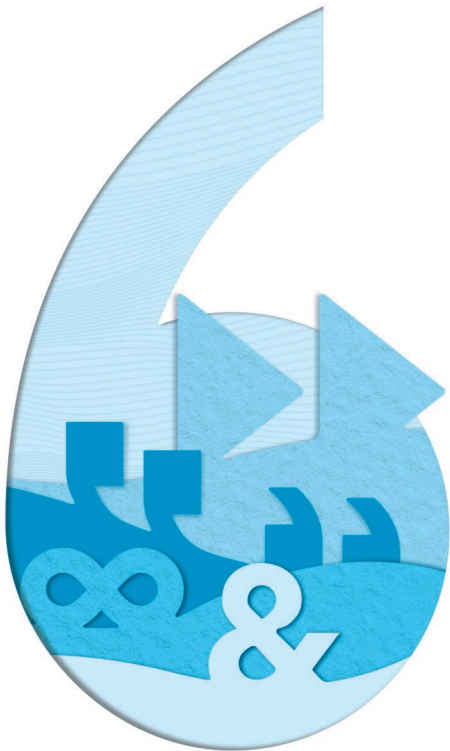


Redefining Limits



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

2

Financial Highlights

3

Management Discussion and Analysis

6

Financial Review

20

Condensed Consolidated Statement of Profit or Loss

21

Condensed Consolidated Statement of Profit or Loss and Other Comprehensive Income

22

Condensed Consolidated Statement of Financial Position

24

Condensed Consolidated Statement of Changes in Equity

25

Condensed Consolidated Statement of Cash Flows

27

Notes to the Condensed Consolidated Financial Statements

97

Report on Review of Condensed Consolidated Financial Statements

98

Other Information

110

Corporate Information



Financial Highlights

Results

| | Six months ended | | Percentage change Increase/ (Decrease) |
|--|------------------|-----------|--|
| | 30.6.2018 | 30.6.2017 | |
| Revenue (HK\$'000) | 3,557,157 | 2,943,016 | 21 |
| — Commission and fee income | 1,235,251 | 970,951 | 27 |
| — Interest income | 1,211,339 | 1,079,831 | 12 |
| — Net investment gains | 1,110,567 | 892,234 | 24 |
| Net Profit Attributable to Shareholders (HK\$'000) | 859,141 | 1,038,206 | (17) |
| Per share | | | |
| Basic Earnings Per Share (HK Cents) | 15.53 | 19.53 | (20) |
| Diluted Earnings Per Share (HK Cents) | 14.78 | 18.01 | (18) |
| Share Price | | | |
| — Highest (HK\$) | 5.96 | 4.95 | 20 |
| — Lowest (HK\$) | 3.50 | 4.12 | (15) |

Financial Position

| | | | Percentage change Increase/ (Decrease) |
|----------------------------------|---------------|---------------|--|
| | 30.6.2018 | 31.12.2017 | |
| Shareholders' Funds (HK\$'000) | 25,849,010 | 25,367,879 | 2 |
| Total Assets (HK\$'000) | 158,037,539 | 130,223,838 | 21 |
| Number of Shares in Issue (Note) | 5,667,024,457 | 5,500,858,791 | 3 |
| NAV Per Share (HK\$) | 4.56 | 4.61 | (1) |

Note:

Certain equity rights conferred on convertible bond and share option holders were exercised during the period. Certain shareholders also elected for scrip dividend. Hence, the total number of shares of the company was increased to 5,667,024,457 as at 30 June 2018.

Management Discussion and Analysis

Market review

The first half of 2018 presented a more volatile scenario to the globe. The U.S. has remained robust and moderate in its economic resuscitation with two rounds of rate hikes by the Fed as expected. In Europe, despite different developments in various countries, economic growth as a whole represented a tailwind – the ECB put QE into its agenda despite the impending threat of the U.S.'s trade protectionism. The Fed's rate hike somewhat eroded the performance of emerging markets while overall capital markets were subdued due to the increased volatility sparked off by the trade war. For the same period, the S&P 500 experienced a rise of 1.7%, while the Dow weakened by 1.8% and the Nasdaq strengthened by 8.8%.

China's domestic demand and investment posted a slower growth. The price growth was moderate while the PPI grew at a faster rate, although the growth of fixed asset investment and retail sale of consumer goods was comparatively weak. Dragged by the Sino-U.S confrontation and lackluster capital markets' performance, the growth of the SSE Composite Index and SZSE Component Index retreated 15% and 14% respectively while the Hang Seng index pared back 3.2 percentage points.

Business review and analysis

As of 30 June 2018, Haitong International recorded a revenue of HKD3.56 billion, representing a year-on-year growth of 21%. The net profit amounted to HKD859 million, representing a decrease of 17% when compared with that of 2017. The Company also scaled up its balance sheet at a moderate pace. As of 30 June 2018, Company's total assets saw a year-on-year increase of 21% to HKD158 billion. In February 2018, Haitong International completed the acquisitions of Haitong (UK) Limited and Haitong Securities USA LLC from Haitong Bank to fortify its brand name, strengthen its global coverage and develop new clientele. This move gained the company entrance into the two major financial hubs which are expected to be the main bases for global businesses in the future, with which Haitong International will be able to broaden its international network with more diversified and stable revenue streams.

3 >

1. Proven global operating system

In 2018, Haitong International is taking a step forward to translate its internationalization strategy into reality with concrete steps. During this period, its U.S. subsidiary was granted the Nasdaq membership and was allowed to conduct market making business. As such, Haitong International completed its first IPO project for a Chinese company listed on the New York Stock Exchange and the first USD convertible bond issuance project for a Nasdaq-listed enterprise. More than this, Haitong International further fostered its investment banking business in the Asian-Pacific region. It assisted in the IPO listing for a Chinese enterprise on the Singapore Exchange in March 2018. As for Hong Kong, Haitong International remained as an industry leader in capital markets. As of 30 June 2018, the Company ranked third and fifth among its peers in terms of number of IPOs completed and number of all equity deals (including IPOs, placements and rights issues) respectively. For bond financing, as of 30 June 2018, Haitong International topped the list in Asian (ex-Japan) USD denominated high yield bond issuance in terms of both total amount and number of deals completed.

Management Discussion and Analysis

Despite the adverse external conditions, Haitong International managed to maintain its market leadership by fine-tuning its strategy, encouraging product innovation, exploring new avenues of business, marketing products globally, reinforcing governance and cushioning the impact of externalities on its AUM and income. The asset management business achieved stellar investment performance in the first half of 2018, managing to make two of its issued funds at the top of the Lipper rating among similar products and maintaining other four funds within top 3 in terms of cumulative returns. Thanks to the outstanding performance and business development capabilities of the investment team of Asset Management division, Haitong International won an array of major industry awards including the Best Fund House – China Offshore and Best Business Development (Asian Pacific) issued by AsianInvestor. As for its private equity investment business, Haitong International managed to realize income while maintaining a comfortable balance of yield, duration and volatility. New economic spheres have long been one of the investment focuses of Haitong International as it holds the belief that nascent economic models can give birth to innovative offerings, which will change the game and reshape many industries, and thereby create investment opportunities with more promising returns.

Haitong International's wealth management business adhered to its goals of upgrading and transformation by optimizing offerings, processes and sales conduits during the first half of 2018. With regular training and tests put in place, it made sure that its account executives could maintain good quality and professionalism to provide clients with trustworthy investment plans, with the help of its state-of-the-art IT system which heightens customer service quality and risk management efficiency. Additionally, this January, Haitong International inaugurated its new Private Wealth Management Centre which aims to provide professional products and quality services for professional investors.

As for its institutional clients' business, Haitong International proactively broadened its client base through its equity research network in the Greater China region, Japan, India and South Korea, using its "Local Thinking and Global Insight" to provide them with quality pan-Asian research. In 2018, the Company devoted much effort toward AI and conducted research with Haitong International DNA. In its derivatives' business, the Company adhered to reasonable pricing with increased use of big data analysis on real time derivative warrant market dynamics to launch warrants in tune with market demands. During the year, its market making business for ETFs and options was also well-acclaimed – its Warrants and CBBCs business ranked Top in terms of number of underlying equities covered and its warrant business ranked third in terms of net capital inflow. At present, Haitong International has become a CBBCs and derivative warrants market leader in Hong Kong and a leading issuer. Furthermore, Haitong International was approved by the Hong Kong Stock Exchange on 26 June 2018 to issue warrants linked with the shares of Alibaba Group listed on the New York Stock Exchange. In the first half of 2018, Haitong International's financial products were standardized and bespoke as ever, and satisfied its customers' financing desires in a number of ways with ever-improving engineering capability and one-stop project investment and financing solutions.

Management Discussion and Analysis

2. Middle-and-back office management with global presence

During the first half of 2018, Haitong International focused on the development of its global operating platform with increasing use of IT technology and applications. Boasting such a core operating platform to serve its international clients, Haitong International strives to provide resilience and protection in line with market standards and a management regime matching up to international needs.

Along with its burgeoning growth, Haitong International continues to solidify its risk management regime with precise definitions, identification and measurement of risks as well as effective management based on comprehensive, real time, measurable and prescient risk management. With a holistic view, Haitong International has built a sound risk management regime covering every business line. Its compliance system is adequately strict and abreast with the times in keeping with the recent regulations, rules and laws. Particularly, Haitong International takes anti-money laundering seriously; the Company closely monitored matters concerning anti-money laundering, incorporated new regulations into the system and built an anti-money laundering electronic supervisory system in a bid to enforce its compliance management capabilities.

Prospects and Development Strategies

From a macroeconomic perspective, the world still seems mired in uncertainty in the second half of 2018. The tension between China and the U.S. is still brewing, posing significant risks to major economies as well as emerging markets. However, “new economy” businesses offer an alternative for growth that will spur development and transformation for society. Although international trade is expected to receive a boost from the Belt and Road Initiative, domestic investment and demand might still face some challenges. In this context, it is widely believed that the Chinese government will place its efforts on aggressive fiscal measures and stable monetary policies that might maintain the loose monetary environment. Overall, it is very likely that China will achieve its targeted GDP. However, the risks and adverse effect the Sino-U.S. trade war and the interest rate hike might cause should not be underestimated.

With our footprints in the U.S and U.K, Haitong International has expanded its U.S business to U.S securities brokerage, proprietary trading, consultancy for M&A and other corporate activities and structured financing. Haitong International has become a Chinese financial services institution covering major financial hubs in Hong Kong, Singapore, New York and London focusing on individual, corporate and institutional clients. Haitong International will put effort to further enrich its line of offerings for its clients and tighten its risk management and compliance mechanisms. Boasting its international perspective combined with local market practice, the Company will make an effort to strengthen its effective global operating system with the use of big data management and AI technology. In this way, Haitong International will truly bring its core competitiveness and brand influence into play to make contribution to the financial sector and yield long-term values for its shareholders, investors and the community.

Financial Review

Overview on the Group's Financial Performance

During the 6 months ended 30 June 2018, the Company and its subsidiaries (collectively referred as the "Group") generated revenue of HK\$3,557 million, representing an increase of 21% from HK\$2,943 million for the 6 months ended 30 June 2017, and all three revenue streams (i.e. commission and fee income, interest income and net investment gains) of the Group for the current interim period recorded an increase. Profit for the current 6-month period amounted to HK\$859 million.

Share of result of investments accounted for using the equity method recorded a loss of HK\$196 million for the 6 months ended 30 June 2018. Investments accounted for using the equity method include mainly an investment fund investing in debt securities. This investment fund sustained a decrease in return in the current 6-month period as evidenced by decrease in the return rate generally in debt securities in the first half of 2018.

During the period, the Group's operating costs (excluding income tax expense) increased by 26.7% (6 months ended 30 June 2018: HK\$2,368 million; 6 months ended 30 June 2017: HK\$1,870 million). Increase in operating costs is mainly due to increase in employee benefits costs, finance costs and other expenses. Employee benefits costs and other expenses increased in the first half of 2018 due to increase in headcount during the current interim period and the effect of acquisition of Haitong (UK) Limited ("Haitong UK", currently known as Haitong International (UK) Co. Limited) and Haitong Securities USA LLC ("Haitong USA") completed in February 2018, and additional costs incurred in strengthening and integrating operating systems of the Group. In addition, increase in the interest bearing liability and market interest rate resulted in increase in finance costs. Ratio of operating costs to total revenue and other income increased from 63% for the first half of 2017 to 66% for the first half of 2018.

Due to prudent risk management exercised by the Group, net impairment losses recorded a decrease of 46.7% from HK\$72 million for the first half of 2017 to HK\$39 million for the first half of 2018. Adoption of Hong Kong Financial Reporting Standard 9 "Financial Instruments" on 1 January 2018 did not result in material financial impact to the Group.

Net assets (which are also shareholders' equity) remained relatively stable as compared between 30 June 2018 and 31 December 2017, and amounted to HK\$25.8 billion as at 30 June 2018 (31 December 2017: HK\$25.4 billion), representing an increase of HK\$481 million. Net assets per share as at 30 June 2018 was HK\$4.56 per share, representing a slight decrease of 1.1% from HK\$4.61 per share as at 31 December 2017.

Annualised return on shareholders' funds (calculated by net profit divided by weighted average shareholders' equity) was 6.7% for the first half of 2018.

Financial Review

Revenue

Revenue of the Group for the 6 months ended 30 June 2018 was HK\$3,557.2 million (6 months ended 30 June 2017: HK\$2,943.0 million). The major revenue streams and its proportion to total revenue are detailed below:

| Revenue | For the six months ended 30 June | | | |
|---------------------------|----------------------------------|--------------|-----------|-------|
| | 2018 | | 2017 | |
| | HK\$'000 | % | HK\$'000 | % |
| Commission and fee income | 1,235,251 | 34.7 | 970,951 | 33.0 |
| Interest income | 1,211,339 | 34.1 | 1,079,831 | 36.7 |
| Net investment gains | 1,110,567 | 31.2 | 892,234 | 30.3 |
| | 3,557,157 | 100.0 | 2,943,016 | 100.0 |

The Group's commission and fee income increased by 27.2% and is accounted for the largest proportion among key revenue streams. Increase in fee and commission income is mainly attributable to wealth management segment and corporate finance segment.

The Group's commission on securities dealing and broking increased by 25.4% (6 months ended 30 June 2018: HK\$271 million; 6 months ended 30 June 2017: HK\$ 216 million) due to increase in market turnover and market share. The Group's commission on underwriting and placing increased by 99.2% (6 months ended 30 June 2018: HK\$496 million; 6 months ended 30 June 2017: HK\$ 249 million). Analysis on fee and commission income of respective segments is detailed in "Analysis by business segments" below.

The Group's interest income increased by 12.2% is mainly contributed by increase in interest income from financing solutions provided to clients by corporate finance segment and risk management and financing solutions provided to clients by institutional clients segment but was partly offset by decrease in interest income from margin financing (as a result of decrease in margin loan size). Interest income from financing solutions provided to clients by corporate finance segment and risk management and financing solutions provided to clients by institutional clients segment increased by 88.0% (6 months ended 30 June 2018: HK\$552 million; 6 months ended 30 June 2017: HK\$ 294 million), which outweighs the decrease in interest income from advances to customers in margin financing.

The Group's net investment gains are mainly contributed by net investment gains derived from the Group's institutional clients and investment segments. Analysis of net investment gains of these two segments are detailed in "Analysis by business segments" below.

Analysis by Business Segments

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

| Segment revenue | For the six months ended 30 June | | | |
|-----------------------|----------------------------------|--------------|------------------|--------------|
| | 2018 | | 2017 | |
| | HK\$'000 | % | HK\$'000 | % |
| Wealth management | 1,082,988 | 30.5 | 1,115,410 | 37.9 |
| Corporate finance | 754,744 | 21.2 | 910,151 | 30.9 |
| Asset management | 138,464 | 3.9 | 131,112 | 4.5 |
| Institutional clients | 1,088,434 | 30.6 | 740,401 | 25.2 |
| Investment | 492,527 | 13.8 | 45,942 | 1.5 |
| | 3,557,157 | 100.0 | 2,943,016 | 100.0 |

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

| Segment profit (loss) before tax | For the six months ended 30 June | | | | | |
|----------------------------------|----------------------------------|--------------|------------|------------------|--------------|------------|
| | 2018 | | Segment | 2017 | | Segment |
| | HK\$'000 | % | margin* | HK\$'000 | % | margin* |
| Wealth management | 417,918 | 40.9 | 39% | 442,951 | 35.3 | 40% |
| Corporate finance | 526,777 | 51.6 | 70% | 498,870 | 39.7 | 55% |
| Asset management | 48,228 | 4.7 | 35% | 51,516 | 4.1 | 39% |
| Institutional clients | 128,231 | 12.5 | 12% | 255,093 | 20.3 | 34% |
| Investment | (99,373) | (9.7) | N/A | 7,477 | 0.6 | 16% |
| | 1,021,781 | 100.0 | 29% | 1,255,907 | 100.0 | 43% |

* Calculated based on segment profit (loss) before tax divided by segment revenue.

Review of financial performance in each of the business segments is 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

| | For the six months ended 30 June | | |
|----------------------------------|----------------------------------|------------------------|--------------|
| | 2018 HK\$'000 | 2017 HK\$'000 | +/-% |
| Commission and fee income | 401,323 | 359,927 | +11.5 |
| Interest income | 615,305 | 680,796 | -9.6 |
| Net investment gains | 66,360 | 74,687 | -11.1 |
| Segment revenue | 1,082,988 | 1,115,410 | -2.9 |
| Other income and gains or losses | 17,750 | 1,475 | +1103.4 |
| Segment expenses | 1,100,738 (682,820) | 1,116,885 (673,934) | -1.4 +1.3 |
| Segment profit before tax | 417,918 | 442,951 | -5.7 |
| Segment margin (%) | 39 | 40 | -1 |

Segment revenue

Increase in commission and fee income is mainly due to growth in both market share and market turnover. Commission and fee income of this segment also includes financial advisory and consultancy fee income, which is charged to clients for a wide variety of wealth management and investment solutions services provided.

Interest income recorded a decrease due to drop in margin loan size. The Group's margin loans scaled down from HK\$20.8 billion as at 31 December 2016 to HK\$17.8 billion as at 30 June 2017, and further decreased to HK\$17.2 billion as at 30 June 2018. Decrease in margin loan size is due to implementation of a more prudent margin lending policy from risk management perspective since 2017.

Net investment gains of this segment represent mainly spread income from distribution of debt securities and over-the-counter products. This income stream was first recorded in 2017 due to the Group's transformation of this segment from traditional brokerage to wealth management. During the current interim period, this segment recorded an increase in turnover in distribution of debt securities and over-the-counter products, but decrease in spread charged to customers due to market competition with other financial institutions.

Financial Review

Segment profit before tax and segment margin

Funding cost of the Group is generally priced at Hong Kong Interbank Offer Rate ("HIBOR") plus a spread. With increase in HIBOR during the first half of 2018, finance costs borne by this segment increased.

As a result, segment margin decreased slightly from 40% for the first half of 2017 to 39% for the first half of 2018.

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

| | For the six months ended 30 June | | |
|----------------------------------|----------------------------------|----------------------|----------------|
| | 2018 | 2017 | +/-% |
| | HK\$'000 | HK\$'000 | |
| Commission and fee income | 494,605 | 417,546 | +18.5 |
| Interest income | 214,683 | 291,906 | -26.5 |
| Net investment gains | 45,456 | 200,699 | -77.4 |
| Segment revenue | 754,744 | 910,151 | -17.1 |
| Other income and gains or losses | 2,067 | 946 | +118.5 |
| Segment expenses | 756,811 (230,034) | 911,097 (412,227) | -16.9 -44.2 |
| Segment profit before tax | 526,777 | 498,870 | +5.6 |
| Segment margin (%) | 70 | 55 | +15 |

Segment revenue

The Group's underwriting and placing commission from fund raising activities increased substantially from HK\$249 million for the first half of 2017 to HK\$496 million for the first half of 2018. Substantial increase in underwriting and placing commission demonstrates the Group's leading position in Hong Kong's capital market.

On the other hand, interest income and net investment gains from financing solutions (in the form of loans or investments) provided to corporate clients for their merger and acquisition projects recorded a decrease as compared with first half of 2017 as a result of decrease in assets held by this segment.

Financial Review

Segment profit before tax and segment margin

Segment expenses recorded a decrease due to decrease in finance costs allocated to this segment (due to decrease in assets held) and reversal of an impairment loss of a loan to corporate client recognised in previous year. Percentage decrease in segment expense outweighed percentage decrease in segment revenue, and consequently segment margin increased from 55% for the first half of 2017 to 70% for the first half of 2018.

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

| | For the six months ended 30 June | | |
|---|----------------------------------|------------------|-------|
| | 2018 HK\$'000 | 2017 HK\$'000 | +/-% |
| Segment revenue — Commission and fee income | 138,464 | 131,112 | +5.6 |
| Segment expenses | (90,236) | (79,596) | +13.4 |
| Segment profit before tax | 48,228 | 51,516 | -6.4 |
| Segment margin (%) | 35 | 39 | -4 |

11 >

Segment revenue

Increase in segment revenue is mainly attributable to increase in average assets under management.

Upon adoption of Hong Kong Financial Reporting Standard 15 “Revenue from Contracts with Customers” on 1 January 2018, performance fee shall only be recognised when it is highly probable that a significant reversal of the cumulative amount of performance fee recognized will not be occurred (for example, upon finalisation of year-end net asset value). As a result, previous practice of accruing performance fee income on a monthly basis is no longer allowed under HKFRS 15. If accrued performance fee was recognized in the first half of 2018, segment revenue for the current interim period would have been increased by a further extent.

Segment profit before tax and segment margin

Percentage increase in segment expenses is higher than percentage increase in segment revenue, which is due to higher operating costs of supporting units allocated to this segment. As a result, segment margin decreased from 39% for the first half of 2017 to 35% for the first half of 2018.

Institutional clients

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

For the six months ended 30 June

| | Commission and fee income | | Interest income | | Net investment gains | | Total | | +/-% |
|--|---------------------------|----------|-----------------|----------|----------------------|----------|-----------|-----------|--------|
| | 2018 | 2017 | 2018 | 2017 | 2018 | 2017 | 2018 | 2017 | |
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | |
| Fixed income, currency and commodities | 93,883 | 12,531 | 24,022 | 6,766 | 234,478 | 420,742 | 352,383 | 440,039 | -19.9 |
| Institutional equities | 106,976 | 49,835 | 349,516 | 100,363 | 279,559 | 150,164 | 736,051 | 300,362 | +145.1 |
| Segment revenue | 200,859 | 62,366 | 373,538 | 107,129 | 514,037 | 570,906 | 1,088,434 | 740,401 | +47.0 |
| Other income and gains or losses | | | | | | | 22,523 | 2,358 | +855.2 |
| Segment expenses | | | | | | | 1,110,957 | 742,759 | +49.6 |
| | | | | | | | (982,726) | (487,666) | +101.5 |
| | | | | | | | 128,231 | 255,093 | -49.7 |
| Segment margin (%) | | | | | | | 12 | 34 | -22 |

Segment revenue

Decrease in segment revenue for fixed income, currency and commodities is mainly attributable to the volatile market in Asian high yield bond market making, due to the ongoing Sino-US trade war and the deleveraging process in China onshore financial systems.

For institutional equities business, all revenue streams recorded a substantial increase. Increase in commission and fee income is mainly attributable to increase in brokerage commission and advisory fee income, which is due to expanded market coverage, enhancement of sales network and increase in algorithm trading execution services coverage in different countries. In addition, increase in demand from institutional clients for financial advisory services also contributed increase in fee and commission income of institutional equities business.

Financial Review

Increase in interest income of institutional equities business is due to increase in demands from institutional clients for risk management and financing solutions. On the other hand, the Group exercised prudent risk control, and therefore no impairment loss is recognised on assets attributable to institutional equities business during the current interim period.

Net investment gains represents spread income on issuance of tailored-made financial products (for example, bond linked notes and total return swap) and market making on different types of financial products (such as exchange traded funds) and exchanged traded derivatives. During the current interim period, the Group strengthened its financial product issuance and execution capability to meet increasing demand on different types of financial products from institutional clients. In addition, the Group takes the lead in derivative warrants and callable bull/bear contracts market and consequently spread income from market making on financial products and exchanged traded derivatives also see a growth during the current interim period.

Segment profit before tax and segment margin

Segment expenses increased during the current interim period. Finance costs borne by this segment increased by 96.5% (6 months ended 30 June 2018: HK\$469 million; 6 months ended 30 June 2017: HK\$239 million). Increase in finance costs due to increase in interest bearing liabilities and increase in market interest rate. Financing obtained by repurchase agreements (which is detailed in note 30 of the unaudited condensed consolidated financial statements) increased from HK\$11.3 billion as at 31 December 2017 to HK\$23.3 billion as at 30 June 2018. Employee benefit costs, other segment direct expenses and operating costs of supporting units allocated to this segment also increased as a result of expansion of coverage in major financial centers, acquisition of Haitong UK and Haitong USA and costs incurred in strengthening and integrating operating systems globally.

As a result, segment profit before tax for the current interim period amounted to HK\$128 million and segment margin stood at 12%.

Financial Review

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

| | For the six months ended 30 June | | |
|--|----------------------------------|----------------------|-----------------|
| | 2018 HK\$'000 | 2017 HK\$'000 | +/-% |
| Interest income | 7,813 | – | N/A |
| Net investment gains | 484,714 | 45,942 | +955.1 |
| Segment revenue | 492,527 | 45,942 | +972.1 |
| Other income and gains or losses (note) | (13,306) | 14,860 | N/A |
| Segment expenses | 479,221 (382,354) | 60,802 (216,149) | +688.2 +76.9 |
| Share of result of investments accounted for using the equity method | 96,867 (196,240) | (155,347) 162,824 | N/A N/A |
| Segment (loss) profit before tax | (99,373) | 7,477 | N/A |
| Segment margin (%) | N/A | 16 | N/A |

Note: This mainly represents net (loss) 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 26 of the unaudited condensed consolidated financial statements.

Segment revenue

Segment revenue increased by 972.1% from HK\$46 million for 6 months ended 30 June 2017 to HK\$493 million for the 6 months ended 30 June 2018. Increase in revenue is mainly contributed by gain from private equity investments held by the Group as certain private equity investments held have been listed in stock exchanges during the current interim period and increase in return on other types of investments (such as investment funds) held by this segment.

Share of result of investments accounted for using the equity method

As detailed in "Overview of the Group's Financial Performance" above, share of result of investments accounted for using the equity method includes mainly an investment fund investing in debt securities that sustained a decrease in return on the current 6-month period due to decrease in the return generally in debt securities in the market during the first half of 2018.

Financial Review

Segment profit before tax and segment margin

Segment expenses increased by 76.9% due to increase in finance costs, employee benefit costs, segment direct expenses and operating costs of supporting units allocated to this segment.

This segment suffered a loss as a result of increase in segment expense and loss recorded in share of result of investments accounted for using the equity method.

Operating costs

Operating costs for the 6 months ended 30 June 2018 amounted to HK\$2,368 million (6 months ended 30 June 2017: HK\$1,870 million). An analysis of operating costs is as below:

| | For the six months ended 30 June | | |
|--|----------------------------------|------------------|--------------|
| | 2018 HK\$'000 | 2017 HK\$'000 | +/-% |
| Salaries and allowances, bonuses and pension | 599,804 | 502,115 | +19.5 |
| Commission expenses | 145,354 | 131,185 | +10.8 |
| Finance costs | 1,092,212 | 824,505 | +32.5 |
| Depreciation and amortisation | 46,037 | 28,436 | +61.9 |
| Net impairment allowance | 38,552 | 72,350 | -46.7 |
| Information technology related expenses | 85,343 | 48,116 | +77.4 |
| Other expenses | 360,868 | 262,865 | +37.3 |
| Operating costs | 2,368,170 | 1,869,572 | +26.7 |

15 >

Salaries and allowances, and bonuses and pension increased by 19.5%, mainly due to increase in headcount and salary increment. Increase in salary and allowances are partly due to acquisition of Haitong UK and Haitong USA in February 2018 and Haitong International Financial Services (Singapore) Private Limited in February 2017. Acquisition of new entities is detailed in note 37 of the unaudited condensed 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 as compared between first half of 2017 and first half of 2018.

Finance costs increased by 32.5% due to increase in average interest bearing liabilities (including increase in debt securities in issue, bank and other borrowings and repurchase agreements) during the current interim period. Increase in market interest rate also resulted in increase in finance costs.

Depreciation and amortization increased during the current interim period due to purchase of leasehold land and buildings, procurement of hardware and computer software to strengthen and integrate operating systems globally, and capitalisation of costs incurred in trading platform development.

Financial Review

Net impairment allowance reduced by 46.7% due to partial reversal of an impairment loss of a loan to corporate client recognised in previous year. In addition, adoption of HKFRS 9 did not result in significant increase in impairment allowance recognised in the current interim period.

Information technology related expenses increased due to additional expenses (that are not qualified for capitalisation under accounting standard) incurred in integrating information technology systems globally and implementation of new systems.

Other expenses increased due to additional expenses incurred in supporting different business initiatives and acquisition of Haitong UK and Haitong USA in February 2018, and increase in listing fees due to increase in listed derivative issuance activities.

Income Tax Expense

| | For the six months ended 30 June | | |
|------------------------|----------------------------------|----------|-------|
| | 2018 | 2017 | +/-% |
| | HK\$'000 | HK\$'000 | |
| Income tax expense | 162,640 | 217,701 | -25.3 |
| Effective tax rate (%) | 15.9 | 17.3 | -1.4 |

Income tax expense decreased due to decrease in profit before tax and effective tax rate. Reduce in effective tax rate is due to certain revenue recognised in the current interim period is not taxable under the applicable tax laws and regulations.

Assets and Liabilities

| | 30 June | 31 December | +/-% |
|-------------------|-------------|-------------|-------|
| | 2018 | 2017 | |
| | HK\$'000 | HK\$'000 | |
| Total Assets | 158,037,539 | 130,223,838 | +21.4 |
| Total Liabilities | 132,188,529 | 104,855,959 | +26.1 |
| Net Assets | 25,849,010 | 25,367,879 | +1.9 |

The Group's total assets as at 30 June 2018 increased by 21% (30 June 2018: HK\$158.0 billion; 31 December 2017: HK\$130.2 billion) and total liabilities as at 30 June 2018 increased by 26.1% (30 June 2018: HK\$132.2 billion; 31 December 2017: HK\$104.9 billion).

The Group's trading and investment securities increased by 55% (30 June 2018 HK\$58.9 billion; 31 December 2017: HK\$37.9 billion). Increase in trading and investment securities is attributable to increase in debt securities and reclassification of available-for-sale investments and held-to-maturity investments of the Group to trading and investment securities upon adoption of HKFRS 9.

Financial Review

In addition, the Group strengthened its financial product issuance and execution capability to meet increasing demand from clients. Consequently, the Group's assets acquired for hedging the financial products issued increased from HK\$12.3 billion as at 31 December 2017 to HK\$18.4 billion as at 30 June 2018. As the assets are acquired for hedging the risk and economic exposure of the financial products issued, the variable returns of these assets is not significant to the Group.

As part of liquidity risk management exercised by the Group, cash and cash equivalents held by the Group increased from HK\$4.5 billion as at 31 December 2017 to HK\$6.4 billion as at 30 June 2018.

Trading and investment securities and assets acquired for financial products issued are detailed in notes 14 and 15 of the unaudited condensed consolidated financial statements respectively.

As a result of increase in total assets, the Group's gearing ratio (calculated by total assets excluding accounts payable to clients divided by shareholders' equity) increased from 4.3 times as at 31 December 2017 to 5.2 times as at 30 June 2018.

Capital Structure and Regulatory Capital

| | 30 June 2018 | 31 December 2017 | +/-% |
|-------------------------|-------------------------|---------------------|------|
| | HK\$'000 | HK\$'000 | |
| Issued share capital | 566,702 | 550,086 | +3.0 |
| Number of issued shares | 5,667,024,457 | 5,500,858,791 | +3.0 |

As at 30 June 2018, the total issued share capital of the Group stood at HK\$566.702 million (31 December 2017: HK\$550.086 million), comprising 5,667,024,457 shares of HK\$0.10 each (31 December 2017: 5,500,858,791 shares at HK\$0.10 each).

Issued share capital increased by HK\$16.616 million during the current interim period, mainly due to scrip dividend issued in relation to 2017 second interim dividend. Details of movement of share capital during the current year are disclosed in note 33 of the unaudited condensed consolidated financial statements.

The Group has a number of entities that are subject to regulatory capital requirements set by respective regulators globally. During the 6 months ended 30 June 2018, all these regulated entities complied with applicable regulatory capital requirements.

Impact on New Accounting Standards and Adoption of Accounting Policies

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 3 of the unaudited condensed consolidated financial statements.

Among these new and amendments to HKFRSs, HKFRS 9 affects the Group in respect of classification and measurement of financial assets and liabilities and impairment of financial assets. Details of the financial impact to the Group are detailed in note 3.1 of the unaudited condensed consolidated financial statements.

In addition, the Group adopts accounting policy on investment property in the current interim period as the Group acquired an investment property. The accounting policy adopted is detailed in note 28 of the unaudited condensed consolidated financial statements.

Treasury Policies

The Group generally finances its business operations with internally generated cash flow, bank borrowings and funding from capital markets. On 15 March 2018, 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\$11,800 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 2018, drawdown of HK\$ 8,235 million, US\$79 million and CNH 2,749 million have been made out from the US\$5 billion Medium Term Note Programme respectively. It has been the policy of the Group to maintain adequate liquidity at all times to meet its obligations and commitments as and when they fall due.

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

Liquidity and Financial Resources

The financial position of the Group remained sound and healthy during the current 6-month period. As at 30 June 2018, the Group’s cash and bank balance amounted to HK\$6,402 million, compared with HK\$4,537 million as at 31 December 2017.

The Group has unutilized banking facilities of HK\$22,758 million (including syndicate loan and bilateral loan facilities) to ensure the Group’s ability to meet funding needs when they arise.

Human Resources Policy

As at 30 June 2018, the Group employed a total of 1,092 (31 December 2017: 1,013) 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 and discretionary bonus will be reviewed on an 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.

The Group is committed to the continuous learning and development of our staff who are a part of its invaluable assets. Haitong International provides a comprehensive range of staff training and development programs, including continuous professional training for licensed persons; training sponsorship scheme to encourage staff to seek self-development through attending job-related external training courses, and acquiring professional qualification by providing financial assistance; overseas attachment and exchange programs, compliance training, and language enhancement courses as well as staff well-being workshops etc. The Group's structured Management Trainee Development Program is instrumental to fuel the talent needs of the sustainable growth of businesses not only locally but globally.

Condensed Consolidated Statement of Profit or Loss

| | NOTES | Six months ended | |
|--|-------|--------------------------------------|--------------------------------------|
| | | 30.6.2018 HK\$'000 (unaudited) | 30.6.2017 HK\$'000 (unaudited) |
| Revenue | | | |
| Commission and fee income | 6 | 1,235,251 | 970,951 |
| Interest income | 6 | 1,211,339 | 1,079,831 |
| Net investment gains | 6 | 1,110,567 | 892,234 |
| | | 3,557,157 | 2,943,016 |
| Other income and gains or losses | 6 | 29,034 | 19,639 |
| Salaries and allowances, bonuses and pension | 7 | (599,804) | (502,115) |
| Commission expenses | 7 | (145,354) | (131,185) |
| Depreciation and amortisation | | (46,037) | (28,436) |
| Impairment losses, net of reversal | 8 | (38,552) | (72,350) |
| Other expenses | | (446,211) | (310,981) |
| | | (1,275,958) | (1,045,067) |
| Finance costs | 9 | (1,092,212) | (824,505) |
| Share of result of investments accounted for using the equity method | | (196,240) | 162,824 |
| Profit before tax | | 1,021,781 | 1,255,907 |
| Income tax expense | 10 | (162,640) | (217,701) |
| Profit for the period attributable to owners of the Company | | 859,141 | 1,038,206 |
| Earnings per share attributable to owners of the Company | 11 | | |
| — Basic (HK cents per share) | | 15.53 | 19.53 |
| — Diluted (HK cents per share) | | 14.78 | 18.01 |

Condensed Consolidated Statement of Profit or Loss and Other Comprehensive Income

| | NOTE | Six months ended | |
|--|------|--------------------------------------|--------------------------------------|
| | | 30.6.2018 HK\$'000 (unaudited) | 30.6.2017 HK\$'000 (unaudited) |
| Profit for the period attributable to owners of the Company | | 859,141 | 1,038,206 |
| Other comprehensive income (expense): | | | |
| <i>Items that may be reclassified subsequently to profit or loss:</i> | | | |
| Available-for-sale investments | | | |
| Net fair value change during the period | | – | (201,916) |
| Reclassification adjustments to profit or loss on disposal and deemed disposal | 6 | – | (154,318) |
| Cash flow hedge gains | | 7,169 | 11,613 |
| Exchange differences on translating foreign operations arising during the period | | (67,925) | 84,211 |
| Other comprehensive expense for the period | | (60,756) | (260,410) |
| Total comprehensive income for the period attributable to owners of the Company | | 798,385 | 777,796 |

Condensed Consolidated Statement of Financial Position

| | NOTES | 30.6.2018 (unaudited) | | | 31.12.2017 (audited) | | |
|---|-------|--------------------------|-------------------------|--------------------|-------------------------|-------------------------|--------------------|
| | | Current HK\$'000 | Non-current HK\$'000 | Total HK\$'000 | Current HK\$'000 | Non-current HK\$'000 | Total HK\$'000 |
| ASSETS | | | | | | | |
| Cash and cash equivalents | | 6,401,513 | – | 6,401,513 | 4,536,816 | – | 4,536,816 |
| Cash held on behalf of customers | 13 | 18,991,766 | – | 18,991,766 | 19,768,481 | – | 19,768,481 |
| Financial assets at fair value through profit or loss | | | | | | | |
| — Trading and investment securities | 14 | 51,470,578 | 7,468,002 | 58,938,580 | 37,908,459 | – | 37,908,459 |
| — Assets acquired for financial products issued | 15 | 15,750,504 | 2,696,175 | 18,446,679 | 11,140,369 | 1,139,283 | 12,279,652 |
| Derivative financial instruments | 16 | 316,435 | – | 316,435 | 693,676 | – | 693,676 |
| Advances to customers in margin financing | 17 | 17,259,204 | – | 17,259,204 | 16,369,217 | – | 16,369,217 |
| Other loans and receivables | 18 | 10,941,633 | 4,682,706 | 15,624,339 | 10,815,851 | 3,350,685 | 14,166,536 |
| Financial assets held under resale agreements | 19 | 4,148,129 | – | 4,148,129 | 2,921,857 | – | 2,921,857 |
| Held-to-maturity investments | 20 | – | – | – | 94,171 | – | 94,171 |
| Accounts receivable | 21 | 11,372,032 | – | 11,372,032 | 5,946,394 | – | 5,946,394 |
| Tax recoverable | | 123,421 | – | 123,421 | 76,233 | – | 76,233 |
| Prepayments, deposits and other receivables | 22 | 1,300,000 | 77,802 | 1,377,802 | 891,574 | 17,114 | 908,688 |
| Available-for-sale investments | 23 | – | – | – | – | 8,104,311 | 8,104,311 |
| Investments accounted for using the equity method | 24 | – | 3,763,790 | 3,763,790 | – | 5,872,866 | 5,872,866 |
| Other intangible assets | | – | 88,939 | 88,939 | – | 44,710 | 44,710 |
| Goodwill | 27 | – | 380,099 | 380,099 | – | 223,985 | 223,985 |
| Other assets | | – | 123,156 | 123,156 | – | 128,445 | 128,445 |
| Investment property | 28 | – | 285,399 | 285,399 | – | – | – |
| Property and equipment | 29 | – | 384,122 | 384,122 | – | 178,243 | 178,243 |
| Deferred tax assets | | – | 12,134 | 12,134 | – | 1,098 | 1,098 |
| Total assets | | 138,075,215 | 19,962,324 | 158,037,539 | 111,163,098 | 19,060,740 | 130,223,838 |

Condensed Consolidated Statement of Financial Position

| | NOTES | 30.6.2018 (unaudited) | | | 31.12.2017 (audited) | | |
|--|-------|--------------------------|-------------------------|--------------------|-------------------------|-------------------------|--------------------|
| | | Current HK\$'000 | Non-current HK\$'000 | Total HK\$'000 | Current HK\$'000 | Non-current HK\$'000 | Total HK\$'000 |
| LIABILITY AND EQUITY | | | | | | | |
| Liabilities | | | | | | | |
| Financial liabilities at fair value through profit or loss | | | | | | | |
| — Trading securities under short selling arrangement | 14 | 3,880,159 | — | 3,880,159 | 4,604,688 | — | 4,604,688 |
| — Financial products issued | 15 | 10,991,238 | 2,134,055 | 13,125,293 | 11,284,590 | 852,245 | 12,136,835 |
| Derivative financial instruments | 16 | 301,851 | — | 301,851 | 1,323,116 | — | 1,323,116 |
| Financial assets sold under repurchase agreements | 30 | 23,321,697 | — | 23,321,697 | 11,307,114 | — | 11,307,114 |
| Accounts payable | 31 | 27,124,852 | — | 27,124,852 | 26,469,683 | — | 26,469,683 |
| Bank loans and other borrowings | 32 | 35,560,971 | — | 35,560,971 | 30,755,297 | — | 30,755,297 |
| Debt securities in issue | 32 | 11,638,375 | 14,041,571 | 25,679,946 | 1,201,216 | 14,422,099 | 15,623,315 |
| Other liabilities arising from consolidation of investment funds | 26 | 783,943 | — | 783,943 | 271,601 | — | 271,601 |
| Tax payable | | 680,667 | — | 680,667 | 468,785 | — | 468,785 |
| Other payables and accruals | | 1,123,602 | 586,189 | 1,709,791 | 1,291,693 | 586,189 | 1,877,882 |
| Deferred tax liabilities | | — | 19,359 | 19,359 | — | 17,643 | 17,643 |
| Total liabilities | | 115,407,355 | 16,781,174 | 132,188,529 | 88,977,783 | 15,878,176 | 104,855,959 |
| Equity | | | | | | | |
| Share capital | 33 | | | 566,702 | | | 550,086 |
| Reserves | | | | 24,851,614 | | | 23,827,638 |
| Proposed dividends | | | | 430,694 | | | 990,155 |
| Total equity | | | | 25,849,010 | | | 25,367,879 |
| Total liabilities and equity | | | | 158,037,539 | | | 130,223,838 |
| Net current assets | | | | 22,667,860 | | | 22,185,315 |

Condensed Consolidated Statement of Changes in Equity

Attributable to owners of the Company

| | Share capital HK\$'000 | Share premium account ¹ HK\$'000 | Share option reserve ¹ HK\$'000 | Share award reserve ¹ HK\$'000 | Shares held for employee share award scheme ¹ HK\$'000 (note 34) | Capital redemption reserve ¹ HK\$'000 | Contributed surplus ¹ HK\$'000 | Capital reserve ¹ HK\$'000 | Investment revaluation reserve ¹ HK\$'000 | Exchange reserve ¹ HK\$'000 | Hedging reserve ¹ HK\$'000 | Convertible bond reserve ¹ HK\$'000 | Proposed cash/scrip dividend HK\$'000 | Retained profits ¹ HK\$'000 | Total HK\$'000 |
|---|---------------------------|--|---|--|---|---|--|--|---|---|--|---|--|---|-------------------|
| At 31 December 2017 (audited) HKFRS 9 adjustment (note 3.1) | 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 |
| | - | - | - | - | - | - | - | - | (161,389) | - | - | - | - | 105,540 | (55,849) |
| At 1 January 2018 (restated) | 550,086 | 17,812,492 | 24,000 | 21,037 | (113,539) | 5,102 | 21 | 40,383 | - | 44,310 | (7,169) | 200,538 | 990,155 | 5,744,614 | 25,312,030 |
| Profit for the period | - | - | - | - | - | - | - | - | - | - | - | - | - | 859,141 | 859,141 |
| Other comprehensive (expense) income for the period | - | - | - | - | - | - | - | - | - | (67,925) | 7,169 | - | - | - | (60,756) |
| Total comprehensive (expense) income | - | - | - | - | - | - | - | - | - | (67,925) | 7,169 | - | - | 859,141 | 798,385 |
| Recognition of equity-settled share-based payment (note 34) | - | - | 14,547 | 6,641 | - | - | - | - | - | - | - | - | - | - | 21,188 |
| Vesting of shares for the share award scheme | - | (6,216) | - | (14,986) | 20,629 | - | - | - | - | - | - | - | - | - | (573) |
| Purchases of shares held under the share award scheme (note 34) | - | - | - | - | (22,495) | - | - | - | - | - | - | - | - | - | (22,495) |
| Shares issued under convertible bond | 72 | 2,234 | - | - | - | - | - | - | - | - | - | (67) | - | - | 2,239 |
| Shares issued under share option scheme (note 34) | 375 | 12,233 | (1,310) | - | - | - | - | - | - | - | - | - | - | - | 11,298 |
| 2017 second interim dividend settled in cash and scrip | 16,169 | 701,217 | - | - | - | - | - | - | - | - | - | - | (990,155) | (293) | (273,062) |
| Share options lapsed | - | 440 | (440) | - | - | - | - | - | - | - | - | - | - | - | - |
| Share award lapsed | - | 77 | - | (77) | - | - | - | - | - | - | - | - | - | - | - |
| Proposed 2018 interim dividend (note 12) | - | - | - | - | - | - | - | - | - | - | - | - | 430,694 | (430,694) | - |
| At 30 June 2018 (unaudited) | 566,702 | 18,522,477 | 36,797 | 12,615 | (115,405) | 5,102 | 21 | 40,383 | - | (23,615) | - | 200,471 | 430,694 | 6,172,768 | 25,849,010 |
| At 1 January 2017 (audited) | 533,653 | 17,118,104 | 23,760 | 13,345 | (128,020) | 5,102 | 21 | 40,383 | 114,869 | (14,115) | (28,184) | 200,538 | 426,923 | 4,142,645 | 22,449,024 |
| Profit for the period | - | - | - | - | - | - | - | - | - | - | - | - | - | 1,038,206 | 1,038,206 |
| Other comprehensive (expense) income for the period | - | - | - | - | - | - | - | - | (356,234) | 84,211 | 11,613 | - | - | - | (260,410) |
| Total comprehensive (expense) income | - | - | - | - | - | - | - | - | (356,234) | 84,211 | 11,613 | - | - | 1,038,206 | 777,796 |
| Recognition of equity-settled share-based payment (note 34) | - | - | - | 8,538 | - | - | - | - | - | - | - | - | - | - | 8,538 |
| Vesting of shares for the share award scheme | - | (4,677) | - | (9,804) | 14,481 | - | - | - | - | - | - | - | - | - | - |
| Shares issued under share option scheme (note 34) | 319 | 8,500 | - | - | - | - | - | - | - | - | - | - | - | - | 8,819 |
| Share options lapsed | - | 518 | (518) | - | - | - | - | - | - | - | - | - | - | - | - |
| Proposed 2017 interim dividend (note 12) | - | - | - | - | - | - | - | - | - | - | - | - | 533,972 | (533,972) | - |
| At 30 June 2017 (unaudited) | 533,972 | 17,122,445 | 23,242 | 12,079 | (113,539) | 5,102 | 21 | 40,383 | (241,365) | 70,096 | (16,571) | 200,538 | 960,895 | 4,646,879 | 23,244,177 |

¹ These reserve accounts represent the unaudited consolidated reserves other than share capital and proposed cash/scrip dividend of approximately HK\$24,852 million (31 December 2017: approximately HK\$23,828 million) in the unaudited condensed consolidated statement of financial position.

Condensed Consolidated Statement of Cash Flows

| | Six months ended | |
|--|--------------------------------------|--------------------------------------|
| | 30.6.2018 HK\$'000 (unaudited) | 30.6.2017 HK\$'000 (unaudited) |
| OPERATING ACTIVITIES | | |
| Operating cash flows before movements in working capital | 1,501,247 | 718,835 |
| Decrease (increase) in other assets | 9,203 | (18,621) |
| (Increase) decrease in advances to customers in margin financing | (1,022,039) | 2,979,144 |
| Increase in other loans and advances | (691,955) | (2,403,516) |
| (Increase) decrease in accounts receivable | (5,401,549) | 246,985 |
| (Increase) decrease in prepayments, deposits and other receivable | (97,163) | 114,951 |
| Increase in financial assets at fair value through profit or loss | | |
| – trading and investment securities | (13,834,877) | (1,326,220) |
| Increase in financial assets at fair value through profit or loss | | |
| – assets acquired for financial products issued | (6,167,027) | (393,111) |
| Decrease in cash held on behalf of customers | 775,686 | 938,774 |
| Increase (decrease) in accounts payable | 654,910 | (1,340,712) |
| Increase in financial assets sold under repurchase agreements | 12,014,583 | 1,018,522 |
| Increase in financial assets held under resale agreements | (1,226,273) | (1,118,066) |
| Decrease in financial liabilities at fair value through profit or loss | | |
| – trading securities under short selling arrangement | (724,529) | (754,986) |
| Increase in other liabilities | 512,342 | – |
| Increase in financial liabilities at fair value through profit or loss | | |
| – financial products issued | 988,458 | 2,751,460 |
| (Decrease) increase in derivative financial instruments | (636,855) | 538,267 |
| Decrease in other payables and accruals | (231,077) | (115,215) |
| Cash (used in) from operations | (13,576,915) | 1,836,491 |
| Interest received | 862,753 | 1,114,749 |
| Dividend received | 83,836 | 43,441 |
| Interest paid | (1,218,663) | (725,818) |
| Tax paid | (2,136) | (13,302) |
| NET CASH (USED IN) FROM OPERATING ACTIVITIES | (13,851,125) | 2,255,561 |

Condensed Consolidated Statement of Cash Flows

| | | Six months ended | |
|--|-------|--------------------------------------|--------------------------------------|
| | NOTES | 30.6.2018 HK\$'000 (unaudited) | 30.6.2017 HK\$'000 (unaudited) |
| INVESTING ACTIVITIES | | | |
| Proceeds from disposal of property and equipment | | 89 | 831 |
| Proceeds from disposal of available-for-sale investments | | – | 5,635,560 |
| Interest received from investment in debt securities | | – | 2,524 |
| Purchases of intangible assets | | (52,315) | – |
| Purchases of property and equipment | | (12,403) | (31,926) |
| Purchases of available-for-sale investments | | – | (1,431,890) |
| Purchase of investments accounted for using equity method | | – | (1,490,937) |
| Disposal of investments accounted for using equity method | | 1,912,836 | – |
| Net cash outflow on acquisition of leasehold, land and building and investment property (Note 2) | | (498,668) | – |
| Net cash (outflow) inflow on acquisition of subsidiaries | 37 | (142,624) | 123,229 |
| NET CASH FROM INVESTING ACTIVITIES | | 1,206,915 | 2,807,391 |
| FINANCING ACTIVITIES | | | |
| Proceeds from issuance of non-convertible notes | | 10,905,777 | 226,413 |
| Proceeds from share issued upon exercise of share options | 34 | 11,298 | 8,819 |
| Net proceeds (repayment) for bank loans and other borrowings raised | | 4,750,871 | (5,151,616) |
| Dividends paid to shareholders | 12 | (273,062) | – |
| Purchase of shares held under share award scheme | 34 | (22,495) | – |
| Repayment of non-convertible notes | | (863,482) | (1,112,133) |
| NET CASH FROM (USED IN) FINANCING ACTIVITIES | | 14,508,907 | (6,028,517) |
| NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS | | 1,864,697 | (965,565) |
| CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD | | 4,536,816 | 7,171,169 |
| CASH AND CASH EQUIVALENTS AT END OF PERIOD | | 6,401,513 | 6,205,604 |
| ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS | | | |
| Cash and cash equivalents (Note 1) | | 6,401,513 | 6,205,604 |

Notes:

- For the purpose of the condensed 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.
- Leasehold land and building and investment properties are acquired through acquisition of legal entities, where such acquisition does not qualify for business combination under Hong Kong Financial Reporting Standard 3, "Business Combination". Acquisition of leasehold land and building and investment properties are detailed in note 28 and note 29 of the unaudited condensed consolidated financial statements.

Notes to the Condensed Consolidated Financial Statements

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 service and investment. Details of the business segments of the Company and its subsidiaries (collectively referred as the "Group") are disclosed in note 5.

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 unaudited condensed consolidated financial statements are presented in Hong Kong dollars ("HK\$") which is the same as the functional currency of the Company (unless otherwise stated).

Certain comparative figures have been reclassified or restated to conform with current period presentation.

2. Basis of Preparation

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

27 >

3. Principal Accounting Policies

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

Other than changes in accounting policies resulting from application of new Hong Kong Financial Reporting Standards ("HKFRSs"), the accounting policies and methods of computation used in the unaudited condensed consolidated financial statements for the six months ended 30 June 2018 are the same as those followed in the preparation of the Group's audited consolidated financial statements for the year ended 31 December 2017.

3. Principal Accounting Policies (Continued)

Details of any changes in accounting policies are set out below.

Application of new and amendments to HKFRS

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

| | |
|-----------------------|--|
| HKFRS 9 | Financial Instruments |
| HKFRS 15 | Revenue from Contracts with Customers and the related Amendments |
| HK(IFRIC) – Int 22 | Foreign Currency Transactions and Advance Consideration |
| Amendments to HKFRS 2 | Classification and Measurement of Share-based Payment Transactions |
| Amendments to HKAS 28 | As part of the Annual Improvements to HKFRSs 2014 – 2016 Cycle |
| Amendments to HKAS 40 | Transfers of Investment Property |

The new and amendments to HKFRSs have been applied in accordance with the relevant transition provisions in the respective standards and amendments which results in changes in accounting policies, amounts reported and/or disclosures as described below.

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

3.1 Impacts and changes in accounting policies of application on HKFRS 9 Financial Instruments

In the current period, the Group has applied HKFRS 9 "Financial Instruments" ("HKFRS 9") and the related consequential amendments to other HKFRSs. HKFRS 9 introduces new requirements for (1) the classification and measurement of financial assets and financial liabilities, (2) expected credit losses ("ECL") for financial assets, loan commitments and contract assets (if any) and (3) general hedge accounting.

The Group has applied HKFRS 9 in accordance with the transition provisions set out in HKFRS 9. i.e. applied the classification and measurement requirements (including impairment) retrospectively to instruments that have not been derecognised as at 1 January 2018 (date of initial application) and has not applied the requirements to instruments that have already been derecognised as at 1 January 2018. The difference between carrying amounts as at 31 December 2017 and the carrying amounts as at 1 January 2018 are recognised in the opening retained profits and other components of equity, without restating comparative information. In addition, the Group applied the hedge accounting prospectively.

Accordingly, certain comparative information may not be comparable as comparative information was prepared under HKAS 39 "Financial Instruments: Recognition and Measurement" ("HKAS 39").

Notes to the Condensed Consolidated Financial Statements

3. Principal Accounting Policies (Continued)

3.1 Impacts and changes in accounting policies of application on HKFRS 9 Financial Instruments (Continued)

3.1.1 Key changes in accounting policies resulting from application of HKFRS 9

Classification and measurement of financial assets

Accounts receivable arising from contracts with customers are initially measured in accordance with HKFRS 15 "Revenue from Contracts with Customers" ("HKFRS 15").

All recognised financial assets that are within the scope of HKFRS 9 are subsequently measured at amortised cost or fair value, including unquoted equity investments measured at cost less impairment under HKAS 39. 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 amount outstanding.

Specifically, debt instruments that are held within a business model whose objective is achieved both by collecting contractual cash flows and selling financial assets, and that have contractual terms that give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding, are generally measured at fair value through other comprehensive income ("FVTOCI").

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.

In addition, the Group may irrevocably designate a debt investment that meets the amortised cost or FVTOCI criteria as measured at FVTPL if doing so eliminates or significantly reduces an accounting mismatch.

3. Principal Accounting Policies (Continued)

3.1 Impacts and changes in accounting policies of application on HKFRS 9 Financial Instruments (Continued)

3.1.1 Key changes in accounting policies resulting from application of HKFRS 9 (Continued)

Classification and measurement of financial assets (Continued)

Financial assets at FVTPL

Financial assets that do not meet the criteria for being measured at amortised cost or FVTOCI or designated as FVTOCI are measured at FVTPL.

Financial assets at FVTPL are measured at fair value at the end of each reporting period, with any fair value gains or losses recognised in profit or loss. The net gain or loss recognised in profit or loss includes any interest earned and excludes any dividend on the financial asset and is included in the "Net investment gains" line items within "revenue".

The directors of the Company reviewed and assessed the Group's financial assets as at 1 January 2018 based on the facts and circumstances that existed at that date. Changes in classification and measurement on the Group's financial assets and the impacts thereof are detailed in Note 3.1.2.

Impairment under expected credit loss ("ECL") model

The Group recognises a loss allowance for ECL on financial assets which are subject to impairment under HKFRS 9 (including 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), loan commitments and contract assets (if any). The amount of ECL is updated at each reporting date to reflect changes in credit risk since initial recognition.

Lifetime ECL represents the ECL that will result from all possible default events over the expected life of the relevant instrument. In contrast, 12-month ECL ("12m ECL") represents the portion of lifetime ECL that is expected to result from default events that are possible within 12 months after the reporting date. Assessment are done based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current conditions at the reporting date as well as the forecast of future conditions.

The Group always recognises lifetime ECL for accounts receivable and contract assets (if any) that result from transactions within the scope of HKFRS 15 and the ECL on these assets are assessed individually for debtors with significant balances and/or collectively using a provision matrix with debtors having similar credit ratings.

Notes to the Condensed Consolidated Financial Statements

3. Principal Accounting Policies (Continued)

3.1 Impacts and changes in accounting policies of application on HKFRS 9 Financial Instruments (Continued)

3.1.1 Key changes in accounting policies resulting from application of HKFRS 9 (Continued)

Impairment under expected credit loss (“ECL”) model (Continued)

For all other instruments, the Group applies the general approach to measure ECL for all financial assets and loan commitments which are subject to impairment under HKFRS 9. On this basis, the Group measures the loss allowance equal to 12m ECL, unless when there has been a significant increase in credit risk since initial recognition, in which case the Group recognises lifetime ECL. The assessment of whether lifetime ECL should be recognised is based on significant increases in the likelihood or risk of a default occurring since initial recognition.

Significant increase in credit risk

In assessing whether the credit risk has increased significantly since initial recognition, the Group compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition. In making this assessment, the Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort.

In particular, the following information is taken into account when assessing whether credit risk has increased significantly:

- an actual or expected significant deterioration in the financial instrument’s external (if available) or internal credit rating;
- significant deterioration in external market indicators of credit risk, e.g. a significant increase in the credit spread, the credit default swap prices for the debtor;
- existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant decrease in the debtor’s ability to meet its debt obligations;
- an actual or expected significant deterioration in the operating results of the debtor;
- an actual or expected significant adverse change in the regulatory, economic, or technological environment of the debtor that results in a significant decrease in the debtor’s ability to meet its debt obligations.

3. Principal Accounting Policies (Continued)

3.1 Impacts and changes in accounting policies of application on HKFRS 9 Financial Instruments (Continued)

3.1.1 Key changes in accounting policies resulting from application of HKFRS 9 (Continued)

Impairment under expected credit loss (“ECL”) model (Continued)

Significant increase in credit risk (Continued)

Irrespective of the outcome of the above assessment, the Group presumes that the credit risk has increased significantly since initial recognition when contractual payments are more than 30 days past due (except for advances to customers in margin financing where a shorter period of “past due” has been applied by the directors in view of the nature of business operation and practice in managing the credit risk), unless the Group has reasonable and supportable information that demonstrates otherwise.

For loan commitments, the date that the Group becomes a party to the irrevocable commitment is considered to be the date of initial recognition for the purposes of assessing the financial instrument for impairment. In assessing whether there has been a significant increase in the credit risk since initial recognition of a loan commitment, the Group considers changes in the risk of a default occurring on the loan to which a loan commitment relates.

The Group considers that default has occurred when the instrument is more than 90 days past due (except for advances to customers in margin financing where a shorter period of “past due” has been applied by the directors in view of the nature of business operation and practice in managing the credit risk), unless the Group has reasonable and supportable information that demonstrates otherwise.

Measurement and recognition of ECL

The measurement of ECL is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data adjusted by forward-looking information.

Generally, the ECL is estimated as the difference between all contractual cash flows that are due to the Group in accordance with the contract and all the cash flows that the Group expects to receive, discounted at the effective interest rate determined at initial recognition.

For undrawn loan commitments, the ECL is the present value of the difference between the contractual cash flows that are due to the Group if the holder of the loan commitments draws down the loan, and the cash flows that the Group expects to receive if the loan is drawn down.

Notes to the Condensed Consolidated Financial Statements

3. Principal Accounting Policies (Continued)

3.1 Impacts and changes in accounting policies of application on HKFRS 9 Financial Instruments (Continued)

3.1.1 Key changes in accounting policies resulting from application of HKFRS 9 (Continued)

Impairment under expected credit loss (“ECL”) model (Continued)

Measurement and recognition of ECL (Continued)

Interest income is calculated based on the gross carrying amount of the financial asset unless the financial asset is credit impaired, in which case interest income is calculated based on amortised cost of the financial asset.

The Group recognises an impairment gain or loss in profit or loss for all financial instruments by adjusting their carrying amount, with the exception of advances to customers in margin financing, and other loans and receivables where the corresponding adjustment is recognised through a loss allowance account.

As at 1 January 2018, the directors of the Company reviewed and assessed the Group’s existing financial assets and loan commitments for impairment using reasonable and supportable information that is available without undue cost or effort in accordance with the requirements of HKFRS 9. The results of the assessment and the impact thereof are detailed in Note 3.1.2.

Classification and measurement of financial liabilities

For financial liabilities that are designated as at FVTPL, the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is recognised in OCI, and such amount is not subsequently reclassified to profit or loss; instead, they are transferred to retained profits upon derecognition of the financial liability.

3. Principal Accounting Policies (Continued)

3.1 Impacts and changes in accounting policies of application on HKFRS 9 Financial Instruments (Continued)

3.1.2 Summary of effects arising from initial application of HKFRS 9

The table below illustrates the classification and measurement (including impairment) of financial assets and financial liabilities and other items subject to ECL under HKFRS 9 and HKAS 39 at the date of initial application, 1 January 2018.

| | Notes | Cash and cash equivalents HK\$'000 | Cash held on behalf of customers HK\$'000 | Financial assets at FVTPL - trading and investment securities HK\$'000 | Advances to customers in margin financing, at amortised cost HK\$'000 | Other loans and receivables, at amortised cost HK\$'000 | Financial assets held under resale agreements, at amortised cost HK\$'000 | Held-to-maturity investments, at amortised cost HK\$'000 |
|--|-------|---------------------------------------|--|---|--|--|--|---|
| Closing balance at 31 December 2017 | | | | | | | | |
| - HKAS 39 | | 4,536,816 | 19,768,481 | 37,908,459 | 16,369,217 | 14,166,536 | 2,921,857 | 94,171 |
| Effect arising from initial application of HKFRS 9: | | | | | | | | |
| Reclassification | | | | | | | | |
| From available-for-sale | (a) | - | - | 6,431,134 | - | 1,673,177 | - | - |
| From held-to-maturity | (b) | - | - | 94,171 | - | - | - | (94,171) |
| From other loans and receivables | (c) | - | - | 937,902 | - | (937,902) | - | - |
| Remeasurement | | | | | | | | |
| Impairment under ECL model | (d) | (59) | (1,029) | - | (29,853) | (33,074) | (1) | - |
| Opening balance at 1 January 2018 | | 4,536,757 | 19,767,452 | 45,371,666 | 16,339,364 | 14,868,737 | 2,921,856 | - |

Notes to the Condensed Consolidated Financial Statements

3. Principal Accounting Policies (Continued)

3.1 Impacts and changes in accounting policies of application on HKFRS 9 Financial Instruments (Continued)

3.1.2 Summary of effects arising from initial application of HKFRS 9 (Continued)

| | Notes | Accounts receivables, at amortised cost HK\$'000 | Deposits and other receivables, at amortised cost HK\$'000 | Available-for-sale investments HK\$'000 | Deferred tax assets HK\$'000 | Investments revaluation reserve HK\$'000 | Retained profits HK\$'000 |
|--|-------|---|---|--|---------------------------------|---|------------------------------|
| Closing balance at 31 December 2017 – HKAS 39 | | 5,946,394 | 736,427 | 8,104,311 | 1,098 | 161,389 | 5,639,074 |
| Effect arising from initial application of HKFRS 9: | | | | | | | |
| Reclassification | | | | | | | |
| From available-for-sale | (a) | - | - | (8,104,311) | - | (161,389) | 161,389 |
| From held-to-maturity | (b) | - | - | - | - | - | - |
| From other loans and receivables | (c) | - | - | - | - | - | - |
| Remeasurement | | | | | | | |
| Impairment under ECL model | (d) | (2,869) | - | - | 11,036 | - | (55,849) |
| Opening balance at 1 January 2018 | | 5,943,525 | 736,427 | - | 12,134 | - | 5,744,614 |

3. Principal Accounting Policies (Continued)

3.1 Impacts and changes in accounting policies of application on HKFRS 9 Financial Instruments (Continued)

3.1.2 Summary of effects arising from initial application of HKFRS 9 (Continued)

Notes:

(a) From AFS investments to FVTPL

At the date of initial application of HKFRS 9, the Group's listed equity investments, listed debt investments, unlisted fund investments, unlisted partnership investments and unlisted equity investments of HK\$6,431 million were reclassified from available-for-sale investments to financial assets at FVTPL since the cash flows do not represent solely payments of principal and interest on the principal amount outstanding. The net fair value gains of HK\$161 million relating to those investments previously carried at fair value were transferred from investment revaluation reserve to retained profits.

From AFS debt investments to amortised cost

At the date of initial application of HKFRS 9, unlisted debt investments of HK\$1,673 million were reclassified from available-for-sale investments to other loans and receivables, at amortised cost since the Group's business model is to hold these investments for collection of contractual cash flows, and the cash flows represent solely payments of principal and interest on the principal amount outstanding. The directors of the Company considered that the fair value of these debt investments is approximate to their amortised cost.

(b) From Held-to-maturity investments to FVTPL

At the date of initial application of HKFRS 9, unlisted debt securities of HK\$94 million previously classified as held-to-maturity investments were reclassified and measured at FVTPL as the directors of the Company re-considered that these debt securities were held within a business model whose objective is achieved by selling of these assets. The directors of the Company considered that the fair value of these debt investments approximates to their carrying value.

(c) From other loans and receivables to FVTPL

Other loans and receivables of HK\$938 million previously classified as loans and receivables was reclassified to FVTPL upon the application of HKFRS 9 because its cash flows do not represent solely payments of principal and interest on the principal amount outstanding. At date of transition, the directors of the Company considered that the fair value did not materially differ from the carrying value under HKAS 39.

(d) Impairment under ECL model

Such amount represents the impairment under ECL model upon application of HKFRS 9 as detailed in 3.1.1.

Loss allowances for advances to customers in margin financing, other loans and receivables, cash and cash equivalents, cash held on behalf of customers, financial assets held under resale agreements and accounts receivable that is not result from transactions within the scope of HKFRS 15, are measured on 12m ECL basis and there had been no significant increase in credit risk since initial recognition, except for advances to customers in margin financing and other loans and receivables which have been a significant increase in credit risk since initial recognition and the Group recognizes lifetime ECL.

Notes to the Condensed Consolidated Financial Statements

3. Principal Accounting Policies (Continued)

3.1 Impacts and changes in accounting policies of application on HKFRS 9 Financial Instruments (Continued)

3.1.2 Summary of effects arising from initial application of HKFRS 9 (Continued)

Notes: (Continued)

(d) Impairment under ECL model (Continued)

As at 1 January 2018, the additional credit allowances of HK\$ 66,885,000 has been recognised against the retained profits. The additional loss allowance is charged against the respective asset.

The following table reconciles the impairment allowance measured in accordance with HKAS 39 (under incurred loss model) as at 31 December 2017 to the new impairment allowance measured with HKFRS 9 (under ECL model) at 1 January 2018:

| | Impairment allowance under HKAS 39 HK\$'000 | Impairment allowance under re-measurement HK\$'000 | Impairment allowance under HKFRS 9 HK\$'000 |
|--|--|---|--|
| Advances to customers in margin financing (note) | 239,204 | 29,853 | 269,057 |
| Other loans and receivables (note) | 211,530 | 33,074 | 244,604 |
| Cash and cash equivalents | – | 59 | 59 |
| Cash held on behalf of customers | – | 1,029 | 1,029 |
| Financial assets held under resale agreements | – | 1 | 1 |
| Accounts receivable | – | 2,869 | 2,869 |
| Total | 450,734 | 66,885 | 517,619 |

Note: For the impairment assessment process on advances to customers in margin financing and other loans and receivables, please refer to notes 17 and 18 respectively.

(e) Hedge accounting

The Group applies the hedge accounting requirements of HKFRS 9 prospectively. At the date of initial application, hedging relationships that qualified for hedge accounting in accordance with HKAS 39 are regarded as continuing hedging relationship if all qualifying criteria under HKFRS 9 are met, after taking into account any rebalancing of the hedge relationships on transition. Consistent with prior periods, the Group has continued to designate certain derivatives as hedging instruments for cash flow hedges. As such, the adoption of the hedge accounting requirements of HKFRS 9 had not resulted adjustments to comparative figures.

3. Principal Accounting Policies (Continued)

3.2 Impacts and changes in accounting policies of application on HKFRS 15 Revenue from Contracts with Customers

The Group has applied HKFRS 15 for the first time in the current interim period. HKFRS 15 superseded HKAS 18 "Revenue", HKAS 11 "Construction Contracts" and the related interpretations.

The Group recognises revenue from the following major sources:

- Commission income on securities dealing and broking, futures and options dealing and broking and bullion contracts dealing;
- Commission income on underwriting and placing, financial advisory and consultancy fees;
- Asset management fee and performance fee income and handling, custodian and other service fee income;
- Interest income from a financial asset (under HKFRS 9 as detailed previously);
- Fair value changes on financial assets at fair value through profit or loss, financial liabilities at fair value through profit or loss, derivative financial instruments, leveraged foreign exchange transactions and bullion contracts trading (under HKFRS 9 as detailed previously); and
- Dividend income (under HKFRS 9 as detailed previously).

The Group has applied HKFRS 15 retrospectively with the cumulative effect of initially applying this Standard recognised at the date of initial application, 1 January 2018. The application of HKFRS 15 on 1 January 2018 has no material impact on the Group's financial performance and positions for the current period and prior years, and accordingly, there is no adjustment on the opening condensed consolidated statement of financial position and condensed consolidated statement of changes in equity.

3.2.1 Key changes in accounting policies resulting from application of HKFRS 15

HKFRS 15 introduces a 5-step approach when recognising revenue:

- 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 Group satisfies a performance obligation

Under HKFRS 15, the Group recognises revenue when (or as) a performance obligation is satisfied, i.e. when "control" of the goods or services underlying the particular performance obligation is transferred to the customer.

Notes to the Condensed Consolidated Financial Statements

3. Principal Accounting Policies (Continued)

3.2 Impacts and changes in accounting policies of application on HKFRS 15 Revenue from Contracts with Customers (Continued)

3.2.1 Key changes in accounting policies resulting from application of HKFRS 15 (Continued)

A performance obligation represents a good and service (or a bundle of goods or services) that is distinct or a series of distinct goods or services that are substantially the same.

Control is transferred over time and revenue is recognised over time by reference to the progress towards complete satisfaction of the relevant performance obligation if one of the following criteria is met:

- the customer simultaneously receives and consumes the benefits provided by the Group's performance as the Group performs;
- the Group's performance creates and enhances an asset that the customer controls as the Group performs; or
- the Group's performance does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.

Otherwise, revenue is recognised at a point in time when the customer obtains control of the distinct good or service.

A contract asset represents the Group's right to consideration in exchange for goods or services that the Group has transferred to a customer that is not yet unconditional. It is assessed for impairment in accordance with HKFRS 9. In contrast, a receivable represents the Group's unconditional right to consideration, i.e. only the passage of time is required before payment of that consideration is due.

A contract liability represents the Group's obligation to transfer goods or services to a customer for which the Group has received consideration (or an amount of consideration is due) from the customer.

The revenue from financial advisory and consultancy fees and asset management fee are recognised over time and other types of revenue are recognised at point in time.

3. Principal Accounting Policies (Continued)

3.2 Impacts and changes in accounting policies of application on HKFRS 15 Revenue from Contracts with Customers (Continued)

3.2.1 Key changes in accounting policies resulting from application of HKFRS 15 (Continued)

Variable consideration

For contracts that contain variable consideration, such as performance fee income, the Group estimates the amount of consideration to which it will be entitled using either (a) the expected value method or (b) the most likely amount, depending on which method better predicts the amount of consideration to which the Group will be entitled.

The estimated amount of variable consideration is included in the transaction price only to the extent that it is highly probable that such an inclusion will not result in a significant revenue reversal in the future when the uncertainty associated with the variable consideration is subsequently resolved.

At the end of each reporting period, the Group updates the estimated transaction price (including updating its assessment of whether an estimate of variable consideration is constrained) to represent faithfully the circumstances present at the end of the reporting period and the changes in circumstances during the reporting period.

Notes to the Condensed Consolidated Financial Statements

4. Critical Accounting Judgements and Key Sources of Estimation Uncertainty

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

In preparing the unaudited condensed consolidated interim financial statements, the significant judgments made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the audited consolidated financial statements for the year ended 31 December 2017, except for expected credit loss allowance as detailed in notes 3, 17 and 18.

The measurement of ECL under HKFRS 9 across all categories of financial assets to which ECL measurements requires judgement, in particular, the estimation of the amount and timing of future cash flows and collateral values when determining impairment losses and the assessment of a significant increase in credit risk. These judgements and estimates are driven by a number of factors, changes in which can result in different levels of allowances. At each reporting date, the Group assesses whether there has been a significant increase in credit risk for exposures since initial recognition by comparing the risk of default occurring over the expected life between the reporting date and the date of initial recognition. The Group considers reasonable and supportable information that is relevant and available without undue cost or effort for this purpose. This includes quantitative and qualitative information and also, forward-looking analysis.

41 >

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.

5. Segment Information (Continued)

As detailed in the Group's audited consolidated financial statements for the year ended 31 December 2017, given that 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.

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

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 brokering 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 services 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 clients segment engages in provision of cash equities sales and trading, prime brokerage, stock borrowing and lending, equity research, and investment and financing solutions, 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.

Notes to the Condensed Consolidated Financial Statements

5. Segment Information (Continued)

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

For the six months ended 30 June 2018

| | 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 | 401,323 | 494,605 | 138,464 | 200,859 | – | 1,235,251 |
| Interest income | 615,305 | 214,683 | – | 373,538 | 7,813 | 1,211,339 |
| Net investment gains | 66,360 | 45,456 | – | 514,037 | 484,714 | 1,110,567 |
| Other income and gains or losses | 17,750 | 2,067 | – | 22,523 | (13,306) | 29,034 |
| Segment results | 417,918 | 526,777 | 48,228 | 128,231 | 96,867 | 1,218,021 |
| Share of results of investments accounted for using the equity method | – | – | – | – | (196,240) | (196,240) |
| Profit (loss) before tax | 417,918 | 526,777 | 48,228 | 128,231 | (99,373) | 1,021,781 |
| Depreciation and amortisation | (10,929) | (2,208) | (1,091) | (31,658) | (151) | (46,037) |
| Finance costs | (256,506) | (137,596) | – | (469,014) | (229,096) | (1,092,212) |

5. Segment Information (Continued)

For the six months ended 30 June 2017 (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 | 359,927 | 417,546 | 131,112 | 62,366 | – | 970,951 |
| Interest income | 680,796 | 291,906 | – | 107,129 | – | 1,079,831 |
| Net investment gains | 74,687 | 200,699 | – | 570,906 | 45,942 | 892,234 |
| Other income and gains or losses | 1,475 | 946 | – | 2,358 | 14,860 | 19,639 |
| Segment results | 442,951 | 498,870 | 51,516 | 255,093 | (155,347) | 1,093,083 |
| Share of results of investments accounted for using the equity method | – | – | – | – | 162,824 | 162,824 |
| Profit before tax | 442,951 | 498,870 | 51,516 | 255,093 | 7,477 | 1,255,907 |
| Depreciation and amortisation | (10,059) | (7,197) | (1,036) | (9,664) | (480) | (28,436) |
| Finance costs | (212,518) | (169,053) | – | (238,682) | (204,252) | (824,505) |

Notes to the Condensed Consolidated Financial Statements

6. Revenue and Other Income and Gains or Losses

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

| | Six months ended | |
|--|--------------------------------------|--------------------------------------|
| | 30.6.2018 HK\$'000 (unaudited) | 30.6.2017 HK\$'000 (unaudited) |
| Revenue | | |
| Commission and fee income (note (i)): | | |
| Commission on securities dealing and broking | 270,750 | 215,852 |
| Commission on futures and options dealing and broking | 69,239 | 70,896 |
| Commission on underwriting and placing | 496,336 | 249,137 |
| Financial advisory and consultancy fee income | 216,051 | 276,419 |
| Asset management fee and performance fee income | 138,464 | 131,112 |
| Handling, custodian and other service fee income | 44,411 | 27,535 |
| | 1,235,251 | 970,951 |
| Interest income: | | |
| Interest income from advances to customers in margin financing | 523,259 | 718,767 |
| Interest income from other loans and receivables | 551,914 | 293,621 |
| Interest income from other activities | 136,166 | 67,443 |
| | 1,211,339 | 1,079,831 |
| Net investment gains: | | |
| Net gains arising from financial assets/liabilities at fair value through profit or loss | 1,026,731 | 541,006 |
| Net gains arising from disposal of available-for-sale investments (note (ii)) | – | 154,318 |
| Interest income from available-for-sale investments | – | 150,907 |
| Dividend income | 83,836 | 43,441 |
| Interest income from held-to-maturity investments and others | – | 2,562 |
| | 1,110,567 | 892,234 |
| | 3,557,157 | 2,943,016 |
| Other income and gains or losses | | |
| Others | 29,034 | 19,639 |

Notes:

- (i) The commission and fee income is the only revenue arising from HKFRS 15, while interest income and net investment gains are under the scope of HKFRS 9.
- (ii) Included in "net gains arising from disposal of available-for-sale investments" for the 6 months ended 30 June 2017 was deemed disposal gain of HK\$150,495,000 arising from de-consolidation of a consolidated investment fund during the prior period. Details of this deemed disposal gain are disclosed in note 26.

7. Employee Benefit Costs

| | Six months ended | |
|--|---------------------------------------|---------------------------------------|
| | 30.06.2018 HK\$'000 (unaudited) | 30.06.2017 HK\$'000 (unaudited) |
| Salaries, bonuses and allowances | 586,503 | 494,357 |
| Commission to accounts executives (note) | 131,181 | 121,537 |
| Pension scheme contributions (net) | 13,301 | 7,758 |
| | 730,985 | 623,652 |

Note: Included in commission expenses of HK\$145,354,000 (2017: HK\$131,185,000) is commission to accounts executives of HK\$131,181,000 (2017: HK\$121,537,000).

8. Impairment Losses, Net of Reversal

| | Six months ended | |
|--|---------------------------------------|---------------------------------------|
| | 30.06.2018 HK\$'000 (unaudited) | 30.06.2017 HK\$'000 (unaudited) |
| Impairment losses on advances to customers in margin financing (note 17) | 102,199 | 102,757 |
| Reversal of impairment losses on advances to customers in margin financing (note 17) | – | (30,407) |
| Impairment losses on other loans and receivables (note 18) | 5,000 | – |
| Reversal of impairment loss on other loans and receivables (note 18) | (68,647) | – |
| | 38,552 | 72,350 |

9. Finance Costs

| | Six months ended | |
|---|---------------------------------------|---------------------------------------|
| | 30.06.2018 HK\$'000 (unaudited) | 30.06.2017 HK\$'000 (unaudited) |
| Bank loans and overdrafts | 489,613 | 406,781 |
| Debt securities in issue: | | |
| Convertible bonds | 31,662 | 33,725 |
| Non-convertible bonds | 226,146 | 223,503 |
| Non-convertible notes | 123,218 | 49,728 |
| Financial assets sold under repurchase agreements | 218,906 | 109,429 |
| Others | 2,667 | 1,339 |
| | 1,092,212 | 824,505 |

Details of the Group's loans and other borrowings and debt securities in issue are disclosed in note 32.

Notes to the Condensed Consolidated Financial Statements

10. Income Tax Expense

| | Six months ended | |
|-------------------------------|--------------------------------------|--------------------------------------|
| | 30.6.2018 HK\$'000 (unaudited) | 30.6.2017 HK\$'000 (unaudited) |
| Current taxation | | |
| — Hong Kong | 127,029 | 215,483 |
| — PRC and other jurisdictions | 26,385 | 2,454 |
| | 153,414 | 217,937 |
| Deferred tax | | |
| — Current period | 9,226 | (236) |
| | 162,640 | 217,701 |

Hong Kong Profits Tax is calculated at 16.5% on the estimated assessable profits arising in Hong Kong for the current and prior period. Under the Law of the People's Republic of China on Enterprise Income Tax (the "EIT Law") and Implementation Regulation of the EIT Law, the tax rate of the PRC subsidiaries is 25%.

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

11. Earnings Per Share

Basic earnings per share

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

| | Six months ended | |
|---|--------------------------|--------------------------|
| | 30.6.2018 (unaudited) | 30.6.2017 (unaudited) |
| Earnings | | |
| Profit for the period attributable to owners of the Company (HK\$'000) | 859,141 | 1,038,206 |
| Number of shares | | |
| Weighted average number of ordinary shares in issue less shares held for the share award scheme (in thousands) (note (a)) | 5,530,498 | 5,316,954 |
| Basic earnings per share (HK cents per share) | 15.53 | 19.53 |

11. Earnings Per Share (Continued)

Diluted earnings per share

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

| | Six months ended | |
|---|--------------------------|--------------------------|
| | 30.6.2018 (unaudited) | 30.6.2017 (unaudited) |
| Earnings | | |
| Profit for the period attributable to owners of the Company (HK\$'000) | 859,141 | 1,038,206 |
| Effect of dilutive potential ordinary shares | | |
| — Interest on convertible bonds (net of tax) (note (b)) (HK\$'000) | 26,438 | 28,160 |
| Earnings for the purpose of diluted earnings per share (HK\$'000) | 885,579 | 1,066,366 |
| Number of shares | | |
| Weighted average number of ordinary shares in issue less shares held for the share award scheme (in thousands) (note (a)) | 5,530,498 | 5,316,954 |
| Effect of dilutive potential ordinary shares: | | |
| — Convertible bonds (in thousands) (note (b)) | 455,824 | 598,889 |
| — Share options (in thousands) (note (c)) | 2,347 | 3,236 |
| — Share awards (in thousands) | 3,135 | 3,418 |
| Weighted average number of ordinary shares for the purpose of diluted earnings per share (in thousands) | 5,991,804 | 5,922,497 |
| Diluted earnings per share (HK cents per share) | 14.78 | 18.01 |

Notes to the Condensed Consolidated Financial Statements

11. Earnings Per Share (Continued)

Diluted earnings per share (Continued)

Notes:

- (a) As at 30 June 2018, the trustee of the share award scheme held 21,870,909 ordinary shares of the Company (30 June 2017: 19,266,739) 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\$151 million (30 June 2017: HK\$128 million).

During the current period, 7,010,493 (30 June 2017: 4,246,234 award shares) awarded shares were granted by the Company. There were no awarded shares lapsed in respect of such grant, while 21,556 awarded shares (30 June 2017: Nil) during the six months ended 30 June 2018 in respect of grant by the Company on 28 April 2017 and 105,150 shares (30 June 2017: 222,231 shares) in respect of the grant by the Company on 18 April 2016 were lapsed during the six months ended 30 June 2018. In addition, 1,318,237 shares (30 June 2017: Nil) were vested during the current six-month period in relation to the grant made by the Company on 28 April 2017 and 2,252,593 shares (30 June 2017: 2,457,261 shares) were vested during the current six-month period in relation to the grant made by the Company on 18 April 2016. Details of the share award scheme of the Company have been disclosed in note 34 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 32.

Convertible bonds issued in 2013 that were outstanding and convertible into ordinary shares of the Company at a conversion price of HK\$2.76 as at 31 December 2017 had been converted in full into shares during the current six-month period. As at 30 June 2018, the convertible bonds issued in 2014 and 2017 that remain outstanding are convertible into ordinary shares of the Company at a conversion price of HK\$4.44 (31 December 2017: HK\$4.61) and HK\$6.27 (31 December 2017: HK\$6.53) respectively, at the option of the holders of the convertible bonds, which created a potential dilutive effect to the earnings per share. In the calculation of the diluted earnings per share, the convertible bonds are assumed to have been converted into ordinary shares. The weighted average number of ordinary shares outstanding is increased by the weighted average number of additional ordinary shares that would have been outstanding assuming the conversion of all dilutive potential ordinary shares was made from the date of the first issue with the adjustment if there is any conversion of the convertible bonds into ordinary shares during the period. The net profit is adjusted to eliminate the relevant interest expense less the tax effect.

- (c) The computation of diluted earnings per share assumed the exercise of the Company's outstanding share options with the exercise price lower than the average market price during the six months ended 30 June 2018 and with the adjustment for the share options lapsed or exercised during the period.

12. Dividends

At a meeting of the Board held on 9 March 2017, the Board 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. 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 was paid on 11 May 2018, with a total of HK\$273,062,000 cash dividend paid to shareholders and 161,693,823 shares were issued in scrip form with the amount of HK\$717,386,000.

At the meeting of the Board on 24 August 2018, the Board declared an interim dividend of HK7.6 cents per share in cash for the six months ended 30 June 2018 (six months ended 30 June 2017: interim dividend of HK10 cent per share in cash) to shareholders whose names appear on the register of members of the Company on Wednesday, 12 September 2018. The shareholders are given the option to receive the interim dividend in new shares in lieu of cash. The interim dividend is expected to be paid on or about Wednesday, 24 October 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.

13. 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 unaudited condensed consolidated statement of financial position and recognised the corresponding accounts payable (note 31) to respective clients on the grounds that it is liable for any loss or misappropriation of clients' monies. The cash held on behalf of customers is restricted and governed by the Securities and Futures (Client Money) Rules under the Securities and Futures Ordinance ("HKSF").

Notes to the Condensed Consolidated Financial Statements

14. Financial Assets/Liabilities at Fair Value Through Profit or Loss – Trading and Investment Securities

| | 30.6.2018 HK\$'000 (unaudited) | 31.12.2017 HK\$'000 (audited) |
|---|--------------------------------------|-------------------------------------|
| Financial assets at fair value through profit or loss | | |
| Trading and investment securities – at fair value | | |
| Listed equity investments | 3,160,205 | 7,483,326 |
| Exchange traded funds (note (iv)) | 683,086 | 974,447 |
| Listed preference shares | 245,668 | 203,721 |
| Listed debt investments | 30,862,797 | 18,960,131 |
| Unlisted equity investments (note (iv)) | 1,080,933 | 178,470 |
| Unlisted debt investments (note (iv)) | 10,242,386 | 5,875,581 |
| Unlisted investment funds (notes (i) & (iv)) | 11,715,679 | 4,133,005 |
| Unlisted structured products | 71,359 | – |
| Unlisted certificated deposits | – | 99,778 |
| Unlisted partnership investments (notes (iii) & (iv)) | 876,467 | – |
| | 58,938,580 | 37,908,459 |
| Less: Non-current portion | (7,468,002) | – |
| Current portion | 51,470,578 | 37,908,459 |
| Financial liabilities at fair value through profit or loss | | |
| Trading securities under short selling arrangement – at fair value | | |
| Listed equity investments (note (ii)) | 205,473 | 2,189,118 |
| Listed debt investments (note (ii)) | 3,604,519 | 2,352,204 |
| Listed preference shares (note (ii)) | 22,853 | 37,466 |
| Unlisted debt investment (note (ii)) | 47,314 | 25,900 |
| | 3,880,159 | 4,604,688 |

Details of disclosure for fair value measurement are set out in note 38.

14. Financial Assets/Liabilities at Fair Value Through Profit or Loss – Trading and Investment Securities (Continued)

Notes:

- (i) The Group invested in unconsolidated investment funds. These investment funds invests in investments 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\$11,716 million (31 December 2017: HK\$4,133 million) in the unaudited condensed consolidated statement of financial position represents the Group's maximum exposure.

Unconsolidated investment funds include investments reclassified from available-for-sale investments to financial assets at fair value through profit or loss upon application of HKFRS 9 on 1 January 2018.

- (ii) Balance represents the fair value of equity and debt securities subject to short selling activities.
- (iii) As at 30 June 2018, the unfilled capital commitment to the partnership investments is HK\$94 million.
- (iv) As at 30 June 2018, included in the non-current portion are exchange traded funds, unlisted equity investments, unlisted debt investments, unlisted investment funds and unlisted partnership that are investment securities that the directors of the Company expect to realise them not within twelve months after each reporting period.

15. Financial Assets/Liabilities at Fair Value Through Profit or Loss – Financial Products Issued

| | 30.6.2018 HK\$'000 (unaudited) | 31.12.2017 HK\$'000 (audited) |
|--|---|-------------------------------------|
| Assets – acquired for financial products issued | | |
| Listed equity investments, at fair value (note (ii)) | 2,707,651 | 2,510,765 |
| Listed debt investments, at fair value (note (ii)) | 10,249,290 | 3,958,884 |
| Listed preference shares, at fair value (note (ii)) | 43,494 | – |
| Unlisted equity investments, at fair value (notes (i) & (ii)) | 721,399 | 709,727 |
| Unlisted partnership investments, at fair value (notes (i) & (ii)) | 494,776 | 300,498 |
| Unlisted debt investments, at fair value (note (ii)) | – | 547,110 |
| Unlisted investment funds, at fair value (notes (i) & (ii)) | 1,580,544 | 2,144,529 |
| Unlisted structured products, at fair value (note (ii)) | 2,649,525 | 2,108,139 |
| | 18,446,679 | 12,279,652 |
| Less: Non-current portion | (2,696,175) | (1,139,283) |
| Current portion | 15,750,504 | 11,140,369 |

Notes to the Condensed Consolidated Financial Statements

15. Financial Assets/Liabilities at Fair Value Through Profit or Loss – Financial Products Issued (Continued)

| | 30.6.2018 HK\$'000 (unaudited) | 31.12.2017 HK\$'000 (audited) |
|--|--------------------------------------|-------------------------------------|
| Liabilities – short position for financial products issued/ financial products issued | | |
| Listed equity investments, at fair value | 229,781 | 92,708 |
| Unlisted issued structured products, at fair value (note (iii)) | 12,895,512 | 12,044,127 |
| | 13,125,293 | 12,136,835 |
| Less: Non-current portion | (2,134,055) | (852,245) |
| Current portion | 10,991,238 | 11,284,590 |

Details of disclosure for fair value measurements are set out in note 38.

Notes:

- (i) As at 30 June 2018 and 31 December 2017, included in assets acquired for financial products issued 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. Their total current carrying amount of HK\$2,797 million (31 December 2017: HK\$3,155 million) in the unaudited condensed consolidated statement of financial position represents the Group's maximum exposure.

- (ii) These financial assets are primarily acquired by the Group which were driven by the financial products issued and become their underlying investments and hedging items for the risk of economic exposure on these issued financial products as set out in note (iii) below.

As a result, the overall variable return of these assets and respective liabilities is not significant to the Group.

- (iii) As at 30 June 2018 and 31 December 2017, included in financial products issued are the issued structured notes which arise from selling structured products generally in the form of notes or certificates with the underlying investments related to listed equity investments in active markets, unlisted debt investments, unlisted investment funds and unlisted equity or partnership investments.

The risk of economic exposure on these structured products is primarily hedged using financial assets as detailed in note (ii) above. These structured products were designated at fair value through profit or loss on 31 December 2017 as the risks to which the Group was a contractual party were 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.

16. Derivative Financial Instruments

| | 30.6.2018 HK\$'000 (unaudited) | 31.12.2017 HK\$'000 (audited) |
|--|--------------------------------------|-------------------------------------|
| Assets – at fair value | | |
| Swaps — held-for-trading | 8,764 | 1,051 |
| Forward foreign currency exchange contracts and futures contracts — held-for-trading | 89,097 | 91,412 |
| Listed options/warrants — held-for-trading | 170,888 | 558,125 |
| Unlisted options — held-for-trading | 47,686 | 43,088 |
| | 316,435 | 693,676 |
| Liabilities – at fair value | | |
| Swaps — cash flow hedges (note) | – | 7,169 |
| Swaps — held-for-trading | 9,816 | 8,581 |
| Forward foreign currency exchange contracts and futures contracts — held-for-trading | 76,223 | 109,830 |
| Foreign currency option contracts — held-for-trading | 23 | 32 |
| Listed options/warrants — held-for-trading | 184,877 | 987,065 |
| Callable bull/bear contracts — held-for-trading | 10,249 | 201,999 |
| Unlisted options — held-for-trading | 20,663 | 8,440 |
| | 301,851 | 1,323,116 |

Note: The notional principal amounts of the outstanding swap contracts held for cash flow hedging against the floating interest expense exposure from notes issued by the Group as at 31 December 2017 were HK\$239 million. The profit or loss arising from ineffective portion of cash flow hedges was immaterial.

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

17. Advances to Customers in Margin Financing

| | 30.6.2018 HK\$'000 (unaudited) | 31.12.2017 HK\$'000 (audited) |
|-----------------------------|--------------------------------------|-------------------------------------|
| Loans to margin clients | 17,623,051 | 16,608,421 |
| Less: Impairment allowances | (363,847) | (239,204) |
| | 17,259,204 | 16,369,217 |

Notes to the Condensed Consolidated Financial Statements

17. Advances to Customers in Margin Financing (Continued)

The credit facility granted to each margin client is determined by the discounted market value of the collateral securities accepted by the Group, where 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 when the margin clients having to make good the shortfall. In granting credit facility, other factors such as financial strength, creditworthiness and the past collection statistics are also considered. The Group's Credit and Product Management Department, Risk Management Department and Risk Management Committee are responsible to monitor credit risk and seek to maintain a strict control over the outstanding loan balance.

The loans to margin clients are secured by the underlying pledged securities and interest bearing. The Group maintains a list of approved stocks for margin lending at a specified loan to collateral ratio. As at 30 June 2018, advances to customers in margin financing of HK\$17,295 million (31 December 2017: HK\$16,353 million) were secured by securities pledged by the customers to the Group as collateral with undiscounted market value of HK\$84,378 million (31 December 2017: HK\$84,580 million).

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

| | Stage 1 HK\$'000 (unaudited) | Stage 2 HK\$'000 (unaudited) | Stage 3 HK\$'000 (unaudited) | Total HK\$'000 (unaudited) |
|---|------------------------------------|------------------------------------|------------------------------------|----------------------------------|
| Gross carrying amount as at 1 January 2018 | 15,823,494 | 246,086 | 538,841 | 16,608,421 |
| Net increase (decrease) in lending to customers during the period | 1,155,781 | (234,083) | 100,341 | 1,022,039 |
| Written-off | – | – | (7,409) | (7,409) |
| Gross carrying amount as at 30 June 2018 | 16,979,275 | 12,003 | 631,773 | 17,623,051 |

Note:

Definition of Stage 1, Stage 2 and Stage 3 are as below:

Stage 1: Exposures where there has not been a significant increase in credit risk since initial recognition and that are not credit-impaired upon origination, the portion of the lifetime ECL associated with the probability of default events occurring within the next 12 months is recognised.

Stage 2: Exposures where there has been a significant increase in credit risk since initial recognition but are not credit-impaired, a lifetime ECL (i.e. reflecting the remaining lifetime of the financial asset) is recognised.

Stage 3: Exposures are assessed as credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of that asset have occurred. For exposures that have become credit-impaired, a lifetime ECL is recognised and interest revenue is calculated by applying the effective interest rate to the amortised cost (net of provision) rather than the gross carrying amount.

17. Advances to Customers in Margin Financing (Continued)

Movement in the allowances for impairment are as follows:

30.6.2018

| | Stage 1 12-month ECL HK\$'000 (unaudited) | Stage 2 Lifetime ECL HK\$'000 (unaudited) | Stage 3 Lifetime ECL HK\$'000 (unaudited) | Impairment allowance under HKAS 39 HK\$'000 (unaudited) | Total HK\$'000 (unaudited) |
|---|---|---|---|--|----------------------------------|
| As at 1 January 2018 | – | – | – | 239,204 | 239,204 |
| Restated on adoption of HKFRS 9 | 24,922 | 4,931 | 239,204 | (239,204) | 29,853 |
| Transfer from/to 12-month ECL to/from lifetime ECL | 4,067 | (4,312) | 245 | – | – |
| Charged to profit or loss | 5,405 | – | 96,794 | – | 102,199 |
| Written-off | – | – | (7,409) | – | (7,409) |
| As at 30 June 2018 | 34,394 | 619 | 328,834 | – | 363,847 |

31.12.2017

| | Total HK\$'000 (audited) |
|------------------------------|--------------------------------|
| As at 1 January 2017 | 101,556 |
| Impairment losses recognised | 141,115 |
| Amounts recovered | (3,467) |
| As at 31 December 2017 | 239,204 |

As at 30 June 2018, the gross amount and the carrying amount of credit-impaired advances to customers in margin financing were amounting to HK\$631,773,000 and HK\$302,939,000 respectively (31 December 2017: HK\$538,841,000 and HK\$299,637,000).

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

Notes to the Condensed Consolidated Financial Statements

18. Other Loans and Receivables

| | 30.6.2018 HK\$'000 (unaudited) | 31.12.2017 HK\$'000 (audited) |
|---|---|-------------------------------------|
| Other loans and receivables | 12,644,478 | 8,644,377 |
| Debt securities classified as receivables | 3,160,818 | 5,733,689 |
| Less: Impairment allowance | (180,957) | (211,530) |
| | 15,624,339 | 14,166,536 |
| Less: Non-current portion | (4,682,706) | (3,350,685) |
| Current portion | 10,941,633 | 10,815,851 |

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

| | 30.6.2018 HK\$'000 (unaudited) | 31.12.2017 HK\$'000 (audited) |
|--------------------------------|---|-------------------------------------|
| Secured by listed securities | 8,408,035 | 7,631,299 |
| Secured by unlisted securities | 6,671,086 | 6,139,961 |

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 and Product Management 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.

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

| | 30.6.2018 HK\$'000 (unaudited) | 31.12.2017 HK\$'000 (audited) |
|---------------------------------------|---|-------------------------------------|
| Neither past due nor impaired | 15,502,384 | 14,075,154 |
| Past due but not impaired | – | – |
| Impaired | 302,912 | 302,912 |
| Balance at the end of the period/year | 15,805,296 | 14,378,066 |

18. Other Loans and Receivables (Continued)

As at 30 June 2018, other loans and receivables that are impaired represent two secured corporate loans with gross carrying value amounting to HK\$303 million (31 December 2017: 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 (31 December 2017: more than 360 days) as at 30 June 2018. 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. The management considered that the development project has entered the final stage and valuation can be estimated reliably, as a result a reversal of the impairment loss of HK\$69 million was recognised during the period ended 30 June 2018.

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

| | Stage 1 HK\$'000 (unaudited) | Stage 2 HK\$'000 (unaudited) | Stage 3 HK\$'000 (unaudited) | Total HK\$'000 (unaudited) |
|--|------------------------------------|------------------------------------|------------------------------------|----------------------------------|
| Gross carrying amount as at 1 January 2018 | 14,075,154 | – | 302,912 | 14,378,066 |
| Reclassified from AFS investments under HKFRS 9 | 1,673,177 | – | – | 1,673,177 |
| Reclassified to financial assets at FVTPL | (937,902) | – | – | (937,902) |
| Transfer from/to 12-month ECL to/from lifetime ECL | (36,133) | 36,133 | – | – |
| Net lending made during the period | 691,955 | – | – | 691,955 |
| Gross carrying amount as at 30 June 2018 | 15,466,251 | 36,133 | 302,912 | 15,805,296 |

Definition of Stage 1, Stage 2 and Stage 3 is the same as the definition as detailed in note 17.

Notes to the Condensed Consolidated Financial Statements

18. Other Loans and Receivables (Continued)

Movement in the allowances for impairment are as follows:

30.6.2018

| | Stage 1 12-month ECL HK\$'000 (unaudited) | Stage 2 Lifetime ECL HK\$'000 (unaudited) | Stage 3 Lifetime ECL HK\$'000 (unaudited) | Impairment allowance under HKAS 39 HK\$'000 (unaudited) | Total HK\$'000 (unaudited) |
|---|---|---|---|--|----------------------------------|
| As at 1 January 2018 | – | – | – | 211,530 | 211,530 |
| Restated on adoption of HKFRS 9 | 33,074 | – | 211,530 | (211,530) | 33,074 |
| Transfer from/to 12-month ECL to/from lifetime ECL | (811) | 811 | – | – | – |
| Charged (credited) to profit or loss | 3,812 | 1,188 | (68,647) | – | (63,647) |
| Written-off | – | – | – | – | – |
| As at 30 June 2018 | 36,075 | 1,999 | 142,883 | – | 180,957 |

59 >

31.12.2017

| | Total HK\$'000 (audited) |
|------------------------------|--------------------------------|
| As at 1 January 2017 | 102,883 |
| Impairment losses recognised | 108,647 |
| As at 31 December 2017 | 211,530 |

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 approximates to their fair value.

19. Financial Assets Held Under Resale Agreements

| | 30.6.2018 HK\$'000 (unaudited) | 31.12.2017 HK\$'000 (audited) |
|----------------------------------|---|-------------------------------------|
| Analysed by collateral type: | | |
| Equities | 27,300 | 4,800 |
| Bonds and preference shares | 4,120,829 | 2,917,057 |
| Analysed by market: | | |
| Inter-bank market | 4,148,129 | 2,921,857 |
| Analysed for reporting purposes: | | |
| Current | 4,148,129 | 2,921,857 |

Sales and repurchase agreements are transactions in which the external investors sell a security to the Group and simultaneously agree 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 not exposed to substantially all the credit risks, market risks and rewards of those securities bought. These securities are not recognised in the unaudited condensed consolidated financial statements but regarded as "collateral" because the external investors retain substantially all the risks and rewards of these securities.

As of 30 June 2018, the fair value of the collateral was HK\$4,031 million (31 December 2017: HK\$2,829 million).

20. Held-to-Maturity Investments

| | 30.6.2018 HK\$'000 (unaudited) | 31.12.2017 HK\$'000 (audited) |
|--------------------------|---|-------------------------------------|
| Unlisted debt securities | – | 94,171 |

The unlisted debt securities were recognised as financial assets at FVTPL – trading and investment securities upon adoption of HKFRS 9 on 1 January 2018.

The debt securities held by the Group as at 31 December 2017 had contractual interest rate 4.1% per annum and with maturity in 2018.

Details of disclosure for fair value measurement are set out in note 38.

Notes to the Condensed Consolidated Financial Statements

21. Accounts Receivable

| | 30.6.2018 HK\$'000 (unaudited) | 31.12.2017 HK\$'000 (audited) |
|---|---|-------------------------------------|
| Accounts receivable from: | | |
| — Clients | 394,207 | 283,640 |
| — Brokers, dealers and clearing house | 9,391,765 | 5,295,030 |
| — Collaterals paid under stock borrowing agreements | 296,613 | 208,915 |
| — Clients for subscription of new shares in IPO | 1,004,389 | – |
| — Others (note) | 285,058 | 158,809 |
| | 11,372,032 | 5,946,394 |

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

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

| | 30.6.2018 HK\$'000 (unaudited) | 31.12.2017 HK\$'000 (audited) |
|-------------------------|---|-------------------------------------|
| Between 0 and 3 months | 11,306,598 | 5,937,168 |
| Between 4 and 6 months | 16,969 | 2,373 |
| Between 7 and 12 months | 44,511 | 2,001 |
| Over 1 year | 3,954 | 4,852 |
| | 11,372,032 | 5,946,394 |

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

21. Accounts Receivable (Continued)

Accounts receivable from clients arising from financing of IPO subscriptions are required to settle their securities trading balances on the allotment date determined under the relevant market practices or exchange rules. As at 30 June 2018, the settlement dates are in the range of 3 July 2018 to 11 July 2018.

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

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.

22. Prepayments, Deposits and Other Receivables

| | 30.6.2018 HK\$'000 (unaudited) | 31.12.2017 HK\$'000 (audited) |
|--|---|-------------------------------------|
| Prepayments, deposits and other receivables (Note) | 1,377,802 | 908,688 |
| Less: Non-current portion | (77,802) | (17,114) |
| Current portion | 1,300,000 | 891,574 |

Note: Included in the amount of prepayments, deposits and other receivables are the interest receivable of HK\$930 million (31 December 2017: HK\$632 million) from bank deposits, brokerage customers, and bond investments which are receivable within one year.

Notes to the Condensed Consolidated Financial Statements

23. Available-for-Sale Investments

| | 30.6.2018 HK\$'000 (unaudited) | 31.12.2017 HK\$'000 (audited) |
|--|---|-------------------------------------|
| Listed equity investments, at fair value | – | 111,200 |
| Listed debt investments, at fair value | – | 176,476 |
| Unlisted fund investments, at fair value (note (a)) | – | 5,007,439 |
| Unlisted partnership investments, at fair value (note (b)) | – | 472,358 |
| Unlisted equity investments, at fair value | – | 663,661 |
| Unlisted debt investments, at fair value | – | 1,673,177 |
| | – | 8,104,311 |

Upon application of HKFRS 9 on 1 January 2018, the Group's listed equity investments, listed debt investments, unlisted fund investments, unlisted partnership investments and unlisted equity investments of HK\$6,431 million were reclassified from available-for-sale investments to financial assets at FVTPL – trading and investment securities.

In addition, unlisted debt investments amounted to HK\$1,673 million were reclassified from available-for-sale investments to other loans and receivable as the Group's business model is to hold these investments for collection of contractual cash flows, and the cash flows represent solely payments of principal and interest on the principal amount outstanding. The directors of the Company considered that the fair value of these debt investments approximates to their amortised cost.

Notes:

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

There was no unfilled capital commitment to the funds. The carrying amount of HK\$5,007 million in the consolidated statement of financial position represented the Group's maximum exposure as at 31 December 2017.

- (b) As at 31 December 2017, the unfilled capital commitment to the partnerships were HK\$687 million.

Details of disclosure for fair value measurement are set out in note 38.

24. Investments Accounted for Using the Equity Method

| | 30.6.2018 HK\$'000 (unaudited) | 31.12.2017 HK\$'000 (audited) |
|--|---|-------------------------------------|
| Associates: | | |
| Cost of unlisted investment in associates | – | 412,096 |
| Share of post-acquisition loss and other comprehensive expense, net of dividend received | – | (21,566) |
| | – | 390,530 |
| Joint ventures: | | |
| Cost of unlisted investment in joint ventures | 3,793,021 | 5,191,979 |
| Share of post-acquisition (loss) profit and other comprehensive (expense) income, net of dividend received | (29,231) | 290,357 |
| | 3,763,790 | 5,482,336 |
| | 3,763,790 | 5,872,866 |

Details of investments accounted for using equity method:

| Name of entity | Country of incorporation | Interests held by the Group | | Principal activities |
|--|--------------------------|-----------------------------|------------------------|----------------------|
| | | As at 30 June 2018 | As at 31 December 2017 | |
| <i>Joint venture</i> Haitong Freedom Multi-Tranche Bond Fund (note a) | The Cayman Islands | 29.61% | 38.63% | Investment holding |
| <i>Associate</i> Haitong International Investment Fund SPC – Fund I S.P. (note b) | The Cayman Islands | 20.18% | 13.20% | Investment holding |

As at 30 June 2018, Haitong International Investment Fund SPC – Fund I S.P. is no longer an associate. Please refer to note (b) below for details.

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

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

Notes to the Condensed Consolidated Financial Statements

24. Investments Accounted for Using the Equity Method (Continued)

Notes:

- (a) As of 30 June 2018 and 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. The non-participating shares provide the Group with the share of returns from the Funds but not any decision-making power nor any voting right in daily operation of the Fund. As of 30 June 2018 and 31 December 2017, 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 Funds and require unanimous consent of the parties sharing control. The arrangement of sharing of control is contractually agreed by both parties. As such, the interests of the Group in the Fund are classified as a joint venture.

There is no unfilled capital commitment to the Fund. The current carrying amount of HK\$3,601 million (31 December 2017: HK\$5,311 million) for Haitong Freedom Multi-Tranche Bond Fund in the unaudited condensed consolidated statement of financial position represent the Group's maximum exposures from these investments.

- (b) As at 30 June 2018 and 31 December 2017, the Group held the interest of non-participating shares of Haitong International Investment Fund SPC – Fund I S.P. (referred to 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 30 June 2018 and 31 December 2017, the Group is the investment manager of the Fund.

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. In the opinion of the directors, the variable returns that the Group was exposed to the Fund were not significant, therefore the Group de-consolidated and classified interests held as associate in prior year.

During the current 6-month period, management of the Group re-assessed the Group's power exerted over the Fund, and considered that the Group does not have significant influence over the Fund due to substantial removal right held by other investors and therefore reclassified interest held from associate to financial asset at fair value through profit or loss – trading and investment securities. Results of the Fund for the current 6-month period have been included in "Net gains arising from financial assets/liabilities at FVTPL" as set out in note 6.

25. Interests in Unconsolidated Investments

The Group invested in certain investment funds, partnership investments and private equity investments (collectively referred to as the "Investments" for the purpose of notes 14, 25, 26) 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 participate in decision making process of the underlying investee companies.

Among those Investments held by the Group where the Group directly or indirectly involved 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 who 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.

As at 31 December 2017, the Group classified its interests in Investments as available-for-sale investments and financial assets at fair value through profit or loss as appropriate in notes 14, 15 and 23. Following the adoption of HKFRS 9 since 1 January 2018, the Group classified its interests in Investments as financial assets at fair value through profit or loss in notes 14 and 15.

26. Interest in Consolidated Investments

The Group had consolidated certain Investments in accordance with criteria set out in note 25. Especially for those investment funds where the Group is involved as an investment manager and also as investor, the Group assesses whether (i) there are any other external holders in these Investments which have power to remove or control the party having the ability to direct the relevant activities of the Investments based on the facts and circumstances and (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 that the Group is a principal.

As at 30 June 2018, 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\$12,077 million and HK\$629 million respectively (31 December 2017: HK\$11,221 million and HK\$384 million).

Notes to the Condensed Consolidated Financial Statements

26. Interest 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 investment funds that are subject to the actions of third-party unit holders.

For the current period, investment returns related to interests held by third-party unit/shareholders of loss of HK\$17.3 million (six months ended 2017: gain of HK\$12.5 million) in consolidated Investments are included in other income and gains or losses in the unaudited condensed consolidated statement of profit or loss. The interests held by third-party unit holders/shareholders amounted to HK\$784 million (31 December 2017: HK\$272 million) as at 30 June 2018. Such amount is recognised as "other liabilities arising from consolidated of investment funds" in the unaudited condensed consolidated statement of financial position.

During the prior six-month period, 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 was exposed to in respect to this consolidated investment funds were no longer significant after the redemption. As a result of the de-consolidation, the Group reclassified investments revaluation reserve in relation to this former consolidated investment fund amounted to HK\$150 million to the unaudited condensed consolidated statement of profit or loss. This reclassification was included within "net gains arising from disposal of available-for-sale investments" (note 6) for the prior period.

67 >

27. Goodwill

| | 30.6.2018 HK\$'000 (unaudited) | 31.12.2017 HK\$'000 (audited) |
|---|---|-------------------------------------|
| Cost | | |
| At the beginning of the period/year | 223,985 | 218,460 |
| Provisional goodwill arising on acquisition (note 37) | 156,114 | 5,525 |
| | 380,099 | 223,985 |

28. Investment Property

Accounting policies

Investment properties are properties held to earn rentals and/or for capital appreciation.

Investment properties are initially measured at cost, including any directly attributable expenditure. Subsequent to initial recognition, investment properties are measured at their fair values. All of the Group's property interests held under operating leases to earn rentals or for capital appreciation purposes are classified and accounted for as investment properties and are measured using the fair value model. Gains or losses arising from changes in the fair value of investment properties are included in profit or loss for the period in which they arise.

28. Investment Property (Continued)

Accounting policies (Continued)

A property interest held under an operating lease may be classified and accounted for as an investment property when the property would otherwise meet the definition of an investment property and the fair value model is used to account for such a property interest. When a property interest held under an operating lease is measured at fair value and classified as an investment property, all properties classified as investment properties must be accounted for using the fair value model.

| | Completed investment properties HK\$'000 |
|---|---|
| Fair value | |
| At 31 December 2017 and 1 January 2018 | – |
| Acquired on an acquisition of a subsidiary (note (a)) | 285,399 |
| Net increase in fair value recognised in profit or loss | – |
| At 30 June 2018 | 285,399 |

All of the Group's property interests held under operating leases to earn rentals or for capital appreciation purposes are measured using the fair value model and are classified and accounted for as investment properties.

One of the key inputs used in valuing the investment properties was recent transaction price. Investment properties are classified as Level 2 under fair value hierarchy (as defined in note 38) as at 30 June 2018.

Note:

- (a) Investment properties are acquired during the current period from acquisition of a subsidiary, which does not constitute a business combination under HKFRS 3. When the Group acquires a group of assets and liabilities that do not constitute a business, the Group identifies and recognises the individual identifiable assets acquired and liabilities assumed by allocating the purchase price first to investment properties which are subsequently measured under fair value model and financial assets/financial liabilities at the respective fair values, the remaining balance of the purchase price is then allocated to the other individual identifiable assets and liabilities on the basis of their relative fair values at the date of purchase. Such a transaction does not give rise to goodwill or bargain purchase gain.

Notes to the Condensed Consolidated Financial Statements

29. 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 |
|--|--|---------------------------------------|---|---|-------------------|
| 30 June 2018 (unaudited) | | | | | |
| At 1 January 2018 | | | | | |
| 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 |
| At 1 January 2018, net of accumulated depreciation | 1,490 | 25,830 | 14,427 | 136,496 | 178,243 |
| Arising from acquisition of subsidiaries (notes 37 & (a)) | 215,959 | 2,948 | 6,611 | 6,015 | 231,533 |
| Additions | – | 7,627 | 3,914 | 862 | 12,403 |
| Disposal | – | – | – | (106) | (106) |
| Depreciation | (2,153) | (5,454) | (2,773) | (27,571) | (37,951) |
| At 30 June 2018, net of accumulated depreciation | 215,296 | 30,951 | 22,179 | 115,696 | 384,122 |
| At 30 June 2018 | | | | | |
| Cost | 219,051 | 93,983 | 73,770 | 557,757 | 944,561 |
| Accumulated depreciation | (3,755) | (63,032) | (51,591) | (442,061) | (560,439) |
| Net carrying values | 215,296 | 30,951 | 22,179 | 115,696 | 384,122 |
| 30 June 2017 (unaudited) | | | | | |
| 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 | – | 60 | 114 | 637 | 811 |
| Additions | – | 4,802 | 1,392 | 25,732 | 31,926 |
| Disposal | – | (232) | (870) | (204) | (1,306) |
| Depreciation | (39) | (3,646) | (2,735) | (19,162) | (25,582) |
| At 30 June 2017, net of accumulated depreciation | 1,529 | 17,050 | 13,180 | 103,755 | 135,514 |
| At 30 June 2017 | | | | | |
| Cost | 3,092 | 69,933 | 58,769 | 494,887 | 626,681 |
| Accumulated depreciation | (1,563) | (52,883) | (45,589) | (391,132) | (491,167) |
| Net carrying values | 1,529 | 17,050 | 13,180 | 103,755 | 135,514 |

Note:

- (a) Among the HK\$232 million of property and equipment that are arising from acquisition of subsidiaries, HK\$216 million of leasehold land and buildings are acquired during the current period from acquisition of a subsidiary, which does not constitute a business combination under HKFRS 3.

30. Financial Assets Sold Under Repurchase Agreements

| | 30.6.2018 HK\$'000 (unaudited) | 31.12.2017 HK\$'000 (audited) |
|----------------------------------|---|-------------------------------------|
| Analysed by collateral type: | | |
| Equities | 2,830,000 | 1,800,300 |
| Bonds and preference shares | 20,491,697 | 9,506,814 |
| Analysed by market: | | |
| Inter-bank market | 23,321,697 | 11,307,114 |
| Analysed for reporting purposes: | | |
| Current | 23,321,697 | 11,307,114 |

Sales and repurchase agreements are transactions in which the Group sells a security and simultaneously agrees to repurchase it (or an asset that is substantially the same) at the agreed date and price. The repurchase prices are fixed and the Group is still exposed to substantially all the credit risks, market risks and rewards of those securities sold. These securities are not derecognised from the unaudited condensed consolidated financial statements but regarded as "collateral" for the liabilities because the Group retains substantially all the risks and rewards of these securities.

As at 30 June 2018, the Group entered into repurchase agreements with different financial institutions to sell bond and preferences shares recognised as financial assets at fair value through profit or loss with carrying amount of HK\$21,548 million (31 December 2017: HK\$13,662 million recognised as financial assets at fair value through profit or loss), which subject to the simultaneous agreements to repurchase these investments at the agreed date and price.

Notes to the Condensed Consolidated Financial Statements

31. Accounts Payable

| | 30.6.2018 | 31.12.2017 |
|---|--------------------|------------|
| | HK\$'000 | HK\$'000 |
| | (unaudited) | (audited) |
| Accounts payable to: | | |
| — Clients | 22,716,119 | 22,012,013 |
| — Brokers, dealers and clearing house | 2,380,263 | 912,708 |
| — Collaterals received under stock lending agreements | 1,833,255 | 3,417,718 |
| — Others | 195,215 | 127,244 |
| | 27,124,852 | 26,469,683 |

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.

Collateral received under stock lending agreement 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 30 June 2018 (31 December 2017: 0.001%), all the accounts payable are non-interest bearing.

Accounts payable to clients include those payables placed in segregated accounts with authorised institutions of HK\$18,991,766,000 (31 December 2017: HK\$19,768,481,000), Hong Kong Futures Exchange Clearing Corporation Limited, Stock Exchange Options Clearing House and other futures dealers totalling HK\$1,217,374,000 (31 December 2017: HK\$1,006,507,000).

32. Loans and Other Borrowings

| | 30.6.2018 HK\$'000 | 31.12.2017 HK\$'000 |
|--|-----------------------|------------------------|
| Debt securities in issue | | |
| Non-current | | |
| Convertible bonds (note (a)) | 3,899,667 | 3,866,282 |
| Non-convertible bonds (note (b)) | 10,141,904 | 10,083,594 |
| Non-convertible notes (note (c)) | – | 472,223 |
| Total non-current debt securities in issue | 14,041,571 | 14,422,099 |
| Current | | |
| Convertible bonds (note (a)) | – | 2,224 |
| Non-convertible notes (note (c)) | 11,638,375 | 1,198,992 |
| Total current debt securities in issue | 11,638,375 | 1,201,216 |
| Total debt securities in issue | 25,679,946 | 15,623,315 |
| Bank loans and other borrowings | | |
| Secured borrowing | | |
| — Bank loans (notes (d) and (e)) | 1,600,996 | 2,033,791 |
| Unsecured borrowing | | |
| — Bank loans (notes (e) and (f)) | 33,949,975 | 28,701,506 |
| — Other loans (notes (f) and 36(a)(iii)) | 10,000 | 20,000 |
| Total bank loans and other borrowings | 35,560,971 | 30,755,297 |
| Total borrowings | 61,240,917 | 46,378,612 |

Notes:

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

The values of the liability component and the equity conversion component were determined at the issuance of the bonds. Please refer to the Company's announcements on 18 July 2013, 10 October 2013, 4 November 2014, 12 October 2016 and 25 October 2016 for details of the bonds.

As at 30 June 2018, the conversion prices of convertible bonds issued by the Company in 2014 and 2016 are HK\$4.44 per share (31 December 2017: HK\$4.61 per share) and HK\$6.27 per share (31 December 2017: HK\$6.53 per share) respectively. As at 31 December 2017, the conversion prices of convertible bond issued by the Company in 2013 was HK\$2.76 per share. Please refer to the Company's annual financial statements for the year ended 31 December 2017 for the details of adjustment on conversion prices in prior years.

Notes to the Condensed Consolidated Financial Statements

32. Loans and Other Borrowings (Continued)

Notes: (Continued)

(a) (Continued)

During the current period, convertible bonds issued by the Company in 2013 with the principal amount of HK\$2 million were converted into ordinary shares of the Company and accordingly all convertible bonds issued in 2013 were converted as at 30 June 2018. The bond has then been cancelled and there are no longer any outstanding units. No convertible bonds issued by the Company in 2014 and 2016 were converted during the current period.

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

As at 30 June 2018, the number of outstanding shares convertible under the convertible bonds issued in 2014 and 2016 are 30,855,855 (31 December 2017: 29,718,004) and 618,819,776 (31 December 2017: 594,180,704) respectively. As at 31 December 2017, the number of outstanding shares convertible under the convertible bond issued in 2013 were 724,638.

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

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

(c) During the current period ended 30 June 2018, the Company has issued a medium term note under the Company's Medium Term Note Programme (the "MTN Programme") in principal amount totalling HK\$10,903 million with a maturity period of 1 year and repaid several medium term notes of principal amount totalling HK\$829 million. As at 30 June 2018, the outstanding balances of HK\$11,638 million (31 December 2017: HK\$1,671 million) represent the unsecured and unguaranteed non-convertible notes.

(d) Bank loans of HK\$840 million (31 December 2017: HK\$1,413 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\$1,953 million at fair value (31 December 2017: HK\$12,951 million) and the remaining amount is secured by debt investments of HK\$862 million (31 December 2017: HK\$1,428 million) held by the Group and presented in "Financial assets at fair value through profit or loss" to the unaudited condensed consolidated statement of financial position.

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

(f) Bank loans and other loans are repayable on demand or within 1 year. As at 30 June 2018, 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 2017: HK\$Nil).

33. Share Capital

| | 30.6.2018 HK\$'000 (unaudited) | 31.12.2017 HK\$'000 (audited) |
|---|---|-------------------------------------|
| Authorised: 20,000,000,000 (31 December 2017: 20,000,000,000) ordinary shares of HK\$0.10 each | 2,000,000 | 2,000,000 |
| Issued and fully paid: 5,667,024,457 (31 December 2017: 5,500,858,791) ordinary shares of HK\$0.10 each | 566,702 | 550,086 |

The movements in issued share capital were as follows:

| | Number of shares in issue | Issued share capital HK\$'000 |
|--|--|--|
| As at 1 January 2017 | 5,336,534,474 | 533,653 |
| New shares issued under exercise of share option | 3,186,267 | 319 |
| As at 30 June 2017 | 5,339,720,741 | 533,972 |
| New shares issued under exercise of share option | 141,531 | 14 |
| Scrip dividend issued — 2016 final dividend (note 12) | 78,617,528 | 7,862 |
| Scrip dividend issued — 2017 interim dividend (note 12) | 82,378,991 | 8,238 |
| As at 31 December 2017 and 1 January 2018 | 5,500,858,791 | 550,086 |
| New shares issued under exercise of share option | 3,747,206 | 375 |
| New shares issued under exercise of convertible bonds | 724,637 | 72 |
| Scrip dividend issued — 2017 second interim dividend (note 12) | 161,693,823 | 16,169 |
| As at 30 June 2018 | 5,667,024,457 | 566,702 |

34. Share Option/Award Scheme

2002 Share Option Scheme

On 23 August 2002, the shareholders of the Company approved the adoption of a share option scheme (the "2002 Share Option Scheme"), which was expired on 22 August 2012.

Details of the share option scheme of the Company has been disclosed in the Group's annual financial statements for the year ended 31 December 2017 and should be read in conjunction with the relevant announcements of the share options made by the Company.

Notes to the Condensed Consolidated Financial Statements

34. Share Option/Award Scheme (Continued)

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

| | 2018 | | 2017 | |
|--|--|------------------------|--|------------------------|
| | Weighted average exercise price HK\$ per share | Number of options '000 | Weighted average exercise price HK\$ per share | Number of options '000 |
| At 1 January | 2.76 | 5,812 | 2.77 | 9,132 |
| Adjusted during the period/year (note) | 2.76 | 10 | 2.76 | 8 |
| Exercised during the period/year | 2.76 | (3,246) | 2.77 | (3,328) |
| Forfeited during the period/year | – | – | – | – |
| At 30 June 2018/31 December 2017 | 2.76 | 2,576 | 2.76 | 5,812 |

75 >

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

| 30 June 2018 Number of options '000 | Exercise price HK\$ per share (note) | Exercise period |
|---|--|------------------------------|
| 2,576 | 2.758 | 3 March 2011 to 2 March 2019 |
| 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 |

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.

34. Share Option/Award Scheme (Continued)

No new share options were granted for the six months ended 30 June 2018 and year ended 31 December 2017.

As at 30 June 2018, 3,246,326 (31 December 2017: 3,327,798) share options were exercised resulting in issuance of 3,246,326 (31 December 2017: 3,327,798) ordinary shares of the Company with new share capital of HK\$325,000 (31 December 2017: HK\$333,000) and share premium of HK\$8,636,000 (31 December 2017: HK\$8,878,000) (before issuing expenses).

2015 Share Option Scheme

On 8 June 2015, the shareholders of the Company approved the adoption of a new share option scheme (the "2015 Share Option Scheme"). The 2015 Share Option Scheme was also approved by the shareholders of Haitong Securities Co., Ltd., the holding company of Haitong International Holdings Limited, the controlling shareholder of the Company, and Listing Committee of The Stock Exchange of Hong Kong Limited on 8 June 2015 respectively and 12 June 2015 respectively.

Details of the share option scheme of the Company has been disclosed in the Group's annual financial statements for the year ended 31 December 2017 and should be read in conjunction with the relevant announcements of the share options made by the Company.

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.

| | |
|---|-----------|
| 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 six months ended 30 June 2018, the Group has recognised an equity-settled share-based payment of HK\$14,547,000 (six months ended 2017: HK\$Nil) for the share options under the 2015 Share Option Scheme in unaudited condensed consolidated statement of profit or loss.

Notes to the Condensed Consolidated Financial Statements

34. Share Option/Award Scheme (Continued)

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

| | 2018 | | 2017 | |
|---|--|------------------------|--|------------------------|
| | Weighted average exercise price HK\$ per share | Number of options '000 | Weighted average exercise price HK\$ per share | Number of options '000 |
| At 1 January | 4.836 | 29,228 | 4.674 | 17,807 |
| Granted and accepted during the period/year | – | – | 5.038 | 13,350 |
| Adjusted during the period/year (note) | 4.826 | 62 | 4.668 | 22 |
| Exercised during the period/year | 4.667 | (501) | – | – |
| Forfeited during the period/year | 4.870 | (901) | 4.673 | (1,951) |
| At 30 June 2018/31 December 2017 | 4.828 | 27,888 | 4.836 | 29,228 |

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

| 30 June 2018 Number of options '000 | Exercise price HK\$ per share (note) | Exercise period |
|---|--|-------------------------------|
| 15,010 | 4.657 | 8 December 2016 – 11 May 2021 |
| 12,878 | 5.027 | 7 June 2018 – 9 November 2022 |
| 27,888 | | |

| 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 | | |

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

No new share options were granted for the six months ended 30 June 2018.

As at 30 June 2018, share options were exercised resulting in issuance of 500,880 ordinary shares of the Company with new share capital of HK\$50,000 and share premium of HK\$2,287,000 (before issuing expenses). No share options under 2015 Share Option Scheme has been exercised during the year ended 31 December 2017.

34. Share Option/Award Scheme (Continued)

2002 and 2015 Share Option Scheme

As at 30 June 2018, the Company had 2,576,160 (31 December 2017: 5,812,110) and 27,888,276 (31 December 2017: 29,228,100) share options outstanding under the 2002 Share Option Scheme and 2015 Share Option Scheme respectively, which represented approximately 0.54% (31 December 2017: 0.64%) of the Company's shares in issue as at that date.

The exercise in full of the remaining share options under the 2002 and 2015 Share Option Scheme would, under the present capital structure of the Company, result in the issue of 30,464,436 (31 December 2017: 35,040,210) additional ordinary shares of the Company and additional share capital of HK\$3,046,000 (31 December 2017: HK\$3,504,000) and share premium of HK\$138,700,000 (31 December 2017: HK\$153,921,000) (before issue expenses).

Share award scheme

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

Details of the awarded shares granted and unvested as at 30 June 2018 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 (d)) | Number of awarded shares unvested | Vesting dates | Fair value as at grant date |
|--------------------------------|----------------------------------|---------------------------------|--|-----------------------------------|---------------|-----------------------------|
| 18 April 2016 | 7,865,506 | (4,709,854) | (947,741) | 2,207,911 | note (a) | 31,383,000 |
| 28 April 2017 | 4,246,234 | (1,318,237) | (291,477) | 2,636,520 | note (b) | 19,320,000 |
| 11 May 2018 | 7,010,493 | – | – | 7,010,493 | note (c) | 32,108,000 |

For the shares granted, the fair value of the shares were measured at the market price of the Company's shares. For the six months ended 30 June 2018, the Group has recognised an equity-settled share-based payment of HK\$6,641,000 (six months ended 30 June 2017: HK\$8,538,000) for the Scheme in unaudited condensed consolidated statement of profit or loss.

As at 30 June 2018, the Company had 2,207,911 (31 December 2017: 4,565,654) awarded shares granted on 18 April 2016 which were outstanding under the Scheme. During the current six-month period, 105,150 (six months ended 2017: 222,231) and 2,252,593 (six months ended 2017: 2,457,261) award shares granted on 18 April 2016 were lapsed and vested respectively.

As at 30 June 2018, the Company had 2,636,520 (31 December 2017: 3,976,313) awarded shares granted on 28 April 2017 which were outstanding under the Scheme. During the current six-month period, 21,556 (six months ended 2017: Nil) and 1,318,237 (six months ended 2017: Nil) awarded shares granted on 28 April 2017 were lapsed and vested respectively.

As at 30 June 2018, the Company had 7,010,493 awarded shares granted on 11 May 2018 which were outstanding under the Scheme. During the current six-month period, no awarded shares granted on 11 May 2018 were lapsed and vested.

Notes to the Condensed Consolidated Financial Statements

34. 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) Pursuant to the agreed terms, the vesting date of one-third of the award shares granted on 11 May 2018 is on 13 May 2019 while the vesting date of another one-third of award shares granted on 11 May 2018 would be on 13 May 2020 and the vesting date for the remaining would be on 13 May 2021.
- (d) Awarded Shares would lapse prior to their vesting date as a result of staff separations. Pursuant to the agreement, the lapsed shares would be held by the trustee which is subject to the approval from Administration Committee for re-selection of any Selected Participant. The lapsed Awarded Shares were transferred out from share award reserve to share premium as disclosed in the unaudited condensed consolidated statement of changes in equity.

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

| | 2018 | | 2017 | |
|---|----------|------------------|----------|------------------|
| | HK\$'000 | Number of shares | HK\$'000 | Number of shares |
| At 1 January | 113,539 | 19,266,739 | 128,020 | 21,724,000 |
| Purchased during the period/year | 22,495 | 6,175,000 | – | – |
| Vested and transferred out during the period/year | (20,629) | (3,570,830) | (14,481) | (2,457,261) |
| At 30 June 2018/31 December 2017 | 115,405 | 21,870,909 | 113,539 | 19,266,739 |

35. Operating Lease Arrangements

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

At 30 June 2018 and 31 December 2017, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

| | 30.6.2018 HK\$'000 (unaudited) | 31.12.2017 HK\$'000 (audited) |
|---------------------------------------|---|-------------------------------------|
| Within one year | 89,753 | 78,971 |
| In the second to fifth year inclusive | 88,242 | 66,027 |
| | 177,995 | 144,998 |

36. Related Party Transactions

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

- (a) On 12 November 2012, the Company entered into a master services agreement with Haitong Securities Co., Ltd., the ultimate holding company of the Company which took effect from 1 January 2013. Pursuant to the master service agreement, the Company and Haitong Securities Co., Limited have each agreed to provide services to companies of the Group or Haitong Securities Co., Limited and its subsidiaries. Such master services agreement was expired on 31 December 2015. On 14 March 2016, the Company entered into a new master services agreement with Haitong Securities Co., Limited, for a term of 3 years from 1 January 2016 to 31 December 2018. The annual caps on continuing connected transactions were revised accordingly. Services covered under the new services agreement include broking transactions, investment management and advisory services, corporate finance transactions, fund investment, financial assistance and securities lending transactions, and underwriting services.
- (i) Expenses from brokerage services amounted to HK\$377,000 (six months ended 30 June 2017: HK\$317,000) for the current interim period in accordance with terms of the master services agreement.
- (ii) Income from investment management and advisory services amounted to HK\$1,275,000 (six months ended 30 June 2017: HK\$1,088,000) for provision of investment management service and investment advisory service to Haitong International Holdings Limited (the immediate holding company of the Company) and its subsidiaries. The fee is charged in accordance with the relevant investment management agreement or investment advisory agreement.

Notes to the Condensed Consolidated Financial Statements

36. Related Party Transactions (Continued)

(a) (Continued)

- (iii) During the year ended 31 December 2013, the Company obtained a revolving unsecured loan from Haitong International Holdings Limited, the immediate holding company of the Company.

As at 30 June 2018, the Company had outstanding balance of HK\$10 million (30 June 2017: HK\$40 million). As at 30 June 2018, the unsecured loan is chargeable at an interest rate of HIBOR + 1.275% per annum (30 June 2017: HIBOR+1.275% per annum). Interest expense for such intercompany loan for the current period amounted to HK\$212,500 (six months ended 30 June 2017: HK\$395,000).

- (iv) During the current period, Haitong Bank, S.A. ("Haitong Bank", a subsidiary of Haitong International Holdings Limited, the immediate holding company of the Company), provided financial advisory work for the Group's financing activities. During the Relevant Period, the Group paid financial advisory fee of US\$2.5 million (equivalent to HK\$19.62 million) to Haitong Bank where such amount constitutes part of the effective interest expense of the Group under the applicable accounting standard. During the current period, amortisation of the financial advisory fee paid amounted to HK\$2,511,000, which was recognised in the statement of profit or loss as part of the interest expense.
- (v) During the current period, Haitong Bank acquired a note issued by the Company under the Company's medium term note programme. An interest expense of US\$323,000 (equivalent to HK\$2,538,000) was paid by the Company during the Period. The note was repurchased by the Group in June 2018 and was cancelled in July 2018.
- (vi) During the current period, Haitong Bank, advanced a subordinated loan to a subsidiary of the Company, where the interest rate was charged at 4% per annum on the principal amount of US\$7 million. Such subordinated loan was repaid during the current period and an interest expense of US\$47,000 (equivalent to HK\$366,000) was paid during the current period.
- (vii) During the current period, the Group purchased a security issued by Haitong Bank, with interest rate at 7.50% per annum and principal amount of US\$130 million (equivalent to approximately HK\$1,020 million). Interest income amounted to US\$2.6 million (equivalent to HK\$20,407,000) was recognised by the Group during the current period.

36. Related Party Transactions (Continued)

(a) (Continued)

(viii) During the current period, the Group entered into a total return swap contract with a subsidiary of Haitong International Holdings Limited, the immediate holding company of the Company. The swap contract will be expired on 24 June 2019. The face value of the reference obligation portfolio is US\$40,000,000 and the reference obligation portfolio consists of two debt securities issued by independent third parties. Under the swap contract, the Group is entitled to receive an interest based on LIBOR + 2.25% on 65% of the portfolio notional amount while the Group is obliged to pay interest or related distribution related to the reference obligation. During the current period, a gain of US\$30,056 (equivalent to HK\$235,868) was recognised on this swap contract, and was recognised within "net gains arising from financial assets/liabilities at fair value through profit or loss". As at 30 June 2018, the carrying amount of this swap contract amounted to US\$13,656,444 (equivalent to HK\$107,171,678) and was recognised within financial liabilities at fair value through profit or loss – financial products issued.

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

| | Six months ended | |
|--|--------------------------------------|--------------------------------------|
| | 30.6.2018 HK\$'000 (unaudited) | 30.6.2017 HK\$'000 (unaudited) |
| Short term employee benefits | 14,567 | 25,284 |
| Post-employment benefits | 520 | 96 |
| Total compensation paid to key management personnel | 15,087 | 25,380 |

37. Acquisition of Subsidiaries

Acquisition in 2018

On 15 December 2017, Haitong International (BVI) Limited ("Haitong BVI"), a wholly owned subsidiary of the Company entered into agreements with Haitong Bank to acquire Haitong Bank's interests in Haitong Securities USA LLC ("Haitong USA") and Haitong (UK) Limited ("Haitong UK", currently known as Haitong International (UK) Co. Limited) (both are being wholly owned subsidiaries of Haitong Bank), with a total cash consideration of US\$29,314,600 (equivalent to HK\$229,505,469 as at date of acquisition). Haitong Bank, Haitong UK and Haitong USA are wholly owned subsidiaries of HSCL and therefore this acquisition constituted a connected transaction under Chapter 14A of the Listing Rules. On 23 February 2018 ("date of acquisition"), 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.

Notes to the Condensed Consolidated Financial Statements

37. Acquisition of Subsidiaries (Continued)

Acquisition in 2018 (Continued)

The Group believes that the acquisition will bring synergies to the Group by enriching its fixed income, commodities and currency products, increasing its equities trading activities, and helping the Group reach out to new business opportunities in cross-border mergers and acquisitions, as well as equity capital markets origination, better serving global clients with more comprehensive financial products and services. It is also expected to help attract more potential clients seeking global asset allocation. The Group also believes that the acquisition will further broaden the Group's financial servicing network to cover the world's major capital markets.

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

Consideration transferred

| | 2018 HK\$'000 |
|------|------------------|
| Cash | 229,505 |

Acquisition-related costs amounting to HK\$1.5 million have been excluded from the consideration transferred and have been recognised as an expense in the year, within the other operating expenses in the unaudited condensed consolidated statement of profit or loss.

Assets acquired and liabilities recognised at the date of acquisition (on a provisional basis)

| | Haitong UK HK\$'000 | Haitong USA HK\$'000 |
|---|------------------------|-------------------------|
| Property and equipment | 828 | 14,716 |
| Accounts receivable | 26,958 | – |
| Prepayment and other receivables | 13,400 | 9,301 |
| Financial assets at fair value through profit or loss | 2,549 | – |
| Other assets | – | 3,914 |
| Cash and cash equivalents | 39,661 | 47,220 |
| Bank loans and other borrowings | – | (54,803) |
| Accounts payable | (259) | – |
| Tax liabilities | (4,518) | – |
| Other payables and accruals | (7,322) | (18,254) |
| Net assets acquired at the date of acquisition | 71,297 | 2,094 |

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

37. Acquisition of Subsidiaries (Continued)

Acquisition in 2018 (Continued)

Goodwill arising on acquisition (on a provisional basis)

| | Haitong UK HK\$'000 | Haitong USA HK\$'000 |
|--|------------------------|-------------------------|
| Consideration transferred | 98,146 | 131,359 |
| Less: Net identifiable assets acquired | (71,297) | (2,094) |
| Goodwill arising on acquisition | 26,849 | 129,265 |

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

84

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

Up to the reporting date, the initial accounting of the business combination, including the determination of the fair value of identifiable assets and liabilities acquired and measurement of goodwill are in assessment process by the management of the Group. Thus, the disclosures are presented by the management on a provisional basis in the unaudited condensed consolidated financial statements for the 6 months ended 30 June 2018.

The Group acquired the Haitong USA and Haitong UK on 23 February 2018, and performed an allocation of the purchase price against the acquired assets (on a provisional basis). A detailed review of the amount of the goodwill on acquisition date was performed and the Group considers that the assumptions used in the valuation are still valid and there are no triggering events which would indicate an impairment of goodwill as at 30 June 2018.

Net cash outflow on acquisition of the subsidiaries

| | 2018 HK\$'000 |
|---|------------------|
| Consideration paid in cash | 229,505 |
| Less: Cash and cash equivalent balances acquired | (86,881) |
| Net cash outflow on acquisition of the subsidiaries | 142,624 |

Notes to the Condensed Consolidated Financial Statements

37. Acquisition of Subsidiaries (Continued)

Acquisition in 2018 (Continued)

Impact of acquisitions of the subsidiaries on the results of the Group

Included in the profit for the six months ended 30 June 2018 was loss of HK\$13 million and loss of HK\$14 million attributable to the business generated by Haitong UK and Haitong USA respectively which has been acquired by the Group on 23 February 2018. Revenue for the 6 months ended 30 June 2018 included HK\$22 million generated by Haitong UK and Haitong USA.

Had the acquisition been completed on 1 January 2018, total revenue for the six months ended 30 June 2018 would have been HK\$3,620 million, and profit for the six months ended 30 June 2018 would have been HK\$830 million. The pro forma information is for illustrative purposes only and is not necessarily an indication of revenue and results of operations of the Group that actually would have been achieved had the acquisition been completed on 1 January 2018, nor is it intended to be a projection of future results.

In determining the 'pro-forma' revenue and profit of the Group had the subsidiaries been acquired at the beginning of the six months ended 30 June 2018, the directors have calculated depreciation of property and equipment acquired on the basis of the fair values arising in the initial accounting for the business combination rather than the carrying amounts recognised in the pre-acquisition financial statements.

Please refer to the Company's announcement on 15 December 2017 and 23 February 2018 for details of the acquisition.

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

Acquisition 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.

37. Acquisition of Subsidiaries (Continued)

Acquisition in 2017 (Continued)

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 outright, and Haitong International Financial Services is licensed with the Monetary Authority of Singapore and the International Enterprise Singapore to carry out its business activities.

As a result of this acquisition, the Group is expected to expand its existing business activities in Singapore (through a number of Singapore incorporated subsidiaries) into dealings in 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.

As at 31 December 2017, assets and liabilities recognised at the completion date (and resulting goodwill recognised) were on a provisional basis. During the period ended 30 June 2018, 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 inflow arising from this acquisition is disclosed in the condensed consolidated statement of cash flows.

Notes to the Condensed Consolidated Financial Statements

38. Financial Risk Management

Financial risk factors

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

The unaudited condensed consolidated interim financial statements do not include all financial risk management information and disclosures related to the unaudited condensed consolidated financial statements, and should be read in conjunction with the consolidated financial statements for the year ended 31 December 2017.

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

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

Some of the Group's financial assets and financial liabilities are measured at fair value at the end of each reporting period.

The following table gives information about how the fair values of these financial assets and financial liabilities are determined (in particular, the valuation technique(s) and inputs used), as well as the level of the fair value hierarchy into which the fair value measurements are categorised (levels 1 to 3) based on the degree to which the inputs to the fair value measurements is observable.

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

38. Financial Risk Management (Continued)

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

An analysis of the Group's financial assets and liabilities measured at fair value as at 30 June 2018 and 31 December 2017 are as follows:

| | Fair value as at 30 June 2018 HK\$'000 (unaudited) | Fair value as at 31 December 2017 HK\$'000 (audited) | Fair value hierarchy | Basis of fair value measurement/ valuation techniques and key inputs |
|---|---|---|--------------------------------|---|
| Recurring fair value measurements: | | | | |
| Available-for-sale investments | | | | |
| — Listed equity investments | — | 40,299 | Level 1 | Note (c) |
| — Listed equity investment with lock-up period | — | 70,901 | Level 2 | Note (d) |
| — Listed debt investments | — | 176,476 | Level 2 | Note (e) |
| — Unlisted fund investments | — | 5,007,439 | Level 2 | Note (a) |
| — Unlisted partnership investment | — | 345,100 | Level 3 | Note (m) |
| — Unlisted partnership investments | — | 127,258 | Level 2 | Note (d) |
| — Unlisted equity investment | — | 7,700 | Level 2 | Note (b) |
| — Unlisted equity investment | — | 92,869 | Level 3 | Note (l) |
| — Unlisted equity investment | — | 563,092 | Level 2 | Note (o) |
| — Unlisted debt investments | — | 1,673,177 | Level 2 | Note (g) |
| Financial assets at fair value through profit or loss – trading and investment securities | | | | |
| — Listed equity investments | 2,759,616 | 7,483,326 | Level 1 | Note (c) |
| — Listed equity investment with lock-up period | 92,542 | — | Level 2 | Note (d) |
| — Listed equity investment with lock-up period | 308,047 | — | Level 2 | Note (h) |
| — Exchange traded funds | 683,086 | 974,447 | Level 1 | Note (c) |
| — Listed preference shares | 245,668 | 203,721 | Level 2 | Note (e) |
| — Listed debt investments | 30,082,797 | 18,960,131 | Level 2 | Note (e) |
| — Listed debt investment | 780,000 | — | Level 2 | Note (d) |
| — Unlisted equity investment | 76,872 | 61,164 | Level 2 | 2018: Note (h) 2017: Note (d) |
| — Unlisted equity investment | 123,158 | 111,053 | 2018: Level 2 2017: Level 3 | 2018: Note (p) 2017: Note (m) |
| — Unlisted equity investments | 215,356 | 6,253 | Level 2 | Note (d) |
| — Unlisted equity investment | 6,913 | — | Level 2 | Note (b) |
| — Unlisted equity investment | 93,248 | — | Level 3 | Note (l) |
| — Unlisted equity investment | 565,386 | — | Level 2 | Note (o) |
| — Unlisted partnership investments | 278,203 | — | Level 2 | Note (d) |
| — Unlisted partnership investments | 598,264 | — | Level 3 | Note (m) |
| — Unlisted debt investments | 6,318,585 | 5,522,305 | Level 2 | Note (e) |
| — Unlisted debt investments | 1,716,026 | — | Level 2 | Note (g) |
| — Unlisted debt investments | 2,207,775 | 353,276 | Level 2 | Note (d) |
| — Unlisted investment funds | 11,715,679 | 4,133,005 | Level 2 | Note (a) |
| — Unlisted structured product | 71,359 | — | Level 2 | Note (e) |
| — Unlisted certificated deposit | — | 99,778 | Level 2 | Note (g) |

Notes to the Condensed Consolidated Financial Statements

38. Financial Risk Management (Continued)

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

| | Fair value as at 30 June 2018 HK\$'000 (unaudited) | Fair value as at 31 December 2017 HK\$'000 (audited) | Fair value hierarchy | Basis of fair value measurement/ valuation techniques and key inputs |
|--|---|---|--------------------------------|---|
| Recurring fair value measurements: (Continued) | | | | |
| Financial assets at fair value through profit or loss — asset acquired for financial products issued | | | | |
| — Listed equity investments | 2,707,651 | 2,510,765 | Level 1 | Note (c) |
| — Listed preference shares | 43,494 | — | Level 2 | Note (e) |
| — Listed debt investments | 9,850,712 | 3,958,884 | Level 2 | Note (e) |
| — Listed debt investment | 398,578 | — | Level 2 | Note (d) |
| — Unlisted equity investments | 276,989 | 353,044 | Level 3 | Note (m) |
| — Unlisted equity investment | 123,158 | 111,053 | 2018: Level 2 2017: Level 3 | 2018: Note (p) 2017: Note (m) |
| — Unlisted equity investment | 86,325 | 85,974 | 2018: Level 3 2017: Level 2 | 2018: Note (m) 2017: Note (d) |
| — Unlisted equity investment | 109,924 | 87,750 | Level 2 | 2018: Note (h) 2017: Note (d) |
| — Unlisted equity investment | 125,003 | 71,906 | Level 2 | Note (d) |
| — Unlisted partnership investment | 301,723 | 300,498 | Level 2 | Note (o) |
| — Unlisted partnership investment | 193,053 | — | Level 2 | Note (d) |
| — Unlisted debt investment | — | 547,110 | Level 2 | Note (g) |
| — Unlisted investment fund | 693,900 | 691,083 | Level 2 | Note (g) |
| — Unlisted investment funds | 886,644 | 1,453,446 | Level 2 | Note (a) |
| — Unlisted structured products | 187,614 | 670 | Level 2 | Note (f) |
| — Unlisted structured products | — | 91,576 | Level 2 | Note (k) |
| — Unlisted structured products | 2,461,911 | 2,015,893 | Level 2 | Note (e) |
| Derivative financial instruments | | | | |
| — Swap contracts | 8,764 | 1,051 | Level 2 | Note (g) |
| — Forward foreign currency exchange contracts and future contracts | 89,097 | 91,412 | Level 2 | Note (g) |
| — Listed options/warrants | 170,888 | 558,125 | 2018: Level 2 2017: Level 1 | 2018: Note (j) 2017: Note (c) |
| — Unlisted options | 40,003 | 32,774 | Level 2 | Note (j) |
| — Forward foreign currency option contracts | 7,683 | 10,314 | Level 2 | Note (e) |
| | 77,701,694 | 58,986,098 | | |

38. Financial Risk Management (Continued)

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

| | Fair value as at 30 June 2018 HK\$'000 (unaudited) | Fair value as at 31 December 2017 HK\$'000 (audited) | Fair value hierarchy | Basis of fair value measurement/ valuation techniques and key inputs |
|--|---|---|--------------------------------|---|
| Recurring fair value measurements: (Continued) | | | | |
| Financial liabilities at fair value through profit or loss – trading securities | | | | |
| — Listed equity investments | 205,473 | 2,189,118 | Level 1 | Note (c) |
| — Listed debt investments | 3,604,519 | 2,352,204 | Level 2 | Note (e) |
| — Listed preference shares | 22,853 | 37,466 | Level 2 | Note (e) |
| — Unlisted debt investment | 47,314 | 25,900 | Level 2 | Note (e) |
| Financial liabilities at fair value through profit or loss – short position for financial products issued/financial products issued | | | | |
| — Listed equity investments | 229,781 | 92,708 | Level 1 | Note (c) |
| — Unlisted structured note/ products | 8,809,017 | 9,384,309 | Level 2 | Note (i) |
| — Unlisted structured note/ products | 86,325 | 69,337 | 2018: Level 3 2017: Level 2 | 2018: Note (m) 2017: Note (i) |
| — Unlisted structured note/ products | 256,114 | 280,044 | Level 3 | Note (m) |
| — Unlisted structured note/ products | 5,442 | 48,526 | 2018: Level 2 2017: Level 3 | 2018: Note (i) 2017: Note (m) |
| — Unlisted structured note/ products | 3,738,614 | 2,261,911 | Level 2 | Note (n) |
| Derivative financial instruments | | | | |
| — Swap contracts | 9,816 | 15,750 | Level 2 | Note (g) |
| — Forward foreign currency exchange contracts and future contracts | 76,223 | 109,830 | Level 2 | Note (g) |
| — Forward foreign currency option contracts | 23 | 32 | Level 2 | Note (g) |
| — Listed option/warrants | 184,877 | 987,065 | 2018: Level 2 2017: Level 1 | 2018: Note (j) 2017: Note (c) |
| — Callable bull/bear contracts | 10,249 | 201,999 | 2018: Level 2 2017: Level 1 | 2018: Note (j) 2017: Note (c) |
| — Unlisted options | 20,663 | 8,440 | Level 2 | Note (j) |
| | 17,307,303 | 18,064,639 | | |

Notes to the Condensed Consolidated Financial Statements

38. Financial Risk Management (Continued)

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

Notes:

- (a) Dealing price of the investment funds derived from the net asset values of the investment funds with reference to observable quoted 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.
- (d) The fair value is determined with reference to the recent transaction price of the investments.
- (e) The fair value is determined with reference to the quoted price provided by brokers/financial institutions.
- (f) The fair value is determined with reference to the quoted price of the underlying equities investments.
- (g) The fair value is 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 determined with reference to the quoted market prices of the restricted shares or the underlying restricted shares with an adjustment of discount for lack of marketability.

The directors of the Company considered that the discount rate for lack of marketability, being an unobservable input, has insignificant effect to the determination of the fair value of the investment.

- (i) Included in "Financial liabilities at fair value through profit or loss – financial products issued" 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 at FVTPL – assets acquired for financial products issued". 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 is determined based on option pricing model with market observable inputs, such as quoted market price, dividend yield, volatility, foreign exchange rate, as key parameters. Previously valuation of listed option/warrants and callable bull/bear contracts are based on quoted price in active markets. During the current 6-month period, management of the Group re-assessed the valuation techniques of these two financial instruments and considered the quoted price does not represent their fair values. As such, management of the Group decided to value these two financial instruments based on option pricing model as at 30 June 2018. Therefore these two financial instruments were transferred from Level 1 to Level 2 category.
- (k) Fair value of the investments are determined based on the observable indexes of respective stock exchanges in consideration of the contract terms.

38. Financial Risk Management (Continued)

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

Notes: (Continued)

- (l) The fair value is 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.

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

- (n) 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 cash flow model applying various market observable financial parameters including foreign exchange rate.

- (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 observable inputs including the quoted market price after listing of the underlying equity investment, which was listed subsequently after period end.

The directors of the Company considered that the effect of the timing difference between period end and the date of listing have insignificant effect to the amount of the investment.

The Group's policy is to recognise transfers into and transfers out of fair value hierarchy levels as of that date of the event or change in circumstances that caused the transfer.

As at 30 June 2018, investment properties are measured at fair value. The fair value, valuation techniques and key inputs, and fair value hierarchy of the investment property are detailed in note 28. As at 31 December 2017, no non-financial assets or liabilities were carried at fair value.

Notes to the Condensed Consolidated Financial Statements

38. Financial Risk Management (Continued)

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

Except as detailed in the following table, the directors of the Company consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the unaudited condensed consolidated financial statements approximate their fair values:

| | 30.6.2018 | | 31.12.2017 | |
|--|--|---------------------------------------|--|-------------------------------------|
| | Carrying amount HK\$'000 (unaudited) | Fair value HK\$'000 (unaudited) | Carrying amount HK\$'000 (audited) | Fair value HK\$'000 (audited) |
| Held-to-maturity investments debt investments (note i) | – | – | 94,171 | 94,349 |
| Convertible bonds (note ii) | 3,899,667 | 3,913,497 | 3,868,506 | 4,070,117 |
| Non-convertible bonds (note ii) | 10,141,904 | 10,229,579 | 10,083,594 | 10,339,846 |
| Non-convertible notes (note i) | 11,638,375 | 11,721,520 | 1,671,215 | 1,671,205 |

93 >

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

Reconciliation of Level 3 fair value measurements

30 June 2018

| | Available-for-sale investments HK\$'000 (unaudited) | Financial assets at fair value through profit or loss HK\$'000 (unaudited) | Financial liabilities at fair value through profit or loss HK\$'000 (unaudited) |
|---|---|--|---|
| Opening balance | 437,969 | 575,150 | (328,570) |
| Reclassified as financial assets at fair value through profit or loss at 1 January 2018 (note viii) | (437,969) | 437,969 | – |
| Addition (note ix) | – | 209,050 | – |
| Transfer | | | |
| — into Level 3 (note iii) | – | 128,612 | (86,325) |
| — into Level 2 (note vii) | – | (222,106) | 48,526 |
| Disposal | – | (121,515) | 68,644 |
| Total gain (losses) in profit or loss (note iv) | – | 47,666 | (44,714) |
| Closing balance | – | 1,054,826 | (342,439) |

38. Financial Risk Management (Continued)

Reconciliation of Level 3 fair value measurements (Continued)

31 December 2017

| | Available- for-sale investments HK\$'000 (audited) | Financial assets at fair value through profit or loss HK\$'000 (audited) | Financial liabilities at fair value through profit or loss HK\$'000 (audited) |
|---|--|--|---|
| 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 iii) | 437,969 | 275,865 | (255,075) |
| — 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) |

Notes:

- (i) The fair values were based on discounted cash flow. The future cash flows were estimated based on applying the interest yield curves of different types of bonds as the key parameter. The most significant input was the discount rate of the instruments.
- (ii) The fair values are based on the quoted price from the Singapore Exchange Securities Trading Limited and The Stock Exchange of Hong Kong Limited.
- (iii) The fair value of unlisted investments including financial assets at FVTPL of HK\$129 million and financial liabilities at FVTPL of HK\$86 million was determined with reference to the recent transaction price and therefore classified as Level 2 investments for the year ended 31 December 2017. During the current period, the fair value of these investments are determined based on significant unobservable inputs and involved significant judgment made by the management. Thus, the instruments were transferred from Level 2 to Level 3 category.

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.

Notes to the Condensed Consolidated Financial Statements

38. Financial Risk Management (Continued)

Reconciliation of Level 3 fair value measurements (Continued)

Notes: (Continued)

- (iv) For the six-months ended 30 June 2018, of the total gains or losses for the period included in profit or loss, gain of HK\$3 million and loss of HK\$1 million relate to unrealised gains or loss for the period included in profit or loss for financial assets at FVTPL and financial liabilities at FVTPL held at the end of the reporting period respectively. Fair value gains or losses on financial assets/liabilities 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 2017, of the total gains or losses for the year included in profit or loss, loss of HK\$2 million and gain of HK\$2 million relate to unrealised gains or loss for the period included in profit or loss for financial assets at FVTPL and financial liabilities at FVTPL held at the end of the reporting period respectively.

- (v) Financial assets at fair value through profit or loss and financial liabilities 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 derecognised during the prior year. Details of the swap contracts and the termination are disclosed in the annual consolidated financial statements for the year ended 31 December 2017.
- (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 amounting to HK\$340 million held by a consolidated investment fund.

During the year ended 31 December 2017, the Group de-consolidated an investment fund as the Group redeemed its interest in non-participating shares of the Fund. Therefore such unlisted debt security was no longer held by the Group at the date of redemption and therefore derecognised during the prior year.

- (vii) Financial liabilities at FVTPL amounting to HK\$329 million and financial assets at FVTPL amounting to HK\$575 million classified as Level 3 investments as at 31 December 2017 included HK\$49 million of a structured product issued and HK\$222 million of an unlisted equity which was acquired for the issued structured product respectively (collectively referred to as the "Investments" for the purpose of this paragraph).

During the current period, the fair value of the unlisted equity and the structured products were determined with reference to observable inputs including the quoted price of the underlying equity investments. Thus, the instrument was transferred from Level 3 to Level 2 categories.

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) As disclosed in note 3, the Group has reclassified its available-for-sale investments held as at 31 December 2017 as either financial assets at fair value through profit or loss or financial assets at amortised cost on 1 January 2018. The level 3 available-for-sale investments are transferred to level 3 financial assets at fair value through profit or loss at 1 January 2018.
- (ix) During the current period, the Group has made further capital investments into the investments that were transferred into level 3 during the year ended 31 December 2017.

39. Transfer of Financial Assets

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

Financial assets sold under repurchase agreement

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

Details of carrying amount and fair value of transferred assets, and the assessment performed by the Group in respect of whether bonds and preference shares sold under repurchase agreements shall be derecognised are disclosed in note 30 of the unaudited condensed 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 30 June 2018 and 31 December 2017, the Group assigned loans and receivable amounting to HK\$586 million to an independent party with these not qualifying for derecognition based on the group retaining substantially all risks and rewards. The corresponding liability of HK\$586 million is recognised as other payables and accruals in the unaudited condensed consolidated statement of financial position.

40. Approval of the Interim Financial Statements

These unaudited condensed consolidated interim financial statements were approved and authorised for issue by the Board of Directors on 24 August 2018.

Report on Review of Condensed Consolidated Financial Statements

Deloitte.

德勤

TO THE BOARD OF DIRECTORS OF
HAITONG INTERNATIONAL SECURITIES GROUP LIMITED

Introduction

We have reviewed the condensed consolidated financial statements of Haitong International Securities Group Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 20 to 96, which comprise the condensed consolidated statement of financial position as of 30 June 2018 and the related condensed consolidated statement of profit or loss, statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the six-month period then ended, and certain explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard 34 "Interim Financial Reporting" ("HKAS 34") issued by the Hong Kong Institute of Certified Public Accountants. The directors of the Company are responsible for the preparation and presentation of these condensed consolidated financial statements in accordance with HKAS 34. Our responsibility is to express a conclusion on these condensed consolidated financial statements based on our review, and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

97 >

Scope of Review

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

Conclusion

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

Deloitte Touche Tohmatsu
Certified Public Accountants

Hong Kong
24 August 2018

Other Information

Dividend and Closure of Register of Members

The board of directors of the Company (the "Board") has declared an interim dividend of HK7.6 cents per share (2017: HK10 cents) in cash, payable on or about Wednesday, 24 October 2018 to shareholders whose names appear on the register of members of the Company on Wednesday, 12 September 2018. Shareholders will be given the option to receive the interim dividend in new shares in lieu of cash.

The register of members of the Company will be closed from Monday, 10 September 2018 to Wednesday, 12 September 2018, both dates inclusive, during which period no transfer of shares will be registered. In order to qualify for the interim dividend, all completed transfer forms accompanied by the relevant share certificates must be lodged with the Company's Branch Share Registrar and Transfer Office in Hong Kong, Tricor Investor Services Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong, for registration not later than 4:30 p.m. on Friday, 7 September 2018. Shares of the Company will be traded ex-dividend as from Thursday, 6 September 2018.

Directors' Interests and Short Positions in Shares, Underlying Shares and Debentures

As at 30 June 2018, the interests and short positions of the directors of the Company in the shares, underlying shares and debentures of the Company and any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")), as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code"), were as follows:

The Company

| Name of directors | Class of shares | Number of shares held | | | Number of underlying shares held under equity derivatives | Total | Approximate percentage of the Company's total issued share capital* |
|-------------------------|-------------------------------|-----------------------|------------------|---------------------|---|-----------|---|
| | | Personal interests | Family interests | Corporate interests | | | |
| LIN Yong | Ordinary shares/share options | 6,086,225 (Note 2) | – | – | 1,604,986 (Note 1) | 7,691,211 | 0.14% |
| LI Jianguo | Ordinary shares/share options | 2,181,232 (Note 3) | – | – | 903,072 (Note 1) | 3,084,304 | 0.05% |
| POON Mo Yiu | Ordinary shares/share options | 2,428,420 (Note 4) | – | – | 1,003,474 (Note 1) | 3,431,894 | 0.06% |
| SUN Jianfeng | Ordinary shares/share options | 1,578,336 (Note 5) | – | – | 1,003,115 (Note 1) | 2,581,451 | 0.05% |
| SUN Tong | Ordinary shares/share options | 1,410,263 (Note 6) | – | – | 1,003,115 (Note 1) | 2,413,378 | 0.04% |
| CHENG Chi Ming Brian | Share options | – | – | – | 1,480,562 (Note 1) | 1,480,562 | 0.03% |
| WANG Meijuan | Share options | – | – | – | 301,201 (Note 1) | 301,201 | 0.01% |
| ZHANG Xinjun | Ordinary shares/share options | 813,744 (Note 7) | – | – | 1,003,115 (Note 1) | 1,816,859 | 0.03% |
| William CHAN | Share options | – | – | – | 601,867 (Note 1) | 601,867 | 0.01% |
| TSUI Hing Chuen William | Ordinary shares/share options | 200,000 (Note 8) | – | – | 748,204 (Note 1) | 948,204 | 0.02% |
| LAU Wai Piu | Share options | – | – | – | 1,028,933 (Note 1) | 1,028,933 | 0.02% |
| WEI Kuo-chiang | Share options | – | – | – | 601,867 (Note 1) | 601,867 | 0.01% |

* On 11 May 2018, 161,693,823 ordinary shares were allotted under the second interim dividend for the year ended 31 December 2017 in form of scrip dividend. Together with the issue of 724,637 ordinary shares upon conversion of convertible bonds due in 2018 and the issue of 3,246,326 and 500,880 ordinary shares during the 6 months ended 30 June 2018 pursuant to exercise of share options under the Share Option Schemes adopted on 23 August 2002 and 8 June 2015 respectively, the total number of issued shares of the Company was increased to 5,667,024,457 as at 30 June 2018.

Other Information

Notes:

- On 11 May 2018, 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 the second interim dividend for the year ended 31 December 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 |
|---|--------------------------------|---|--|---|--|
| LIN Yong | 12 May 2016 | 801,431 | 4.667 | 803,211 | 4.657 |
| | 10 November 2017 | 800,000 | 5.038 | 801,775 | 5.027 |
| LI Jianguo | 12 May 2016 | 601,072 | 4.667 | 602,406 | 4.657 |
| | 10 November 2017 | 300,000 | 5.038 | 300,666 | 5.027 |
| POON Mo Yiu | 3 September 2010 | 2,104,222 | 2.764 | 2,108,893 (fully exercised on 20 June 2018) | 2.758 |
| | 12 May 2016 | 701,251 | 4.667 | 702,808 | 4.657 |
| | 10 November 2017 | 300,000 | 5.038 | 300,666 | 5.027 |
| SUN Jianfeng | 12 May 2016 | 500,893 | 4.667 | 502,006 | 4.657 |
| | 10 November 2017 | 500,000 | 5.038 | 501,109 | 5.027 |
| SUN Tong (appointed on 27 March 2018) | 12 May 2016 | 500,893 | 4.667 | 502,006 | 4.657 |
| | 10 November 2017 | 500,000 | 5.038 | 501,109 | 5.027 |
| CHENG Chi Ming Brian | 3 September 2010 | 876,749 | 2.764 | 878,695 | 2.758 |
| | 12 May 2016 | 300,534 | 4.667 | 301,201 | 4.657 |
| | 10 November 2017 | 300,000 | 5.038 | 300,666 | 5.027 |
| WANG Meijuan | 12 May 2016 | 300,534 | 4.667 | 301,201 | 4.657 |
| ZHANG Xinjun (appointed on 27 March 2018) | 12 May 2016 | 500,893 | 4.667 | 502,006 | 4.657 |
| | 10 November 2017 | 500,000 | 5.038 | 501,109 | 5.027 |
| William CHAN | 12 May 2016 | 300,534 | 4.667 | 301,201 | 4.657 |
| | 10 November 2017 | 300,000 | 5.038 | 300,666 | 5.027 |
| TSUI Hing Chuen William | 3 September 2010 | 146,013 | 2.764 | 146,337 | 2.758 |
| | 12 May 2016 | 300,534 | 4.667 | 301,201 | 4.657 |
| | 10 November 2017 | 300,000 | 5.038 | 300,666 | 5.027 |
| LAU Wai Piu | 3 September 2010 | 426,120 | 2.764 | 427,066 | 2.758 |
| | 12 May 2016 | 300,534 | 4.667 | 301,201 | 4.657 |
| | 10 November 2017 | 300,000 | 5.038 | 300,666 | 5.027 |
| WEI Kuo-chiang | 12 May 2016 | 300,534 | 4.667 | 301,201 | 4.657 |
| | 10 November 2017 | 300,000 | 5.038 | 300,666 | 5.027 |

Other Information

2. Those shares are held by Mr. LIN Yong as beneficial owner, included 971,606 unvested awarded shares granted by the Company pursuant to the share award scheme as at 30 June 2018 and a total of 305,882 awarded shares which were vest in tranches on 15 March 2018 and 19 March 2018 pursuant to the award schemes during the 6 months ended 30 June 2018.
3. Those shares are held by Mr. LI Jianguo as beneficial owner.
4. Those shares are held by Mr. POON Mo Yiu as beneficial owner, included 118,485 unvested awarded shares granted by the Company pursuant to the share award scheme as at 30 June 2018 and a total of 106,509 awarded shares which were vested in tranches on 15 March 2018 and 19 March 2018 pursuant to the award scheme during the 6 months ended 30 June 2018.
5. Those shares are held by Mr. SUN Jianfeng as beneficial owner and included 365,123 unvested awarded shares granted by the Company pursuant to the share award scheme as at 30 June 2018 and a total of 127,146 awarded shares which were vest in tranches on 15 March 2018 and 19 March 2018 pursuant to the award schemes during the 6 months ended 30 June 2018.
6. Those shares are held by Mr. SUN Tong as beneficial owner and included 421,951 unvested awarded shares granted by the Company pursuant to the share award scheme as at 30 June 2018 and a total of 124,187 awarded shares which were vest in tranches on 15 March 2018 and 19 March 2018 pursuant to the award schemes during the 6 months ended 30 June 2018.
7. Those shares are held by Mr. ZHANG Xinjun as beneficial owner and included 351,413 unvested awarded shares granted by the Company pursuant to the share award scheme as at 30 June 2018 and a total of 111,116 awarded shares which were vest in tranches on 15 March 2018 and 19 March 2018 pursuant to the award schemes during the 6 months ended 30 June 2018.
8. 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 30 June 2018, none of the directors of the Company or their associates had registered any other interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) that was required to be recorded in the register kept by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

Directors' Rights to Acquire Shares or Debentures

Save as disclosed under the sections headed "Directors' Interests and Short Positions in Shares, Underlying Shares and Debentures" above and "Share Option Scheme" below, at no time during the 6 months ended 30 June 2018 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, nor were any such rights exercised by them; nor was the Company or any of its subsidiaries a party to any arrangement to enable the directors to acquire such rights in any other body corporate.

Shared-Based Compensation Schemes

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

Share Option Schemes

- (I) On 23 August 2002, the shareholders of the Company approved the adoption of the share option scheme (the "2002 Share Option Scheme"). The 2002 Share Option Scheme was expired on 22 August 2012. Share options granted under the 2002 Share Option Scheme prior to its expiry continued to be valid and exercisable pursuant to the terms of the 2002 Share Option Scheme.

Movement of share options under the 2002 Share Option Scheme during the 6 months ended 30 June 2018 are listed below:

| Name or category of participants | Number of share options | | | | | | Date of grant of share options* | Exercise period of share options | Exercise price of share options** HK\$ per share | Price of Company's shares*** | |
|---|-------------------------|---------------------------|--------------------------|---------------------------|------------------------|-----------------|---------------------------------|----------------------------------|---|--|---|
| | At 1 January 2018 | Granted during the period | Adjusted during the year | Exercised during the year | Lapsed during the year | At 30 June 2018 | | | | At immediately preceding the grant date of share options | At immediately preceding the exercise date of share options |
| | | | | | | | | | | HK\$ per share | HK\$ per share |
| Directors | | | | | | | | | | | |
| Jl Yuguang (retired on 8 February 2018) | 876,749 | - | - | (876,749) | - | - | 3 September 2010 | 3 March 2011 – 2 March 2019 | 2.764 (Note 1) | 4.79 | 4.76 |
| POON Mo Yiu | 2,104,222 | - | 4,671 (Note 3) | (2,108,893) (Note 2) | - | - | 3 September 2010 | 3 March 2011 – 2 March 2019 | 2.758 (Note 3) | 4.79 | 3.93 |
| CHENG Chi Ming Brian | 876,749 | - | 1,946 (Note 3) | - | - | 878,695 | 3 September 2010 | 3 March 2011 – 2 March 2019 | 2.758 (Note 3) | 4.79 | N/A |
| TSUI Hing Chuen William | 146,013 | - | 324 (Note 3) | - | - | 146,337 | 3 September 2010 | 3 March 2011 – 2 March 2019 | 2.758 (Note 3) | 4.79 | N/A |
| LAU Wai Piu | 426,120 | - | 946 (Note 3) | - | - | 427,066 | 3 September 2010 | 3 March 2011 – 2 March 2019 | 2.758 (Note 3) | 4.79 | N/A |
| In aggregate | 4,429,853 | - | 7,887 | (2,985,642) | - | 1,452,098 | | | | | |
| Continuous contract employees | | | | | | | | | | | |
| | 1,382,257 | - | 2,489 (Note 3) | (260,684) | - | 1,124,062 | 3 September 2010 | 3 March 2011 – 2 March 2019 | 2.758 (Note 3) | 4.79 | 5.10 |
| In aggregate | 1,382,257 | - | 2,489 | (260,684) | - | 1,124,062 | | | | | |
| | 5,812,110 | - | 10,376 | (3,246,326) | - | 2,576,160 | | | | | |

* 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.

Other Information

Notes:

1. A total of 876,749 share options were exercised by Mr. Ji Yuguang at the exercise price of HK\$2.764 on 5 March 2018 pursuant to the 2002 Share Option Scheme (being within the period of one month following the date of retirement).
2. A total of 2,108,893 share options were exercised by Mr. Poon Mo Yiu at the exercise price of HK\$2.758 on 20 June 2018 pursuant to the 2002 Share Option Scheme.
3. The exercise price and the number of share options were adjusted with effect from 11 May 2018 consequent to the allotment of ordinary shares on the same day under the second interim dividend for the year ended 31 December 2017 with the option to elect scrip dividend.

- (II) On 8 June 2015, the shareholders of the Company approved the adoption of a new share option scheme (the "2015 Share Option Scheme") to attract, retain and motivate talented employees to strive towards long term performance targets set by the Group with an opportunity to obtain an equity interest in the Company, thus linking their interest with the interest of the Group and thereby providing them with an added incentive to work better for the interest of the Group. The 2015 Share Option Scheme shall be valid and effective for a period of 10 years commencing from 8 June 2015 and will expire on 7 June 2025.

Movements of the share options under the 2015 Share Option Scheme during the 6 months ended 30 June 2018 are listed below:

| Name or category of participants | Number of share options | | | | | | Price of Company's shares*** | | | | |
|---------------------------------------|-------------------------|---------------------------|--------------------------|---------------------------|------------------------|-----------------|---------------------------------|----------------------------------|---|--|---|
| | At 1 January 2018 | Granted during the period | Adjusted during the year | Exercised during the year | Lapsed during the year | At 30 June 2018 | Date of grant of share options* | Exercise period of share options | Exercise price of share options** HK\$ per share | At immediately preceding the grant date of share options HK\$ per share | At immediately preceding the exercise date of share options HK\$ per share |
| Directors | | | | | | | | | | | |
| LIN Yong | 801,431 | - | 1,780 (Note 1) | - | - | 803,211 | 12 May 2016 | 8 December 2016 – 11 May 2021 | 4.657 (Note 1) | 4.25 | N/A |
| | 800,000 | - | 1,775 (Note 1) | - | - | 801,775 | 10 November 2017 | 7 June 2018 – 9 November 2022 | 5.027 (Note 1) | 4.58 | N/A |
| LI Jianguo | 601,072 | - | 1,334 (Note 1) | - | - | 602,406 | 12 May 2016 | 8 December 2016 – 11 May 2021 | 4.657 (Note 1) | 4.25 | N/A |
| | 300,000 | - | 666 (Note 1) | - | - | 300,666 | 10 November 2017 | 7 June 2018 – 9 November 2022 | 5.027 (Note 1) | 4.58 | N/A |
| POON Mo Yiu | 701,251 | - | 1,557 (Note 1) | - | - | 702,808 | 12 May 2016 | 8 December 2016 – 11 May 2021 | 4.657 (Note 1) | 4.25 | N/A |
| | 300,000 | - | 666 (Note 1) | - | - | 300,666 | 10 November 2017 | 7 June 2018 – 9 November 2022 | 5.027 (Note 1) | 4.58 | N/A |
| SUN Jianfeng | 500,893 | - | 1,113 (Note 1) | - | - | 502,006 | 12 May 2016 | 8 December 2016 – 11 May 2021 | 4.657 (Note 1) | 4.25 | N/A |
| | 500,000 | - | 1,109 (Note 1) | - | - | 501,109 | 10 November 2017 | 7 June 2018 – 9 November 2022 | 5.027 (Note 1) | 4.58 | N/A |
| SUN Tong (appointed on 27 March 2018) | 500,893 | - | 1,113 (Note 1) | - | - | 502,006 | 12 May 2016 | 8 December 2016 – 11 May 2021 | 4.657 (Note 1) | 4.25 | N/A |
| | 500,000 | - | 1,109 (Note 1) | - | - | 501,109 | 10 November 2017 | 7 June 2018 – 9 November 2022 | 5.027 (Note 1) | 4.58 | N/A |
| CHENG Chi Ming Brian | 300,534 | - | 667 (Note 1) | - | - | 301,201 | 12 May 2016 | 8 December 2016 – 11 May 2021 | 4.657 (Note 1) | 4.25 | N/A |
| | 300,000 | - | 666 (Note 1) | - | - | 300,666 | 10 November 2017 | 7 June 2018 – 9 November 2022 | 5.027 (Note 1) | 4.58 | N/A |

Other Information

| Name or category of participants | Number of share options | | | | | | Price of Company's shares*** | | | | |
|--|-------------------------|---------------------------|--------------------------|---------------------------|------------------------|-----------------|---------------------------------|----------------------------------|---|--|---|
| | At 1 January 2018 | Granted during the period | Adjusted during the year | Exercised during the year | Lapsed during the year | At 30 June 2018 | Date of grant of share options* | Exercise period of share options | Exercise price of share options** HK\$ per share | At immediately preceding the grant date of share options HK\$ per share | At immediately preceding the exercise date of share options HK\$ per share |
| | | | | | | | | | | | |
| Directors | | | | | | | | | | | |
| WANG Meijuan | 300,534 | – | 667 (Note 1) | – | – | 301,201 | 12 May 2016 | 8 December 2016 – 11 May 2021 | 4.657 (Note 1) | 4.25 | N/A |
| ZHANG Xinjun (appointed on 27 March 2018) | 500,893 | – | 1,113 (Note 1) | – | – | 502,006 | 12 May 2016 | 8 December 2016 – 11 May 2021 | 4.657 (Note 1) | 4.25 | N/A |
| | 500,000 | – | 1,109 (Note 1) | – | – | 501,109 | 10 November 2017 | 7 June 2018 – 9 November 2022 | 5.027 (Note 1) | 4.58 | N/A |
| William CHAN | 300,534 | – | 667 (Note 1) | – | – | 301,201 | 12 May 2016 | 8 December 2016 – 11 May 2021 | 4.657 (Note 1) | 4.25 | N/A |
| | 300,000 | – | 666 (Note 1) | – | – | 300,666 | 10 November 2017 | 7 June 2018 – 9 November 2022 | 5.027 (Note 1) | 4.58 | N/A |
| TSUI Hing Chuen William | 300,534 | – | 667 (Note 1) | – | – | 301,201 | 12 May 2016 | 8 December 2016 – 11 May 2021 | 4.657 (Note 1) | 4.25 | N/A |
| | 300,000 | – | 666 (Note 1) | – | – | 300,666 | 10 November 2017 | 7 June 2018 – 9 November 2022 | 5.027 (Note 1) | 4.58 | N/A |
| LAU Wai Piu | 300,534 | – | 667 (Note 1) | – | – | 301,201 | 12 May 2016 | 8 December 2016 – 11 May 2021 | 4.657 (Note 1) | 4.25 | N/A |
| | 300,000 | – | 666 (Note 1) | – | – | 300,666 | 10 November 2017 | 7 June 2018 – 9 November 2022 | 5.027 (Note 1) | 4.58 | N/A |
| LIN Ching Yee Daniel (resigned on 19 April 2018) | 300,534 | – | 667 (Note 1) | – | (301,201) (Note 3) | – | 12 May 2016 | 8 December 2016 – 11 May 2021 | 4.657 (Note 1) | 4.25 | N/A |
| | 300,000 | – | – | – | (300,000) (Note 3) | – | 10 November 2017 | 7 June 2018 – 9 November 2022 | 5.038 (Note 1) | 4.58 | N/A |
| WEI Kuo-chiang | 300,534 | – | 667 (Note 1) | – | – | 301,201 | 12 May 2016 | 8 December 2016 – 11 May 2021 | 4.657 (Note 1) | 4.25 | N/A |
| | 300,000 | – | 666 (Note 1) | – | – | 300,666 | 10 November 2017 | 7 June 2018 – 9 November 2022 | 5.027 (Note 1) | 4.58 | N/A |
| In aggregate | 10,410,171 | – | 22,443 | – | (601,201) | 9,831,413 | | | | | |
| Continuous contract employees | 10,167,929 | – | 21,231 (Note 1) | (500,880) | (100,175) (Note 2) | 9,588,105 | 12 May 2016 | 8 December 2016 – 11 May 2021 | 4.657 (Note 1) | 4.25 | 5.024 |
| | 8,650,000 | – | 18,758 (Note 1) | – | (200,000) (Note 2) | 8,468,758 | 10 November 2017 | 7 June 2018 – 9 November 2022 | 5.027 (Note 1) | 4.58 | N/A |
| In aggregate | 18,817,929 | – | 39,989 | – | (300,175) | 18,056,863 | | | | | |
| | 29,228,100 | – | 62,432 | (500,880) | (901,376) | 27,888,276 | | | | | |

Other Information

- * 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 11 May 2018 consequent to the allotment of ordinary shares on the same day under the second interim dividend for the year ended 31 December 2017 with the option to elect scrip dividend.
2. These share options were cancelled or lapsed during the 6 months ended 30 June 2018 as a result of staff resignation.
3. These share options were cancelled or lapsed as a result of Mr. LIN's resignation on 19 April 2018.

Share Award Scheme

On 19 December 2014, the Company adopted the Share Award Scheme under which the shares of the Company 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 pursuant to the terms of the Scheme Rules and the Trust Deed of the Share Award Scheme. The Share Award Scheme became effective on the adoption date and, unless otherwise terminated or amended, will remain in force for 10 years from that date, i.e. 18 December 2024.

Details of the shares awarded, vested, lapsed and unvested during the 6 months ended 30 June 2018 are set out below:

| Date of awards | Number of awarded shares unvested as at 31 December 2017 | Number of awarded shares granted during the period | Number of awarded shares vested during the period | Number of awarded shares lapsed during the period | Number of awarded shares unvested as at 30 June 2018 | Vesting dates |
|----------------|--|--|---|---|--|--|
| 11 March 2016 | 4,565,654 | – | 2,252,593 | 105,150 | 2,207,911 | 15/03/2017 15/03/2018 15/03/2019 |
| 28 April 2017 | 3,976,313 | – | 1,318,237 | 21,556 | 2,636,520 | 19/03/2018 19/03/2019 19/03/2020 |
| 28 May 2018 | – | 7,010,493 | – | – | 7,010,493 | 13/05/2019 13/05/2020 13/05/2021 |

Substantial Shareholders' Interests and Short Positions in Shares and Underlying Shares

As at 30 June 2018, 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") | – | 3,573,283,426 | – | 3,573,283,426 | 63.05 |
| Haitong International Holdings Limited ("HTIH") | 3,573,283,426 | – | – | 3,573,283,426 | 63.05 |

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 of the Company in which HTIH is interested.

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

Save as disclosed above, as at 30 June 2018, 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.

Purchase, Sale or Redemption of the Company's Listed Securities

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities during the six months ended 30 June 2018 other than as an agent for clients of the Company or its subsidiaries.

Corporate Governance

The Board is committed to maintaining a high standard of corporate governance practices within the Group. Throughout the six months ended 30 June 2018, the Company has fully complied with the code provisions set out in the Corporate Governance Code (the "CG Code") as contained in Appendix 14 of the Listing Rules.

Following the appointment of Mr. SUN Tong as an executive director of the Company and the appointment of Mr. ZHANG Xinjun as a non-executive director of the Company on 27 March 2018, the proportion of independent non-executive director of the Company fell below the specific requirement under Rule 3.10A of the Listing Rules.

Following the resignation of Mr. LIN Ching Yee Daniel as independent non-executive director of the Company on 19 April 2018, the number of independent non-executive director of the Company fell below the specific requirement under Rule 3.10A of the Listing Rules, and the proportion of independent non-executive directors comprising the Audit Committee fell below the specific requirement under Rule 3.21 of the Listing Rules.

Upon the appointment of Mr. WAN Kam To as independent non-executive director and chairman of the audit committee of the Company and the appointment of Ms. LIU Yan as independent non-executive director of the Company on 19 June 2018, the Company has fully complied with the specific requirements as regards the proportion of independent non-executive directors comprising the Board as well as the composition of the Audit Committee under Rule 3.10A and Rule 3.21 of the Listing Rules.

107 >

Model Code for Securities Transactions by Directors

The Company has adopted the Model Code set out in Appendix 10 of the Listing Rules as its code of conduct for securities transactions by the directors of the Company. Having made specific enquiry of all directors of the Company, all directors confirmed that they have complied with the required standard set out in the Model Code throughout the six months ended 30 June 2018.

Audit Committee

The Audit Committee of the Company (the "Audit Committee") has met with the external auditor of the Group, Messrs. Deloitte Touche Tohmatsu, to review the accounting principles and practices adopted by the Group and the unaudited consolidated results for the six months ended 30 June 2018 of the Group. The Audit Committee currently comprises 5 non-executive directors of the Company and 3 of whom, including the Chairman of the Audit Committee (the "Chairman"), are independent non-executive directors. The Chairman has the appropriate professional qualification and experience in financial matters.

Disclosure Pursuant to Rule 13.21 of the Listing Rules

On 18 March 2016, 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\$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 II") 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.

On 15 March 2018, 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\$3,540,000,000 for a term of up to 36 months and a revolving credit facility in an aggregate amount of HK\$8,260,000,000 for a term of up to 36 months.

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

- (1) HSCL ceases to directly or indirectly own at least 51% of the share capital in the Company; or
- (2) HSCL does not or ceases to have management control of the Company which refers to (i) a majority of incumbent directors of the Company are nominees of HSCL and (ii) HSCL has control over the management strategies and policies of the Company.

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

- (1) HSCL ceases to directly or indirectly own more of the issued share capital in the Company than any other direct or indirect shareholder of the Company; or
- (2) HSCL does not or ceases to have management control of the Company which means, as between HSCL and the Company, that (i) a majority of incumbent directors of the Company are nominees of HSCL and (ii) HSCL has control over the management strategies and policies of the Company.

Other Information

Pursuant to the terms of the 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 be the largest 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 and Facility Agreement III were made on 18 March 2016, 16 March 2017 and 15 March 2018 respectively.

Disclosure of the Information of the Board Pursuant to Rule 13.51B(1) of the Listing Rules

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

Mr. POON Mo Yiu

Mr. POON Mo Yiu was appointed as the Chief Operating Officer of the Company with effect from 15 August 2018.

Mr. CHENG Chi Ming Brian

Mr. CHENG Chi Ming Brian resigned as a non-executive director of Beijing Capital International Airport Company Limited with effect from 2 February 2018.

Corporate Information

General Information

Board of Directors

Executive Directors

LIN Yong

*Deputy Chairman and
Chief Executive Officer*

LI Jianguo

Deputy Chairman

POON Mo Yiu

SUN Jianfeng

SUN Tong

Non-executive Directors

QU Qiuping

Chairman

CHENG Chi Ming Brian

WANG Meijuan

ZHANG Xinjun

William CHAN

Independent Non-executive Directors

TSUI Hing Chuen William

LAU Wai Piu

WEI Kuo-chiang

WAN Kam To

LIU Yan

Company Secretary

LO Wai Ho

External Auditor

Deloitte Touche Tohmatsu

Place of Incorporation

Bermuda

Registered Office

Clarendon House

2 Church Street, Hamilton HM 11

Bermuda

Principal Place of Business

22nd Floor, Li Po Chun Chambers

189 Des Voeux Road Central

Hong Kong

Principal Share Registrar and Transfer Office

Codan Services Limited

Clarendon House

2 Church Street, Hamilton HM 11

Bermuda

Hong Kong Branch Share Registrar and Transfer Office

Tricor Investor Services Limited

Level 22, Hopewell Centre

183 Queen's Road East

Hong Kong

Website

www.htisec.com