) independent third parties; and (iii) in accordance with the relevant agreements governing them on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

The Company's auditor was engaged to report on the Group's continuing connected transactions in accordance with Hong Kong Standard on Assurance Engagements 3000 (Revised) "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants. The auditor has issued his unqualified letter containing his findings and conclusions in respect of the continuing connected transactions disclosed by the Group in note 39 to the financial statements in accordance with paragraph 14A.56 of the Listing Rules. A copy of the auditor's letter has been provided by the Company to the Stock Exchange.

Connected Transactions

As disclosed in the announcement of the Company dated 15 December 2017, Haitong International (BVI) Limited ("Haitong International BVI"), a wholly-owned subsidiary of the Company, entered into:

(i) a membership interests purchase agreement ("MIPA") with Haitong Bank, S.A. ("Haitong Bank"), pursuant to which Haitong International BVI conditionally agreed to purchase and Haitong Bank conditionally agreed to sell 100% of the membership interests of Haitong Securities USA LLC ("Haitong USA"); and

(ii) a share purchase agreement ("SPA") with Haitong Bank, pursuant to which Haitong International BVI conditionally agreed to purchase and Haitong Bank conditionally agreed to sell the entire share capital of Haitong (UK) Limited ("Haitong UK").

As at the date of the MIPA and SPA, each of Haitong Bank, Haitong USA and Haitong UK was an indirect wholly-owned subsidiary of HSCL, which was the holding company of Haitong International Holdings Limited, the controlling shareholder of the Company, and therefore each of Haitong Bank, Haitong USA and Haitong UK was an associate of HSCL and a connected person of the Company.

Disclosure pursuant to Rule 13.21 of the Listing Rules

On 10 April 2015, 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$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 II") 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 III") 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 IV") 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 and Facility Agreement III, if, inter alia, either of the following events of default occurs, all or any part of the facilities may be immediately cancelled and all or any part of the loans together with accrued interest and any other amounts accrued or outstanding under the facilities may become immediately due and payable or payable on demand:

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

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

Pursuant to the terms of the 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 more of the issued 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 Agreement III and Facility Agreement IV were made on 10 April 2015, 26 June 2015, 18 March 2016 and 16 March 2017 respectively.

Sufficiency of public float

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

Corporate governance

The Company's corporate governance principles and practices are set out in the Corporate Governance Report on pages 34 to 49 of this Annual Report.

Compliance with Relevant Laws and Regulations

During the year under review, as far as the Board and management are aware, there was no material breach of or non-compliance with the applicable laws and regulations by the Group that has a significant impact on the businesses and operations of the Group.

Auditors

The financial statements for the year ended 31 December 2017 of the Company have been audited by Deloitte Touche Tohmatsu who will retire and, being eligible, offer themselves for reappointment.

On behalf of the Board

QU Qiuping
Chairman

Hong Kong, 14 March 2018

Independent Auditor's Report

Deloitte. 德勤

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

Opinion

We have audited the consolidated financial statements of Haitong International Securities Group Limited (the "Company") and its subsidiaries (collectively referred to as "the Group") set out on pages 94 to 222 which comprise the consolidated statement of financial position as at 31 December 2017, and the consolidated statement of profit or loss and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2017, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

Basis for Opinion

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the HKICPA. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the HKICPA's Code of Ethics for Professional Accountants ("the Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter	How our audit addressed the key audit matter
Impairment of advances to customers in margin financing and other loans and receivables	
We identified the impairment of advances to customers in margin financing and other loans and receivables, which comprise other loans and debt securities classified as receivables, as a key audit matter as it requires the application of judgment by the management, such as the assessment of objective evidence for impairment, the value of collateral and the assessment of the recoverable amount. The total gross amount of advances to customers in margin financing and other loans and receivables are HK$16,608 million and HK$14,378 million with impairment provision of HK$239 million and HK$212 million respectively as at 31 December 2017. Please see notes 19 and 20 to the consolidated financial statements. As detailed in note 4 to the consolidated financial statements, the management assesses the impairment of loans and advances to customers (including advances to customers in margin financing and other loans) and debt securities classified as receivables on a periodic basis by determining whether there is any observable data indicating that there is an objective evidence of impairment that will have a measurable decrease in the estimated future cash flows from identified loans and advances. The management also reviews the value of the collateral received from the customers in determining the impairment.	Our audit procedures for the impairment of advances to customers in margin financing include understanding and testing of the key controls over the credit risk management for on-going monitoring, including: • the margin call procedures for margin shortfall; and • actions taken by the management for impaired advances to customers in margin financing. Our audit procedures for the impairment of other loans and debt securities classified as receivables include understanding and testing of the key controls over the credit risk management for on-going monitoring, such as periodic review for identification of any delinquency in loans or interest repayment. Furthermore, we examined underlying documentation supporting the value of the collateral, if any, and the management's key estimations used in the individual impairment assessment for advances to customers in margin financing and other loans and receivables on a sample basis. We also reviewed the estimated future cash flows and the fair value of collateral for all impaired amounts.

Key audit matter	How our audit addressed the key audit matter
Valuation of Level 3 financial instruments	
We identified the valuation of Level 3 financial instruments as a key audit matter due to the significance of the judgment and estimates made by the management and the subjectivity in determination of Level 3 fair value given the lack of availability of market-based data. Please see note 44 to the consolidated financial statements. The total fair value of financial assets at fair value through profit or loss, financial assets and liabilities designated at fair value through profit or loss and available-for-sale investments classified as Level 3, amounted to HK$111 million, HK$464 million, HK$329 million and HK$438 million respectively as at 31 December 2017 as disclosed in note 44 to the consolidated financial statements.	We discussed with the management about the valuation of the Level 3 financial instruments, and together with our own internal valuation specialists, where necessary: (i) evaluating the appropriateness of the valuation methodologies and assumptions based on the industry knowledge; (ii) evaluating the appropriateness of the key inputs by independently checking to the external data; (iii) evaluating the rationale of management's judgment on the key inputs; or (iv) performing sensitivity analysis with reference to available market information to evaluate the reasonableness of the valuation, where appropriate.

Other Information

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

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

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

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

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

In preparing the consolidated financial statements, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion solely to you, as a body, in accordance with Section 90 of the Bermuda Companies Act, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with HKSAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in the independent auditor's report is Eric Tong.

Deloitte Touche Tohmatsu
Certified Public Accountants

Hong Kong
14 March 2018

Consolidated Statement of Profit or Loss

For the year ended 31 December 2017

	NOTES	2017 HK$'000	2016 HK$'000
Revenue			
Commission and fee income	6	**2,013,575**	1,724,162
Interest income	6	**2,152,832**	2,018,263
Net investment gains	6	**3,028,614**	1,608,392
		7,195,021	5,350,817
Other income and gains or losses	6	**(92,986)**	6,899
Salaries and allowances, bonuses and pension	7	**(1,148,974)**	(814,234)
Commission expenses	7	**(288,467)**	(245,564)
Depreciation and amortisation	29 & 31	**(62,616)**	(39,980)
Other expenses		**(840,835)**	(841,991)
		(2,340,892)	(1,941,769)
Finance costs	8	**(1,659,631)**	(1,395,816)
Share of results of investments accounted for using the equity method		**470,727**	(27,658)
Profit before tax	9	**3,572,239**	1,992,473
Income tax expense	12	**(543,551)**	(312,248)
Profit for the year attributable to owners of the Company		**3,028,688**	1,680,225
Earnings per share attributable to owners of the Company	13		
— Basic (HK cents per share)		**56.53**	31.76
— Diluted (HK cents per share)		**51.68**	31.18

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31 December 2017

	2017 HK$'000	2016 HK$'000
Profit for the year attributable to owners of the Company	**3,028,688**	1,680,225
Other comprehensive income (expense):		
Items that may be reclassified subsequently to profit or loss:		
Available-for-sale investments		
Net fair value changes during the year	**237,379**	(24,969)
Reclassification adjustment to profit or loss on disposal and deemed disposal	**(190,859)**	53,697
Reclassification adjustment to profit or loss on impairment	**–**	126,239
Cash flow hedge	**21,015**	(18,156)
Exchange differences on translating foreign operations	**58,425**	(19,968)
Other comprehensive income for the year	**125,960**	116,843
Total comprehensive income for the year attributable to owners of the Company	**3,154,648**	1,797,068

Consolidated Statement of Financial Position

At 31 December 2017

	NOTES	2017 Current HK$'000	2017 Non-current HK$'000	2017 Total HK$'000	2016 Current HK$'000	2016 Non-current HK$'000	2016 Total HK$'000
ASSETS							
Cash and cash equivalents		4,536,816	–	4,536,816	7,171,169	–	7,171,169
Cash held on behalf of customers	15	19,768,481	–	19,768,481	20,186,813	–	20,186,813
Financial assets at fair value through profit or loss	16	37,908,459	–	37,908,459	25,252,697	–	25,252,697
Financial assets designated at fair value through profit or loss	17	11,140,369	1,139,283	12,279,652	16,742,585	–	16,742,585
Derivative financial instruments	18	693,676	–	693,676	575,280	–	575,280
Advances to customers in margin financing	19	16,369,217	–	16,369,217	20,817,335	–	20,817,335
Other loans and receivables	20	10,815,851	3,350,685	14,166,536	8,083,096	43,477	8,126,573
Financial assets held under resale agreements	21	2,921,857	–	2,921,857	3,600,953	–	3,600,953
Held-to-maturity investments	22	94,171	–	94,171	–	93,357	93,357
Accounts receivable	23	5,946,394	–	5,946,394	5,113,753	–	5,113,753
Tax recoverable		76,233	–	76,233	30,188	–	30,188
Prepayments, deposits and other receivables	24	891,574	17,114	908,688	959,106	90,365	1,049,471
Available-for-sale investments	25	–	8,104,311	8,104,311	–	17,846,297	17,846,297
Investments accounted for using the equity method	26	–	5,872,866	5,872,866	–	4,425,547	4,425,547
Other intangible assets	29	–	44,710	44,710	–	50,423	50,423
Goodwill	29	–	223,985	223,985	–	218,460	218,460
Other assets	30	–	128,445	128,445	–	73,445	73,445
Property and equipment	31	–	178,243	178,243	–	129,665	129,665
Deferred tax assets		–	1,098	1,098	–	1,237	1,237
Total assets		111,163,098	19,060,740	130,223,838	108,532,975	22,972,273	131,505,248

Consolidated Statement of Financial Position

At 31 December 2017

	NOTES	2017 Current HK$'000	2017 Non-current HK$'000	2017 Total HK$'000	2016 Current HK$'000	2016 Non-current HK$'000	2016 Total HK$'000
LIABILITY AND EQUITY							
Liabilities							
Financial liabilities at fair value through profit or loss	16	4,604,688	–	4,604,688	3,143,726	–	3,143,726
Financial liabilities designated at fair value through profit or loss	17	11,284,590	852,245	12,136,835	14,216,393	–	14,216,393
Derivative financial instruments	18	1,323,116	–	1,323,116	250,864	–	250,864
Financial assets sold under repurchase agreements	32	11,307,114	–	11,307,114	9,586,163	–	9,586,163
Accounts payable	33	26,469,683	–	26,469,683	28,240,926	–	28,240,926
Bank loans and other borrowings	34	30,755,297	–	30,755,297	33,626,574	–	33,626,574
Debt securities in issue	34	1,201,216	14,422,099	15,623,315	1,551,252	14,772,247	16,323,499
Other liabilities arising from consolidation of investment funds	28	271,601	–	271,601	2,512,113	–	2,512,113
Tax payable		468,785	–	468,785	171,921	–	171,921
Other payables and accruals	35	1,291,693	586,189	1,877,882	965,602	–	965,602
Deferred tax liabilities		–	17,643	17,643	–	18,443	18,443
Total liabilities		88,977,783	15,878,176	104,855,959	94,265,534	14,790,690	109,056,224
Equity							
Share capital	36			550,086			533,653
Reserves				23,827,638			21,488,448
Proposed dividends	14			990,155			426,923
Total equity				25,367,879			22,449,024
Total liabilities and equity				130,223,838			131,505,248
Net current assets				22,185,315			14,267,441

The consolidated financial statements on pages 94 to 222 were approved and authorised for issue by the board of directors on 14 March 2018 and are signed on its behalf by:

LIN Yong
DIRECTOR

POON Mo Yiu
DIRECTOR

Consolidated Statement of Changes in Equity

For the year ended 31 December 2017

	Attributable to owners of the Company														
	Share capital HK$'000	Share premium account[1&2] HK$'000	Share option reserve[1] HK$'000	Share award reserve[1&2] HK$'000	Shares held for employee share award scheme[1&2] HK$'000	Capital redemption reserve[1] HK$'000	Contributed surplus[1] HK$'000	Capital reserve[1] HK$'000	Investments revaluation reserve[1] HK$'000	Exchange reserve[1] HK$'000	Hedging reserve[1] HK$'000	Convertible bond reserve[1] HK$'000	Proposed cash/scrip dividends HK$'000	Retained profits[1] HK$'000	Total HK$'000
At 1 January 2016	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 year	–	–	–	–	–	–	–	–	–	–	–	–	–	1,680,225	1,680,225
Other comprehensive income (expense) for the year	–	–	–	–	–	–	–	–	154,967	(19,968)	(18,156)	–	–	–	116,843
Total comprehensive income (expense)	–	–	–	–	–	–	–	–	154,967	(19,968)	(18,156)	–	–	1,680,225	1,797,068
Issuance of convertible bonds (note 34)	–	–	–	–	–	–	–	–	–	–	–	195,164	–	–	195,164
Recognition of equity-settled share-based payment (note 37)	–	–	23,673	13,863	–	–	–	–	–	–	–	–	–	–	37,536
Share awards lapsed	–	518	–	(518)	–	–	–	–	–	–	–	–	–	–	–
Shares issued under share option scheme (note 36 and 37)	352	11,465	(373)	–	–	–	–	–	–	–	–	–	–	–	11,444
Share options lapsed	–	1,828	(1,828)	–	–	–	–	–	–	–	–	–	–	–	–
2015 final dividend declared and settled in cash and scrip	3,389	140,781	–	–	–	–	–	–	–	–	–	–	(211,597)	(112)	(67,539)
2016 interim dividend declared and settled in cash and scrip (note 14)	920	45,161	–	–	–	–	–	–	–	–	–	–	–	(399,516)	(353,435)
Proposed 2016 final dividend (note 14)	–	–	–	–	–	–	–	–	–	–	–	–	426,923	(426,923)	–
At 31 December 2016	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
At 1 January 2017	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 year	–	–	–	–	–	–	–	–	–	–	–	–	–	3,028,688	3,028,688
Other comprehensive income for the year	–	–	–	–	–	–	–	–	46,520	58,425	21,015	–	–	–	125,960
Total comprehensive income	–	–	–	–	–	–	–	–	46,520	58,425	21,015	–	–	3,028,688	3,154,648
Recognition of equity-settled share-based payment (note 37)	–	–	2,910	18,395	–	–	–	–	–	–	–	–	–	–	21,305
Vesting of shares for the share award scheme	–	(4,677)	–	(9,804)	14,481	–	–	–	–	–	–	–	–	–	–
Shares issued under share option scheme (note 36 and 37)	333	8,955	(77)	–	–	–	–	–	–	–	–	–	–	–	9,211
Share awards lapsed	–	899	–	(899)	–	–	–	–	–	–	–	–	–	–	–
Share options lapsed	–	2,593	(2,593)	–	–	–	–	–	–	–	–	–	–	–	–
2016 final dividend declared and settled in cash and scrip (note 14)	7,862	325,847	–	–	–	–	–	–	–	–	–	–	(426,923)	(256)	(93,470)
2017 interim dividend declared and settled in cash and scrip (note 14)	8,238	360,771	–	–	–	–	–	–	–	–	–	–	–	(541,848)	(172,839)
Proposed 2017 second interim dividend (note 14)	–	–	–	–	–	–	–	–	–	–	–	–	990,155	(990,155)	–
At 31 December 2017	550,086	17,812,492	24,000	21,037	(113,539)	5,102	21	40,383	161,389	44,310	(7,169)	200,538	990,155	5,639,074	25,367,879

1 These reserve accounts represent the consolidated reserves other than share capital and proposed cash/scrip dividends of approximately HK$23,828 million (31 December 2016: approximately HK$21,488 million) in the consolidated statement of financial position.

2 As at 31 December 2017, the trustee of the share award scheme held 19,266,739 ordinary shares of the Company (31 December 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 costs (including related transaction costs) of approximately HK$128 million. During the year ended 31 December 2017, 4,246,234 (2016: 7,865,506 awarded shares) awarded shares were granted by the Company. 269,921 shares lapsed during the year ended 31 December 2017 in relation to the grant by the Company for the year ended 31 December 2017, and 524,975 shares and 317,616 shares lapsed during the year ended 31 December 2017 and 2016 respectively in relation to the grant by the Company during the year ended 31 December 2016. In addition, 2,457,261 shares were vested during the current year in relation to the grant by the Company during the year ended 31 December 2016. Amount transferred from "Shares held for employee share award scheme" to "Share premium account" represents shares vested during the current year, 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 year. Details of the share award scheme of the Company has been disclosed in note 37 to the consolidated financial statements and should be read in conjunction with the relevant announcements of the share award scheme made by the Company.

Consolidated Statement of Cash Flows

For the year ended 31 December 2017

	2017 HK$'000	2016 HK$'000
OPERATING ACTIVITIES		
Profit before tax	3,572,239	1,992,473
Adjustments for:		
Interest income	(2,382,568)	(2,470,773)
Interest income from held-to maturity investments and others	(4,615)	(8,674)
Finance costs	1,659,631	1,395,816
Share of results of investments accounted for using the equity method	(470,727)	3,719
Dividend income from listed investments	(734,670)	(522,427)
Loss (gain) on disposal of property and equipment	733	(137)
Gain on disposal of investments accounted for using the equity method	–	(31,377)
Depreciation and amortisation	62,616	39,980
Foreign exchange difference from held-to-maturity investments	(729)	(392)
(Gain) loss on disposal of available-for-sale investments	(190,859)	53,697
Impairment losses on other loans and receivables	108,647	102,883
Impairment losses on advances to customers in margin financing	141,115	94,595
Impairment losses on available-for-sale investments	–	126,239
Reversal of impairment losses on advances to customers in margin financing	(3,467)	–
Equity-settled share-based payment	21,305	37,536
Operating cash flows before movements in working capital	1,778,651	813,158
(Increase) decrease in other assets	(55,000)	22,081
Decrease (increase) in advances to customers and receivables	4,310,470	(2,032,775)
Increase in other loans and receivables	(6,148,610)	(4,142,850)
Increase in accounts receivable	(785,507)	(1,292,773)
Decrease (increase) in prepayments, deposits and other receivables	264,255	(242,027)
Increase in financial assets at fair value through profit or loss	(12,558,475)	(6,404,676)
Decrease (increase) in financial assets designated at fair value through profit or loss	4,462,933	(4,882,230)
Decrease (increase) in cash held on behalf of customers	540,134	(1,921,453)
(Decrease) increase in accounts payable	(2,067,325)	7,294,903
Increase in financial assets sold under repurchase agreements	1,720,951	2,169,694
Decrease (increase) in financial assets held under resale agreements	679,096	(2,486,457)
Increase in financial liabilities at fair value through profit or loss	1,460,962	2,185,747
(Decrease) increase in financial liabilities designated at fair value through profit or loss	(2,079,558)	6,727,644
Increase in derivative financial instruments	1,262,222	82,051
Increase in other payables and accruals	899,059	6,547
Increase in other liabilities	139,000	8,106
Cash used in operations	(6,176,742)	(4,095,310)
Interest received	2,261,419	2,258,094
Dividend received	734,670	522,427
Interest paid	(1,424,025)	(1,338,249)
Tax paid	(293,393)	(647,581)
NET CASH USED IN OPERATING ACTIVITIES	(4,898,071)	(3,300,619)

For the year ended 31 December 2017

	2017 HK$'000	2016 HK$'000
INVESTING ACTIVITIES		
Proceeds from disposal of property and equipment	634	201
Proceeds from disposal of available-for-sale investments	8,429,116	3,272,417
Proceeds from redemption of held-to-maturity investments	–	6,304
Interest received from held-to-maturity investments and others	4,530	8,157
Purchases of property and equipment	(106,037)	(63,841)
Purchases of available-for-sale investments	(1,032,772)	(12,976,418)
Purchases of investments accounted for using the equity method	(1,878,051)	(4,465,284)
Disposal of investments accounted for using the equity method	901,459	1,339,969
Net cash inflow (outflow) on acquisition of a subsidiary	123,229	(71,268)
NET CASH FROM (USED IN) INVESTING ACTIVITIES	6,442,108	(12,949,763)
FINANCING ACTIVITIES		
Proceeds from issuance of non-convertible notes	599,665	80,489
Proceeds from issuance of convertible bonds	–	3,847,223
Proceeds from shares issued upon exercise of share options	9,211	11,444
Convertible bonds issuing cost paid	–	(4,570)
Repayment of non-convertible notes	(1,649,680)	–
Net (repayment) proceeds for bank loans and other borrowings raised	(2,871,277)	13,501,976
Dividends paid to shareholders	(266,309)	(420,974)
NET CASH (USED IN) FROM FINANCING ACTIVITIES	(4,178,390)	17,015,588
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(2,634,353)	765,206
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	7,171,169	6,405,963
CASH AND CASH EQUIVALENTS AT END OF YEAR	4,536,816	7,171,169
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS		
Cash and cash equivalents (Note)	4,536,816	7,171,169

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

Disclosure in relation to the changes in liabilities arising from financing activities are detailed in note 34 to the consolidated financial statements.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2017

1. General Information

Haitong International Securities Group Limited (the "Company") is a limited liability company incorporated in Bermuda and its shares were listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). 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 an investment holding company and its subsidiaries are principally engaged in wealth management, corporate finance, asset management, institutional clients and investment. Details of the business segments of the Company and its subsidiaries (collectively referred as the "Group") are disclosed in note 5 to the consolidated financial statements.

The Company's immediate holding company and ultimate holding company are Haitong International Holdings Limited (incorporated in Hong Kong) and Haitong Securities Co., Limited ("HSCL") (incorporated in the People's Republic of China) respectively.

These consolidated financial statements are presented in Hong Kong dollars ("HK$") which is the same as the functional currency of the Company (unless otherwise stated), and were approved for issue by the Board on 14 March 2018.

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

2. Application of New and Revised Hong Kong Financial Reporting Standards ("HKFRSs")

Amendments to HKFRSs that are mandatorily effective for current year

The Group has adopted the following amendments to HKFRSs issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") for the first time in the current year and that are relevant to the Group:

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

Except as described below, the application of the amendments to HKFRSs in current year has had no material effect on the Group's financial performance and positions for the current and prior years and/or disclosures set out in these consolidated financial statements.

2. Application of New and Revised Hong Kong Financial Reporting Standards ("HKFRSs") (continued)

Amendments to HKAS 7 Disclosure initiative

The Group has applied these amendments for the first time in the current year. The amendments require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both cash and non-cash changes. In addition, the amendments also require disclosures on changes in financial assets if cash flows from those financial assets were, or future cash flows will be, included in cash flows from financing activities.

Specifically, the amendments require the following to be disclosed: (i) changes from financing cash flows; (ii) changes arising from obtaining or losing control of subsidiaries or other businesses; (iii) the effect of changes in foreign exchange rates; (iv) changes in fair values; and (v) other changes.

A reconciliation between the opening and closing balances of these items is provided in note 34.

Consistent with the transition provisions of the amendments, the Group has not disclosed comparative information for the prior year.

New and revised HKFRSs in issue but not yet effective

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

HKFRS 9	Financial instrument[1]
HKFRS 15	Revenue from contracts with customers and the related amendments[1]
HKFRS 16	Leases[2]
HKFRS 17	Insurance contracts[4]
HK(IFRIC) – Int 22	Foreign currency transactions and advance consideration[1]
HK(IFRIC) – Int 23	Uncertainty over income tax treatments[2]
Amendments to HKFRS 2	Classification and measurement of share-based payment transactions[1]
Amendments to HKFRS 4	Applying HKFRS 9 Financial instruments with HKFRS 4 Insurance contracts[1]
Amendments to HKFRS 9	Prepayment features with negative compensation[2]
Amendments to HKFRS 10 and HKAS 28	Sale or contribution of assets between an investor and its associate or joint venture[3]
Amendments to HKAS 28	Long-term interests in associates and joint ventures[2]
Amendments to HKAS 28	As part of the annual improvements to HKFRSs 2014-2016 cycle[1]
Amendments to HKAS 40	Transfers of investment property[1]
Amendments to HKFRSs	Annual improvements to HKFRSs 2015-2017 cycle[2]

1 Effective for annual periods beginning on or after 1 January 2018.

2 Effective for annual periods beginning on or after 1 January 2019.

3 Effective for annual periods beginning on or after a date to be determined.

4 Effective for annual periods beginning on or after 1 January 2021.

2. Application of New and Revised Hong Kong Financial Reporting Standards ("HKFRSs") (continued)

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

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

HKFRS 9 Financial instruments

HKFRS 9 introduces new requirements for the classification and measurement of financial assets, financial liabilities, general hedge accounting and impairment requirements for financial assets.

Key requirements of HKFRS 9 are described below which are relevant to the Group:

- *Financial assets* – All recognised financial assets that are within the scope of HKFRS 9 are required to be subsequently measured at amortised cost or fair value. Such measurement basis depends on the Group's business model for managing financial assets and the contractual cash flow characteristics of the financial assets.

  A financial asset is measured at amortised cost only if both of the following conditions are met:

  – it is held within a business model whose objective is to hold assets in order to collect contractual cash flows; and

  – the contractual terms of the financial asset represent contractual cash flows that are solely payments of principal and interest on the principal outstanding.

  All other financial assets are measured at their fair value at subsequent accounting periods. In addition, under HKFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading and is not contingent consideration of an acquirer in a business combination) in other comprehensive income, with only dividend income generally recognised in profit or loss. An entity may, at initial recognition, also irrevocably designate a financial asset as measured at fair value through profit or loss if doing so eliminates or significantly reduces a measurement or recognition inconsistency (sometimes referred to as an "accounting mismatch") that would otherwise arise from measuring assets or liabilities or recognising the gains and losses on them on different base.

- *Financial liabilities* – Financial liabilities continue to be measured at either amortised cost or fair value through profit or loss. The criteria for designating a financial liability at fair value through profit or loss remain unchanged.

  With regard to the measurement of financial liabilities designated as at fair value through profit or loss, HKFRS 9 requires that the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss.

2. Application of New and Revised Hong Kong Financial Reporting Standards ("HKFRSs") (continued)

HKFRS 9 Financial instruments (continued)

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

  The impairment requirements apply to financial assets measured at amortised cost and fair value through other comprehensive income ("FVTOCI") (if any) and certain loan commitments of the Group. At initial recognition, an impairment allowance (or provision in the case of commitments) is required for expected credit losses ("ECL") resulting from default events that are possible within the next 12 months ("12-month ECL"). In the event of a significant increase in credit risk, an allowance (or provision) is required for ECL resulting from all possible default events over the expected life of the financial instrument ("lifetime ECL"). Financial assets where 12-month ECL is recognised are in "stage 1"; financial assets that are considered to have experienced a significant increase in credit risk are in "stage 2"; and financial assets for which there is objective evidence of impairment, so are considered to be in default or otherwise credit impaired, are in "stage 3".

  The assessment of credit risk and the estimation of ECL are a probability-weighted estimate of the present value of credit losses, which are required to be unbiased and shall incorporate all available information relevant to the assessment, including information about past events, current conditions and reasonable and supportable forecasts of economic conditions at the reporting date. For the estimation of ECL, these are measured as the present value of the difference between the cash flows due to the Group under the contract and the cash flows that the Group expects to receive arising from the weighting of multiple future economic scenarios, discounted at the asset's effective interest rate.

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

The Group has reviewed its financial assets and liabilities and is expecting the following impact from the adoption of HKFRS 9 on 1 January 2018:

- *Classification of Available-for-sale investments* – The Group's available-for-sale investments carried at fair value as disclosed in note 25 (excluding unlisted debt investments of HK$1,673 million) which amounted to HK$6,431 million as at 31 December 2017 will be classified as financial assets at fair value through profit or loss as contractual cash flows of those investments (consisting of mainly fund investments) do not represent solely payments of principal and interest on the principal outstanding. The Group's available-for-sale debt investments which amounted to HK$1,673 million as at 31 December 2017 will be classified as financial assets at amortised cost as the contractual cash flows of those debt investments represent solely payments of principal and interest, and it is the intention of the Group to hold those investments for the purpose of collecting contractual cash flows. The directors of the Company considered that the fair value of these debt investments approximates to their carrying value.

2. Application of New and Revised Hong Kong Financial Reporting Standards ("HKFRSs") (continued)

HKFRS 9 Financial instruments (continued)

- *Classification of all other types of financial assets and liabilities* – Based on the assessment undertaken to date, the Group is expecting materially all other types of financial assets and liabilities will have the same measurement basis as previously under HKAS 39.

- *Impairment of financial assets* – The Group's financial assets measured at amortised cost will be subject to the new impairment model that requires recognition of impairment provisions based on expected credit losses resulting in earlier provision of these losses rather than only incurred credit losses as is the case under HKAS 39. These financial assets include:

  – Advances to customers in margin financing

  – Other loans and receivables

  – Financial assets held under resale agreements

  – Accounts receivable

  – Deposits and other receivables

  – Cash and cash equivalents

  – Cash held on behalf of customers

  – Available-for-sale debt investments (will be classified as financial assets at amortised cost on 1 January 2018)

  Based on the assessment undertaken to date, the Group expects the impairment loss allowance under HKFRS 9 with reference to the carrying value of those financial assets listed above shall be HK$521 million, while the Group has recognised an impairment allowance under HKAS 39 which amounted to HK$451 million as at 31 December 2017. The effect of the increase in impairment allowance will result in a reduction of retained profits as at 1 January 2018 by HK$70 million.

  Increase in the impairment loss allowance is mainly due to a 12-month expected credit loss for advances to customers in margin financing and other loans and receivables, where such expected credit loss is not required to be recognised previously under HKAS 39.

- *Hedging* – An assessment of the Group's current hedging relationships indicates that they will qualify as continuing hedging relationships upon application of HKFRS 9. The directors of the Company anticipate that the application of the new hedging requirements may not have a material impact on the Group's current hedge accounting.

2. Application of New and Revised Hong Kong Financial Reporting Standards ("HKFRSs") (continued)

HKFRS 15 Revenue from contracts with customers

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

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

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

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

In April 2016, the HKICPA issued Clarifications to HKFRS 15 in relation to the identification of performance obligations, principal versus agent considerations, as well as licensing application guidance.

The directors of the Company anticipate that the application of HKFRS 15 in the future may result in more disclosures, however, the directors of the Company do not anticipate that the application of HKFRS 15 will have a material impact on the timing and amounts of revenue recognised in the respective reporting periods.

HKFRS 16 Leases

HKFRS 16 introduces a comprehensive model for the identification of lease arrangements and accounting treatments for both lessors and lessees. HKFRS 16 will supersede HKAS 17 Leases and the related interpretations when it becomes effective.

HKFRS 16 distinguishes lease and service contracts on the basis of whether an identified asset is controlled by a customer. Distinctions of operating leases and finance leases are removed for lessee accounting and replaced by a model where a right-of-use asset and a corresponding liability have to be recognised for all leases by lessees, except for short-term leases and leases of low value assets.

2. Application of New and Revised Hong Kong Financial Reporting Standards ("HKFRSs") (continued)

HKFRS 16 Leases (continued)

The right-of-use asset is initially measured at cost and subsequently measured at cost (subject to certain exceptions) less accumulated depreciation and impairment losses, adjusted for any remeasurement of the lease liability. The lease liability is initially measured at the present value of the lease payments that are not paid at that date. Subsequently, the lease liability is adjusted for interest and lease payments, as well as the impact of lease modifications, amongst others. For the classification of cash flows, the Group currently presents upfront prepaid lease payments as investing cash flows in relation to leasehold lands for owned use and those classified as investment properties while other operating lease payments are presented as operating cash flows. Under the HKFRS 16, lease payments in relation to lease liability will be allocated into a principal and an interest portion which will be presented as financing and operating cash flows respectively.

Furthermore, extensive disclosures are required by HKFRS 16.

As at 31 December 2017, the Group has non-cancellable operating lease commitments of HK$145 million as disclosed in note 38. A preliminary assessment indicates that these arrangements will meet the definition of a lease. Upon application of HKFRS 16, the Group will recognise a right-of-use asset and a corresponding liability in respect of all these leases unless they qualify for low value or short-term leases.

In addition, the Group currently considers refundable rental deposits paid of HK$24,624,000 as rights and obligations under leases to which HKAS 17 applies. Based on the definition of lease payments under HKFRS 16, such deposits are not payments relating to the right to use the underlying assets, accordingly, the carrying amounts of such deposits may be adjusted to amortised cost and such adjustments are considered as additional lease payments. Adjustments to refundable rental deposits paid would be included in the carrying amount of right-of-use assets. Adjustments to refundable rental deposits received would be considered as advance lease payments.

Furthermore, the application of new requirements may result in changes in measurement, presentation and disclosure as indicated above.

3. Significant Accounting Policies

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

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

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

Change in presentation of statements of financial position

From 2017 onwards, the directors of the Company decided to present the items in the statements of financial position in order of the relevance to the business operation of the Group and the Company as it provides information that better reflects the manner in which the assets and liabilities are managed by the management.

The comparative figures have been restated to conform with the revised presentation. There is no financial impact on the statement of financial position of the Group and the Company.

Fair value

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

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

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

3. Significant Accounting Policies (continued)

The principal accounting policies are set out below.

Basis of consolidation

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

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

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

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

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

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

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

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

3. Significant Accounting Policies (continued)

Loss of control of a subsidiary

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

Business combinations

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

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

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted during the measurement period, and additional assets or liabilities are recognised, to reflect new information obtained about facts and circumstances that existed at the acquisition date that, if known, would have affected the amounts recognised at that date.

3. Significant Accounting Policies (continued)

Goodwill

Goodwill arising on an acquisition of a business is carried at cost as established at the date of acquisition of the business (see the accounting policy above) less accumulated impairment losses, if any. For the purposes of impairment testing, goodwill is allocated to each of the Group's cash-generating units (or groups of cash-generating units) that is expected to benefit from the synergies of the combination, which represent the lowest level at which the goodwill is monitored for internal management purposes and not larger than an operating segment.

Goodwill is not amortised but impairment reviews are undertaken annually or more frequently if events or changes in circumstances indicate a potential impairment. If the recoverable amount of the cash-generating units (or group of cash-generating units) which the goodwill is allocated to is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill and then to the other assets on a pro-rata basis based on the carrying amount of each asset in the unit (or group of cash-generating units). Any impairment is recognised immediately in the consolidated statement of profit or loss and is not subsequently reversed.

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

Investments in associates and joint ventures

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

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

The results and assets and liabilities of associates and joint ventures are incorporated in these consolidated financial statements using the equity method of accounting. The financial statements of associates and joint ventures used for equity accounting purposed are prepared using uniform accounting policies as those of the Group for like transactions and events in similar circumstances. Under the equity method, an investment in an associate or a joint venture is initially recognised in the consolidated statement of financial position at cost and adjusted thereafter to recognise the Group's share of the profit or loss and other comprehensive income of the associate or joint venture.

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

3. Significant Accounting Policies (continued)

Investments in associates and joint ventures (continued)

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

When the Group ceases to have significant influence over an associate or joint control over a joint venture, it is accounted for as a disposal of the entire interest in the investee with a resulting gain or loss being recognised in profit or loss. When the Group retains an interest in the former associate or joint venture and the retained interest is a financial asset within the scope of HKAS 39, the Group measures the retained interest at fair value at that date and the fair value is regarded as its fair value on initial recognition in accordance with HKAS 39. The difference between the carrying amount of the associate or joint venture at the date the equity method was discontinued, and the fair value of any retained interest and any proceeds from disposing the relevant interest in the associate or joint venture is included in the determination of the gain or loss on disposal of the associate or joint venture.

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

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

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Revenue is recognised when the amount of revenue can be reliably measured; when it is probable that future economic benefits will flow to the Group and when specific criteria have been met for each of the Group's activities, as described below.

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

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

3. Significant Accounting Policies (continued)

Revenue recognition (continued)

- Asset management fee and performance fee income and handling, custodian and other service fee income are recorded when services are rendered;

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

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

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

Property and equipment (including leasehold land and building)

Property and equipment are stated at historical cost less accumulated depreciation and impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the assets.

Property and equipment are depreciated when they are available for use. They are depreciated at rates sufficient to write off their costs net of expected residual values over their estimated useful lives on a straight-line basis. The residual values and useful lives are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

The useful lives of major categories of fixed assets are as follows:

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

For leasehold land and buildings, the Group assesses the classification as a finance or an operating lease separately based on the assessment as to whether substantially all the risks and rewards incidental to ownership of each element have been transferred to the Group. If the leasehold land and building is concluded as a finance lease, the entire lease is generally classified as finance lease and accounted for as property, plant and equipment.

3. Significant Accounting Policies (continued)

Property and equipment (including leasehold land and building) (continued)

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

Intangible assets

Intangible assets acquired separately

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

Internally-generated intangible assets – research and development expenditure

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

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

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

3. Significant Accounting Policies (continued)

Intangible assets (continued)

Internally-generated intangible assets – research and development expenditure (continued)

Subsequent costs and qualifying development expenditure incurred after the completion of a system are included in the asset's carrying amount or recognised as a separate asset only when it is probable that future economic benefits associated with that item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance costs and other subsequent expenditure are charged to the consolidated statement of profit or loss when incurred.

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

Intangible assets acquired in a business combination

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

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

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

Derecognition of intangible assets

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

Operating lease

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounting as operating leases. Rental under such operating leases net of any incentives received from the lessor are charged to the consolidated statement of profit or loss on a straight line basis over the lease term.

3. Significant Accounting Policies (continued)

Foreign currency translation

- Functional and presentation currency

  Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the functional currency). The consolidated financial statements are presented in Hong Kong Dollar, which is the Company's functional and presentation currency.

- Transactions and balances

  Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the consolidated statement of profit or loss.

  Translation differences on non-monetary financial assets that are classified as financial assets measured at fair value through profit or loss are reported as part of the fair value gain or loss.

- Group companies

  The results and financial position of all the Group entities that have a non-Hong Kong Dollar functional currency are translated into Hong Kong Dollar as follows:

  – assets and liabilities (including goodwill and fair value adjustments arising on the acquisition of foreign subsidiaries) for each statement of financial position presented are translated at the closing rate at the end of the reporting period;

  – income and expenses for each income statement are translated at the exchange rates approximating the foreign exchange rates ruling at the dates of the transactions; and

  – all resulting currency translation differences are recognised in other comprehensive income in the exchange reserve under equity.

Employee benefits

Pension scheme

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

3. Significant Accounting Policies (continued)

Employee benefits (continued)

Pension scheme (continued)

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

Paid leave carried forward

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

Bonus plans

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

Share-based payment transactions

Share options granted to employees

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

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

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

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

3. Significant Accounting Policies (continued)

Employee benefits (continued)

Share-based payment transactions (continued)

Share options granted to employees (continued)

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

Share award scheme to employees

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

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

For any shares of the Company ("Scheme Shares") that are purchased under the share award scheme, the consideration paid, including any directly attributable incremental costs, would be presented as "Shares held for employee share award scheme" and deducted from equity. When the Scheme Shares are transferred to the awardees upon vesting, the related costs of the scheme shares are eliminated against the share award reserve and the remaining balances will be transferred to share premium. For the own shares acquired by the Company for the scheme, the details have been disclosed in the consolidated statement of changes in equity.

Taxation

Income tax expense comprises current and deferred tax. Tax is recognised in the consolidated statement of profit or loss, except to the extent that it relates to items recognised directly in other comprehensive income, in which case, the tax is also recognised directly in other comprehensive income.

The current tax is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period in the countries where the Company and its subsidiaries operate and generate taxable income. Provisions are established where appropriate on the basis of amounts expected to be paid to the tax authorities.

3. Significant Accounting Policies (continued)

Taxation (continued)

Deferred tax is recognised, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements, except that deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill. Deferred tax is determined using tax rates that have been enacted or substantively enacted by the end of the reporting period and are expected to apply when the related deferred tax asset is realised or the deferred tax liability is settled.

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences or the current tax losses can be utilised, and the carrying amount of deferred tax assets is reviewed at the end of the reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the assets to be recovered.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income tax assets and liabilities relate to income taxes levied by the same taxation authority. Current tax assets and liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Financial instruments

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

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

Financial assets

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

3. Significant Accounting Policies (continued)

Financial instruments (continued)

Financial assets (continued)

Effective interest method

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

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

Financial assets at FVTPL

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

A financial asset is classified as held for trading if:

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

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

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

3. Significant Accounting Policies (continued)

Financial instruments (continued)

Financial assets (continued)

Financial assets at FVTPL (continued)

Financial assets at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognised in profit or loss. The net gain or loss recognised in profit or loss excludes any dividend or interest earned on the financial assets. Fair value is determined in the manner described in note 44.

Loans and receivables

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

Interest income is recognised by applying the effective interest rate, except for short-term receivables where the recognition of interest would be immaterial.

Held-to-maturity investments

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

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

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

3. Significant Accounting Policies (continued)

Financial instruments (continued)

Financial assets (continued)

AFS financial assets

AFS financial assets are non-derivatives that are either designated as AFS or not classified as (a) loans and receivables, (b) held-to-maturity investments or (c) financial assets at FVTPL.

Equity and debt securities held by the Group that are classified as AFS financial assets are measured at fair value at the end of each reporting period except for unquoted equity investments whose fair value cannot be reliably measured. Changes in the carrying amount of AFS debt instruments relating to interest income calculated using the effective interest method and changes in foreign exchange rates are recognised in profit or loss. Other changes in the carrying amount of AFS financial assets are recognised in other comprehensive income and accumulated under the heading of investments revaluation reserve. When the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously accumulated in the investments revaluation reserve is reclassified to profit or loss (see the accounting policy in respect of impairment loss on financial assets below).

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

Impairment of financial assets

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

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

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

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

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

3. Significant Accounting Policies (continued)

Financial instruments (continued)

Financial assets (continued)

Impairment of financial assets (continued)

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

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

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

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

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

Financial liabilities and equity instruments

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

3. Significant Accounting Policies (continued)

Financial instruments (continued)

Financial liabilities and equity instruments (continued)

Equity instruments

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

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

Financial liabilities at FVTPL

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

Conditions for classifying financial liabilities as held for trading and designated as at FVTPL are largely similar as the conditions for classifying financial assets as held for trading and designated as at FVTPL.

Financial liabilities at FVTPL are measured at fair value, with any gains or losses arising on remeasurement recognised in profit or loss. The net gain or loss recognised in profit or loss excludes any interest paid on the financial liabilities. Fair value is determined in the manner described in note 44.

Net assets attributable to holders of non-controlling interests in consolidated investment funds

A financial instrument that gives the holder the right to put it back to the issuer for cash or another financial asset (a "puttable instrument") is a financial liability. The financial instrument is a financial liability even when the amount of cash or other financial assets is determined on the basis that has the potential to increase or decrease. The existence of an option for the holder to put the instrument back to the issuer for cash or another financial asset means that the puttable instrument meets the definition of a financial liability.

Net assets attributable to holders of non-controlling interests in consolidated investment funds are determined based on the attributable shares or units of the residual assets of the consolidated investment fund after deducting the consolidated investment fund's other liabilities.

3. Significant Accounting Policies (continued)

Financial instruments (continued)

Financial liabilities and equity instruments (continued)

Net assets attributable to holders of non-controlling interests in consolidated investment funds (continued)

As at year end, such financial liability of net assets attributable to holders of non-controlling interests in consolidated investment funds is presented in the consolidated statement of financial position as a liability.

In the case of acquisition or disposals of such non-controlling interests in consolidated investment funds, any difference between the acquisition cost or sale price of these non-controlling interests and the carrying value of these non-controlling interests is recognised as an increase or decrease in a liability which would be reflected in the consolidated statement of profit or loss.

Financial liabilities at amortised cost

Financial liabilities including non-convertible notes, non-convertible bonds, other liabilities and bank loans and other borrowings, accounts payable and other payables are subsequently measured at amortised cost, using the effective interest method.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The calculation basis is the same as effective interest method for calculating the amortised cost of a debt instrument as detailed above.

Interest expense is recognised on an effective interest basis in profit or loss.

Compound financial instruments

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

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

3. Significant Accounting Policies (continued)

Financial instruments (continued)

Compound financial instruments (continued)

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

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

Derivative financial instruments

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

Financial assets sold under repurchase agreements

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

Financial assets held under resale agreements

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

3. Significant Accounting Policies (continued)

Financial instruments (continued)

Hedge accounting

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

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

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

Amounts previously recognised in other comprehensive income and accumulated in equity are reclassified to profit or loss in the periods when the hedged item affects profit or loss, in the same line of the consolidated statement of profit or loss and other comprehensive income as the recognised hedged item.

Hedge accounting is discontinued when the Group revokes the hedging relationship, when the hedging instrument expires or is sold, terminated, or exercised, or when it no longer qualifies for hedge accounting. Any gain or loss recognised in other comprehensive income and accumulated in equity at that time remains in equity.

Derecognition

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity or when it neither transfers nor retains substantially all of the risks and rewards of ownership of the transferred assets and has not retained control of the financial asset. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognise its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

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

3. Significant Accounting Policies (continued)

Financial instruments (continued)

Derecognition (continued)

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

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

Impairment on non-financial assets

Goodwill and assets (tangible and non-tangible) that have an indefinite useful life are not subject to amortisation and are tested at least annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired. Assets subject to amortisation are reviewed for impairment whenever there is any indication that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount (i.e., the higher of an asset's fair value less costs to sell and value-in-use). For the purpose of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows which are largely independent of the cash inflows from assets or group of assets (cash generating units). Such impairment losses are recognised in the consolidated statement of profit or loss. An impairment loss other than in relation to goodwill is reversed if the circumstances and events leading to the impairment cease to exist.

4. Critical Accounting Judgments and Key Sources of Estimation Uncertainty

In the application of the Group's accounting policies, which are described in note 3, the directors of the Company are required to make judgments, 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.

4. Critical Accounting Judgments and Key Sources of Estimation Uncertainty (continued)

Key sources of estimation uncertainty

Impairment of loans and advances to customers

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

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

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

Details of disclosures for advances to customers in margin financing and other loans and receivables are set out in notes 19 and 20 to the consolidated financial statements respectively.

Estimated impairment of goodwill

For goodwill arising from acquisitions in prior years, assessment is performed to determine whether goodwill is impaired. This assessment requires an estimation of the value-in-use of the cash generating units to which goodwill has been allocated. The value-in-use calculation requires the Group to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate the present value. Where the actual future cash flows are less than expected, a material impairment loss may arise. As at 31 December 2017, the carrying value of goodwill amounted to HK$223,985,000 (2016: HK$218,460,000). Details of the recoverable amount calculation are disclosed in note 29 to the consolidated financial statements.

Fair value of derivative and financial instruments

The Group selects appropriate valuation techniques for financial instruments which are classified as Level 2 and 3 investments in accordance with the Group's significant accounting policies as disclosed in note 3 to the consolidated financial statements. Note 44 to the consolidated financial statements provides detailed information about the key assumptions used in the determination of the fair value of material financial instruments.

4. Critical Accounting Judgments and Key Sources of Estimation Uncertainty (continued)

Critical judgments in applying accounting policies

Determination of consolidation scope of certain investments

The Group invested in certain investment funds, partnerships and private equity investments (collectively referred to as "Investments" for the purpose of this note as well as notes 27 and 28) which have been formed so that voting or similar rights may not be the dominant factor in deciding who controls these Investments, such as when any voting rights relate to administrative tasks only, and the relevant activities are directed by means of contractual arrangements.

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

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

In conducting the assessment to determine the consolidated scope, the directors of the Company considers whether the Group has power to remove or control over the party having the ability to direct the relevant activities of the Investments based on the facts and circumstances and that the Group has material exposure to variable returns of the Investments or not.

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.

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

Given the Group has transformed and upgraded its brokerage business to wealth management business, aiming to provide retail and high net worth clients with comprehensive financial services and investment solutions, the "Brokerage" segment has been renamed as "Wealth Management" segment. In addition, given the "Fixed Income, Currency and Commodities" segment and "Institutional Equities" segment both concentrate on serving institutional clients, the Group decided to merge these two segments into one under the name of "Institutional Clients" segment. The "Investment Holdings" segment has been renamed as "Investment" segment so as to reflect the business activities in this segment covering the Group's investments in proprietary positions of financial assets having synergies with other business segments.

5. Segment Information (continued)

Comparative figures for the prior year have been restated to conform to the presentation for current year.

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

(a) the wealth management segment engages in provision of a full range of financial services and investment solutions to retail and high net-worth clients. Services provided include broking and dealing in securities, futures, options and bullion contracts, leveraged foreign exchange trading, over-the-counter products and risk management instruments sales, investment advisory service, financial planning service, insurance products and investment funds distribution services, custodian service as well as the provision of securities margin financing to clients;

(b) the corporate finance segment engages in provision of sponsoring and underwriting services to corporate clients for their fund raising activities in equity and debt capital markets, and also engages in provision of advisory service and financing solutions to corporate clients for their corporate actions such as mergers and acquisitions as well as assets restructuring, etc.;

(c) the asset management segment engages in provision of investment management services on diversified and comprehensive investment products including public funds, private funds, mandatory provident funds and discretionary accounts to individual, corporate and institutional clients;

(d) the institutional client segment engages in provision of cash equities sales and trading, prime brokerage, stock borrowing and lending, equity research, investment and financing solutions, and issuance and market-making for a wide variety of financial instruments, such as fixed income products, currency and commodity products, futures and options, exchange traded funds and derivative products in major financial centers across the world for global institutional clients; and

(e) the investment segment aims to enhance and intensify the synergies among various business segments of the Group through investing in investment funds and private equity investments. It focuses on exploring investment opportunities with reasonable returns, thereby expanding customer relationships and promoting the overall growth of the Group's business.

5. Segment Information (continued)

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

For the year ended 31 December 2017

	Wealth management HK$'000	Corporate finance HK$'000	Asset management HK$'000	Institutional clients HK$'000	Investment HK$'000	Consolidated HK$'000
Segment revenue:						
Commission and fee income	757,158	754,665	328,920	172,832	–	2,013,575
Interest income	1,286,919	617,594	–	248,319	–	2,152,832
Net Investment gains	149,226	473,275	–	1,221,320	1,184,793	3,028,614
Other income and gains or losses	28,999	2,415	–	7,984	(132,384)[1]	(92,986)
Segment results	848,157	1,044,032	261,239	493,815	454,269	3,101,512
Share of results of investments accounted for using the equity method	–	–	–	102,513	368,214	470,727
Profit before tax	848,157	1,044,032	261,239	596,328	822,483	3,572,239
Depreciation and amortisation	(19,571)	(1,926)	(956)	(38,280)	(1,883)	(62,616)
Finance costs	(389,692)	(329,052)	–	(498,332)	(442,555)	(1,659,631)

1 This mainly represents net profit of consolidated investment funds attributable to third-party unitholders/shareholders.

5. Segment Information (continued)

For the year ended 31 December 2016 (Restated)

	Wealth management HK$'000	Corporate finance HK$'000	Asset management HK$'000	Institutional clients HK$'000	Investment HK$'000	Consolidated HK$'000
Segment revenue:						
Commission and fee income	579,157	823,265	175,949	145,791	–	1,724,162
Interest income	1,439,759	417,846	–	160,658	–	2,018,263
Net investment gains	–	37,350	–	1,191,280	379,762	1,608,392
Other income and gains or losses	–	1,989	–	–	4,910	6,899
Segment results	684,516	655,174	140,565	537,834	2,042	2,020,131
Share of results of investments accounted for using the equity method	–	–	–	–	(27,658)	(27,658)
Profit (loss) before tax	684,516	655,174	140,565	537,834	(25,616)	1,992,473
Depreciation and amortisation	(30,724)	(3,348)	(679)	(3,596)	(1,633)	(39,980)
Finance costs	(386,034)	(196,471)	–	(572,334)	(240,977)	(1,395,816)

6. Revenue and Other Income and Gains or Losses

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

	2017 HK$'000	2016 HK$'000
Revenue		
Commission and fee income:		
Commission on securities dealing and broking	514,024	438,444
Commission on futures and options dealing and broking	126,321	161,227
Commission on underwriting and placing		
— Debt securities	291,848	96,580
— Equity securities	197,042	373,795
Financial advisory and consultancy fee income	495,703	433,034
Asset management fee and performance fee income	328,920	175,949
Handling, custodian and other service fee income	59,717	45,133
	2,013,575	1,724,162
Interest income:		
Interest income from advances to customers in margin financing	1,313,537	1,567,890
Interest income from other loans and receivables	690,946	367,755
Interest income from other activities	148,349	82,618
	2,152,832	2,018,263
Net investment gains:		
Net gains arising from financial assets/liabilities at fair value through profit or loss	1,868,698	678,478
Net gains (losses) arising from disposal of available-for-sale investments	190,859	(53,697)
Interest income from available-for-sale investments	229,736	452,510
Dividend income	734,670	522,427
Interest income from held-to-maturity investments and others	4,651	8,674
	3,028,614	1,608,392
	7,195,021	5,350,817
Other income and gains or losses		
Others (note)	(92,986)	6,899
	(92,986)	6,899

Note: Included in other income and gains or losses is the net profit of consolidated investment funds attributable to third-party unit/shareholders of HK$139,000,000 (2016: HK$8,100,000). Details of the Group's interest in consolidated investment funds are disclosed in note 28 to the consolidated financial statements.

7. Employee Benefits Costs

	2017 HK$'000	2016 HK$'000
Salaries, bonuses and allowances	**1,133,606**	802,781
Commission to accounts executives (note)	**268,820**	245,564
Pension scheme contributions (net)	**15,368**	11,453
	1,417,794	1,059,798

Note: Included in commission expenses of HK$288,467,000 (2016: HK$245,564,000) is commission to accounts executives of HK$268,820,000 (2016: HK$245,564,000).

8. Finance Costs

	2017 HK$'000	2016 HK$'000
Bank loans and overdrafts	**871,733**	722,682
Debt securities in issue:		
Convertible bonds	**67,712**	16,079
Non-convertible bonds	**448,556**	443,864
Non-convertible notes	**90,552**	137,255
Others	**181,078**	75,936
	1,659,631	1,395,816

Details of the Group's loans and borrowings and debt securities in issue are disclosed in note 34.

9. Profit Before Tax

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

	2017 HK$'000	2016 HK$'000
Minimum lease payments under operating leases:		
Land and buildings	89,999	79,563
Equipment	119,895	70,718
Auditor's remuneration:		
Statutory audit service fee	4,300	3,800
Non-statutory audit service fee	5,521	1,796
Foreign exchange differences, net	6,638	51,813
Loss (gain) on disposal of property and equipment	733	(137)
Impairment losses on available-for-sale investments	–	126,239
Impairment losses on advances to customers in margin financing (note 19)	141,115	94,595
Reversal of impairment losses on advances to customers in margin financing (note 19)	(3,467)	–
Impairment losses on other loans and receivables (note 20)	108,647	102,883
	246,295	323,717

10. Directors' and Chief Executive's Emoluments

Directors' remuneration for the year is as follows:

	2017 HK$'000	2016 HK$'000
Fees:		
Executive directors	**300**	300
Non-executive directors	**600**	775
Independent non-executive directors	**850**	850
	1,750	1,925
Other emoluments:		
Executive directors:		
Salaries and allowances	**6,512**	6,811
Bonuses (note (a))	**26,601**	21,720
Employee share option benefits	**239**	2,747
Pension scheme contributions	**75**	57
	33,427	31,335
Non-executive directors:		
Employee share option benefits	**195**	2,092
Independent non-executive directors:		
Employee share option benefits	**260**	1,568
	35,632	36,920

Note:

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

10. Directors' and Chief Executive's Emoluments (continued)

Independent non-executive directors

For the year ended 31 December 2017

	Fees HK$'000	Salaries and allowances HK$'000	Bonuses HK$'000	Employee share option benefits HK$'000	Employee share award benefits HK$'000	Pension Scheme contributions HK$'000	Total remuneration HK$'000
Lin Ching Yee, Daniel	200	–	–	65	–	–	265
Wei Kuo-chiang	200	–	–	65	–	–	265
Tsui Hing Chuen, William	250	–	–	65	–	–	315
Lau Wai Piu, Bill	200	–	–	65	–	–	265
	850	–	–	260	–	–	1,110

For the year ended 31 December 2016

	Fees HK$'000	Salaries and allowances HK$'000	Bonuses HK$'000	Employee share option benefits HK$'000	Employee share award benefits HK$'000	Pension Scheme contributions HK$'000	Total remuneration HK$'000
Lin Ching Yee, Daniel	200	–	–	392	–	–	592
Wei Kuo-chiang	200	–	–	392	–	–	592
Tsui Hing Chuen, William	250	–	–	392	–	–	642
Lau Wai Piu, Bill	200	–	–	392	–	–	592
	850	–	–	1,568	–	–	2,418

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

10. Directors' and Chief Executive's Emoluments (continued)

Executive directors and non-executive directors

For the year ended 31 December 2017

	Fees HK$'000	Salaries and allowances HK$'000	Bonuses HK$'000	Employee share option benefits HK$'000	Employee share award benefits HK$'000	Pension Scheme contributions HK$'000	Total remuneration HK$'000
Executive directors:							
Li Jianguo (note a)	300	–	–	65	–	15	380
Lin Yong (notes a & b)	–	4,067	16,280	174	–	33	20,554
Sun Jianfeng (notes a & d)	–	1,356	6,012	–		19	7,387
Hui Yee, Wilson (notes a & e)	–	1,089	4,309	–	–	8	5,406
	300	6,512	26,601	239	–	75	33,727
Non-executive directors:							
Ji Yuguang (note c)	–	–	–	–	–	–	–
Cheng Chi Ming, Brian (note c)	200	–	–	65	–	–	265
Wang Meijuan (note c)	–	–	–	–	–	–	–
William Chan (note c)	200	–	–	65	–	–	265
Poon Mo Yiu (notes c & f)	200	–	–	65	–	–	265
	600	–	–	195	–	–	795
	900	6,512	26,601	434	–	75	34,522

10. Directors' and Chief Executive's Emoluments (continued)

Executive directors and non-executive directors (continued)

For the year ended 31 December 2016

	Fees HK$'000	Salaries and allowances HK$'000	Bonuses HK$'000	Employee share option benefits HK$'000	Employee share award benefits HK$'000	Pension Scheme contributions HK$'000	Total remuneration HK$'000
Executive directors:							
Li Jianguo (note a)	300	–	–	785	–	15	1,100
Lin Yong (notes a & b)	–	3,930	13,280	1,046	–	18	18,274
Poon Mo Yiu (notes a & f)	–	355	1,200	–	–	6	1,561
Hui Yee, Wilson (note a)	–	2,526	7,240	916	–	18	10,700
	300	6,811	21,720	2,747	–	57	31,635
Non-executive directors:							
Ji Yuguang (note c)	–	–	–	–	–	–	–
Cheng Chi Ming, Brian (note c)	200	–	–	392	–	–	592
Wang Meijuan (note c)	200	–	–	392	–	–	592
William Chan (note c)	200	–	–	392	–	–	592
Poon Mo Yiu (notes c & f)	175	–	–	916	–	–	1,091
	775	–	–	2,092	–	–	2,867
	1,075	6,811	21,720	4,839	–	57	34,502

Notes:

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

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

(c) The non-executive directors' emoluments shown above were for their services as directors of the Company or its subsidiaries. Except for the director fees waived by Mr. Ji Yuguang and Ms. Wang Meijuan during the year ended 31 December 2017 (2016: Mr. Ji Yuguang), there was no arrangement under which a director waived or agreed to waive any remuneration during the current year.

10. Directors' and Chief Executive's Emoluments (continued)

Executive directors and non-executive directors (continued)

Notes: (continued)

(d) Mr Sun Jianfeng was appointed as an executive director with effect on 1 June 2017.

(e) Mr. Hui Yee, Wilson retired as an executive director with effect on 1 June 2017.

(f) Mr. Poon Mo Yiu was re-designated from executive director to non-executive director on 16 February 2016. The salaries and allowances received by Mr. Poon Mo Yiu represent remuneration for his service as an executive director, and the fees received by Mr. Poon Mo Yiu represent remuneration for his service as a non-executive director.

Mr. Poon Mo Yiu has been re-designated from non-executive director to executive director with effect from 8 February 2018.

11. Five Highest Paid Employees

The five highest paid employees during the current and prior year included one (2016: two) director(s). Details of each director's remuneration are set out in note 10 above.

The total remuneration of four non-directors for the year ended 31 December 2017 and three non-directors for the year ended 31 December 2016 was as follows.

	2017 HK$'000	2016 HK$'000
Salaries, bonuses and allowances	55,331	30,202
Pension scheme contributions	102	18
Employee share option benefits	98	655
	55,531	30,875

11. Five Highest Paid Employees (continued)

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

	2017 Number of Individuals	2016 Number of Individuals
HK$9,000,001 to HK$9,500,000	**–**	1
HK$9,500,001 to HK$10,000,000	**–**	1
HK$10,000,001 to HK$10,500,000	**–**	–
HK$10,500,001 to HK$11,000,000	**–**	–
HK$11,000,001 to HK$11,500,000	**–**	1
HK$11,500,001 to HK$12,000,000	**–**	–
HK$12,000,001 to HK$12,500,000	**–**	–
HK$12,500,001 to HK$13,000,000	**–**	–
HK$13,000,001 to HK$13,500,000	**3**	–
HK$13,500,001 to HK$14,000,000	**–**	–
HK$14,000,001 to HK$14,500,000	**–**	–
HK$14,500,001 to HK$15,000,000	**–**	–
HK$15,000,001 to HK$15,500,000	**–**	–
HK$15,500,001 to HK$16,000,000	**1**	–
	4	3

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

12. Income Tax Expense

	2017 HK$'000	2016 HK$'000
Current taxation:		
— Hong Kong	561,515	343,635
— Other jurisdictions	32,917	1,410
	594,432	345,045
Overprovision in prior years:		
— Hong Kong	(51,542)	(34,085)
Deferred tax:		
— Current year	661	1,288
	543,551	312,248

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

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

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

	2017 HK$'000	2016 HK$'000
Profit before tax	3,572,239	1,992,473
Taxation at income tax rate of 16.5%	589,419	328,758
Overprovision in respect of prior years	(51,542)	(34,085)
Tax effect of expenses not deductible for tax purpose	135,106	127,723
Tax effect of income not taxable for tax purpose	(53,010)	(170,477)
Tax effect of utilisation of estimated tax losses previously not recognised	(92,748)	(840)
Tax effect of estimated tax losses not recognised	8,648	61,179
Effect of different tax rates of subsidiaries operating in other jurisdictions	10,949	(2,701)
Others	(3,271)	2,691
Income tax expense	543,551	312,248

12. Income Tax Expense (continued)

The Group has estimated tax losses of approximately HK$59 million as at 31 December 2017 (31 December 2016: HK$569 million) that can be carried forward indefinitely for offsetting against future taxable profits of the respective companies in which the losses arose. These estimated tax losses have no expiry date but subject to the approval of the Hong Kong Inland Revenue Department.

Deferred tax assets of HK$10 million (31 December 2016: HK$94 million) have not been recognised in respect of the tax losses as it is not probable that sufficient future taxable profits will be available in the subsidiaries in which the losses arose against which the unused tax losses can be utilised in the near future.

13. Earnings Per Share

Basic earnings per share

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

	2017	2016
Earnings		
Profit for the year attributable to owners of the Company (HK$'000)	**3,028,688**	1,680,225
Number of shares		
Weighted average number of ordinary shares in issue less shares held for the share award scheme (in thousands) (note (a))	**5,357,312**	5,290,119
Basic earnings per share (HK cents per share)	**56.53**	31.76

13. 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.

	2017	2016
Earnings		
Profit for the year attributable to owners of the Company (HK$'000)	3,028,688	1,680,225
Effect of dilutive potential ordinary shares		
— Interest on convertible bonds (net of tax) (HK$'000) (note (b))	56,540	13,426
Earnings for the purpose of diluted earnings per share (HK$'000)	3,085,228	1,693,651
Number of shares		
Weighted average number of ordinary shares in issue less shares held for the share award scheme (in thousands) (note (a))	5,357,312	5,290,119
Effect of dilutive potential ordinary shares:		
— Convertible bonds (in thousands) (note (b))	604,836	134,479
— Share options (in thousands) (note (c))	2,773	4,428
— Share awards (in thousands)	4,688	3,178
Weighted average number of ordinary shares for the purpose of diluted earnings per share (in thousands)	5,969,609	5,432,204
Diluted earnings per share (HK cents per share)	51.68	31.18

13. Earnings Per Share (continued)

Notes:

(a) As at 31 December 2017, the trustee of the share award scheme held 19,266,739 ordinary shares of the Company (31 December 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$113 million (31 December 2016: HK$128 million).

During the current year, award of 4,246,234 shares were granted by the Company to the selected employees and among these awarded shares, 269,921 awarded shares lapsed and none of them have been vested as at 31 December 2017.

During the year ended 31 December 2016, 7,865,506 shares were granted by the Company to the selected employees. Among these awarded shares, 2,457,261 awarded shares (2016: Nil) were vested and 524,975 awarded shares (2016: 317,616 awarded shares) were lapsed during the current year. Details of the share award scheme of the Company have been disclosed in note 37 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 34.

As at 31 December 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$2.76 (2016: HK$2.87), HK$4.61 (2016: HK$4.80) and HK$6.53 (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 year. 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 years ended 31 December 2017 and 2016 and with the adjustment for the share options lapsed or exercised during the years.

14. Dividends

	2017 HK$'000	2016 HK$'000
Interim dividend paid		
— HK10 cents (2016: HK7.5 cents) per ordinary share	**541,848**	399,516
Second interim dividend		
— HK18 cents (2016: Nil) per ordinary share	**990,155**	–
Proposed final dividend		
— Nil (2016: HK8 cents per ordinary share)	**–**	426,923
	1,532,003	826,439

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 were 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 declared 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). The shareholders were given the option to receive the interim dividend in new shares in lieu of cash. The interim dividend was paid on 21 November 2017, with a total of HK$172,839,000 cash dividend paid to the shareholders and 82,378,991 shares were issued in scrip form with the amount of HK$369,009,000.

At a meeting of the Board held on 14 March 2018, the Board declared a second interim dividend of HK18 cents per share in cash for the year ended 31 December 2017. The shareholders were given the option to receive the second interim dividend in new shares in lieu of cash. The second interim dividend is expected to be paid on or about 11 May 2018. 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.

15. Cash Held on Behalf of Customers

The Group maintains segregated accounts with authorised institutions to hold clients' monies arising from its normal course of business. The Group has classified the clients' monies as cash held on behalf of customers under the current assets section of the consolidated statement of financial position and recognised the corresponding accounts payable (note 33) 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 Hong Kong Securities and Futures Ordinance ("HKSFO").

16. Financial Assets/Liabilities at Fair Value Through Profit or Loss

	2017 HK$'000	2016 HK$'000
Financial assets at FVTPL – held for trading		
Listed equity investments, at fair value	7,483,326	2,081,690
Exchange traded funds, at fair value	974,447	347,422
Listed preference shares, at fair value	203,721	258,452
Listed debt investments, at fair value	18,960,131	20,657,129
Unlisted equity investments, at fair value	178,470	–
Unlisted debt investments, at fair value	5,875,581	460,027
Unlisted investment funds, at fair value (note (i))	4,133,005	1,286,397
Unlisted structured products, at fair value	–	61,715
Unlisted certificate of deposits, at fair value	99,778	99,865
	37,908,459	25,252,697

	2017 HK$'000	2016 HK$'000
Financial liabilities at FVTPL – held for trading		
Listed equity investments, at fair value (note (ii))	2,189,118	122,640
Listed debt investments, at fair value (note (ii))	2,352,204	2,974,639
Listed preference shares, at fair value (note (ii))	37,466	46,447
Unlisted debt investment, at fair value (note (ii))	25,900	–
	4,604,688	3,143,726

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

Notes:

(i) The Group invested in unconsolidated investment funds. These investment funds invests in including, but not limited to stocks, bonds, funds and currencies, with the 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$4,133 million (31 December 2016: HK$1,286 million) in the consolidated statement of financial position represents the Group's maximum exposure.

(ii) Balance represents the fair value of equity and debt securities subject to short selling activities.

17. Financial Assets/Liabilities Designated at Fair Value Through Profit or Loss

	2017 HK$'000	2016 HK$'000
Assets		
Listed equity investments, at fair value (note (iii))	2,510,765	4,369,553
Listed preference shares, at fair value (note (iii))	–	454,378
Listed debt investments, at fair value (note (iii))	3,958,884	130,312
Unlisted equity investments, at fair value (notes (i), (ii) & (iii))	709,727	4,121,182
Unlisted partnership investments, at fair value (notes (i) & (iii))	300,498	795,917
Unlisted preference shares, at fair value	–	33,480
Unlisted debt investments, at fair value	547,110	640,039
Unlisted investment funds, at fair value (notes (i) & (iii))	2,144,529	3,552,540
Unlisted structured products, at fair value (note (iii))	2,108,139	2,644,280
Unlisted options, at fair value	–	904
	12,279,652	16,742,585
Less: Non-current portion	(1,139,283)	–
Current portion	11,140,369	16,742,585

	2017 HK$'000	2016 HK$'000
Liabilities		
Unlisted issued structured products, at fair value (note (iv))	12,044,127	14,212,827
Unlisted options, at fair value	–	1,166
Listed equity investments, at fair value	92,708	2,400
	12,136,835	14,216,393
Less: Non-current portion	(852,245)	–
Current portion	11,284,590	14,216,393

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

17. Financial Assets/Liabilities Designated at Fair Value Through Profit or Loss (continued)

Notes:

(i) As at 31 December 2017 and 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.

There is no unfilled capital commitment to these unlisted equity investments, unlisted partnership investments and unlisted investment funds. The current carrying amount of HK$3,155 million (31 December 2016: HK$8,470 million) in the consolidated statement of financial position represents the Group's maximum exposure.

(ii) As at 31 December 2016, included in unlisted equity investments at fair value was an investment in an associate of HK$3,540 million disclosed in note 26 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.

(iii) 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 (iv) 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.

(iv) As at 31 December 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, listed debt investment and listed preference shares traded in over-the-counter markets, unlisted structured products and unlisted fund, 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 (note (iii) above). 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.

18. Derivative Financial Instruments

	2017 HK$'000	2016 HK$'000
Assets		
Swaps — held-for-trading	1,051	33,801
Forward foreign currency exchange contracts — held-for-trading	91,412	100,443
Listed options/warrants — held-for-trading	558,125	51,940
Unlisted options — held-for-trading	43,088	389,096
	693,676	575,280
Liabilities		
Swaps — cash flow hedges	7,169	28,184
Swaps — held-for-trading	8,581	36,176
Forward foreign currency exchange contracts — held-for-trading	109,830	91,095
Foreign currency option contracts — held-for-trading	32	–
Listed options/warrants — held-for-trading	987,065	78,610
Callable bull/bear contracts	201,999	15,917
Unlisted options — held-for-trading	8,440	882
	1,323,116	250,864

The notional principal amounts of the outstanding swap contracts held for cash flow hedging against the interest expenses from notes issued by the Group as at 31 December 2017 was HK$239 million (2016: HK$224 million, hedging against the interest expenses from the Group's bank borrowing).

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

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

19. Advances to Customers in Margin Financing

	2017 HK$'000	2016 HK$'000
Loans to margin clients	16,608,421	20,918,891
Less: Impairment allowance	(239,204)	(101,556)
	16,369,217	20,817,335

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

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

As at 31 December 2017, advances to customers of HK$16,353 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$84,580 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 the management's judgement, including the current creditworthiness and the past collection statistics of individual accounts. Except for the amount of HK$239,204,000 (2016: HK$101,556,000) which was fully impaired, there was no other impaired debt for the years ended 31 December 2017 and 2016.

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 year end and with no settlement or executable settlement plan and arrangement after the year end. Movements in the allowances for impaired debts in respect of loans to securities margin clients are as follows:

	2017 HK$'000	2016 HK$'000
Balance at the beginning of the year	101,556	6,961
Impairment losses recognised	141,115	94,595
Amounts recovered	(3,467)	–
Balance at the end of the year	239,204	101,556

19. Advances to Customers in Margin Financing (continued)

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 regarding the business of securities margin financing.

20. Other Loans and Receivables

	2017 HK$'000	2016 HK$'000
Other loans	8,644,377	4,127,948
Debt securities classified as receivables	5,733,689	4,101,508
Less: Impairment allowance	(211,530)	(102,883)
	14,166,536	8,126,573
Less: Non-current portion	(3,350,685)	(43,477)
Current portion	10,815,851	8,083,096

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

	2017 HK$'000	2016 HK$'000
Secured by listed securities	7,631,299	4,165,807
Secured by unlisted securities	6,139,961	3,486,277

The majority of these other loans and receivables are secured and/or guaranteed with contractual maturity within 1 year from the reporting date and credit limits are set for borrowers of other loans and receivables. 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 collateral 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.

20. Other Loans and Receivables (continued)

The credit risk profiles of other loans and receivables are as follows:

	2017 HK$'000	2016 HK$'000
Neither past due nor impaired	14,075,154	7,945,495
Past due but not impaired	–	181,078
Impaired	302,912	102,883
Balance at the end of the year	14,378,066	8,229,456

As at 31 December 2017, other loans and receivables that are impaired represent two secured corporate loans amounted to HK$303 million. These two loans are overdue for more than 360 days. Among these two corporate loans, a corporate loan with outstanding balance of HK$103 million was impaired during the year ended 31 December 2016 after the Group assessed the recoverability by referencing to the fair value of the collateral pledged by the borrower.

Another loan amounted to HK$200 million was lent to an external party for its property development project in the People's Republic of China and was past due for more than 360 days (2016: more than 90 days but less than 180 days) as at 31 December 2017. No impairment loss was provided or recognised by the Group as at 31 December 2016. The management considered that given a number of factors including substantial delay in repayment, recoverable amount of the collateral (at its force sale value), and the credit protection structure, an impairment loss of HK$109 million was recognised during the year ended 31 December 2017.

Movement in the allowances for impairment are as follows:

	2017 HK$'000	2016 HK$'000
Balance at the beginning of the year	102,883	–
Impairment losses recognised	108,647	102,883
Balance at the end of the year	211,530	102,883

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

21. Financial Assets Held Under Resale Agreements

	2017 HK$'000	2016 HK$'000
Analysed by collateral type:		
Equities	4,800	–
Bonds and preference shares	2,917,057	3,600,953
Analysed by market:		
Inter-bank market	2,921,857	3,600,953
Analysed for reporting purposes:		
Current	2,921,857	3,600,953

The financial assets (secured by equities or bonds and preference shares) 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 at 31 December 2017, the fair value of the collateral was HK$2,829 million (31 December 2016: HK$3,438 million).

22. Held-To-Maturity Investments

	2017 HK$'000	2016 HK$'000
Unlisted debt securities	94,171	93,357
Less: Current portion	(94,171)	–
Non-current portion	–	93,357

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

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

23. Accounts Receivable

	2017 HK$'000	2016 HK$'000
Accounts receivable from:		
— Clients	**283,640**	178,707
— Brokers, dealers and clearing houses	**5,295,030**	4,585,334
— Collaterals paid under stock borrowing agreements	**208,915**	208,595
— Others (note)	**158,809**	141,117
	5,946,394	5,113,753

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

There is no impaired accounts receivable as of the reporting dates for current and prior year end. The following is an ageing analysis of the accounts receivable based on trade date/invoice date at the reporting date:

	2017 HK$'000	2016 HK$'000
Between 0 and 3 months	**5,937,168**	5,058,551
Between 4 and 6 months	**2,373**	10,912
Between 7 and 12 months	**2,001**	9,303
Over 1 year	**4,852**	34,987
	5,946,394	5,113,753

Accounts receivable from clients, brokers, dealers and clearing houses arising from the business of dealing in securities are repayable on demand subsequent to settlement date. Collateral paid under stock borrowing agreements is repayable upon expiry of relevant stock borrowing agreements and the relevant stocks borrowed are returned to the lender. The normal settlement terms of accounts receivable arising from the business of dealing in securities are two days after trade date and that of 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.

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

For accounts receivable from clients that are overdue, the management ensures that the available cash balance and listed equity securities belonging to clients in which the Group holds as custodian are sufficient to cover the amounts due to the Group.

For the year ended 31 December 2017

24. Prepayments, Deposits and Other Receivables

	2017 **HK$'000**	2016 HK$'000
Prepayments, deposits and other receivables (note)	**908,688**	1,049,471
Less: Non-current portion	**(17,114)**	(90,365)
Current portion	**891,574**	959,106

Note: Included in the amount of prepayments, deposits and other receivables are the interest receivable of HK$632 million (31 December 2016: HK$479 million) from bank deposits, brokerage customers and bonds investments which are receivable within one year.

25. Available-For-Sale Investments

	2017 **HK$'000**	2016 HK$'000
Listed equity investments, at fair value	**111,200**	1,270,516
Listed debt investments, at fair value	**176,476**	1,171,111
Unlisted fund investments, at fair value (note (a))	**5,007,439**	7,928,146
Unlisted partnership investments, at fair value (note (b))	**472,358**	894,197
Unlisted equity investments, at fair value	**663,661**	719,055
Unlisted debt investments, at fair value	**1,673,177**	5,863,272
	8,104,311	17,846,297

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$5,007 million (31 December 2016: HK$7,928 million) in the consolidated statement of financial position represents the Group's maximum exposure.

(b) As at 31 December 2017, the unfilled capital commitments to the partnerships are HK$687 million (31 December 2016: HK$788 million).

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

26. Investments Accounted for Using the Equity Method

	2017 HK$'000	2016 HK$'000
Associates:		
Cost of unlisted investment in associate	412,096	7,757
Share of post-acquisition losses and other comprehensive expense, net of dividend received	(21,566)	(3,315)
	390,530	4,442
Joint ventures:		
Cost of unlisted investments in joint ventures	5,191,979	4,620,318
Share of post-acquisition profit (losses) and other comprehensive income (expense), net of dividend received	290,357	(199,213)
	5,482,336	4,421,105
	5,872,866	4,425,547

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

Name of entity	Country of incorporation	Interests held by the Group As at 31 December 2017	Interests held by the Group As at 31 December 2016	Principal activities
Joint venture				
Haitong Freedom Multi-Tranche Bond Fund (note a)	The Cayman Islands	38.63%	28.65%	Investment holding
Associates				
China Grand Automotive Group Limited (note b)	The Cayman Islands	–	34.61%	Investment holding
Haitong International Investment Fund SPC-Fund I S.P. (note c)	The Cayman Islands	13.20%	68.85%	Investment holding

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

26. Investments Accounted for Using the Equity Method (continued)

Except for China Grand Automotive Group Limited as disclosed in note (b) below (which was derecognised by the Group on 6 September 2017), all of the joint ventures and associates of the Group are accounted for using the equity method in these consolidated financial statements for the years ended 31 December 2017 and 31 December 2016. The directors consider the joint ventures and associates above are not significant to the Group's consolidated statement of financial position.

During the current year, the Group consolidated Haitong Multi-Tranche Investment Fund II S.P. (referred as the "Fund" for the purpose of this paragraph) as the Group's interest in the Fund was 94.36% as at 31 December 2017. In the opinion of directors, the Group is exposed significant variable returns (combining the remuneration of the Group's role as the investment manager and investment return from the interest held) from the activities of the Group (through a subsidiary) in managing the Fund. Therefore, the Group classified the Fund as a subsidiary from the date the Group was exposed significant variable returns. The results of the Fund were recognised as "share of results of investments accounted for using the equity method" up to date that the Fund was classified as a subsidiary. The carrying amount of the interests held by the Group amounted to HK$877 million as at 31 December 2017 (31 December 2016: HK$681 million) and represented the Group's maximum exposure in the Fund.

Notes:

(a) As at 31 December 2017, the Group held the interests of non-participating shares of Haitong Freedom Multi-Tranche Bond Fund (referred as the "Fund" for the purpose of this paragraph) as disclosed above that the non-participating shares provide the Group with the share of returns from the Fund but not any decision-making power nor any voting right in daily operation of the Fund. As at 31 December 2017 and 2016, the Group held 50% of the management shares in the Fund 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 Fund and require unanimous consent of the parties sharing control. The arrangement of sharing of control is contractually agreed by both parties. As such, the interests of the Group in the Fund are classified as a joint venture.

There is no unfilled capital commitment to the Fund. The current carrying amount of HK$5,311 million (31 December 2016: HK$3,562 million) for the Fund in the consolidated statement of financial position represents the Group's maximum exposure.

(b) For the 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 ("CGA Cayman") through its shareholding that had the power to involve in key financing and operating decisions of CGA Cayman 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 17 to the consolidated financial statements.

As at 31 December 2016, the Group held a total return swap contract with the underlying investment of CGA Cayman 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 original maturity date of the swap transaction was 28 November 2017.

26. Investments Accounted for Using the Equity Method (continued)

Notes: (continued)

(b) (continued)

Upon maturity, if the fair value of the ordinary shares of CGA Cayman held by the Group and accumulated distribution from CGA Cayman 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 CGA Cayman 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 original maturity date.

On 1 September 2017, the Group entered into a termination agreement with that external third party to terminate the initial swap contract prior to the original maturity date. Pursuant to the terms of this termination agreement, the swap contract was terminated on 6 September 2017 (the "Termination Date"), and the Group received the interest income from the principal amount of HK$1,480 million up to the Termination Date and a termination amount of HK$1,480 million, totalling HK$1,520 million. Upon receiving the termination amount, the Group transferred its interest in CGA Cayman to the aforementioned external third party and did not have any interest in CGA Cayman since the Termination Date.

Details of the termination of swap contract should be read in conjunction with the Company's announcement on 1 September 2017.

(c) As at 31 December 2016, the Group held the interest in non-participating shares of Haitong International Investment Fund SPC – Fund I S.P. (referred as the "Fund" for the purpose of this paragraph) as disclosed above. The non-participating shares provide the Group with the share of returns from the Fund but not any decision-making power nor any voting right in daily operation of the Fund. As of 31 December 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 year ended 31 December 2017, the Group redeemed part of the interest of non-participating shares of the Fund while retaining 13.20% interest of non-participating shares on the date of redemption. In the opinion of the directors, the variable returns that the Group is exposed from 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 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 consolidated statement of profit or loss.

27. Interests in Unconsolidated Investments

The Group invested in certain investment funds, partnerships and private equity investments (collectively referred to as the "Investments" for the purpose of notes 4, 27 and 28) with primary objectives for capital appreciation, investment income and selling in the near future for profit. Pursuant to subscription agreements or equivalent documents, the beneficial interests held by the Group in these Investments are in the form of participating shares or interests which primarily provide the Group with the share of returns from the Investments but not any decision making power nor any voting right to involve in and control the daily operation.

These Investments 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 Investments, or through participations in decision making process of the underlying investee companies.

Among those Investments 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 Investments;
- substantive removal rights held by other parties may remove the Group as a fund manager; and
- the investment interests held together with its remuneration from servicing and managing these investment funds create significant exposure to variability of returns in these Investments.

In the opinion of the directors of the Company, the variable returns that the Group is exposed to with respect to these Investments 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 Investments.

The Group classified its interests in Investments as financial assets at fair value through profit or loss, financial assets designated at fair value through profit or loss and available-for-sale investments as appropriate in notes 16, 17 and 25.

28. Interests in Consolidated Investments

The Group had consolidated certain Investments in accordance with the criteria set out in note 27. Especially for those investment funds where the Group involved as an investment manager and also as an investor, the Group assesses whether (i) there are any other external holders in these Investments which have power to remove or control over the party having the ability to direct the relevant activities of the Investments based on the facts and circumstances and (ii) 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 the Group is a principal.

As at 31 December 2017, the total assets and total liabilities (excluding third party interest as stated below) of the consolidated Investments, which are not individually significant to the Group, were HK$11,221 million and HK$384 million (31 December 2016: HK$9,488 million and HK$1,488 million respectively).

28. Interests in Consolidated Investments (continued)

Third-party interests in consolidated Investments consist of third-party unit/shareholders' interests in consolidated Investments 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 Investments cannot be predicted with accuracy since these represent the interests of third-party unit holders in consolidated Investments that are subject to the actions of third-party unit holders.

For the year ended 31 December 2017, interests held by third-party unit/shareholders of HK$139 million (31 December 2016: HK$8.1 million) in consolidated Investments are included in other income and gains or losses in the consolidated statement of profit or loss and the interests held by third-party unit holders/shareholders amounted to HK$272 million (31 December 2016: HK$2,512 million) as at 31 December 2017. Such amount is recognised as "other liabilities arising from consolidation of investment funds" in the consolidated statement of financial position.

During the current year, the Group de-consolidated a consolidated investment fund as the Group redeemed its interest in non-participating shares of this investment fund and therefore in the opinion of directors, the variable returns that the Group is exposed to in respect of this consolidated investment fund is no longer significant after the redemption. As a result of de-consolidation, the Group reclassified investments revaluation reserve in relation to this former consolidated investment fund amounted to HK$150 million to the consolidated statement of profit or loss. This reclassification is included within "net gains arising from disposal of available-for-sale investments" as set out in note 6.

29. Goodwill and Other Intangible Assets

Goodwill

(a) Carrying value/movement

	2017 HK$'000	2016 HK$'000
Cost		
At the beginning of the year	**218,460**	157,697
Goodwill arising on acquisition (note 41)	**5,525**	60,763
	223,985	218,460

Particulars regarding impairment testing on goodwill are disclosed in note (b) below.

29. Goodwill and Other Intangible Assets (continued)

Goodwill (continued)

(b) Impairment testing on goodwill

For the purpose of impairment testing, goodwill set out in note (a) above is acquired through business combinations and has been allocated into five individual cash generating units (CGUs) for impairment testing:

- Wealth management CGU ("Unit A");
- Investment management CGU ("Unit B");
- Equity research and sales advice CGU ("Unit C");
- India operations CGU ("Unit D"); and
- Singapore foreign exchange business CGU ("Unit E").

The carrying amount of goodwill allocated to each of the CGU is as follows:

	2017	2016
	HK$'000	HK$'000
Wealth management	**854**	854
Investment management	**9,000**	9,000
Equity research and sales advice	**147,843**	147,843
India operations	**60,763**	60,763
Singapore foreign exchange business	**5,525**	–
	223,985	218,460

During the years ended 31 December 2017 and 31 December 2016, the management of the Group determined that there are no impairment of any of its CGUs containing goodwill as the recoverable amounts of Unit A, Unit B and Unit C (as defined above) exceed their respective carrying amounts.

As at 31 December 2017, the management of the Group determined that there is no impairment of CGU containing goodwill as the recoverable amount of Unit D exceeds the carrying amount. Unit D CGU represents Haitong Securities India Private Limited ("Haitong India"), where the Group had not yet completed the allocation of goodwill and presented it as provisional basis as at 31 December 2016. Haitong India was acquired on 22 December 2016. In 2017, goodwill was allocated to the India operations CGU with no material difference with the amount presented as provisional basis in prior year. Details of the acquisition are disclosed in note 41.

As at 31 December 2017, the management of the Group determined that there is no impairment of CGU containing goodwill as the recoverable amount of Unit E exceeds the carrying amount. Unit E CGU represents Haitong International Financial Services (Singapore) Pte. Limited, where the Group acquired this subsidiary on 28 February 2017. Details of the acquisition are disclosed in note 41.

29. Goodwill and Other Intangible Assets (continued)

Goodwill (continued)

(b) Impairment testing on goodwill (continued)

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

(i) Unit A

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

The discount rate applied to the cash flow projections is 5% (2016: 5%) and cash flows are using a growth rate of 10% (2016: 10%) which is determined based on past performance and the management's expectations for the market development. The discount rate used reflects specific risks relating to Unit A.

(ii) Unit B

The recoverable amount of the investment management CGU has been determined based on value-in-use calculation using cash flow projections covering a five-year period approved by the senior management. The discount rate applied to the cash flow projections is 5% (2016: 5%) and cash flows are using a growth rate of 6% (2016: 6%) (for investment fund management) and 6% (2016: 6%) (for other fund management). The discount rate used reflects specific risks relating to Unit B.

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

(iii) Unit C

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

The valuation used the discounted cash flow approach and is based on a five-year performance projection and certain key assumptions (updated with latest market data) including an average growth rate of 9.7% from 2018 to 2020 and 4.4% from 2021 to 2022 (2016: an average growth rate of 9.3% from 2017 to 2019 and 5.9% from 2020 to 2021), a sustainable growth rate of 3% beyond 2022 (2016: a sustainable growth rate of 3% beyond 2021) and a discount rate of 15% (2016: 15.22%) which is determined based on past performance, the management's expectations for the market development and future business plan. The discount rate used reflects specific risks relating to Unit C.

29. Goodwill and Other Intangible Assets (continued)

Goodwill (continued)

(b) Impairment testing on goodwill (continued)

(iv) Unit D

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

The valuation used the discounted cash flow approach and is based on a five-year performance projection and certain key assumptions (updated with latest market data) including an average growth rate of 10% from 2018 to 2020 and 8% from 2021 to 2022, a sustainable growth rate of 3% beyond 2022 and a discount rate of 10% which is determined based on past performance, the management's expectations for the market development and future business plan. The discount rate used reflects specific risks relating to Unit D.

(v) Unit E

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

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

The management believes that any reasonably possible changes in any of these assumptions would not cause the carrying amount of Unit A, Unit B, Unit C, Unit D and Unit E to exceed their recoverable amount respectively.

29. Goodwill and Other Intangible Assets (continued)

Other intangible assets

(a) Carrying value/movement

	Trading rights and licenses HK$'000	System and infrastructure HK$'000	Customer relationship HK$'000	Total HK$'000
Cost				
At 1 January 2016	11,133	4,345	45,584	61,062
Acquired on acquisition of a subsidiary (note 41)	–	206	–	206
At 31 December 2016 and 31 December 2017	11,133	4,551	45,584	61,268
Amortisation				
At 1 January 2016	3,522	–	4,284	7,806
Charge for the year	–	–	3,039	3,039
At 31 December 2016	3,522	–	7,323	10,845
Charge for the year	–	–	5,713	5,713
At 31 December 2017	3,522	–	13,036	16,558
Carrying values				
At 31 December 2017	7,611	4,551	32,548	44,710
At 31 December 2016	7,611	4,551	38,261	50,423

29. Goodwill and Other Intangible Assets (continued)

Other intangible assets (continued)

(a) Carrying value/movement (continued)

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

The Group's eligibility rights to trade on or through the Stock Exchange and Hong Kong Futures Exchange Limited of net carrying amount of HK$4,609,000 (2016: HK$4,609,000) are considered to have indefinite lives, which are not amortised, as the trading rights have no expiry date.

The remaining trading rights and licenses of HK$2,000,000 and HK$1,002,000 represent the Group's investments in throttle rate for trading orders to be transmitted to the Automated Matching System of the Stock Exchange and regulatory licenses of acquired subsidiaries for carrying on regulated businesses in respective jurisdictions (including Hong Kong and overseas). These intangible assets have no expiry date and are not amortised.

The Group recognised HK$206,000 of system and infrastructure during the year ended 31 December 2016 as a result of acquisition of a subsidiary as set out in note 41.

Particulars regarding impairment testing on trading rights are disclosed in note (b) below.

(b) Impairment testing on trading rights and licenses with indefinite useful lives

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

The trading rights and licences held by the Group are considered by the directors of the Company as having indefinite useful lives because they are expected to contribute net cash inflows indefinitely. The trading rights and licenses will not be amortised until their useful life is determined to be finite. The respective recoverable amounts of the CGUs relating to brokerage business, whereby these trading rights and licences are allocated to, using a value-in-use calculation, exceed the carrying amounts.

Accordingly, there is no impairment of the trading rights and licences as at 31 December 2017 and 31 December 2016.

30. Other Assets

	2017 HK$'000	2016 HK$'000
At cost:		
Deposits with the Stock Exchange:		
— Compensation fund	650	650
— Fidelity fund	350	350
— Mainland Securities and Settlement Deposit	55,715	25,655
Dealers' deposit with Hong Kong Securities and Futures Commission ("SFC")	350	350
Stamp duty deposits	500	500
Contributions to The Central Clearing and Settlement System Guarantee Fund	35,353	29,036
Admission fees paid to Hong Kong Securities Clearing Company Limited	300	300
Reserve fund with The SEHK Options Clearing House Limited	18,829	6,611
Deposits with HKFE Clearing Corporation Limited in contribution to the reserve fund	10,473	5,305
Cost of membership for a seat at The Chinese Gold and Silver Exchange Society	486	486
Compensation fund paid to The Shenzhen Stock Exchange Co., Ltd.	300	300
Settlement Risk Fund paid to The Shanghai Securities Central Clearing & Registration Corporation	387	387
Others	4,752	3,515
	128,445	73,445

31. Property and Equipment

	Leasehold land and buildings HK$'000	Leasehold improvements HK$'000	Furniture, fixtures and equipment HK$'000	Computer hardware and equipment HK$'000	Total HK$'000
31 December 2017					
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 41)	–	62	112	637	811
Additions	–	18,458	5,733	81,846	106,037
Disposals	–	(415)	(733)	(219)	(1,367)
Depreciation	(78)	(8,341)	(5,964)	(42,520)	(56,903)
At 31 December 2017, net of accumulated depreciation	1,490	25,830	14,427	136,496	178,243
At 31 December 2017					
Cost	3,092	83,408	63,245	550,986	700,731
Accumulated depreciation	(1,602)	(57,578)	(48,818)	(414,490)	(522,488)
Net carrying values	1,490	25,830	14,427	136,496	178,243

31. 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
31 December 2016					
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	1,645	16,809	12,599	70,106	101,159
Arising from acquisition of a subsidiary (note 41)	–	–	–	1,670	1,670
Additions	–	5,316	7,988	50,537	63,841
Disposals	–	–	(58)	(6)	(64)
Depreciation	(77)	(6,059)	(5,250)	(25,555)	(36,941)
At 31 December 2016, net of accumulated depreciation	1,568	16,066	15,279	96,752	129,665
At 31 December 2016					
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

32. Financial Assets Sold under Repurchase Agreements

	2017 HK$'000	2016 HK$'000
Analysed by collateral type:		
Equities	1,800,300	–
Bonds and preference shares	9,506,814	9,586,163
Analysed by market:		
Inter-bank market	11,307,114	9,586,163
Analysed for reporting purposes:		
Current	11,307,114	9,586,163

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 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 31 December 2017, the Group entered into repurchase agreements with financial institutions to sell equities, bonds and preferences shares recognised as financial assets at and designated at fair value through profit or loss with carrying amount of HK$13,662 million (31 December 2016: HK$9,628 million), which were subject to the simultaneous agreements to repurchase these investments at the agreed date and price.

33. Accounts Payable

	2017 HK$'000	2016 HK$'000
Accounts payable to:		
— Clients	**22,012,013**	21,321,813
— Brokers, dealers and clearing houses	**912,708**	3,257,478
— Collaterals received under stock lending agreements	**3,417,718**	3,505,177
— Others	**127,244**	156,458
	26,469,683	28,240,926

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.

Collaterals received under stock lending agreements are repayable upon expiry of relevant stock lending agreements and the relevant stocks lent are returned by the borrower.

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

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

Except for the accounts payable to clients which bear interest at 0.001% as at 31 December 2017 (31 December 2016: 0.001%), all the accounts payable are non-interest bearing.

Accounts payable to clients also include those payables placed in segregated accounts with authorized institutions of HK$19,768,481,000 (31 December 2016: HK$20,186,813,000), HKFE Clearing Corporation Limited, the SEHK Options Clearing House Limited and other futures dealers totalling HK$1,006,507,000 (31 December 2016: HK$1,454,524,000).

34. Loans and Borrowings

	2017 **HK$'000**	2016 HK$'000
Debt securities in issue		
Non-current		
Convertible bonds (notes (a))	**3,866,282**	3,802,531
Non-convertible bonds (note (b))	**10,083,594**	9,973,074
Non-convertible notes (note (c))	**472,223**	996,642
Total non-current debt securities in issue	**14,422,099**	14,772,247
Current		
Convertible bonds (note (a))	**2,224**	–
Non-convertible notes (note (c))	**1,198,992**	1,551,252
Total current debt securities in issue	**1,201,216**	1,551,252
Total debt securities in issue	**15,623,315**	16,323,499
Bank loans and other borrowings		
Secured borrowing		
— Bank loans (notes (d) and (e))	**2,033,791**	5,028,988
Unsecured borrowing		
— Bank loans (notes (e) and (f))	**28,701,506**	28,570,000
— Other loans (note (f) and 39(a)(iv))	**20,000**	27,586
Total bank loans and other borrowings	**30,755,297**	33,626,574
Total borrowings	**46,378,612**	49,950,073

34. Loans and Borrowings (continued)

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 31 December 2017, the conversion prices of convertible bonds issued by the Company in 2013, 2014 and 2016 are HK$2.76 per share (31 December 2016: HK$2.87 per share), HK$4.61 per share (31 December 2016: HK$4.80 per share) and HK$6.53 per share (31 December 2016: HK$6.8112 per share) respectively. The conversion prices of convertible bonds were adjusted during the year ended 31 December 2017 due to the payment of 2016 final dividend and 2017 interim dividend.

During the years ended 31 December 2017 and 2016, no convertible bonds issued by the Company in 2013, 2014 and 2016 were converted into ordinary shares of the Company.

As at 31 December 2017, the number of outstanding shares convertible under the convertible bonds issued in 2013, 2014 and 2016 are 724,638 (31 December 2016: 696,864), 29,718,004 (31 December 2016: 28,541,666) and 594,180,704 (31 December 2016: 569,649,988) respectively.

(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 announcements on 4 and 11 September 2014 as well as 2014 audited consolidated financial statements for details of the bonds.

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 year ended 31 December 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$600 million with a maturity period of 1 year and repaid several medium term notes of principal amount totalling HK$1,650 million. As at 31 December 2017, the outstanding loan balances of HK$1,671 million (31 December 2016: HK$2,548 million) represent the unsecured and unguaranteed non-convertible notes.

(d) Bank loans of HK$1,413 million (31 December 2016: HK$4,667 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$12,951 million (31 December 2016: HK$18,172 million) at fair value and the remaining amount is secured by debt investments of HK$1,428 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 consolidated statement of financial position.

(e) All the Group's bank borrowings bear interest at variable interest rates 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 31 December 2017, there is no current portion of unsecured bank loans which 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).

34. Loans and Borrowings (continued)

The table below details changes in the Group's liabilities arising from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are those for which cash flows were, or future cash flows will be, classified in the Group's consolidated statement of cash flows from financing activities. Interest payments in relation to below liabilities are included in other payables and accruals and presented in operating cash flow.

	Dividend payable HK$'000	Convertible bonds HK$'000	Non-convertible bonds HK$'000	Non-convertible notes HK$'000	Bank loans and other borrowing HK$'000	Loan from the immediate holding company HK$'000 (note 39(a)(iv))	Total HK$'000
At 1 January 2017	–	3,802,531	9,973,074	2,547,894	33,598,988	27,586	49,950,073
Financing cash flows	(266,309)	–	–	(1,050,015)	(2,863,691)	(7,586)	(4,187,601)
Dividend declared	968,771	–	–	–	–	–	968,771
Settled in scrip dividend	(702,718)	–	–	–	–	–	(702,718)
Foreign exchange translation	–	–	–	124,441	–	–	124,441
Other changes	256	65,975	110,520	48,895	–	–	225,646
At 31 December 2017	–	3,868,506	10,083,594	1,671,215	30,735,297	20,000	46,378,612

35. Other Payables and Accruals

	2017 HK$'000	2016 HK$'000
Other payables and accruals	1,877,882	965,602
Less: Non-current portion (note 46)	(586,189)	–
Current portion	1,291,693	965,602

Other payables are non-interest bearing.

For the year ended 31 December 2017

36. Share Capital

	2017 HK$'000	2016 HK$'000
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: 5,500,858,791 (31 December 2016: 5,336,534,474) ordinary shares of HK$0.10 each	**550,086**	533,653

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

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 options	3,523,991	352
Scrip dividend issued (Note 14)	43,090,388	4,309
As at 31 December 2016 and 1 January 2017	5,336,534,474	533,653
New shares issued under exercise of share options	3,327,798	333
Scrip dividend issued — 2016 final dividend (Note 14)	78,617,528	7,862
Scrip dividend issued — 2017 interim dividend (Note 14)	82,378,991	8,238
As at 31 December 2017	5,500,858,791	550,086

37. Share Option/Award Scheme

2002 Share option scheme

On 23 August 2002, the shareholders of the Company approved the adoption of a share option scheme (the "2002 Share Option Scheme"), which expired on 22 August 2012. A summary of the principal terms of the 2002 Share Option Scheme, as disclosed in accordance with the Listing Rules, is set out as follows:

The 2002 Share Option Scheme was adopted for the purpose of attracting, retaining and motivating talented employees to strive towards long term performance targets set by the Company and its subsidiaries and at the same time allowing the participants to enjoy the results of the Company attained through their efforts and contributions. Under the 2002 Share Option Scheme, options were granted to any full time employees, executive and non-executive directors of the Company or any of its subsidiaries or associates.

The maximum number of shares which may be issued upon exercise of all options to be granted under the 2002 Share Option Scheme and any other share option schemes of the Company shall not in aggregate exceed 10% of the total number of shares in issue as at the date of adoption of the 2002 Share Option Scheme (the "Scheme Mandate Limit") but the Company may seek approval of its shareholders at general meetings to refresh the Scheme Mandate Limit, save that the maximum number of shares in respect of which options may be granted by directors of the Company under the 2002 Share Option Scheme and any other share option schemes of the Company shall not exceed 10% of the issued share capital of the Company as at the date of approval by the shareholders of the Company at the general meeting where such limit is refreshed.

If refreshed, options previously granted under the 2002 Share Option Scheme and any other share option schemes of the Company (including those outstanding, cancelled, lapsed or exercised options) will not be counted for the purpose of calculating such 10% limit.

Notwithstanding the aforesaid in previous paragraph, the maximum number of shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the 2002 Share Option Scheme and any other share option schemes of the Company shall not exceed 30% (or such higher percentage as may be allowed under the Listing Rules) of the total number of shares in issue from time to time. The maximum number of shares issued and to be issued upon exercise of the options granted to each participant under the 2002 Share Option Scheme and any other share option schemes of the Company (including both exercised and outstanding options) in any 12-month period shall not exceed 1% of the total number of the Company's shares in issue. Any further grant of share options in excess of this limit is subject to approval by the shareholders of the Company at a general meeting.

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

37. Share Option/Award Scheme (continued)

2002 Share option scheme (continued)

The offer of a grant of share options may be accepted within 30 days from the date of the offer upon payment of a consideration of HK$1 by the grantee. The exercise period of the share options granted is determinable by the Board, and such period shall commence not earlier than 6 months from the date of grant of the options and expire not later than 10 years after the date of grant of the options. The vesting period of the share options is from the date of the grant until the commencement of the exercise period. All share options under the 2002 Share Option Scheme are subject to a 6-month vesting period.

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

Share options do not confer rights on the holders to dividends or to vote at shareholders' meetings.

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

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 beginning of the year	**2.77**	**9,132**	2.91	12,662
Adjusted during the year (note)	**2.76**	**8**	2.77	5
Exercised during the year	**2.77**	**(3,328)**	3.25	(3,524)
Forfeited during the year	**–**	**–**	3.36	(11)
At end of the year	**2.76**	**5,812**	2.77	9,132

37. 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:

31 December 2017 Number of options '000	Exercise price HK$ per share (note)	Exercise period
5,812	2.764	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 years ended 31 December 2017 and 31 December 2016 under 2002 Share Option Scheme.

During the year, 3,327,798 (31 December 2016: 3,523,991) share options were exercised resulting in issuance of 3,327,798 (31 December 2016: 3,523,991) ordinary shares of the Company with new share capital of HK$333,000 (31 December 2016: HK$352,000) and share premium of HK$8,878,000 (31 December 2016: HK$11,092,000) (before issuing expenses).

As at 31 December 2017, the Company had 5,812,110 (2016: 9,131,657) share options outstanding under the 2002 Share Option Scheme, which represented approximately 0.11% (2016: 0.17%) of the Company's shares in issue as at that date.

The exercise in full of the remaining share options would, under the present capital structure of the Company, result in the issue of 5,812,110 (2016: 9,131,657) additional ordinary shares of the Company and additional share capital of HK$581,000 (2016: HK$913,000) and share premium of HK$15,483,000 (2016: HK$24,363,000) (before issue expenses).

37. Share Option/Award Scheme (continued)

2015 Share option scheme

The shareholders of the Company approved the adoption of a new share option scheme (the "2015 Share Option Scheme") on 8 June 2015 (the "Adoption Date"). The 2015 Share Option Scheme was also approved by the shareholders of Haitong Securities Co., Ltd., ("HSCL") 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 and 12 June 2015 respectively. A summary of the principal terms of the 2015 Share Option Scheme, as disclosed in accordance with the Listing Rules, is set out as follows:

The 2015 Share Option Scheme was adopted to attract, retain and motivate talented employees to strive towards long term performance targets set by the Group and to provide them with an incentive to work better for the interest of the Group. Under the 2015 Share Option Scheme, share options could be granted to any full time or part-time employee, executive and non-executive (whether independent or not) directors of the Group, who, in the absolute opinion of the Board, have contributed to the Company or the Group.

The maximum number of shares of the Company (the "Shares") which may be issued upon exercise of all options to be granted under the 2015 Share Option Scheme and any other share option schemes shall not in aggregate exceed 212,924,439 shares, representing approximately 10% of the issued shares of the Company as at 30 November 2014, being the date of tentative approval of the 2015 Share Option Scheme by the management of the Company.

In respect of the period of 12 months from the Adoption Date and for each of the subsequent periods of 12 months from the previous anniversary of the Adoption Date (each of those 12-months periods is hereinafter referred to as a "Scheme Year"), the total number of shares of the Company which may be issued upon exercise of the options granted in each Scheme Year shall not exceed 21,292,444 shares (the "Annual Limit"). The Company may from time to time seek approval of its shareholders and the approval of the shareholders of HSCL (so long as the Company is a subsidiary of HSCL under the Listing Rules) in respective general meetings to renew the Scheme Limit and/or the Annual Limit such that the total number of shares of the Company in respect of which options may be granted by directors of the Company under the 2015 Share Option Scheme (i) in respect of the Scheme Limit, shall not exceed 10% of the issued share capital of the Company as at the date of approval of the refreshment; and (ii) in respect of the Annual Limit, shall not exceed 1% of the issued share capital of the Company as at the date of approval of the refreshment. Options previously granted under the 2015 Share Option Scheme and any other share option schemes of the Company (including those outstanding, cancelled, lapsed or exercised options) will not be counted for the purpose of calculating such limits as refreshed.

Notwithstanding the aforesaid in previous paragraph, the maximum number of shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the 2015 Share Option Scheme and any other share option schemes of the Company shall not exceed 30% (or such higher percentage as may be allowed under the Listing Rules) of the total number of shares in issue from time to time.

37. Share Option/Award Scheme (continued)

2015 Share option scheme (continued)

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

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

The offer of a grant of share options may be accepted within 28 days from the date of the offer upon payment of a consideration of HK$1 by the grantee. The exercise period of the share options granted is determinable by the directors of the company and notified by the directors of the company to each participant as being the period during which an option may be exercised, and in any event such period of time shall not exceed a period of 5 years, commencing on the Offer Date and expire on the last day of such period. The 2015 Share Option Scheme does not stipulate any performance target which needs to be achieved by the participant who accepts the offer of share options (the "Grantee") before the share options can be exercised. In order to sustain a long-term employment relationship between the Company and the Grantee(s), grantees must hold their share options for a holding period of not less than 6 months from the date of acceptance of the offer by the Grantee, before the share options can be exercised.

The exercise price of the share options is determinable by the directors, and shall be at least the highest of (i) the price equal to 110% of the closing price of the Company's shares as stated in the Stock Exchange's daily quotations sheet on the offer date; (ii) the average closing price of the Company's shares as stated in the Stock Exchange's daily quotations sheets for the 5 trading days immediately preceding the offer date; and (iii) the nominal value of the Company's shares. Share options do not confer rights on the holders to dividends or to vote at shareholders' meetings.

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 being 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.

37. Share Option/Award Scheme (continued)

2015 Share option scheme (continued)

	2016
Weighted average share price at the date of grant	HK$4.25
Initial exercise price	HK$4.6750
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.

On 10 November 2017, the Company granted 13,400,000 share options at the exercise price of HK$5.038 per share to its directors and employees under the 2015 Share Option Scheme with a total of 13,350,000 share options being accepted. The option period of the share options is from 10 November 2017 to 9 November 2022. 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$4.58 per share. The estimated fair values of the options granted under 2015 Share Option Scheme on the grant date on 10 November 2017 is approximately HK$17.5 million, which was calculated using the Binomial Option Pricing model with the key inputs into the model as disclosed below.

	2017
Weighted average share price at the date of grant	**HK$4.58**
Initial exercise price	**HK$5.038**
Expected volatility	**49.493%**
Expected option life	**5 years**
Risk-free rate	**1.42%**
Expected dividend yield	**3.849%**
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 year ended 31 December 2017, the Group has recognised an equity-settled share-based payment of HK$2,910,000 (2016: HK$23,673,000) for the share options under the 2015 Share Option Scheme in the consolidated statement of profit or loss. No share options under 2015 share option scheme has been exercised during the current and prior years.

37. 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 Weighted average exercise price HK$ per share	**2017** Number of options '000	2016 Weighted average exercise price HK$ per share	2016 Number of options '000
At beginning of the year	**4.674**	**17,807**	–	–
Granted and accepted during the year	**5.038**	**13,350**	4.675	18,000
Adjusted during the year (note)	**4.668**	**22**	4.674	7
Exercised during the year	**–**	**–**	–	–
Forfeited during the year	**4.673**	**(1,951)**	4.674	(200)
At end of the year	**4.836**	**29,228**	4.674	17,807

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

31 December 2017 Number of options '000	**Exercise price HK$ per share (note)**	**Exercise period**
15,878	4.667	8 December 2016 – 11 May 2021
13,350	5.038	7 June 2018 – 9 November 2022
29,228		

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.

37. Share Option/Award Scheme (continued)

2015 Share option scheme (continued)

As at 31 December 2017, the Company had 29,228,100 (2016: 17,806,679) share options outstanding under the 2015 Share Option Scheme, which represented approximately 0.53% (2016: 0.33%) of the Company's shares in issue as at that date.

The exercise in full of the remaining share options would, under the present capital structure of the Company, result in the issue of 29,228,100 (2016: 17,806,679) additional ordinary shares of the Company and additional share capital of HK$2,923,000 (2016: HK$1,781,000) and share premium of HK$138,438,000 (2016: HK$81,449,000) (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 ("Selected Participants") for their contributions to the Group and to attract suitable personnel for further development of the Group.

Pursuant to the Scheme, the ordinary shares of HK$0.1 each in the capital of the Company will be acquired by the trustee at the cost of the Company and will be held in trust for the Selected Participants before vesting. The total number of shares granted under the Scheme shall be limited to 10% of the total issued share capital of the Company as at 19 December 2014 (the "Adoption Date") or such other percentage as determined by the Board from time to time.

No award of the shares shall be granted to any single Selected Participant which would result in the maximum number of awarded shares under the Scheme in the 12-month period up to and including the date of such grant representing in aggregate over 1% of the issued share capital of the Company as at the Adoption Date.

The Board has delegated the power and authority to the Administration Committee to handle operational matters of the Scheme but all major decisions in relation to the Scheme shall be made by the Board unless expressly provided for in the scheme rules pursuant to the Scheme or the Board resolves to delegate such power to the Administration Committee.

Pursuant to the scheme rules, the Board may, from time to time, at its absolute discretion and subject to such terms and conditions as it may think fit (including the basis of eligibility of each Participant determined by the Board and recommended by the Remuneration Committee from time to time) select any participant for participation in the Scheme as a Selected Participant and determine the number of awarded shares, upon the recommendation of the Remuneration Committee.

After the selection of the Selected Participant(s) and the determination of the number of awarded shares by the Board, the Administration Committee shall inform the trustee accordingly. The Administration Committee shall also inform the Selected Participant(s) by award notice. Provided that the respective Selected Participant(s) has (have) executed the relevant acceptance form(s) and returned the same together with a counterpart of the award notice(s) to the trustee through the Company within the period prescribed in the award notice(s), the Company shall during the award period pay or cause to be paid to the trustee for purchasing the awarded shares ("Reference Amount").

37. Share Option/Award Scheme (continued)

Share award scheme (continued)

After receiving the Reference Amount, the Trustee shall apply the same towards the purchase of awarded shares in the market through a broker at the prevailing market price on the Stock Exchange pursuant to the Scheme Rules and the Company would recognise as treasury shares in the consolidated statement of changes in equity.

The Administration Committee shall conduct a review of the performance conditions (if any) in relation to each Selected Participant at least once in each financial year during the award period if the award period is more than 12 months or once only during the award period if the award period is less than 12 months. The awarded shares will be vested if the Selected Participant is able to meet the relevant performance conditions during the relevant period, or lapsed if the Selected Participant is unable to meet the relevant performance conditions during the relevant period.

A Selected Participant shall not exercise or direct the trustee to exercise and the trustee shall not exercise the voting rights in respect of any awarded shares held under the trust.

Details of the awarded shares granted and unvested as at 31 December 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
18 April 2016	7,865,506	2,457,261	842,591	4,565,654	note (a)	31,383,000
28 April 2017	4,246,234	–	269,921	3,976,313	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 year ended 31 December 2017, the Group has recognised an equity-settled share-based payment of HK$18,395,000 (31 December 2016: HK$13,863,000) for the Scheme in consolidated statement of profit or loss.

As at 31 December 2017, the Company had 4,565,654 (2016: 7,547,890) awarded shares granted on 18 April 2016 which were outstanding under the Scheme. During the current year, 524,975 (2016: 317,616) and 2,457,261 (2016: Nil) award shares granted on 18 April 2016 were lapsed and vested respectively.

As at 31 December 2017, the Company had 3,976,313 (2016: Nil) awarded shares granted on 28 April 2017 which were outstanding under the Scheme. During the current year, 269,921 (2016: Nil) awarded shares granted on 28 April 2017 were lapsed.

37. Share Option/Award Scheme (continued)

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 were lapsed 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 consolidated statement of changes 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
Vested and transferred out during the year	**(14,481)**	**(2,457,261)**	–	–
At 31 December	**113,539**	**19,266,739**	128,020	21,724,000

38. Commitments

(a) Operating lease arrangements

The Group leases certain of its office properties and data centre under operating lease arrangements. Leases for office properties are negotiated for terms ranging from one year to ten years, and those for data centre for terms of five years. At 31 December 2017 and 31 December 2016, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	2017	2016
	HK$'000	HK$'000
Within one year	**78,971**	97,775
In the second to tenth year, inclusive	**66,027**	103,800
	144,998	201,575

38. Commitments (continued)

(b) Capital commitments

In addition to the operating lease commitments detailed in note (a), the Group had the following commitments as at year end.

	2017	2016
	HK$'000	HK$'000
Contracted, but not provided for:		
Computer equipment	**4,225**	12,382
Others	**1,865**	779
	6,090	13,161

39. Related Party Transactions

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

(a) On 12 November 2012, the Company entered into a master services agreement with Haitong Securities Co., Ltd. ("HSCL"), the ultimate holding company of the Company which took effect from 1 January 2013. Pursuant to the master service agreement, the Company and HSCL have each agreed to provide services to companies of the Group or HSCL and its subsidiaries. Such master services agreement expired on 31 December 2015. On 14 March 2016, the Company entered into a new master services agreement with HSCL, 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 and related services amounted to HK$407,000 (2016: HK$584,000) and HK$3,370,000 (2016: HK$697,000) respectively for the current year in accordance with terms of the relevant agreements.

(ii) Income from investment management and advisory services amounted to HK$2,646,000 (2016: HK$2,527,000) and HK$689,000 (2016: Nil) respectively for provision of investment management services and investment advisory services to Haitong International Holdings Limited (the immediate holding company of the Company) and its subsidiaries. The fees are charged in accordance with the relevant investment management agreement or investment advisory agreement.

39. Related Party Transactions (continued)

(a) (continued)

(iii) Income from investment advisory services amounted to HK$561,000 (2016: HK$822,000) for provision of investment advisory services to a subsidiary of HSCL (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 31 December 2017, the Company had an outstanding balance of HK$20 million (31 December 2016: HK$28 million). As at 31 December 2017, the unsecured loan is chargeable at an interest rate of HIBOR + 1.275% per annum (31 December 2016: HIBOR+1.275% per annum). Interest expense for such intercompany loan for the current year amounted to HK$997,000 (2016: HK$2,212,023).

(v) During the year ended 31 December 2017, the Company entered into a service agreement with Haitong Bank, S.A. ("Haitong Bank", a subsidiary of Haitong International Holdings Limited, the immediate holding company of the Company), pursuant to which Haitong Bank would provide financial advisory services and consulting services to the Group in connection to financial advisory services provided to external customers. Expenses paid by the Group in connection to the financial advisory and consulting services provided by Haitong Bank amounted to HK$28,524,000. The expenses paid by the Group are based on the services agreement and specific agreements entered between the Group and Haitong Bank.

(vi) During the year ended 31 December 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.

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

	2017 HK$'000	2016 HK$'000
Short term employee benefits	100,676	80,082
Post-employment benefits	234	198
Share-based payments	1,542	6,407
Total compensation paid to key management personnel	102,452	86,687

40. Statement of Financial Position and Reserves Movement of the Company

(a) Statement of financial position of the Company

	2017 Current HK$'000	2017 Non-current HK$'000	2017 Total HK$'000	2016 Current HK$'000	2016 Non-current HK$'000	2016 Total HK$'000
ASSETS						
Assets						
Cash and cash equivalents	22,513	–	22,513	24,399	–	24,399
Tax recoverables	–	–	–	13,966	–	13,966
Prepayments, deposits and other receivables	155,788	–	155,788	237,285	–	237,285
Amounts due from subsidiaries	32,581,339	32,109,238	64,690,577	34,836,448	28,739,942	63,576,390
Property and equipment	–	31,283	31,283	–	26,371	26,371
Other assets	–	1,095	1,095	–	1,095	1,095
Investment in subsidiaries	–	2,167,239	2,167,239	–	2,069,566	2,069,566
Total assets	32,759,640	34,308,855	67,068,495	35,112,098	30,836,974	65,949,072
LIABILITIES AND EQUITY						
Liabilities						
Bank loans and other borrowings	28,183,347	–	28,183,347	28,112,587	–	28,112,587
Debt securities in issue	1,201,216	4,338,505	5,539,721	1,551,252	4,799,173	6,350,425
Tax payable	33,132	–	33,132	13,090	–	13,090
Other payables and accruals	625,943	–	625,943	582,961	–	582,961
Amounts due to subsidiaries	1,042,888	11,441,494	12,484,382	691,616	11,295,793	11,987,409
Total liabilities	31,086,526	15,779,999	46,866,525	30,951,506	16,094,966	47,046,472
Equity						
Share capital (note 36)			550,086			533,653
Reserves (note 40(b))			18,661,729			17,942,024
Proposed dividends (note 14)			990,155			426,923
Total equity			20,201,970			18,902,600
Total liabilities and equity			67,068,495			65,949,072
Net current assets			1,673,114			4,160,592

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

(b) Reserves movement of the Company

The amounts of the Group's reserves and the movements therein for the current year and prior year are presented in the consolidated statement of changes in equity.

The amounts of the Company's reserves and its movements are as follows:

	Share premium account HK$'000	Share option reserve HK$'000	Share award Reserve HK$'000	Shares held for employee share award scheme HK$'000	Capital redemption reserve HK$'000	Contributed surplus HK$'000	Convertible bond reserve (note 34) HK$'000	Retained profit HK$'000	Total HK$'000
At 1 January 2016	16,917,151	2,288	–	(128,020)	5,102	2,697	5,374	125,046	16,929,638
Profit and total comprehensive income for the year	–	–	–	–	–	–	–	1,409,203	1,409,203
Recognition of equity-settled share-based payment	–	23,673	13,863	–	–	–	–	–	37,536
Shares issued under share option scheme	11,465	(373)	–	–	–	–	–	–	11,092
Issuance of convertible bonds (note 34)	–	–	–	–	–	–	195,164	–	195,164
2015 final dividend declared and settled in cash and scrip	140,781	–	–	–	–	–	–	(112)	140,669
2016 interim dividend declared and settled in cash and scrip (note 14)	45,161	–	–	–	–	–	–	(399,516)	(354,355)
Proposed 2016 final dividend (note 14)	–	–	–	–	–	–	–	(426,923)	(426,923)
Share options lapsed	1,828	(1,828)	–	–	–	–	–	–	–
Share awards lapsed	518	–	(518)	–	–	–	–	–	–
At 31 December 2016	17,116,904	23,760	13,345	(128,020)	5,102	2,697	200,538	707,698	17,942,024
At 1 January 2017	17,116,904	23,760	13,345	(128,020)	5,102	2,697	200,538	707,698	17,942,024
Profit and total comprehensive income for the year	–	–	–	–	–	–	–	1,536,759	1,536,759
Exchange reserve	–	–	–	–	–	–	–	(1,596)	(1,596)
Recognition of equity-settled share based payment	–	2,910	18,395	–	–	–	–	–	21,305
Vesting of shares for the share award scheme	(4,677)	–	(9,804)	14,481	–	–	–	–	–
Shares issued under share option scheme	8,955	(77)	–	–	–	–	–	–	8,878
2016 final dividend declared and settled in cash (note 14)	325,847	–	–	–	–	–	–	(256)	325,591
2017 interim dividend declared and settled in cash (note 14)	360,771	–	–	–	–	–	–	(541,848)	(181,077)
Proposed 2017 second interim dividend (note 14)	–	–	–	–	–	–	–	(990,155)	(990,155)
Share options lapsed	2,593	(2,593)	–	–	–	–	–	–	–
Share awards lapsed	899	–	(899)	–	–	–	–	–	–
At 31 December 2017	17,811,292	24,000	21,037	(113,539)	5,102	2,697	200,538	710,602	18,661,729

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

(b) Reserves movement of the Company (continued)

The contributed surplus of the Group arose in 1996 as a result of the group reorganisation in preparation for the listing of the Company and represented the difference between the nominal value of the share capital issued by the Company and the aggregate net asset value of the subsidiaries acquired at the date of acquisition. Under the Companies Act 1981 of Bermuda (as amended), the Company may make distributions to its members out of the contributed surplus provided certain conditions are met.

The share option reserve of the Group comprises the fair value of share options granted which are yet to be exercised, as further explained in the accounting policy for share-based payment transactions in note 3 to the consolidated financial statements.

The consolidated profit and total comprehensive income attributable to equity holders of the Company for the year ended 31 December 2017 includes a profit and total comprehensive income of HK$1,536,759,000 (2016: profit and total comprehensive income of HK$1,409,203,000) which has been dealt with in the financial statements of the Company.

41. Investment in Subsidiaries

	2017 **HK$'000**	2016 HK$'000
Unlisted shares, at cost	**2,069,566**	1,745,186
Deemed contribution	**97,673**	324,380
	2,167,239	2,069,566

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

41. Investment in Subsidiaries (continued)

The particulars of principal subsidiaries that are body corporates as at 31 December 2017 are as follows:

Name	Place of incorporation/ registration and operations	Paid-up register capital	Percentage of equity attributable to the Company Direct %	Indirect %	Principal activities
Haitong International Asset Management Limited	Hong Kong	HK$13,000,000	–	100 (2016:100)	Investment holding and asset management
Haitong International Asset Management (HK) Limited (note a)	Hong Kong	HK$20,000,000	–	100 (2016:100)	Provision of fund management services
Haitong International Capital Limited	Hong Kong	HK$20,000,000	–	100 (2016:100)	Provision of corporate financial advisory services
Haitong International Capital (HK) Limited (note b)	Hong Kong	HK$10,000,000	–	100 (2016:100)	Corporate finance
Haitong International Credit Company Limited	Hong Kong	HK$6,000,000	–	100 (2016: 100)	Money lending
Haitong International Finance Company Limited	Hong Kong	HK$300,000,002 (Non-voting deferred HK$100,700,001) (note c)	–	100 (2016:100)	Investment holding, money lending and securities trading
Haitong International Futures Limited	Hong Kong	HK$400,000,000	–	100 (2016:100)	Futures and options brokerage and trading
Haitong International Financial Products Limited	Hong Kong	HK$50,000,000	–	100 (2016:100)	Investment in financial products
Haitong International Financial Solutions Limited	Hong Kong	HK$1,000,000	–	100 (2016:100)	Provision of financial solutions
Haitong International Holdings (Australia) Pty Ltd	Australia	AU$100	–	100 (2016: 100)	Investment holding
Haitong International Investment Managers Limited	Hong Kong	HK$47,000,000	–	100 (2016:100)	Provision of asset and fund management services

41. Investment in Subsidiaries (continued)

Name	Place of incorporation/ registration and operations	Paid-up register capital	Percentage of equity attributable to the Company Direct %	Indirect %	Principal activities
Haitong International Japaninvest K.K.	Japan	Yen10,000,000	–	100 (2016: 100)	Asian equity research and research sales
Haitong International Products and Solutions Limited	British Virgin Islands	US$1	–	100 (2016:100)	Investment holding
Haitong International Research Limited	Hong Kong	HK$1,000,000	–	100 (2016:100)	Provision of research services
Haitong International Securities Company Limited	Hong Kong	HK$11,500,000,000	–	100 (2016:100)	Securities brokerage and dealing and leveraged foreign exchange trading
Haitong International Securities Group (Singapore) Pte. Ltd.	Singapore	SG$730,550,721	–	100 (2016:100)	Investment holding
Haitong International Securities (UK) Limited	United Kingdom	GBP560	–	100 (2016:100)	Asian equity research and research sales
Haitong International Securities (USA) Inc.	United States	US$12,612,245	–	100 (2016:100)	Asian equity research and research sales
Haitong International Securities Nominees Limited	Hong Kong	HK$2	–	100 (2016:100)	Provision of nominee and custodian services
Haitong Securities India Private Limited	India	INR260,732,520 (2016: INR196,352,520) (note d)	–	100 (2016: 100)	Institutional stock broking and investment banking
iBest Finance Group Limited	Cayman Islands	US$25,641,027 (2016: US$1) (note d)	–	100 (2016: 100)	Investment holding

41. Investment in Subsidiaries (continued)

Notes:

(a) The company was renamed from Hai Tong Asset Management (HK) Limited to Haitong International Asset Management (HK) Limited with effect from 15 January 2018.

(b) The company was renamed from Hai Tong Capital (HK) Limited to Haitong International Capital (HK) Limited with effect from 9 February 2018.

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

(d) The increase in share capital represented the additional capital injection during the year.

In addition, the following consolidated investment funds are also subsidiaries for the purpose of Appendix 16 of the Listing Rules. These consolidated investment funds are not body corporates and therefore do not have any paid-up register capital.

Name	Place of incorporation/ registration and operations	Percentage of equity attributable to the Company Direct %	Indirect %	Principal activities
Haitong Smart Portfolio Fund S.P.	Cayman Islands	–	100 (2016: 65.09)	Fund investment
Haitong Dynamic Multi-Tranche Investment Fund II S.P.	Cayman Islands	–	100 (2016: N/A)	Fund investment

The above table lists out the subsidiaries (within the definition as defined under the Listing Rules) of the Group which, in the opinion of the directors of the Company, principally affected the results or assets of the Group. To give details of other subsidiaries would, in the opinion of the directors of the Company, result in particulars of excessive length. At the end of the reporting period, the Company has other subsidiaries that are not material to the Group.

41. Investment in Subsidiaries (continued)

Acquisition of a subsidiary in 2017

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 disposes 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 activities of Haitong International Financial Services are the provision of financial services in relation to exchange traded futures and options, over-the-counter leveraged foreign exchange, precious metals and outrights, 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 future 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 HK$62.5 million, with cash and cash equivalents of HK$191.2 million and accounts payable of 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 excess of consideration transferred over net assets acquired as a result of the acquisition, is recognised in the consolidated statement of financial position. The goodwill is allocated to Singapore foreign exchange business cash generating unit. Details of the impairment testing are disclosed in note 29.

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

41. Investment in Subsidiaries (continued)

Acquisition of a subsidiary in 2016

On 10 November 2016, Haitong International Investment (Singapore) Pte. Ltd. ("Haitong Investment Singapore"), a wholly owned subsidiary of the Company, entered into an agreement with Haitong Bank, S.A. ("Haitong Bank"), Haitong Securities (UK) Limited ("Haitong UK") and Haitong Securities India Private Limited ("Haitong India"), pursuant to which Haitong Investment Singapore agreed to acquire the entire share capital of Haitong India. Haitong Bank, Haitong UK and Haitong India are indirectly wholly owned subsidiaries of Haitong Securities Co., Limited. Accordingly, this acquisition constituted a connected transaction under Chapter 14A of the Listing Rules. The initial acquisition consideration was US$13,770,000 (equivalent to HK$106,772,580) which was determined with reference to the latest audited financial statements of Haitong India for the year ended 31 March 2016. The acquisition was subsequently completed on 22 December 2016.

Haitong India is a trading and self-clearing member of the Bombay Stock Exchange and National Stock Exchange of India Limited for cash equities and stock and index derivatives and is based in Mumbai and is licensed by Securities and Exchange Board of India to conduct stock broking; merchant banking and research analysis businesses in India. As a result of this acquisition, the Group is expected to expand its geographic footprint to India, complementing the Group's well-established integrated equities research capabilities, providing significant synergies for the Group's institutional clients by broadening product offering, and allowing the Group to leverage on Haitong India's existing investment banking businesses.

Pursuant to the share purchase agreement, the initial consideration of US$13,770,000 (equivalent to HK$106,772,580) is subject to the adjustment if the net asset value of Haitong India as at 22 December 2016 (the "Completion Date") is different from the net asset value of Haitong India adopted by the Group in determining the initial acquisition consideration. The final consideration paid by Haitong Investment Singapore amounted to US$11,344,000 (equivalent to HK$90,101,000). The adjustment in consideration as compared with the initial consideration was due to reduction of net assets value on the completion date.

Acquisition-related costs amounting to HK$1.05 million had been excluded from the consideration transferred and had been recognised as an expense during the year ended 31 December 2016.

Net assets acquired amounted to HK$29,338,000 with major types of assets and liabilities as below:

	HK$'000
Property and equipment	1,670
Intangible assets	206
Cash and cash equivalents	18,833
Accounts payable	(186)
Other payables	(2,309)

41. Investment in Subsidiaries (continued)

Acquisition of a subsidiary in 2016 (continued)

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$60,763,000 which represents excess of consideration transferred over net assets acquired as a result of the acquisition, are recognised in the consolidated statement of financial position.

Goodwill arose in the acquisition of Haitong India because the cost of the combination included a control premium. In addition, the consideration paid for the combination effectively included amounts in relation to the benefit of expected synergies, revenue growth and future market development of Haitong India. These benefits are not recognised separately from goodwill because they do not meet the recognition criteria for identifiable intangible assets. None of the goodwill arising on these acquisitions is expected to be deductible for tax purposes. The goodwill is allocated to India operations CGU. Details of the impairment testing are disclosed in note 29.

As at 31 December 2016, assets and liabilities recognised at the Completion Date (and resulting goodwill recognised) are on a provisional basis. During the year ended 31 December 2017, the management completed the initial accounting of the business combination and no adjustments were made to the fair value of assets and liabilities acquired (and resulting goodwill).

Net cash outflow on acquisition of a subsidiary is disclosed in the consolidated statement of cash flows.

Debt securities issued by subsidiaries

None of the subsidiaries had issued any debt securities during the current and prior year. Haitong International Finance 2015 Limited and Haitong International Finance 2014 Limited which have issued US$700 million and US$600 million of guaranteed bonds in 2015 and 2014 respectively. Details of the debt securities issued are set out in note 34.

Significant restrictions

Cash and cash equivalents held by subsidiaries in the Mainland China are subject to exchange control restrictions. The carrying amount of these restricted assets in the consolidated financial statements at 31 December 2017 was approximately of HK$59.1 million (31 December 2016: HK$12.5 million).

42. Capital Management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern and to maintain healthy capital ratios in order to support its business and maximise shareholder value.

The Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives, policies or processes during the year.

The Group is not subject to any externally imposed capital requirements except for certain subsidiaries engaged in regulated activities as defined under the HKSFO. In addition, certain overseas subsidiaries are also subject to externally purposed capital requirements by overseas regulatory authorities, such as the Monetary Authority of Singapore.

During the year, the subsidiaries that are subject to minimum capital requirements imposed by respective regulatory authorities, complied with all the minimum capital requirements.

The Group monitors capital using a gearing ratio, which is total borrowings divided by the total shareholders' equity.

Total borrowings include debt securities in issue, bank loans and other borrowings and financial assets sold under repurchase agreements. Net borrowings include total borrowings net of cash and cash equivalents.

42. Capital Management (continued)

Total equity includes all capital and reserves attributable to owners of the Company. The Group's policy is to maintain the gearing ratio at a reasonable level. The gearing ratios as at the end of the reporting period were as follows:

	2017 **HK$'000**	2016 HK$'000
Debt securities in issue	**15,623,315**	16,323,499
Financial assets sold under repurchase agreements	**11,307,114**	9,586,163
Bank loans and other borrowings	**30,755,297**	33,626,574
Total borrowings	**57,685,726**	59,536,236
Total equity	**25,367,879**	22,449,024
Gearing ratio	**227%**	265%
Total borrowings	**57,685,726**	59,536,236
Cash and cash equivalents	**(4,536,816)**	(7,171,169)
Net borrowings	**53,148,910**	52,365,067
Net borrowings to equity ratio	**210%**	233%

43. Financial Risk Management

The Group's major financial instruments include refundable deposits and other receivables, held-to-maturity investments, advances to customers in margin financing, financial assets/liabilities at fair value through profit or loss ("FVTPL"), financial assets/liabilities designated at FVTPL, derivative financial instruments, available-for-sale ("AFS") investments, other loans and receivables, accounts receivable, debt securities in issue, financial assets held under resale agreements, accounts payable, cash and cash equivalents, financial assets sold under repurchase agreements and bank loans and other borrowings. Advances to customers in margin financing, other loans and receivables, financial assets or liabilities at and designated at FVTPL, derivative financial instruments, financial assets sold under repurchase agreements, financial assets held under resale agreements, AFS investments, held-to-maturity investments, accounts receivable and accounts payable mainly arise from the Group's operations while cash and bank balances, financial assets sold under repurchase agreements, bank loans and other borrowings, and debt securities in issue are to maintain liquidity or to raise financing for the Group's operations.

43. Financial Risk Management (continued)

The risks associated with these financial instruments include market risk (price risk, currency risk and interest rate risk), credit risk and liquidity risk. The policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in economic environment. Market risk comprises three types of risks: price risk, currency risk and interest rate risk.

The Group's exposures to market risk include price risk, currency risk and interest rate risk.

Price risk

Price risk is the risk that the fair values of equity investments, debt instruments, exchange trade funds, unlisted fund and partnership investment and derivatives decrease as a result of changes in the levels of equity indexes and the values of individual investment.

The Group is exposed to price risk mostly arising from equity investments, fund investments, and derivative financial instruments that are classified as financial assets/liabilities at FVTPL, financial assets/liabilities designated at FVTPL and AFS investments. Majority of the Group's equity investments and exchange traded funds are listed on the Stock Exchange and respective overseas stock exchanges, while the unlisted investment fund are traded in the over-the-counter markets.

The Group has established a risk management mechanism led by the Board and the Executive Committee through its 2 sub-committees, the Risk Management Committee and the Capital Allocation and Investment Committee.

In addition, the Group's exposures are closely monitored by other relevant internal control units, including the Risk Management Department, the Treasury Department, the Legal and Compliance Department and the Internal Audit Department.

43. Financial Risk Management (continued)

Market risk (continued)

Price risk (continued)

Listed equity investments (including exchange traded funds)

The table below summarises the impact of changes in the Hong Kong Hang Seng Index and other relevant indexes on the Group's profit after tax for the year and on the investments revaluation reserve. The analysis is based on the assumption that the equity index had changed by 10% with all other variables held constant and all the listed equity instruments move according to the historical correlation with the index. The directors of the Company consider the Group's exposure to price risk arising from the listed equity investments acquired for the issued structured products presented in financial assets designated at FVTPL can be offset against the Group's exposure to price risk arising from the issued structured products presented in financial liabilities designated at FVTPL and therefore excluded from the analysis below.

Hong Kong Hang Seng Index and other relevant indexes

	2017	
	Impact on profit after tax HK$'000	**Impact on the investments revaluation reserve in equity HK$'000**
Increase by 10%	**703,606**	**9,960**
Decrease by 10%	**(703,606)**	**(9,960)**

Hong Kong Hang Seng Index and other relevant indexes

	2016	
	Impact on profit after tax HK$'000	Impact on the investments revaluation reserve in equity HK$'000
Increase by 10%	174,259	125,409
Decrease by 10%	(174,259)	(125,409)

43. Financial Risk Management (continued)

Market risk (continued)

Price risk (continued)

Unlisted fund, equity and partnership investments

The fair value of unlisted fund, equity and partnership investments as well as unlisted structured products depend on the valuation of the respective investments or underlying investments. If the unit price increased/decreased by 5%, profit after tax for the year would have an estimated HK$120,180,000 increase/decrease (2016: HK$58,382,000 increase/decrease), and investments revaluation reserve in consolidated statement of profit or loss and other comprehensive income would have an estimated HK$307,173,000 increase/decrease (2016: HK$477,100,000 increase/decrease).

The directors of the Company consider the Group's exposure to price risk arising from the unlisted fund, equity and partnership investments as well as unlisted structured product acquired for the issued structured products presented in financial assets designated at FVTPL can be offset against the Group's exposure to price risk arising from the issued structured products presented in financial liabilities designated at FVTPL.

Derivative financial instruments – held for trading

The fair value of derivative financial instruments held for trading depends on the underlying investment portfolio or linked index. If the fair value of the underlying investment portfolio or linked index increased/decreased by 5%, the fair value of derivative financial instruments held for trading and profit after tax would have an estimated HK$26,279,000 decrease/increase (2016: HK$13,544,000 increase/decrease).

Debt securities – held for trading

For sensitivity analysis purpose of debt securities, if the prices of debt securities (classified as held for trading) had been 2% higher/lower, the profit after tax for the year ended 31 December 2017 would have increased/decreased by approximately HK$379,485,000 (2016: HK$320,467,000) and investments revaluation reserve in consolidated statement of profit or loss and other comprehensive income would have an estimated HK$36,993,000 increase/decrease (2016:HK$40,688,000 increase/decrease).

In opinion of the management, the sensitivity analysis is unrepresentative of the price risk as the year end exposure does not reflect the exposure during the year.

Currency risk

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate as a result of changes in foreign exchange rates.

The Group's foreign currency risk arises principally from its leveraged foreign exchange business as well as the Group's transactions and borrowings denominated in currencies other than Hong Kong dollars ("HKD"). The Group hedges economically majority of its client trades in its leveraged foreign exchange business back-to-back with external counterparties and hedges its foreign currency denominated borrowings by effective hedging instruments, such that the Group is not exposed to significant foreign currency risk.

43. Financial Risk Management (continued)

Market risk (continued)

Currency risk (continued)

As at 31 December 2017, the Group had a cross currency swap with a notional contract amount of RMB200 million (equivalent to HK$239 million) (2016: RMB200 million (equivalent to HK$224 million), which is designated as cash flow hedges of the currency risk inherent in a RMB denominated note issued by the Group. That cross currency swap is designated as an effective hedging instrument and hedge accounting is applied (see note 18 for details).

The majority of the Group's assets and liabilities are denominated in HKD, Euro, Singapore dollars ("SGD"), United States dollars ("USD") and Renminbi ("RMB"). The directors do not expect significant foreign exchange risk arising from USD denominated monetary items in view of the Hong Kong dollar pegged system to the USD.

At 31 December 2017, if EUR strengthened/weakened against HKD by 5% with all other variables including tax rate being constant, profit after tax for the year would have been HK$15,354,000 (2016: HK$12,354,000) higher/lower.

At 31 December 2017, if SGD strengthened/weakened against HKD by 5% with all other variables including tax rate being constant, profit after tax for the year would have been HK$29,862,000 higher/lower. The directors consider that foreign exchange risk arising from SGD denominated monetary items was not significant in 2016.

At 31 December 2017, if RMB strengthened/weakened against HKD by 5% with all other variables including tax rate being constant, profit after tax for the year would have been HK$31,453,000 lower/higher (2016: HK$8,543,000 higher/lower).

In the opinion of the management, the sensitivity analysis is unrepresentative of the inherent foreign exchange risk as the year end exposure does not reflect the exposure during the year.

Interest rate risk

Fair value interest rate risk

The Group's fair value interest rate risk relates primarily to investments in preference shares and debt securities classified as AFS investments and financial assets/liabilities at or designated at FVTPL all carried at fixed interest rates. The Group currently does not have a fair value hedging policy. However, the directors of the Company consider the Group's exposure to interest risk arising from the listed and unlisted debt investments and listed and unlisted preference shares acquired for the issued structured products presented in financing assets designated at FVTPL can be offset against the Group's exposure to interest risk arising from the issued structured products presented in financial liabilities designated at FVTPL.

43. Financial Risk Management (continued)

Market risk (continued)

Interest rate risk (continued)

Fair value interest rate risk (continued)

The Group's fair value interest rate risk exposure is summarised as follows:

	2017 HK$'000	2016 HK$'000
Financial assets at or designated at FVTPL	25,139,211	22,210,707
Financial liabilities at or designated at FVTPL	(3,177,033)	(3,021,086)
AFS investments	1,849,653	7,034,383
	23,811,831	26,224,004

At 31 December 2017, if market interest rates had been 25 basis points (2016: 25 basis points) higher/lower with all other variables held constant, profit after tax for the year would have decreased/increased by HK$45,846,000 (2016: decreased/increased by HK$40,058,000) and investments revaluation reserve in equity would have decreased/increased by HK$4,624,000 (2016: decreased/increased by HK$17,586,000).

In the opinion of the management, the sensitivity analysis is unrepresentative of the fair value interest rate risk as the year end exposure does not reflect the exposure during the year.

Cash flow interest rate

The Group's cash flow interest rate risk relates primarily to the bank deposits, advances to customers in margin financing, other loans and receivables, bank loans and other borrowings as well as other interest-bearing accounts receivable and payable carried at amortised costs with floating interest rates. The Group's held-to-maturity investments are not subject to the interest rate risk as all investments are carried at amortised cost with fixed interest rate.

The Group's cash flow interest rate risk is mainly concentrated on the fluctuation of HIBOR arising from the Group's HKD denominated borrowings as its interest-bearing assets and liabilities are mainly HKD denominated.

The Group's exposure to interest rate risk arising from the interest-bearing assets can be offset against the Group's interest-bearing liabilities. Management actively monitors the Group's net interest rate exposure through setting limits on the level of mismatch of interest rate re-pricing and duration gap and aims at maintaining an interest rate spread, such that the Group is always in a net interest-bearing asset position and derives net interest income. The directors of the Company considered that there is no concentration of interest rate risk exposure.

43. Financial Risk Management (continued)

Market risk (continued)

Interest rate risk (continued)

Cash flow interest rate (continued)

In relation to some variable rate borrowings, the Group enters into interest rate swaps to hedge against its exposures to changes in fair values of those borrowings. Interest rate swaps, denominated in RMB or HKD, have been entered into achieve an appropriate mix of fixed and floating rate exposure consistent with the Group's policy.

The Group's cash flow interest rate risk exposure is summarised as follows:

	2017 HK$'000	2016 HK$'000
Accounts receivable	5,745,837	3,736,907
Advances to customers in margin financing	16,369,217	20,817,335
Other loans and receivables	4,174,000	8,126,573
Cash held on behalf of customers	19,768,481	20,186,813
Cash and cash equivalents	4,536,816	7,171,169
Bank loans and other borrowings (excluding those hedged by interest rate swaps)	(30,036,515)	(33,555,935)
Financial assets sold under repurchase agreements	(11,307,114)	(9,586,163)
	9,250,722	16,896,699

At 31 December 2017, if market interest rates had been 25 basis points (2016: 25 basis points) higher/lower with all other variables held constant, profit after tax for the year would have decreased/increased by HK$19,311,000 (2016: decreased/increased by HK$35,272,000). In the opinion of the management the sensitivity analysis is unrepresentative of the cash flow interest rate risk as the year end exposure does not reflect the exposure during the year.

Credit risk

As at 31 December 2017, the Group's major exposure to credit risk which will cause a financial loss to the Group due to failure to discharge an obligation by the counterparties is arising from the carrying amount of the respective recognised financial assets as stated in the consolidated statement of financial position.

Among the respective recognised financial assets as stated in the consolidated statement of financial position, the directors consider that held-to-maturity investments, issued structured notes presented in financial liabilities designated at FVTPL, derivative financial instruments, advances to customers in margin financing, other loans and receivables, accounts and other receivables, cash and cash equivalents and other assets represent the Group's major exposure to the credit risk arising from the default of the counterparty, with a maximum exposure equal to the carrying amounts of these financial assets in the consolidated statement of financial position.

43. Financial Risk Management (continued)

Credit risk (continued)

In order to manage the credit risk, the Credit Approval Committee of the Group has appointed a group of authorised persons who are charged with the responsibility of approving credit limit of each customer, including the advances to customers in margin financing and other loans and receivables. The Credit Approval Committee is also responsible for the credit risk arising from the Group's investment in debt securities (including preference shares), classified either as held-to-maturity investments, other loans and receivables or financial assets at FVTPL.

For margin lending, the Credit Approval Committee is responsible for approving of share acceptable for margin lending and setting stock margin ratio for each approved share. The approved share list is updated quarterly, and will be revised as and when deemed necessary by the Credit Approval Committee. The Credit Approval Committee will prescribe from time to time lending limits on individual share or on any individual customer and his/her associates.

The Credit Control Department of the Group is responsible for overall monitoring of the credit risk of its customers and will make margin calls to those customers whose trades exceed their respective limits. Any such excess is required to be made good within two days for securities and the next day for futures of the deficiency report. The deficiency report will be monitored daily by the Head of the Credit Control Department and responsible officers. Failure to meet margin calls may result in the liquidation of the customers' positions. For each individual other loans and receivables, the Credit Control Department will closely monitor financial position of the debtors and guarantors, and for the loans with collateral pledged to the Group, the Credit Control Department will ensure sufficient collateral was received to maintain an acceptable loan to collateral value ratio.

For other loans and receivables, prior to the lending of a loan and subscription of debt securities, the Credit Approval Committee will review the financial strength, purpose of the borrowing, repayment ability of the borrower to ensure that the borrower has sound financial repayment ability. The Group assesses the credit profile of each individual debtor by analysing many factors that influence the default probability, including (but not limited to) the counterparty's financial profile, business prospects and management, macroeconomic development, industrial and sovereign risk, and historical performance. The Credit Approval Committee holds meeting from time to time as the chairperson considers appropriate and reviews from time to time the financial conditions of the borrower or the guarantors.

For the Group's issued structured products and investments in preference shares and debt securities, the Capital Allocation and Investment Committee, the Credit Control Department, the Risk Management Department and respective business units of the Group assess the financial performance of the issuers to ensure that the issuers can satisfy the repayment of the principal and interest as they fall due.

The Group has set portfolio size and single issuer limits to control the Group's exposure to the credit risk.

43. Financial Risk Management (continued)

Credit risk (continued)

The Group also monitors the credit rating and market news of the issuers of respective equity, debts, preference shares, derivatives investments and unlisted structured products as well as the holders of unlisted structured products issued by the Group of respective equity, debts and preference shares investments and derivatives as well for any indication of potential credit deterioration. For those structured products issued by the Group, the directors will also maintain a regular communication with the holders and assess the performance of the underlying investments to evaluate if there is any indication of potential credit deterioration.

For other credit exposures such as the derivative financial instruments, accounts and other receivables and cash and cash equivalents, the Group ensures that the exposures are limited to reputable counterparties, such as the financial institutions, brokers, dealers or clearing houses, which are governed by regulators including the Hong Kong Monetary Authority, and the Securities and Futures Commission ("SFC") and other overseas regulators. The risk of default in repayment is considered to be minimal by the directors.

Other than concentration of credit risk on liquid funds which are deposited with several banks with high credit ratings, the Group does not have any other significant concentrations of credit risk.

The management is confident in its ability to continue to control and sustain minimal exposure of credit risk arising from below major recognised financial assets as stated in the consolidated statement of financial position.

- For accounts receivable, approximately HK$3,932,850,000 (2016: HK$2,153,672,000) was receivables from clients arising from dealing in securities, which normally had a delivery-against payment settlement term of 2 days.

  There is no concentration of credit risk with respect to the receivables, as the Group has a large number of clients who are internationally dispersed. Most of the accounts and other receivables from clients with overdue more than 30 days are fully secured by listed securities with market value significantly higher than the carrying amount.

- Advances to customers in margin financing are backed by collateral. The Group only accepts collateral in the form of cash and liquid stocks. Concentration risk of advances to customers in margin financing is managed by reference to individual customers. The aggregate credit exposure in relation to the ten largest outstanding customers, including corporate entities and individuals at 31 December 2017 was HK$5,836 million (31 December 2016: HK$6,610 million) which were secured by collateral. There was no recent history of individual impairment allowance recognised for these ten largest customers. Except for the impaired loans as set out in note 19, advances to customer in margin financing of neither past due nor impaired are secured by liquid stocks.

43. Financial Risk Management (continued)

Credit risk (continued)

- Other loans and debt securities classified as other loans and receivables are either secured or guaranteed. Concentration risk of other loans and debt securities is managed by reference to individual borrowers and issuers. The aggregate credit exposure in relation to the ten largest outstanding loans borrowers and issuers of debt securities at 31 December 2017 was HK$8,843 million (31 December 2016: HK$6,230 million). There was no recent history of individual impairment allowance recognised for these ten largest parties.

- For stock-pledged repurchase and stock-acquired resale business, the directors of the Company stimulate and conduct strict due diligence and project review procedures, and control the credit risk relating to the business through marking the market, tracking projects closing the position and other approaches. The directors of the Company focus on the investment diversification for credit-class fixed income securities investment and closely follow up the operation condition of counterparties and their credit ratings changes. Majorities of the above-mentioned businesses were entered with the counterparties with the credit rating of Aa2 to A.

- Held-to-maturity investments and other receivables were issued by corporations and reputable large commercial banks with issuer credit rating of B1 or above issued by Moody's or B+ or above issued by Standard & Poor's.

- Majority of derivative financial instruments are entered with reputable financial institutions with credit rating of Baa1 or above issued by Moody's or BBB+ or above issued by Standards & Poor's.

- Majority of cash and cash equivalents are deposited in reputable large commercial banks with credit rating of Baa2 or above issued by Moody's or BBB or above issued by Standards & Poor's.

Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting obligations associated with its financial liabilities. As part of the measures to safeguard liquidity, the Group has maintained substantial long term and other stand-by banking facilities, diversifying the funding sources and spacing out the maturity dates.

A number of the Group's activities in Hong Kong and Singapore are subject to various statutory liquidity requirements as prescribed by the SFC in accordance with the HKSFO and Singapore Exchange Securities Trading Limited ("SGX-ST") in accordance with the Rules of SGX-ST.

The Group has also put in place a monitoring system to ensure that it maintains adequate liquid capital to fund its business commitments and to comply with relevant liquid capital requirements under the HKSFO and Rules of SGX-ST.

43. Financial Risk Management (continued)

Liquidity risk (continued)

As at 31 December 2017, the Group has available unutilised overdrafts, and short and medium term bank loan facilities of approximately HK$23,533 million (31 December 2016: HK$10,189 million).

The table below presents the cash flows payable by the Group under non-derivative financial liabilities held for managing liquidity risk by remaining contractual maturities at the reporting date.

The amounts disclosed in the table are the contractual undiscounted cash flows. The table includes both interest and principal cash flows.

Liquidity table

	Repayable on demand or less than 3 months HK$'000	Over 3 months to 1 year HK$'000	Over 1 year to 5 years HK$'000	Total HK$'000
31 December 2017				
Liquidity tables				
Convertible bonds issued	13	3,983	4,123,891	4,127,887
Non-convertible bonds issued	208,449	208,449	10,830,358	11,247,256
Non-convertible notes issued	498,216	780,955	496,485	1,775,656
Bank loans and other borrowings (note)	31,311,274	–	–	31,311,274
Financial assets sold under repurchase agreements	11,268,986	57,955	–	11,326,941
Accounts payable	26,469,683	–	–	26,469,683
Financial liabilities at fair value through profit or loss	4,604,688	–	–	4,604,688
Financial liabilities designated at fair value through profit or loss	11,284,590	–	852,245	12,136,835
Other payables and accruals	1,877,882	–	–	1,877,882
Other liabilities arising from consolidation of investment funds	271,601	–	–	271,601
Derivative financial instruments — net settlement	1,323,116	–	–	1,323,116
	89,118,498	1,051,342	16,302,979	106,472,819

43. Financial Risk Management (continued)

Liquidity risk (continued)

Liquidity table (continued)

	Repayable on demand or less than 3 months HK$'000	Over 3 months to 1 year HK$'000	Over 1 year to 5 years HK$'000	Total HK$'000
31 December 2016				
Liquidity tables				
Convertible bonds issued	13	1,726	4,127,888	4,129,627
Non-convertible bonds issued	206,845	206,845	11,160,697	11,574,387
Non-convertible notes issued	803,607	1,063,048	1,068,649	2,935,304
Bank loans and other borrowings (note)	33,690,191	–	–	33,690,191
Financial assets sold under repurchase agreements	8,169,599	1,425,827	–	9,595,426
Accounts payable	28,240,926	–	–	28,240,926
Financial liabilities at fair value through profit or loss — held-for-trading	3,143,726	–	–	3,143,726
Financial liabilities designated at fair value through profit or loss	3,566	14,212,827	–	14,216,393
Other payables and accruals	965,602	–	–	965,602
Other liabilities arising from consolidation of investment funds	2,512,113	–	–	2,512,113
Derivative financial instruments — net settlement	250,864	–	–	250,864
	77,987,052	16,910,273	16,357,234	111,254,559

Note: Bank loans with a repayment on demand clause are included in the "repayable on demand or less than 3 months" time band in the maturity analysis. As at 31 December 2017, the aggregate undiscounted principal amounts of these bank loans amounted to HK$4,723 million (31 December 2016: HK$8,887 million). Taking into account the Group's financial position, the directors do not believe that it is probable that the banks will exercise their discretionary rights to demand immediate repayment. The directors believe that such bank loans repayment dates set out in the loan agreements. At that time, the aggregate principal and interest cash outflows will amount to HK$4,729 million (31 December 2016: HK$8,890 million).

43. Financial Risk Management (continued)

Liquidity risk (continued)

Liquidity table (continued)

As at 31 December 2017, the amounts of HK$1,873,168,000 (31 December 2016: HK$5,531,988,000) for financial guarantee contracts are the maximum amounts the Group could be required to settle under the arrangement for the full guaranteed amount to its subsidiaries if that amount is claimed by the counterparty to the guarantee. Based on expectations at the end of the reporting period, the Group considers that it is more likely than not that no amount will be payable under the arrangement. However, this estimate is subject to change depending on the probability of the counterparty claiming under the guarantee which is a function of the likelihood that the financial receivables held by the counterparty which are guaranteed suffer from credit losses.

Stock borrowing and lending arrangement

Under the normal course of business, the Group may enter into stock borrowing and lending arrangements with other financial institutions and its customers. Equity securities may be borrowed from the other financial institutions and lent to its customers or for the Group's proprietary short selling activity.

During the process, the Group receives cash collateral from the customers and also places cash collateral in other financial institutions as collateral.

	2017 **HK$'000**	2016 HK$'000
Equity securities borrowed from external financial institutions	**386,885**	2,969
Equity securities lent to counterparties and customers	**3,574,095**	3,516,203
Cash collateral received from counterparties and customers	**3,417,718**	3,505,177
Cash collateral held by financial institutions	**208,915**	208,595

44. Fair Value Measurements of Financial Instruments

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

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

44. Fair Value Measurements of Financial Instruments (continued)

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

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

	Fair value as at 31 December 2017 HK$'000	Fair value as at 31 December 2016 HK$'000	Fair value hierarchy	Basis of fair value measurement/ valuation techniques and key inputs
Recurring fair value measurements:				
AFS investments				
— Listed equity investments	40,299	1,183,492	Level 1	Note (c)
— Listed equity investment with lock-up period	70,901	87,024	2016: Level 3 2017: Level 2	2016: Note (l) 2017: Note (d)
— Listed debt investments	176,476	971,111	Level 2	Note (e)
— Listed debt investments	–	200,000	Level 2	Note (d)
— Unlisted fund investments	5,007,439	7,928,146	Level 2	Note (a)
— Unlisted partnership investment	–	465,342	Level 2	Note (o)
— Unlisted partnership investments	38,343	–	Level 2	Note (d)
— Unlisted partnership investments	345,100	192,994	2016: Level 2 2017: Level 3	2016: Note (d) 2017: Note (m)
— Unlisted partnership investment	88,915	235,861	Level 2	2016: Note (p) 2017: Note (d)
— Unlisted equity investment	7,700	14,000	Level 2	Note (b)
— Unlisted equity investment	92,869	162,156	2016: Level 2 2017: Level 3	2016: Note (d) 2017: Note (q)
— Unlisted equity investment	563,092	542,899	Level 2	Note (o)
— Unlisted debt investment	–	339,515	Level 3	Note (n)
— Unlisted debt investments	1,673,177	4,951,709	Level 2	Note (g)
— Unlisted debt investments	–	572,048	Level 2	Note (d)
Financial assets at FVTPL				
— Listed equity investments	7,483,326	2,081,690	Level 1	Note (c)
— Exchange traded funds	974,447	347,422	Level 1	Note (c)
— Listed preference shares	203,721	258,452	Level 2	Note (e)
— Listed debt investments	18,960,131	20,657,129	Level 2	Note (e)
— Unlisted equity investments	67,417	–	Level 2	Note (d)
— Unlisted equity investment	111,053	–	Level 3	Note (m)
— Unlisted debt investments	5,522,305	460,027	Level 2	Note (e)
— Unlisted debt investments	353,276	–	Level 2	Note (d)
— Unlisted investment funds	4,133,005	1,286,397	Level 2	Note (a)
— Unlisted structured product	–	61,715	Level 2	Note (f)
— Unlisted certificated deposit	99,778	99,865	Level 2	Note (g)

44. Fair Value Measurements of Financial Instruments (continued)

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

	Fair value as at 31 December 2017 HK$'000	Fair value as at 31 December 2016 HK$'000	Fair value hierarchy	Basis of fair value measurement/ valuation techniques and key inputs
Financial assets designated at FVTPL				
— Listed equity investments	2,510,765	4,369,553	Level 1	Note (c)
— Listed preference shares	–	454,378	Level 2	Note (e)
— Listed debt investments	3,958,884	130,312	Level 2	Note (e)
— Unlisted equity investments	188,232	301,073	Level 3	Note (m)
— Unlisted equity investments	226,854	215,059	2016: Level 2 2017: Level 3	2016: Note (p) 2017: Note (m)
— Unlisted equity investments	49,011	65,543	2016: Level 2 2017: Level 3	2016: Note (d) 2017: Note (m)
— Unlisted equity investment	245,630	–	Level 2	Note (d)
— Unlisted equity investments in an associate	–	3,539,507	Level 3	Note (h)
— Unlisted partnership investments	300,498	795,917	Level 2	Note (o)
— Unlisted preference shares	–	33,480	Level 2	Note (d)
— Unlisted debt investment	547,110	542,899	Level 2	2016: Note (d) 2017: Note (g)
— Unlisted debt investments	–	97,140	Level 2	Note (g)
— Unlisted investment fund	691,083	2,189,185	Level 2	2016: Note (d) 2017: Note (g)
— Unlisted investment funds	1,453,446	1,363,355	Level 2	Note (a)
— Unlisted structured products	670	8,513	Level 2	Note (f)
— Unlisted structured products	91,576	327,047	Level 2	Note (k)
— Unlisted structured products	2,015,893	2,308,720	Level 2	Note (e)
— Unlisted options	–	904	Level 2	Note (l)
Derivatives financial instruments				
— Swap contracts	1,051	33,801	Level 2	Note (g)
— Forward foreign currency exchange contracts	91,412	100,443	Level 2	Note (g)
— Forward foreign currency option contracts	10,314	–	Level 2	Note (g)
— Listed options/warrants	558,125	51,940	Level 1	Note (c)
— Unlisted options (related to listed equity)	32,774	389,096	Level 2	Note (e)
	58,986,098	60,416,859		

44. Fair Value Measurements of Financial Instruments (continued)

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

	Fair value as at 31 December 2017 HK$'000	Fair value as at 31 December 2016 HK$'000	Fair value hierarchy	Basis of fair value measurement/ valuation techniques and key inputs
Financial liabilities at FVTPL				
— Listed equity investments	**2,189,118**	122,640	Level 1	Note (c)
— Listed debt investments	**2,352,204**	2,974,639	Level 2	Note (e)
— Listed preference shares	**37,466**	46,447	Level 2	Note (e)
— Unlisted debt investment	**25,900**	–	Level 2	Note (e)
Financial liabilities designated at FVTPL				
— Structured notes	**9,453,646**	9,812,384	Level 2	Note (i)
— Structured notes	**–**	2,059,507	Level 3	Note (h)
— Structured notes	**73,495**	75,233	Level 3	Note (m)
— Structured notes	**255,075**	220,806	2016: Level 2 2017: Level 3	2016: Note (i) 2017: Note (m)
— Structured products	**2,261,911**	2,044,897	Level 2	Note (r)
— Listed equity investments	**92,708**	2,400	Level 1	Note (c)
— Unlisted options	**–**	1,166	Level 2	Note (j)
Derivative financial instruments				
— Swap contracts	**15,750**	64,360	Level 2	Note (g)
— Forward currency option contracts	**32**	–	Level 2	Note (g)
— Forward foreign currency exchange contracts	**109,830**	91,095	Level 2	Note (g)
— Listed option/warrants	**987,065**	78,610	Level 1	Note (c)
— Callable bull/bear contracts	**201,999**	15,917	Level 1	Note (c)
— Unlisted option	**8,440**	882	Level 2	Note (e)
	18,064,639	17,610,983		

Notes:

(a) Dealing price of the investment funds derived from the net asset values of the investment funds with reference to observable quoted prices of underlying investment portfolio in active markets.

(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.

44. Fair Value Measurements of Financial Instruments (continued)

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

Notes: (continued)

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

(e) The fair value 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) The 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 to discount the lack of marketability under the discounted cash flow approach. 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 FVTPL 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 FVTPL. 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) The fair value was determined based on option pricing model with market observable inputs, such as quoted market price, dividend yield, volatility, foreign exchange rate, as key parameters.

(k) Fair value of the investments were determined based on the observable indexes of respective stock exchanges in consideration of the contract terms.

(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.

44. Fair Value Measurements of Financial Instruments (continued)

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

Notes: (continued)

(n) The fair value is determined based on discounted cash flows. 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) The 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 their price are quoted in active market and/or (ii) unlisted debt investment of which the fair value are determined based on quoted price provided by brokers/financial institution and/or (iii) discounted cash flows that the futures cash flows are based on the contractual values as at the 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) The 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 their fair value are determined by the recent transaction prices.

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 approximate to its fair value.

(q) The fair value was derived from the equity value of the unlisted equity investment by market approach based on the Guideline Companies Method with the Price to Sales multiple of the comparable companies, liquidation or redemption values, expected volatility, expected life and the risk free-rate as key parameters.

The significant unobservable input is the discount rate for lack of marketability to the estimated equity value of the unlisted equity investment.

(r) Included in the financial liabilities are the structured note with return linked to index of a specific exchange, listed equities or determined based on discounted cashflow model applying various market observable financial parameters including foreign exchange rate.

During the current year, there were no transfers of financial instruments between Level 1 and Level 2.

The Group's policy is to recognise transfers into and transfers out of fair value hierarchy levels as of that date of the event or change in circumstances that caused the transfer.

As at 31 December 2017 and 2016, no non-financial assets or liabilities were carried at fair value.

44. Fair Value Measurements of Financial Instruments (continued)

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

Except as detailed in the following table, the directors of the Company consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the consolidated financial statements approximate their fair values:

	2017		2016	
	Carrying amount	Fair value	Carrying amount	Fair value
	HK$'000	HK$'000	HK$'000	HK$'000
Held-to-maturity investments debt investments (note i)	94,171	94,349	93,357	92,429
Convertible bonds (note ii)	3,868,506	4,070,117	3,802,531	4,043,269
Non-convertible bonds (note ii)	10,083,594	10,339,846	9,973,074	10,284,019
Non-convertible notes (note i)	1,671,215	1,671,205	2,547,894	2,548,375

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

Reconciliation of Level 3 fair value measurements

31 December 2017

	Available-for-sale investments	Financial assets at/ designated at fair value through profit or loss	Financial liabilities at/ designated at fair value through profit or loss
	HK$'000	HK$'000	HK$'000
Opening balance	426,539	3,840,580	(2,134,740)
Total (losses) gains in profit or loss (note iv)	–	(1,788)	1,738
Transfer into level 3 (note viii)	437,969	275,865	(255,075)
Transfer into Level 2 (note vii)	(87,024)	–	–
Derecognition upon termination (note v)	–	(3,539,507)	2,059,507
Derecognition due to deconsolidation of an investment fund (note vi)	(339,515)	–	–
Closing balance	437,969	575,150	(328,570)

44. Fair Value Measurements of Financial Instruments (continued)

Reconciliation of Level 3 fair value measurements (continued)

31 December 2016

	Available-for-sale investments HK$'000	Financial assets at/designated at fair value through profit or loss HK$'000	Financial liabilities at/designated at fair value through profit or loss HK$'000
Opening balance	–	5,705,699	(4,225,698)
Total (losses) gains in profit or loss (note iv)	–	(2,191,747)	2,187,536
Total gains 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 flows. 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 rates of the instruments.

(ii) The fair values are based on the quoted prices from the SGX-ST and the Stock Exchange.

(iii) The fair value of the unlisted instrument was determined with reference to the recent transaction price of the underlying investment and is therefore classified as Level 2 investment for the year ended 31 December 2015. During the year ended 31 December 2016, the fair values of these underlying investment were determined based on significant unobservable inputs and involved significant judgement 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 year included in profit or loss, loss of HK$2 million (2016: loss of HK$2,192 million) relates to financial assets designated at FVTPL and gain of HK$2 million (2016: gain of HK$2,188 million) relates to financial liabilities designated at FVTPL. Fair value gains or losses on financial assets/liabilities designated as at FVTPL are included in "Net gains arising from financial assets/liabilities at FVTPL" as set out in note 6.

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

44. Fair Value Measurements of Financial Instruments (continued)

Reconciliation of Level 3 fair value measurements (continued)

Notes: (continued)

(v) Financial assets designated at fair value through profit or loss and financial liabilities designated at fair value through profit or loss represent a swap contract entered between a subsidiary and an independent third party. Such swap contract was terminated on 6 September 2017 and therefore transferred out from Level 3 investments. Details of the swap contracts and the termination are disclosed in note 26.

(vi) 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 investment fund.

During the year, the Group de-consolidated an investment fund as the Group redeemed its interest in non-participating shares of the Fund (note 26). 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.

(vii) Available-for-sale investments amounting 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 was measured based on quoted price with adjustment on liquidity discount. For unlisted equity investment, the fair value as at 31 December 2017 is based on recent transaction price. Thus, the instrument was transferred from Level 3 to Level 2 category.

(viii) 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 2016. During the year ended 31 December 2017, the fair values of these unlisted investments were determined based on significant unobservable inputs and involved significant judgment made by the management. Thus, the instruments were transferred from Level 2 to Level 3 category.

45. Financial Assets and Financial Liabilities Offsetting

The disclosures set out in the tables below include financial assets and financial liabilities that:

- are offset in the Group's consolidated statement of financial position; or
- are subject to an enforceable master netting arrangement or similar agreement that covers similar financial instruments, irrespective of whether they are offset in the Group's consolidated statement of financial position.

Under the agreement of continuous net settlement made between the Group and Hong Kong Securities Clearing Company Limited ("HKSCC"), Clearing Participant of China Securities Depository and Clearing Corporation Limited ("CSDC") and brokers, the Group has a legally enforceable right to set off the money obligation receivable and payable with HKSCC, CSDC and brokers on the same settlement date and the Group intends to set off on a net basis.

In addition, the Group has a legally enforceable right to set off the accounts receivable and payable with brokerage clients that are due to be settled on the same date and the Group intends to settle these balances on a net basis.

45. Financial Assets and Financial Liabilities Offsetting (continued)

Except for balances which are due to be settled on the same date which is being offset, amounts due from/ to HKSCC, CSDC, brokers and brokerage clients that are not to be settled on the same date, financial collateral including cash and securities received by the Group, deposits placed with HKSCC, CSDC and brokers do not meet the criteria for offsetting in the consolidated statement of financial position since the right of set-off of the recognised amounts is only enforceable following an event of default.

As at 31 December 2017

	Gross amounts of recognised financial assets after impairment	Gross amounts of recognised financial liabilities set off in the consolidated statement of financial position	Net amounts of assets presented in the consolidated statement of financial position	Related amounts not set off in the consolidated statement of financial position		Net amount
				Financial instruments	Collateral received	
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Financial assets						
Accounts receivable from clients, brokers, dealers and clearing houses	10,457,735	(4,511,341)	5,946,394	(225,333)	(303,026)	5,418,035
Deposits placed with clearing houses	128,445	–	128,445	(91,368)	–	37,077
Advances to customers in margin financing	16,369,217	–	16,369,217	(242,540)	(15,977,224)	149,453
Financial liabilities						
Accounts payable clients, brokers, dealers and clearing houses	(30,981,024)	4,511,341	(26,469,683)	559,241	–	(25,910,442)
Financial liabilities at FVTPL	(4,604,688)	–	(4,604,688)	–	4,604,688	–

45. Financial Assets and Financial Liabilities Offsetting (continued)

As at 31 December 2016

	Gross amounts of recognised financial assets after impairment HK$'000	Gross amounts of recognised financial liabilities set off in the consolidated statement of financial position HK$'000	Net amounts of financial assets presented in the consolidated statement of financial position HK$'000	Related amounts not set off in the consolidated statement of financial position: Financial instruments HK$'000	Related amounts not set off in the consolidated statement of financial position: Collateral received HK$'000	Net amount HK$'000
Financial assets						
Accounts receivable from clients, brokers, dealers and clearing houses	7,768,749	(2,654,996)	5,113,753	(9,167)	(161,962)	4,942,624
Deposits placed with clearing houses	73,445	–	73,445	(37,504)	–	35,941
Advances to customers in margin financing	20,817,335	–	20,817,335	(147,903)	(20,321,041)	348,391
Financial liabilities						
Accounts payable clients, brokers, dealers and clearing houses	(30,895,922)	2,654,996	(28,240,926)	194,574	–	(28,046,352)
Financial liabilities at FVTPL	(3,143,726)	–	(3,143,726)	–	3,143,726	–

46. Transfer of Financial Assets

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

46. Transfer of Financial Assets (continued)

Financial assets sold under repurchase agreement

Transferred financial assets that do not qualify for derecognition include equities, bonds and preference shares held by counterparties as collateral under repurchase agreements, and the Group has determined that if the Group retains substantially all the risks and rewards of these equities, 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 32 to the consolidated financial statements.

Transfer of other loans and receivables

As part of normal course of business, the Group enters into agreements with independent third parties to assign (on a without recourse basis) loans receivable to special purpose entities, which in turn issue securities with different tranches to investors. The Group may acquire different tranches, and accordingly, may retain part of the risks and rewards in relation to these loans receivable. The Group would determine whether or not to derecognise these loans receivable by evaluating the extent to which the Group retains risks and rewards of these loans receivable.

As at 31 December 2017, the Group assigned loans and receivable amounting to HK$586 million to an independent party which does not qualifying for derecognition based on the group retaining substantially all risks and rewards. The corresponding liability of HK$586 million are recognised as other payables and accruals in the consolidated statement of financial position.

The Group did not enter into any such arrangement as at 31 December 2016.

47. Events After the Reporting Period

On 15 December 2017, Haitong International (BVI) Limited ("Haitong BVI"), a wholly owned subsidiary of the Company entered into agreements with Haitong Bank S.A. ("Haitong Bank") to acquire Haitong Bank's interests in Haitong Securities USA LLC ("Haitong USA") and Haitong (UK) Limited ("Haitong UK") (both are being wholly owned subsidiaries of Haitong Bank), with a total cash consideration of US$29,314,600 (equivalent to HK$229,020,314). Haitong Bank, Haitong UK and Haitong USA are wholly owned subsidiaries of Haitong Securities Co., Limited and therefore this acquisition constitutes a connected transaction under Chapter 14A of the Listing Rules. The acquisition is subject to conditions precedent, which includes regulatory approval from regulatory authorities in the United States and the United Kingdom. As at 31 December 2017, the acquisition has not yet been completed.

Subsequently, on 23 February 2018, Haitong BVI and Haitong Bank settled the sales and purchase and the acquisition of Haitong USA and Haitong UK has been completed on the same date. Since then, both Haitong USA and Haitong UK become indirectly wholly owned subsidiaries of the Company.

Please refer to the Company's announcement on 15 December 2017 and 23 February 2018 for details of the acquisition.

Five Years Financial Summary

	31/12/2017 HK$'000	31/12/2016 HK$'000	31/12/2015 HK$'000	31/12/2014 HK$'000	31/12/2013 HK$'000
RESULTS					
REVENUE	**7,195,021**	5,350,817	5,808,359	2,713,291	1,646,814
OPERATING PROFIT	**3,101,512**	2,020,131	3,039,910	1,182,536	583,319
Share of (loss) profit of investments accounted for using the equity method	**470,727**	(27,658)	(53,522)	33,212	15,157
PROFIT BEFORE TAX	**3,572,239**	1,992,473	2,986,388	1,215,748	598,476
Income tax expense	**(543,551)**	(312,248)	(476,336)	(197,479)	(68,311)
PROFIT FOR THE YEAR/PERIOD	**3,028,688**	1,680.225	2,510,052	1,018,269	530,165
ATTRIBUTABLE TO:					
Owners of the Company	**3,028,688**	1,680.225	2,510,052	1,018,269	529,152
Non-controlling Interests	**–**	–	–	–	1,013
	3,028,688	1,680.225	2,510,052	1,018,269	530,165
ASSETS, LIABILITIES AND NON-CONTROLLING INTERESTS:					
TOTAL ASSETS	**130,223,838**	131,505,248	91,919,000	48,159,973	29,438,104
TOTAL LIABILITIES	**(104,855,959)**	(109,056,224)	(71,090,214)	(39,563,471)	(24,517,852)
NON-CONTROLLING INTERESTS	**–**	–	–	–	–
SHAREHOLDERS' FUNDS	**25,367,879**	22,449,024	20,828,786	8,596,502	4,920,252

Corporate Information

(As at 14 March 2018)

General Information

Board of Directors

Executive Directors

LIN Yong — *Deputy Chairman and the Chief Executive Officer*
LI Jianguo — *Deputy Chairman*
POON Mo Yiu
SUN Jianfeng

Non-executive Directors

Qu Qiuping — *Chairman*
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

Legal Adviser in Hong Kong

Woo, Kwan, Lee & Lo

Legal Adviser on Bermuda Law

Conyers Dill & Pearman

Place of Incorporation

Bermuda

Registered Office

Clarendon House
2 Church Street, Hamilton HM 11
Bermuda

Principal Place of Business

22nd Floor, Li Po Chun Chambers
189 Des Voeux Road Central
Hong Kong

Principal Share Registrar and Transfer Office

Codan Services Limited
Clarendon House
2 Church Street, Hamilton HM 11
Bermuda

Hong Kong Branch Share Registrar and Transfer Office

Level 22, Hopewell Centre
183 Queen's Road East
Hong Kong

Website

www.htisec.com

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