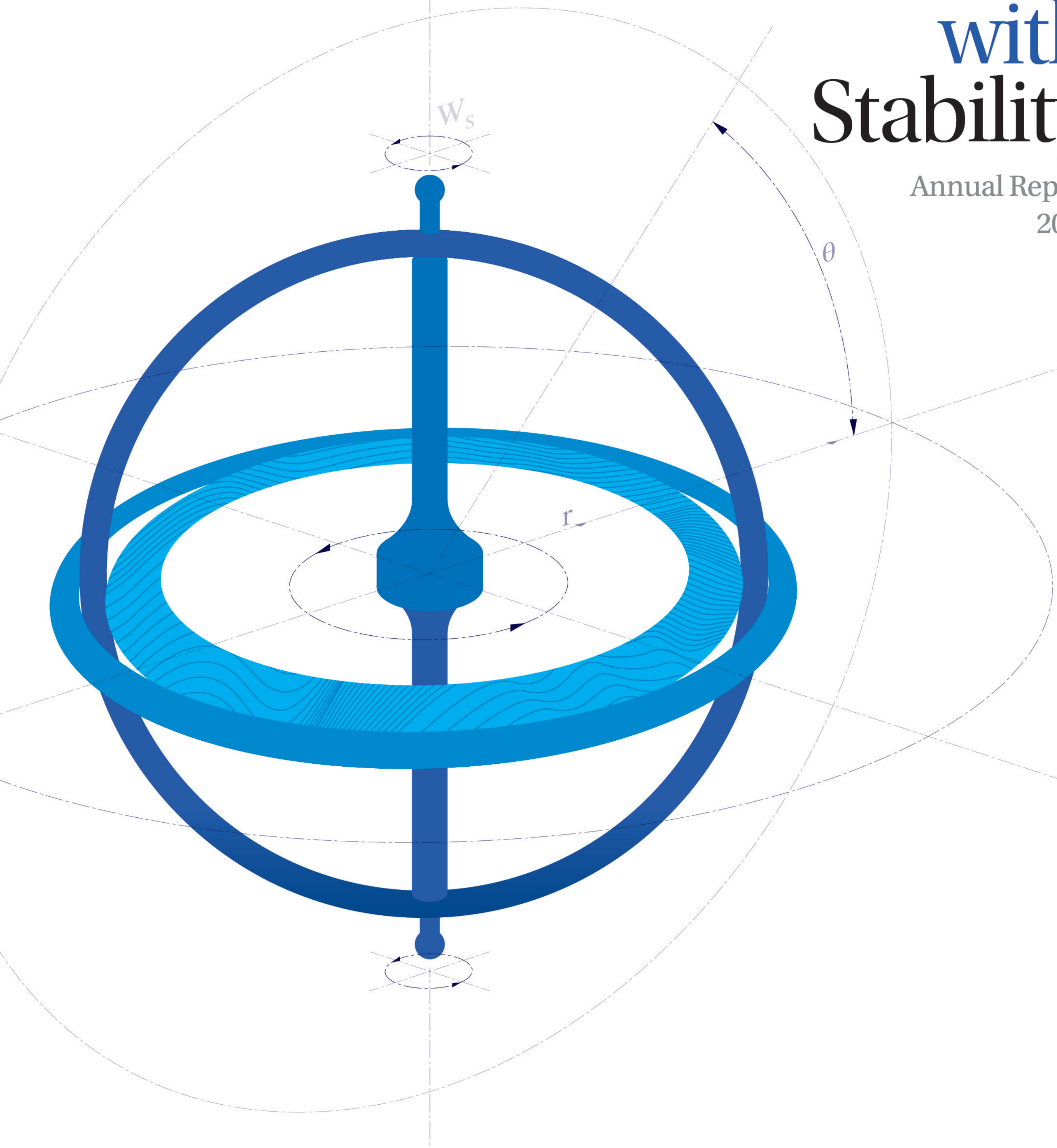
海通國際
HAITONG

Stock Code : 665.hk

Redefine with Stability

Annual Report
2018



Redefine with Stability

"Stability" is the fundamental strength, relying on which Haitong International is able to take the leading role in the capital market for years and remaining intact and resilient while insisting on its compliance and risk management principles. "Redefinition" is the adventurous and innovative spirit intrinsic to Haitong International so that it has a keen eye to capture every market opportunity and grow businesses pivoting on intelligence technologies.

Gyroscope is a device for measuring or maintaining orientation and angular velocity, and is mainly used in navigation. When rotating, the orientation of its axis is unaffected by tilting or rotation of the mounting. It is very much like Haitong International's unswerving business attitude – it proactively takes steps to defuse threats and risks amidst the ever-changing financial market and keeps an open mind to embrace nascent things to seek breakthroughs.

Contents

Financial Highlights

Results

	For the year ended 31 December 2018	2017	Percentage change Increase/ (Decrease)
Revenue *(HK$'000)*	**6,328,782**	7,195,021	*(12)*
– Commission and fee income	**2,130,334**	2,013,575	*6*
of which: Commission on underwriting and placing	***767,557***	*488,890*	*57*
– Interest income	**2,575,717**	2,152,832	*20*
– Net investment gains	**1,622,731**	3,028,614	*(46)*
Net Profit Attributable to Shareholders *(HK$'000)*	**1,022,838**	3,028,688	*(66)*
Per share			
Basic Earnings Per Share *(HK Cents)*	**18.25**	56.53	*(68)*
Diluted Earnings Per Share *(HK Cents)*	**17.27**	51.68	*(67)*

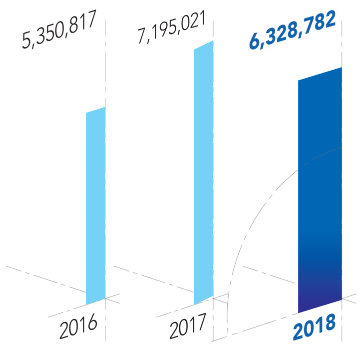
Financial Position

	31 December 2018	31 December 2017	Percentage change Increase (Decrease)
Shareholders' Funds *(HK$'000)*	**25,810,337**	25,367,879	*2*
Total Assets *(HK$'000)*	**151,181,085**	130,223,838	*16*
Number of Shares in Issue *(Note)*	**5,789,746,388**	5,500,858,791	*5*
NAV Per Share *(HK$)*	**4.46**	4.61	*(3)*

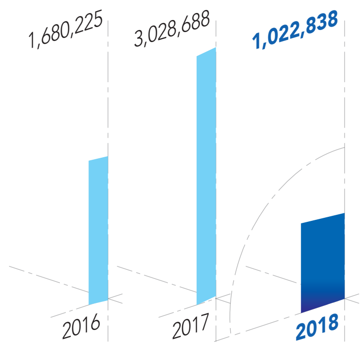
Note:

Certain equity rights conferred on convertible bond and share option holders were exercised during the year. Certain shareholders also elected for scrip dividend. Hence, the total number of shares of the company was increased to 5,789,746,388 as at 31 December 2018.

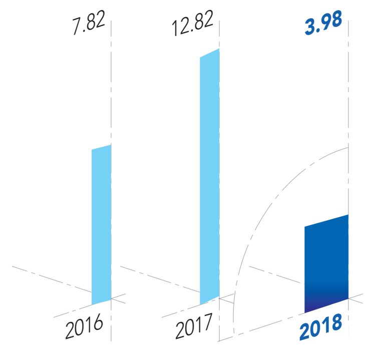
Revenue
(HK$'000)



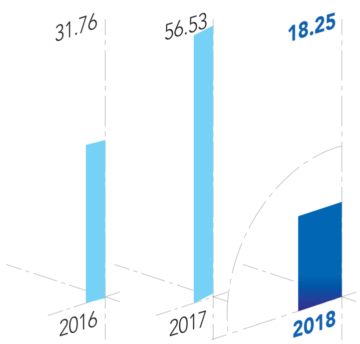
Net Profit Attributable to Shareholders
(HK$'000)



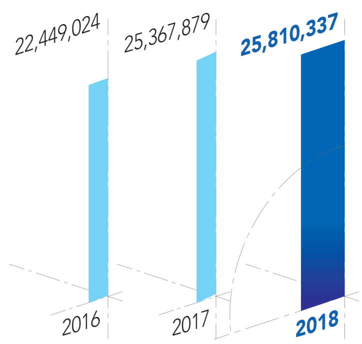
Return on Shareholders' Funds
(%)



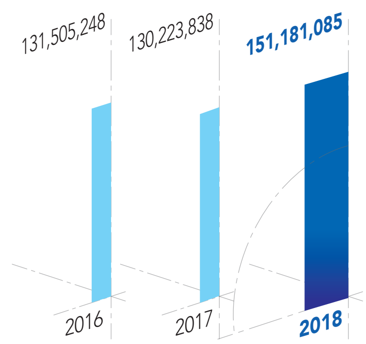
Basic Earnings per Share
(HK Cents)



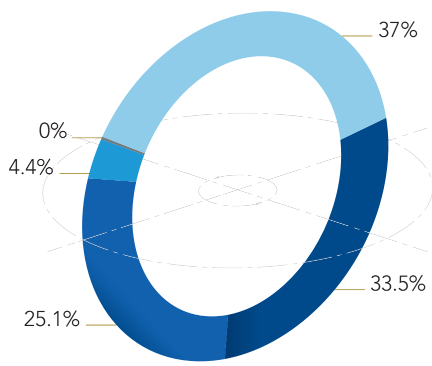
Shareholders' Funds
(HK$'000)



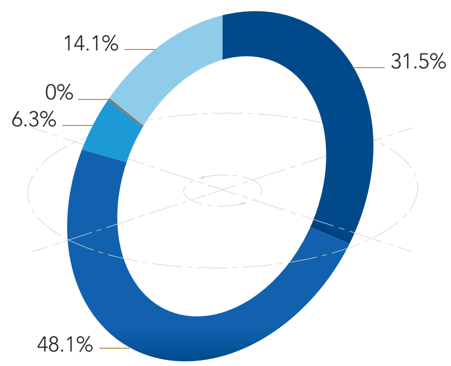
Total Assets
(HK$'000)



Analysis of 2018 Revenue
(For the year ended 31 December 2018)



Analysis of 2018 Profit
(For the year ended 31 December 2018)



Wealth Management　Corporate Finance　Asset Management　Institutional Clients　Investment

Business Highlights

Overseas Footprints

Headquartered in Hong Kong, Haitong International has established a global financial servicing network covering the world's major capital markets including Hong Kong, Singapore, New York, London, Tokyo, Sydney and Mumbai.

UK-London

Conducts a range of financial services activities in the UK including Equity Sales, Sales & Trading and transacting in the Fixed Income Markets.

- In December 2018, became one of the first London Stock Exchange member firms, being a 'designated broker' for the Shanghai-London Stock Connect between the Shanghai Stock Exchange and the London Stock Exchange.

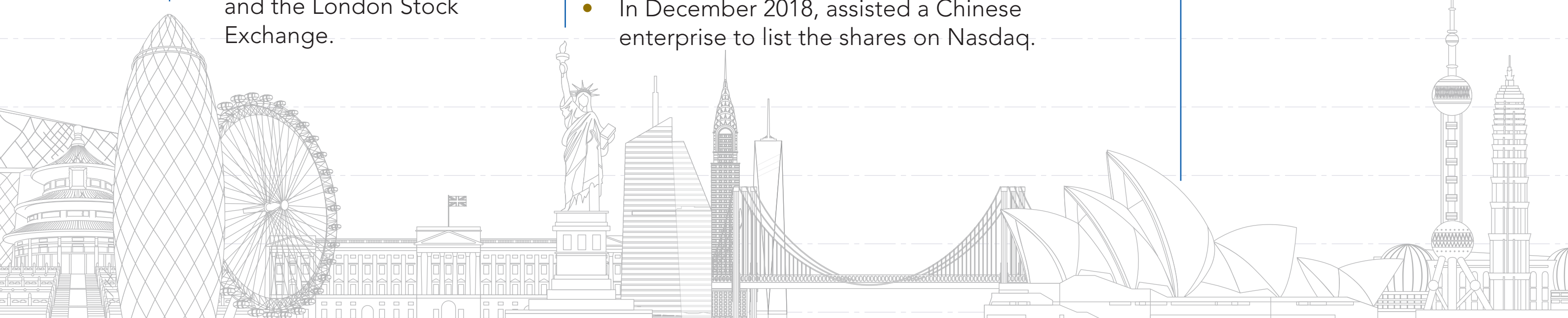
US-New York

Mainly engaged in corporate financing and brokerage business.

- In Feb 2018, granted with the Nasdaq Membership Qualification;
- In June 2018, assisted a Chinese enterprise to list the shares on the NYSE, completing its first IPO in the US;
- In August 2018, received approval from FINRA for participation in Investment Banking activities;
- In October 2018, became the first Chinese market maker on Nasdaq;
- In December 2018, assisted a Chinese enterprise to list the shares on Nasdaq.

Australia-Sydney

Preparation of operations is in progress.



Business Segments = Wealth management + Corporate finance

Wealth management

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

Corporate finance

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

Japan-Tokyo

Engaged in investment advisory business.

- In 2018, was awarded the "No. 1 Stock Picker – Industrials" and "No. 1 Stock Picker – Banks" in Japan by Thomson Reuters.

Singapore

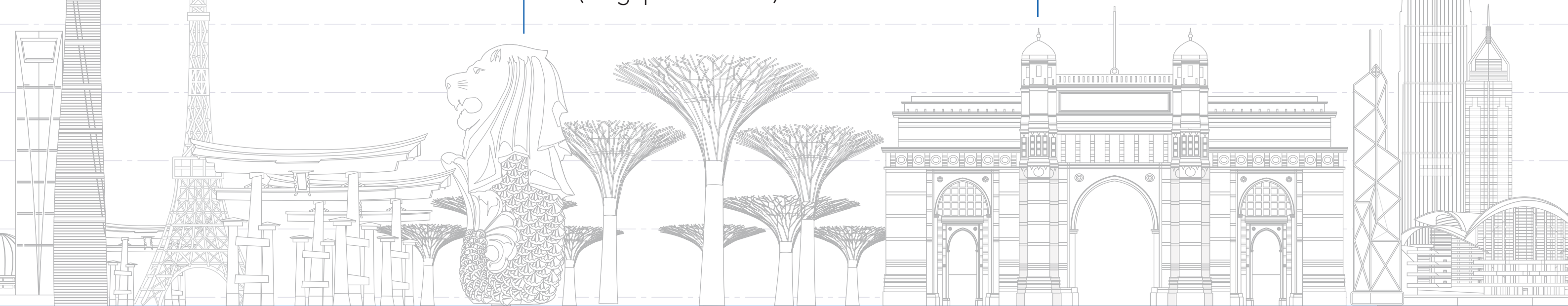
Mainly engaged in securities margin financing, corporate finance, dealing in capital markets products, leveraged foreign exchange trading, and market making for bonds.

- In March 2018, completed the IPO deal for Sasseur REIT on the Main Board of SGX, being its first outlet mall REIT listed in Asia;
- In April 2018, completed its first public offering project of SGD bonds, assisting mm2 Asia Ltd to issue 3NC2 SGD senior unsecured bonds;
- In November 2018, participated in (being the only one non-bank institution) the first issuance project for medium-term notes for SPD Bank (Singapore branch).

India-Mumbai

Engaged in cash equities and diverse investment banking businesses.

- In November 2018, completed (acting as the sole financial advisor) the equity fund raising project amounting to USD30 million (around INR2.25 billion) for Aavishkaar Venture Management Services;
- In November 2018, arranged (acting as a financial advisor) the credit facility amounting to USD60 million for Aequs Service Holdings Inc.



+ Asset management

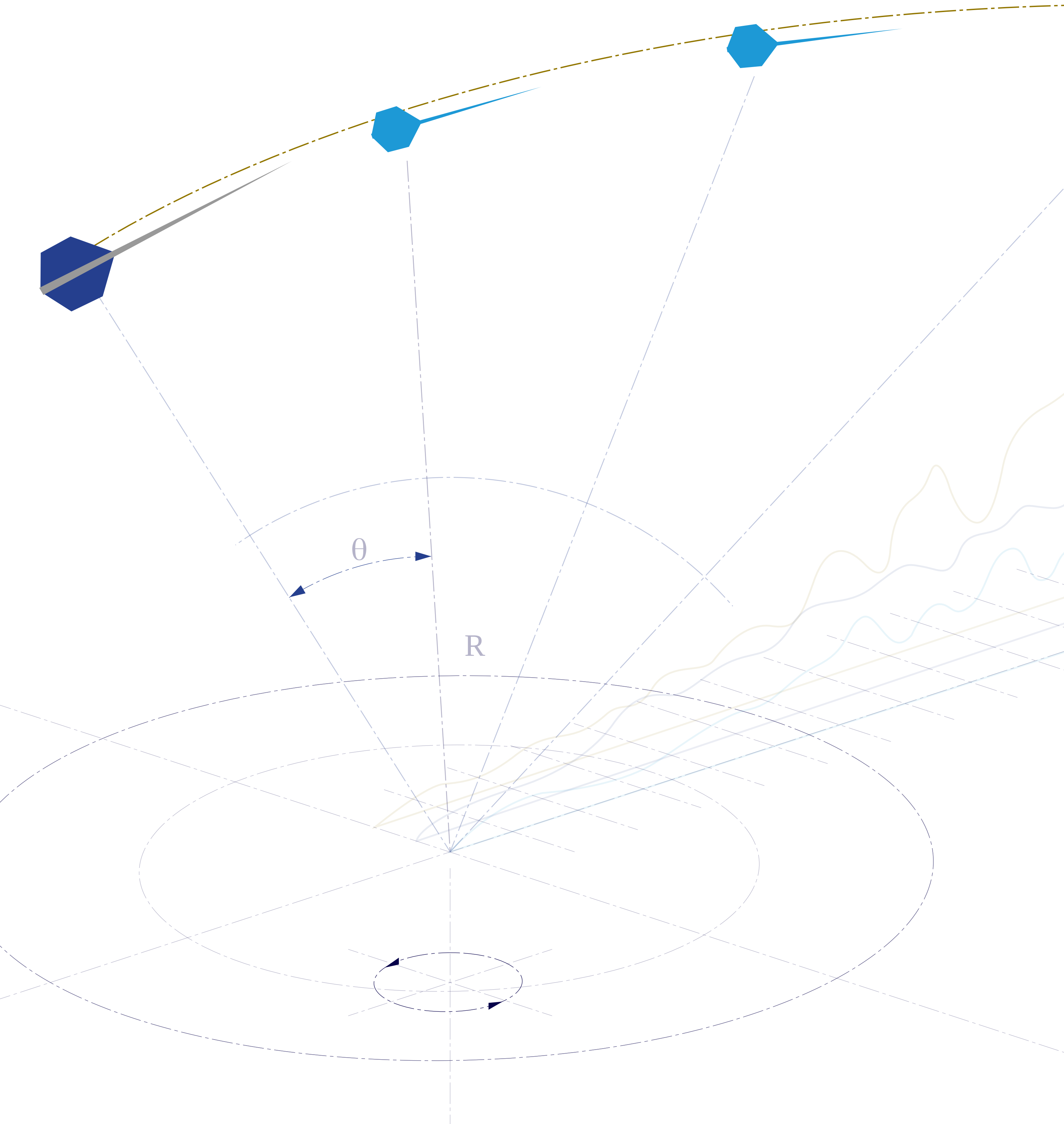
Engages in provision of investment management services on diversified and comprehensive investment products including mainly public funds, private funds and mandatory provident funds to individual, corporate and institutional clients.

+ Institutional clients

Engages in provision of cash equities sales and trading, prime brokerage, stock borrowing and lending, equity research, 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.

+ Investment

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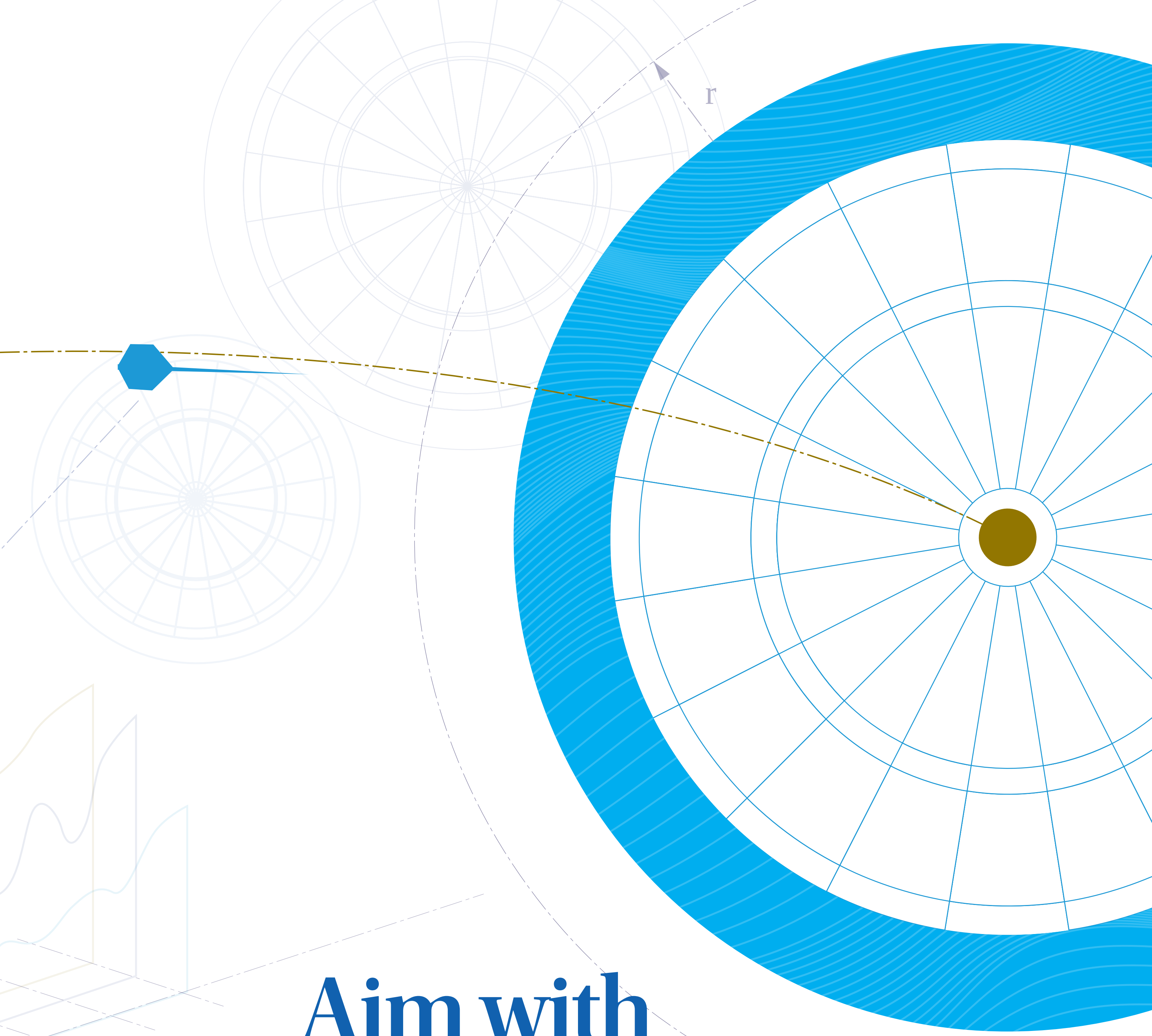


Aim with possibility

Haitong International outsmarts its peers in its core business, thanks to its market-savvy and responsiveness to the changing market built on its global comprehensive operating platform based in Hong Kong.

2018 Jan

- 2 funds of Haitong International were named as "1 Year Consistent Performer – Equity Fund (China & HK) and "1 Year Consistent Performer – Equity Fund (International)" respectively in "2018 MPF Awards" organized by MPF Ratings (MPFR).

2018 Apr

- Haitong International was named as "The Best Fund House – China Offshore" in "2018 Asset Management Awards" organized by AsianInvestor for the first time.

- Haitong International was named as one of the "Best Companies to Work for in Hong Kong 2018" by HR Asia, a renowned HR publisher in Asia, making it the first Chinese financial institution receiving the award.

2018 May

- Haitong International garnered four awards – "Derivatives of the Year", "Securities Company of the Year", "Wealth Management Platform" and "Risk Management" in Bloomberg Businessweek's Financial Institution Awards 2018.

2018 Jul

- Haitong International launched three equity funds covering the world's biggest economies – the United States, China and Japan.

- Haitong International won the award of "Hong Kong's Best Investment Bank" in the "Euromoney Awards For Excellence 2018" organized by Euromoney, marking the first time such award is given to a Chinese institution.

2018 Sep

- Haitong International held Haitong International AI Conference 2018 in Hong Kong to embrace the "intellectual investment banking era" together with opinion leaders and investors around the world.
- Haitong International was named as the "Hong Kong House of the Year" in Asia Risk Award 2018 for the second consecutive year.
- Haitong International was named as the "Best Securities House of the Year – Hong Kong" in Asiamoney Best Securities Houses Awards 2018 for the second consecutive year.

2018 Dec

- Haitong International was awarded "Top Exchange Participant - ETF Turnover", "Top Securities Market Maker - L&I Product Turnover", "Market Maker / Liquidity Provider Award in Stock Futures", and "HKEX Gold Futures Active Participant Award 2018 - Liquidity Provider" in HKEX Awards 2018.

2018 Nov

- Haitong International garnered a total of 5 awards from "Offshore China Fund Awards 2018", namely, the "Best ETF Participating Dealer", "Best China Broker", "Best Total Return - Greater China Fixed Income (1 Year)", "Best ETF Tracking Error 1st Runner-Up" and "Best Total Return - Greater China Equity (3 Year) 2nd Runner-up".


NASDAQ

Global Vision

Stepping into 2018, Haitong International embarked on a new chapter on the course of its internationalization with the formation of a network centering on New York, London, Singapore and Hong Kong and expanding into major Asia Pacific capital markets like Tokyo, Sydney and Mumbai.

QU Qiuping
Chairman

Economic, Market and Business Review

In 2018, the economic growth was slightly held back from 2017, mainly attributable to the softening trajectory of major economies in Europe and Asia and the menacing trade protectionism's impairment to the global investment and consumption. The U.S., with an expected growth of 2.9% for 2018, has outrun the global economic performance, witnessing the best performance since 2016. This is largely thanks to the tax reduction, which injected a hearty dose of impetus to the economy – the employment remained strong and the unemployment rate was on the decline evidenced by 4 rate hikes announced by the Fed. Nevertheless, Eurozone's bleak economic growth, being out of expectation, was far worse than that of 2017 and the estimation made by the European Central Bank in late 2017 in terms of GDP for the first 3 quarters, dragged by fragile external demand and slower export.

On China side, its economic growth slid to the level of 6.6% but was still higher than the expectation. Apparently, measures such as major risk prevention and deleverage diluted people's passion to invest in infrastructure and in turns discouraged investment in fixed assets as a whole. The household consumption expenditure saw a rapid growth while the expenditure per capita registered a growth at a swifter rate than that of 2017. Although the growth track of the export was healthy whilst the total trade volume achieved a record high, the Sino-U.S. trade war started to bite in the second half, presenting some constraints to import & export and economic growth in 2019. Fortunately, riding on the efforts of China's reform and opening-up, its economic structure is rationalized and development potentials are unleashed one after another.

As to Hong Kong, its economic growth momentum remained steady with a growth of 3.7% during the first 3 quarters and an annual growth rate of 3.2%, representing a mild decrease over 2017. After all, the growth is higher than the average of the past decade. On the other hand, the growth of its external trade and domestic demand was tremendous whereas the unemployment rate was at a 20-year nadir. Moreover, the increase of wage and income was healthy while the inflation rate was modest. The profit-compressing milieu and undermining trade protectionism sent the global capital market into tailspin, and the Hang Seng Index was in response nosedived to 13.6% during 2018.

In 2018, Haitong International steadfastly kept up with its leadership as a Chinese financial services provider in terms of global investment banking and trading execution businesses albeit the challenging environment. The Company ranked top in terms of the number of IPO projects undertaken among investment banks in Hong Kong; it topped the list of market rank in the issuance market in terms of underwriting amount and number of high-yield G3 corporate bond (Asia ex-Japan) projects undertaken among the financial institutions worldwide (firms and investment banks); it also came forth as a top player in terms of derivatives business among issuers – bucking the trend of longstanding dominance by foreign investment banks. Playing the role as a spearhead to establish global presence for Haitong Securities, Haitong International has been accomplishing breakthroughs one after one – it successfully undertook its first IPO project on NYSE and then on Nasdaq, it completed the issuance project of convertible bonds for the first time in Nasdaq, and it was approved to be the first Chinese market maker in Nasdaq. At present, it is a Chinese brokerage firm with wide-ranging business coverage in the U.S. and rich lineup of licenses. All these add to Haitong International's overall operating capability to conduct business around the world. However, the Company, based in Hong Kong, even goes a step forward to raise the bar of its operating management system so as to serve as a global business platform leveraging on a central data management system – business information around the world can therefore be processed and managed centrally and effectively.

Future Prospect

Despite the sluggish global economic growth in 2019 and the uncertainties looming over the financial market in the days ahead, some favorable elements should not be understated. As a case in point, the dovish rhetoric from the Fed to cut back the number of rate hikes this year and to put the balance reduction programme in order, and the positive discussion of the trade war with a raft of PRC's measures as economic stabilizers should be taken into consideration. Conversely, the European economic development is worth more attention: what monetary policies will be laid down by the ECB since the suspension of its net asset purchases, how Italy's economic headwind might affect its neighbors and the possibility of the disorienting Brexit weighs on the financial markets.

The year of 2019 marks the 70th anniversary of the founding of the People's Republic of China. It is also a crucial time for our home country to finish building a moderately prosperous society. Despite the external complications and the structural conflicts within, there still exists favorable factors such as the huge potentialities in the consumer market and benefits from reform for China in 2019. Moreover, the central government will introduce countercyclical factor to adjust calculation on macroeconomic fundamentals and launch proactive fiscal measures and sound monetary policies to ensure steady economic growth. As the Guangdong-Hong Kong-Macao Greater Bay Area construction is moving forward, Hong Kong's role of an international financial hub and asset management center will come into play to a larger extent, and Hong Kong market will be even more alluring to domestic and international investors.

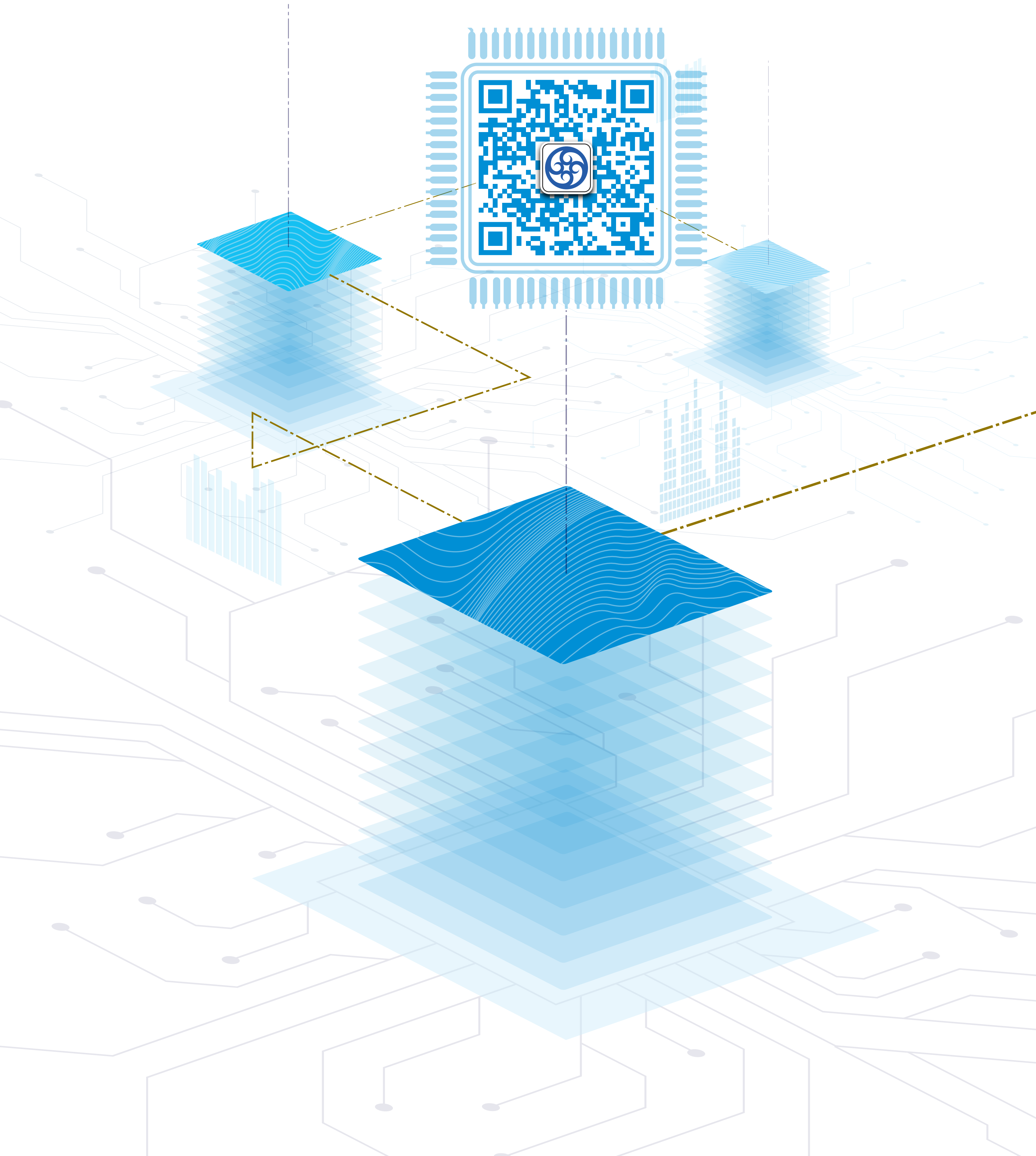
Looking forward, Haitong International will proactively and bravely embrace the mercurial foreign markets by capitalizing on its advantages in Hong Kong to enlarge its global network in 2019. Boasting its Hong Kong attributes and global insight, Haitong International will play its card right to augment its global operations with big data management and information management in place. Determined as it has been, the Company is marching its way to become a financial services provider with international competitiveness, systemic importance and brand influence.

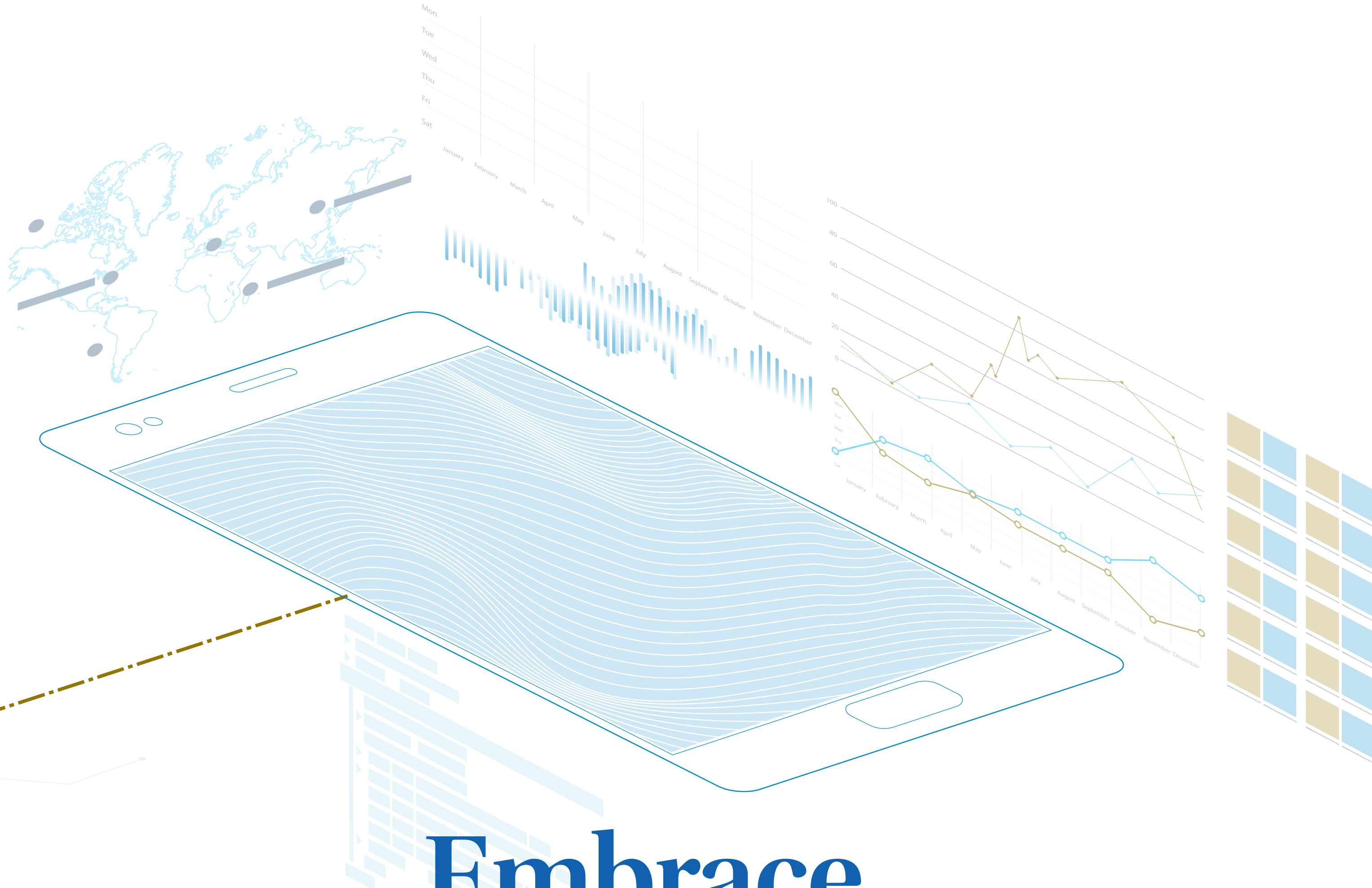
QU Qiuping
Chairman

Hong Kong, 22 March 2019

Completed
37 IPOs in HK

No.1
among all IBs





Embrace the times

Innovation is a core value and constitutes a part of Haitong International's corporate culture. Boasting intelligent technologies, Haitong International is able to monitor and access to financial markets around the world in real time to enhance customer experience and inspire industry transformation.

LIN Yong
Deputy Chairman and CEO

Haitong International, rooted in Hong Kong and marching its way toward to the world stage, has been endeavoring to maintain its leadership and make great strides to be an international financial services provider. In early 2018, the Company's acquisition of Haitong Securities USA LLC and Haitong International (UK) Co. Limited from Haitong Bank S.A., perfecting its capability to provide professional financial services to investors world over, heralded a new chapter for its global presence. Despite the challenging market environment in 2018, the Company redefined itself with stability – it kept up the healthy trajectory track for its core businesses and successfully formed a financial services network that centered in New York, London, Singapore and Hong Kong and expanding into major Asia-Pacific capital markets such as Tokyo, Sydney and Mumbai. Haitong International has therefore possessed supreme global investment banking, investment, transaction execution and operating capabilities, and a global monitoring system comparable to European banking regulatory framework has taken shape.

Business review and analysis

In 2018, Haitong International braved the storm in the market by dynamically managing its balance sheet in a timely fashion. The total income of the Group for 2018 (including revenue; other income and gains or losses) was HKD6.36 billion with a net profit of HKD1.02 billion.

Commission and fee income has been part and parcel for its core businesses. During the year, the Company's commission and fee income reached HKD2.13 billion, among which, the underwriting and placing commission saw a sharp year-on-year growth of 57%, upholding the leadership in the Hong Kong capital market. During the reporting period, the Company forayed into investment banking, investment and trading businesses in major financial hubs in the world. In 2018, thanks to its ever-strengthening asset allocation, Haitong International was delighted to see a healthy and stable rise of interest yield, achieving an increase of 20% for interest income with the interest-bearing assets well-maintained largely at the same level. At the same time, its debt structure and capital adequacy were kept up at a rational status.

1. Leading its way in the investment banking business in the world

For global equity financing, Haitong International completed a total of 37 IPO deals in Hong Kong during the year and ranked top among all financial services providers in terms of number of IPO projects underwritten. As the Company's global network is growing, it achieved brilliant results in Singapore and completed its first 2 IPOs in the U.S. For global bond financing, the Company has completed a total of 180 bond issuance projects. In Offshore China Bonds League Table, Haitong International ranked No. 3 and No. 4 in terms of underwriting amounts and number of deals in 2018. Haitong International also topped the list of the Asian (ex Japan) G3 high yield corporate bond among the financial services providers in the world in terms of number of bond deals and underwriting amount. For global leverage and acquisition financing, the Company achieved a turnover of over HKD30 billion and expanded its footprint to Central Asia, Southeast Asia, Europe, North America and South America etc. – reinforcing the HTI brand in the M&A market around the world.

2. Growing competencies in global investment

For primary market, our PE team directed its attention to the "new economy" area – it secured 10 projects at home and abroad and has succeeded to divest from certain IPOs. For the secondary market, our Asset Management team issued US equity fund, Japanese equity fund and Chinese A share fund to enrich public fund products covering major capital markets in the world.

3. A surge of global transaction execution capability

For market making business, Haitong International kick-started its market making business in the U.S. in October 2018 and became the first Chinese market maker in the NASDAQ with a cross-border, cross-market and cross-department settlement system, laying a solid foundation for its U.S. securities trading in the future. In addition, the Company was for the first time approved as a stock futures liquidity provider and is now providing market making services of stock futures for new shares including unicorns.

Commission and fee income +6% YOY

Interest income +20% YOY

Underwriting and placing commission income +57% YOY

For institutional equities, Haitong International's coverage has extended to over 30 markets in different countries across the world, and equity research, institutional sales and trading services are provided to around 1,000 global institutional investors. In addition, it was also approved to trade according to Shanghai-London Stock Connect and conduct market making business on NASDAQ, which is a preemptive move as well as a strong lever for the Company to grow its clientele in the U.S. and U.K. For derivatives, Haitong International ranked third and fifth in the Hong Kong market in terms of number of underlying securities covered and transaction amount respectively – it has issued 1,219 warrants and 965 CBBCs as at 2018. Moreover, in June 2018, it also issued call/put warrants for Alibaba Group in the Hong Kong Stock Exchange – making it become a top-tier issuer, bucking the trend of longstanding dominance of foreign investment banks and meeting investors' demand for U.S. IT stock derivatives.

For FICC, Haitong International has built a comprehensive industry chain for global credit bonds and harnessed international presence covering Asia, Europe and America with 24-hour round-the-clock services. Moreover, the Company is now an active market maker for futures in RMB in SGX and HKEx with turnover of RMB futures amounting to over USD15 billion during the year.

Moreover, the Company successfully rolled out the mega event "Haitong International AI Conference 2018" in Hong Kong and a series of themed activities across borders, catching the spotlight of foreign investors. Therefore, a long-term research branding strategy circling the AI theme has shaped up.

4. Time-tested global operational and risk management capabilities

Haitong International strives to develop an all-rounded global operational capability and has upgraded its operational and management system in full swing, building an overseas business global operational centre based in Hong Kong. Boasting its Central Database Management System (CDMS), the Company has achieved central management on global business data. The completion of the set-up of an innovative trading system facilitates interconnection of trading among Asian Pacific, European and U.S. markets.

In a market environment as arduous as in 2018, the Company proactively kept all kinds of risks at bay with a prudent approach and weathered all challenges in the market. Thanks to our robust and sophisticated risk management system, the investment grade ratings given by Moody's and S&P were kept intact. It is the first Hong Kong subsidiary of a Chinese brokerage firm who is given an independent rating by Moody's.

No.1

in the world by number of bond issuance and underwriting amount in the Asian (ex Japan) HY G3 corporate bond ranking of Bloomberg League Table.

5. Shouldering the social responsibilities

The year of 2018 marked the year of 40th anniversary of China's reform and opening-up. Finding itself at this new era, Haitong International set up new objectives for itself – it participated in promoting Hong Kong's role for the Belt and Road Initiative, the development of Guangdong-Hong Kong-Macao Greater Bay Area and internationalization of Renminbi. Moreover, it always set its eyes on the livelihood of Hong Kong people and support charities so as to make contribution to the robustness and prosperity of Hong Kong market.

In 2018, Haitong International devoted much of its energy to support a plethora of social enterprises, environmental protection campaigns and charity projects and it did not miss to deploy resources to other dimensions like career for youth, sports and culture and development of the financial sector. Incubating and developing budding talents has been one of the high priorities of Haitong International. During the year, the Company unprecedentedly unveiled a Management Trainee Home Starter Loan Scheme with a view to encouraging the younger generation to focus on developing their expertise and plan out their career path. In addition, as a staunch and longstanding sponsor for Windsurfing Association of Hong Kong, Haitong International spared no effort to support windsurfing events, train up Hong Kong windsurfing athletes and demonstrate Hong Kong sportsmanship to the international community. The Company is also a corporate member of The Better Hong Kong Foundation, a non-profit organization, in order to forge stronger communication with a number of reputed public institutions and organizations. In this way, it hopes to emit positivity and to raise Hong Kong's profile in the international arena.

Prospects

The global economic growth is expected to meet a slowdown in 2019. The U.S.'s growth has peaked and will soon subside due to the waning financial stimulus effect while China's economy will move on at a slower rate. It is expected the contribution for the two giant economies to the global economic growth will be limited. However, judging from Fed's gesture to slow down the pace of rate hikes in 2019, it is hoped that the global liquidity crunch will be alleviated and the financial market will be buoyed to some extent.

From a global perspective, developing the strength in capital-based intermediary businesses and steering toward the path of globalization has become a major trend among the top-notch investment banks. As such, Haitong International will stably expand its AUM, focus on the synergy-rich businesses and achieve high-efficient and quality asset allocation with all risk under control. More than this, not only can new economy business boost a company's efficiency and advance of technology, but it is also conducive to the progress of human society. As such, Haitong International will pay heed to this facet and mobilize proper resources in this aspect.

In future, Haitong International will adhere to its core values – "Courage, Sincerity and Innovation" to maintain its leadership in Hong Kong and to establish global presence. Boasting information technology and insisting on its risk management, Haitong International will endeavor to capture every market opportunity and become a world-class financial services provider with international competitiveness, systemic importance and brand influence.

LIN Yong
Deputy Chairman and CEO

Hong Kong, 22 March 2019

Overview of the Group's Financial Performance

During the year ended 31 December 2018, the Company and its subsidiaries (collectively referred as the "Group") generated revenue of HK$6,329 million, with profit for 2018 amounted to HK$1,023 million. Commission and fee income, in particular, commission on underwriting and placing, recorded a year-on-year increase of HK$279 million (or 57%), which demonstrates the Group's leading position in Hong Kong's capital markets and the Group is also developing its capability in executing capital markets projects in other major financial centres.

The Group's interest income was increased by 20% from HK$2,153 million for 2017 to HK$2,576 million for 2018, which is driven by enhancement of interest yield while balance of interest bearing assets remained stable during 2018. Given volatile financial markets during 2018, slowdown of economic growth in major economies, the on-going Sino-US trade war and deleveraging process in China onshore financial systems, the Group's net investment gains recorded a decrease and amounted to HK$1,623 million (2017: HK$3,029 million).

During the year ended 31 December 2018, the Group's total costs (excluding income tax expense) was HK$4,951 million (2017: HK$4,001 million), representing an increase of 23.8%. Increase in total costs is mainly due to increase in finance costs and information technology related expenses. As a result of optimization of the Group's human resources strategy, the Group's employee benefit costs remained at the same level as compared between 2018 and 2017 (2018: HK$1,155 million; 2017: HK$1,149 million). As a result of prudent risk management exercised by the Group, the Group's impairment loss recorded a decrease (2018: HK$239 million; 2017: HK$246 million) despite of adoption of Hong Kong Financial Reporting Standard 9, "Financial Instruments". Under HKFRS 9, impairment loss shall be measured on a forward looking basis in forecasting loss events that could happen, which usually results in an increase in impairment loss as compared with the previous accounting standard, Hong Kong Accounting Standard 39, "Financial Instruments: Recognition and Measurement".

Total assets as at 31 December 2018 amounted to HK$151.2 billion, increased by HK$21 billion (16.1%) from HK$130.2 billion as at 31 December 2017. Increase in total assets is due to increase in assets acquired for financial products issued and increase in financial assets held for trading and market making activities.

Net assets (which are also shareholders' equity) remained relatively stable as compared between 31 December 2018 and 31 December 2017, and amounted to HK$25.8 billion as at 31 December 2018 (31 December 2017: HK$25.4 billion). Net assets value per share as at 31 December 2018 was HK$4.46, representing a decrease of 3.3% from HK$4.61 as at 31 December 2017. Annualised return on shareholders' funds (calculated by net profit divided by weighted average shareholders' equity) was 3.98% for the year ended 31 December 2018.

Revenue

Revenue of the Group for the year ended 31 December 2018 was HK$6,328.8 million (2017: HK$7,195.0 million). The major revenue streams and its proportion to total revenue are detailed below:

	2018		2017	
	HK$'000	**%**	HK$'000	%
Commission and fee income	**2,130,334**	**33.7**	2,013,575	28.0
Interest income	**2,575,717**	**40.7**	2,152,832	29.9
Net investment gains	**1,622,731**	**25.6**	3,028,614	42.1
	6,328,782	**100.0**	7,195,021	100.0

The Group's commission and fee income increased from HK$2,013.6 million for 2017 to HK$2,130.3 million for 2018. In particular, the Group's commission on underwriting and placing increased significantly by 57% (2018: HK$768 million; 2017: HK$489 million).

The Group's interest income increased by 19.6% was mainly contributed by increase in interest income from various financing solutions provided to clients but was partly offset by decrease in interest income from advances to customers in margin financing (as a result of decrease in average margin loan size as compared between 2018 and 2017).

The Group's net investment gains were mainly contributed by net investment gains generated by institutional clients segment but was partly offset by investment loss incurred by investment segment. Analysis of investment gains/losses 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	**2018** HK$'000	%	2017 HK$'000	%
Wealth management	**2,141,456**	**33.5**	2,193,303	30.5
Corporate finance	**1,603,118**	**25.1**	1,845,534	25.7
Asset management	**278,475**	**4.4**	328,920	4.6
Institutional clients	**2,370,947**	**37.0**	1,642,471	22.8
Investment	**(65,214)**	**N/A**	1,184,793	16.4
	6,328,782	**100.0**	7,195,021	100.0

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

Segment profit (loss) before tax	**2018** HK$'000	**%**	**Segment margin**	2017 HK$'000	%	Segment margin
Wealth management	**702,624**	**31.5**	**33%**	848,157	23.7	38%
Corporate finance	**1,073,397**	**48.1**	**67%**	1,044,032	29.2	56%
Asset management	**140,582**	**6.3**	**50%**	261,239	7.3	79%
Institutional clients	**315,637**	**14.1**	**13%**	596,328	16.7	34%
Investment	**(1,052,656)**	**N/A**	**N/A**	822,483	23.1	58%
	1,179,584	**100.0**	**19%**	3,572,239	100.0	47%

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 and option contracts, foreign exchange trading, over-the-counter products and risk management instrument sales, investment advisory service, financial planning service and investment fund distribution services, custodian service as well as the provision of securities margin financing to clients.

Analysis of results

	2018 HK$'000	2017 HK$'000	+/-%
Commission and fee income	**665,921**	757,158	-12.0
Interest income	**1,298,952**	1,286,919	+0.9
Net investment gains	**176,583**	149,226	+18.3
Segment revenue	**2,141,456**	2,193,303	-2.4
Other income and gains or losses	**17,056**	28,999	-41.2
	2,158,512	2,222,302	-2.9
Segment expenses	**(1,455,888)**	(1,374,145)	+5.9
Segment profit before tax	**702,624**	848,157	-17.2
Segment margin (%)	**33**	38	-5

Segment revenue

Decrease in commission and fee income is mainly due to decrease in commission in securities dealing and broking generated by this segment. Turnover by wealth management customers recorded a decrease as compared between 2018 and 2017 due to worsening market sentiment in a volatile financial market as major stock indices recorded a decrease during 2018 amid of economic slowdown and Sino-US trade war. Commission rate charged to wealth management customers remained stable during 2018.

Interest income recorded a decrease as compared between 2018 and 2017 due to drop in margin loan size. The Group's margin loan scaled down from HK$20.8 billion as at 31 December 2016 to HK$16.4 billion as at 31 December 2017, and further decreased to HK$16.0 billion as at 31 December 2018. Decrease in margin loan size is due to implementation of a more prudent margin lending policy from risk management perspective since 2017. Interest income from margin lending increased during second half of 2018 as compared with first half of 2018 due to increase in market interest rate.

Net investment gains of this segment represent spread income from distribution of debt securities and over-the-counter products, and spread income from foreign exchange conducted by customers. During current year, the turnover of foreign exchange recorded a significant increase, which drove the increase in the spread income generated by this segment.

Segment profit before tax and segment margin

Funding cost borne by this segment increased from HK$390 million for 2017 to HK$434 million for 2018, which is mainly due to increase in the funding cost of the Group as a result of increase in Hong Kong Interbank Offer Rate ("HIBOR"). In addition, impairment loss incurred by this segment recorded an increase during the year.

As a result, segment profit before tax decreased from HK$848 million for 2017 to HK$703 million for 2018 and segment margin decreased from 38% for 2017 to 33% for 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

	2018 HK$'000	2017 HK$'000	+/-%
Commission and fee income	**974,653**	754,665	+29.2
Interest income	**443,905**	617,594	-28.1
Net investment gains	**184,560**	473,275	-61.0
Segment revenue	**1,603,118**	1,845,534	-13.1
Other income and gains or losses	**2,988**	2,415	+23.7
	1,606,106	1,847,949	-13.1
Segment expenses	**(532,709)**	(803,917)	-33.7
Segment profit before tax	**1,073,397**	1,044,032	+2.8
Segment margin (%)	**67**	56	+11

Segment revenue

The Group's underwriting and placing commission increased substantially from HK$489 million for 2017 to HK$768 million for 2018. Substantial increase in underwriting and placing commission demonstrates the Group's leading position in Hong Kong's capital market and the Group is also developing its capability in executing capital markets projects in other major financial centres.

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 2017 as a result of decrease in assets held by this segment.

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 recognized in previous year.

Percentage decrease in segment expense outweighed percentage decrease in segment revenue, and consequently segment margin increased from 56.5% to 66.8%. Segment profit before tax increased slightly by 2.8% (2018: HK$1,073 million; 2017: HK$1,044 million).

Asset Management Segment

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

Analysis of results

	2018 HK$'000	2017 HK$'000	+/-%
Segment revenue – Commission and fee income	**278,475**	328,920	-15.3
Segment expenses	**(137,893)**	(67,681)	+103.7
Segment profit before tax	**140,582**	261,239	-46.2
Segment margin (%)	**50**	79	-29

Segment revenue

Decrease in segment revenue was mainly attributable to decrease in performance fee recognized due to the fact that returns for most of the funds managed by the Group did not surpass their respective high watermark or benchmark as at 31 December 2018. However, decrease in performance fee income was partly offset by increase in management fee charged by the Group as the average fee rate recorded an increase.

Segment profit before tax and segment margin

Segment expenses of this segment increased due to increase in distribution and trailer fees incurred in distribution of investment funds to customers, and higher operating costs of supporting units allocated to this segment. As a result, segment margin decreased as compared between 2018 and 2017, and segment profit before tax for the current year amounted to HK$141 million.

Institutional Clients Segment

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

Analysis of results

	Fee and commission income		Interest income		Net investment gains		Total		
	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	**97**	–	**61,119**	14,796	**660,038**	669,902	**721,254**	684,698	+5.3
Institutional equities	**211,188**	172,832	**751,644**	233,523	**686,861**	551,418	**1,649,693**	957,773	+72.2
Segment revenue	**211,285**	172,832	**812,763**	248,319	**1,346,899**	1,221,320	**2,370,947**	1,642,471	+44.4
Other income and gains or losses							**2,342**	7,984	-70.7
							2,373,289	1,650,455	+43.8
Segment expenses							**(2,057,652)**	(1,156,640)	+77.9
							315,637	493,815	-36.1
Share of results of investments accounted for using the equity method							**-**	102,513	-100.0
Segment profit before tax							**315,637**	596,328	-47.1
Segment margin (%)							**13**	34	-21

Segment revenue

Increase in segment revenue for fixed income, currencies and commodities ("FICC") business is mainly attributable to the increase in assets held. However, as evident by drop in bond indices, rate of return from assets held by FICC business shows a decrease as compared between 2018 and 2017.

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 institutional sales network and research capability. In addition, increase in demand from institutional clients for financial advisory services also contributed increase in fee and commission income of institutional equities business.

Increase in interest income is due to increase in demand from clients for financing solutions, and also benefited from increase in market interest rate. In addition, increase in stock borrowing and lending activities also contribute increase in interest income.

Net investment gain of institutional equities business represents net gain on financial product issuance and net gain on market making of equity derivatives. During the current year, the Group strengthened its financial product issuance and execution capability, in particular substantial increase in issuance of bond linked notes to meet increasing demand on financial products from clients. The carrying value of both financial products issued to customers and assets acquired to hedge the financial products issued recorded an increase as compared between 31 December 2018 and 31 December 2017. In addition, the Group took the lead in equity derivative products issuance (derivative warrants and callable bull/bear contracts) and recorded a substantial increase in terms of number of issuance and product coverage.

Segment profit before tax and segment margin

Finance costs borne by this segment increased by 139% (2018: HK$1,192 million; 2017: HK$498 million). Increase in finance costs was due to increase in both interest bearing liabilities and market interest rates. Financing obtained from repurchase agreements (which is detailed in note 34) increased from HK$11.3 billion as at 31 December 2017 to HK$24.1 billion as at 31 December 2018. Employee benefit costs, 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, and integrating operating systems globally.

Segment profit before tax for the current year amounted to HK$316 million and segment margin stood at 13%.

Investment Segment

The investment segment aims to enhance and intensify the synergies among various business segments of the Group through investing in funds and private equity projects. 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

	2018 HK$'000	2017 HK$'000	+/-%
Interest income	**20,097**	–	N/A
Net investment (losses) gains	**(85,311)**	1,184,793	N/A
Segment revenue	**(65,214)**	1,184,793	N/A
Other income and gains (losses) (note 1)	**6,482**	(132,384)	N/A
	(58,732)	1,052,409	N/A
Segment expenses	**(767,055)**	(598,140)	+28.2
	(825,787)	454,269	N/A
Share of results of investments accounted for using the equity method	**(226,869)**	368,214	N/A
Segment (loss) profit before tax	**(1,052,656)**	822,483	N/A
Segment margin (%) (note 2)	**N/A**	58	N/A

Note 1: This mainly represents net (loss) profit of consolidated investment funds attributable to third-party unit/shareholders. Details of the Group's interest in consolidated investment funds are disclosed in note 29 of the consolidated financial statements.

Note 2: Segment margin for the year ended 31 December 2017 was calculated based on segment profit before tax divided by the sum of segment revenue, other income and gains or losses and share of results of investments accounted for using the equity method.

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

Segment revenue of this segment includes net investment gain or loss generated by the Group's seed money investments, fund-of-fund investments, and private equity investments.

During the year ended 31 December 2018, segment revenue of this segment recorded a net loss (including share of results of investments accounted for using the equity method) of HK$286 million while a gain of HK$1,421 million was recorded for the year ended 31 December 2017. The net loss incurred by this segment was mainly driven by the loss sustained by an investment fund investing in debt securities, and a loss sustained by a fund-of-funds investing into a number of long equity funds that focus on A-share, H-share and China related stocks. Stock indices relating to China market recorded a decrease during the year and consequently this fund-of-funds sustained a loss. However, the rate of return of the above mentioned funds outperform the relevant stock and bond indices and therefore the loss sustained by the Group is in a less magnitude as compared with the market generally.

In addition, the loss sustained by the Group's fund investments was partly offset by gains generated by the Group's private equity investments. During the current year, certain private equity investments held have been listed in stock exchanges and a gain was recorded on these investments, and fair value of some private equity investments recorded an increase as a result of new round of financing initiated by these investments.

Segment loss/profit before tax and segment margin

Segment expenses increased by 28.2% due to increase in finance costs, employee benefit costs, segment direct expenses and operating costs of supporting units allocated to this segment.

This segment recorded a loss before tax of HK$1,053 million for the year ended 31 December 2018.

Analysis of Total Costs

Total costs for year ended 31 December 2018 amounted to HK$4,951 million (2017: HK$4,001 million). An analysis of total costs is as below:

	2018 HK$'000	2017 HK$'000	+/-%
Salaries and allowances, bonuses and pension	**1,154,662**	1,148,974	+0.5
Commission expenses	**254,517**	288,467	-11.8
Finance costs	**2,473,278**	1,659,631	+49.0
Amortisation and depreciation	**98,144**	62,616	+56.7
Impairment losses, net of reversal	**238,771**	246,295	-3.1
Information technology related expenses	**201,444**	119,895	+68.0
Other expenses	**530,381**	474,645	+11.7
Total costs	**4,951,197**	4,000,523	+23.8

Salaries and allowances, bonuses and pension remained stable as compared between 2018 and 2017, which increased by 0.5% (2018: HK$1,155 million; 2017: HK$1,149 million). The Group optimized human resources strategy to minimize the impact of increase in salary and allowances due to acquisitions of overseas entities during 2017 and 2018. Acquisition of new entities is detailed in note 43 of the consolidated financial statements.

Commission expenses decreased due to decrease in commission on securities dealing and broking, while average payout ratio to accounts executives remained stable as compared between 2017 and 2018.

Finance costs increased by 49% 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 year. The Group's borrowings increased by 27% (31 December 2018: HK$58,824 million; 31 December 2017: HK$46,379 million), while the Group's repurchase agreements increased by 113% (31 December 2018: HK$24,089 million; 31 December 2017: HK$11,307 million). Increase in market interest rate also contributed increase in finance costs. The Group's funding cost is generally priced at Hong Kong Interbank Offer Rate ("HIBOR") plus a spread, while HIBOR recorded an increase during the year, and consequently increase in funding costs drives the increase in finance costs.

Amortization and depreciation increased during the current year due to purchase of leasehold land and buildings, procurement of hardware and computer software to strengthen and integrate operating systems globally, and capitalization of costs incurred in development of trading platforms and back office systems.

Impairment losses, net of reversal reduced by 3.1% due to partial reversal of an impairment loss to a loan to corporate client recognized in previous year. Impairment loss on margin loan amounted to HK$384 million was recognized during current year which is based on a percentage of outstanding shortfall amount.

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 was due to additional expenses incurred in supporting different business initiatives such as increase in listing fees as a result of increase in listed derivative issuance activities, and additional expenses incurred in other business initiatives.

Income Tax Expense

	2018 HK$'000	2017 HK$'000	+/-%
Income tax expense	**156,746**	543,551	-71.2
Effective tax rate (%)	**13.3**	15.2	-12.5

Income tax expense decreased was due to decrease in profit before tax and effective tax rate. Reduce in effective tax rate is due to certain revenue recognized in the current year is not taxable under the applicable tax laws and regulations of jurisdictions that the Group operates.

Assets and Liabilities

	31 December 2018 HK$'000	**30 June 2018 HK$'000**	31 December 2017 HK$'000	As compared between 31 December 2018 and 31 December 2017 +/-%
Total Assets	**151,181,085**	**158,037,539**	130,223,838	+16.1
Total Liabilities	**125,370,748**	**132,188,529**	104,855,959	+19.6
Net Assets	**25,810,337**	**25,849,010**	25,367,879	+1.7

The Group's total assets as at 31 December 2018 amounted to HK$151.2 billion, representing an increase of 16.1% as compared with 31 December 2017, but decreased by 4.3% as compared with HK$158.0 billion as at 30 June 2018.

Increase in total assets is mainly driven by increase in financial assets held for trading and market making activities (31 December 2018: HK$34,315 million; 31 December 2017: HK$26,052 million) and assets acquired for financial product issuance (31 December 2018: HK$27,753 million; 31 December 2017: HK$12,280 million). Increase in financial assets held for trading and market making activities is due to increase in debt securities held by fixed income, currencies and commodities business.

As detailed in "Analysis of Results" of Institutional Clients segment above, during the current year, the Group has strengthened its financial product issuance capability to meet increasing demand from clients. Consequently, the Group's assets acquired for hedging financial products issued increased from HK$12,280 million as at 31 December 2017 to HK$27,753 million as at 31 December 2018.

Financial assets held for trading and market making activities and assets acquired for financial products issued are detailed in notes 17 and 19 of the consolidated financial statements respectively.

The Group's gearing ratio (calculated by total assets excluding accounts payable to clients divided by shareholders' equity) increased from 4.27 times as at 31 December 2017 to 5.17 times as at 31 December 2018 as a result of increase in total liabilities to fund the increase in total assets.

Capital Structure and Regulatory Capital

	31 December 2018 HK$'000	31 December 2017 HK$'000	+/-%
Issued share capital	**578,975**	550,086	+5.3
Number of issued shares	**5,789,746,388**	5,500,858,791	+5.3

As at 31 December 2018, the total issued share capital of the Group stood at HK$578.975 million (31 December 2017: HK$550.086 million), comprising 5,789,746,388 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$28.889 million during the current year was mainly due to scrip dividends issued in relation to 2017 second interim dividend and 2018 interim dividend. Details of movement of share capital during the current year are disclosed in note 38 of the consolidated financial statements.

The Group has a number of entities that are subject to regulatory capital requirements set by respective regulators globally. During the year ended 31 December 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 2 of the consolidated financial statements.

HKFRS 9 affects the Group in respect of classification and measurement of financial instruments and impairment of financial assets. Details of the financial impact to the Group in relation to financial instruments are detailed in note 2 of the consolidated financial statements and details of the accounting policies in relation to financial instruments under HKFRS 9 is detailed in note 3 of the consolidated financial statements.

HKFRS 15 affects the Group in respect of revenue recognition on contracts with customers. HKFRS 15 provides guidance in relation to revenue recognition which emphasizes that revenue can only be recognized upon performance obligations is satisfied. Application of HKFRS 15 results in previous practice of accrual of performance fee income before the end of performance period is no longer allowed and therefore the timing of recognition of performance fee income will be different from the practice under the previous accounting standard. In addition, corporate finance related fee income can only be recognized until it is confirmed that the Group's performance obligation under the relevant mandate is satisfied and consequently timing of recognition of revenue is also affected.

Dividend Policy

Objective

This dividend policy (hereinafter referred as the "Policy") is reviewed and adopted by the Board of Directors (the "Board") of the Company (together with its subsidiaries, the "Group") on 19 December 2018, and the Policy serves as a guideline only regarding distribution of dividends to shareholders of the Company. The Policy shall be subject to the Companies Act 1981 of Bermuda (as in force from time to time) and Bye-laws of the Company.

The Policy shall not be construed as a commitment on distribution of dividends and shall not have any binding effect on the Company.

Principles

It is the policy of the Board to allow shareholders to participate in the Company's profits but at the same time exercising prudent capital management. Generally, the Policy is to distribute to shareholders with a target annual dividend payout of 50% of the net profit attributable to shareholders in any financial year, but subject to the following factors:

(a) the Company's actual and expected financial performance;

(b) distributable reserves and retained profits of the Company and each of the subsidiaries (within the meaning of the Listing Rules) of the Group;

(c) the level of the Group's gearing ratio (calculated by total assets excluding accounts payable to clients divided by shareholders' equity), return on shareholders' equity, and relevant financial covenants;

(d) any restrictions on payment of dividends that may be imposed by the Group's lenders;

(e) the Group's expected working capital requirements and future business plans;

(f) general economic conditions, business cycle, and other factors (internal and external) that may have an impact on the business performance of the Company; and

(g) any other factors considered as appropriate by the Board.

Ways of Declaring and Distributing Dividend

Dividend provided to shareholders may take the form of interim and/or final dividend. Final dividend shall be recommended by the Board of the Company and declared by the Company in a general meeting of the Company. No dividend shall be declared by excess of amount recommended by the Board. The Board may also declare interim dividend as the Board thinks fit, taking into consideration of the profitability of the Company.

The distribution of dividend to shareholders can be by way of cash, scrip or partly by cash and partly by scrip, or some other ways as determined by the Board from time to time, subject to Bye-laws of the Company.

Dividend per share recommended or declared is calculated based on the number of shares as of the date of such recommendation or declaration.

Review on the Policy

The Policy will continue to be reviewed by the Board from time to time and the Board reserves the right in its sole and absolute discretion to update, amend, modify and/or cancel the Policy at any time, after considering factors including (but not limited to) financial performance of the Company, shareholders' expectation, prudent capital management and other factors as considered appropriate.

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$9,670 million, US$349 million and CNH2,054 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 year. As at 31 December 2018, the Group's cash and bank balance amounted to HK$7,089 million, compared with HK$4,537 million as at 31 December 2017.

The Group has unutilized banking facilities of HK$25,503 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 31 December 2018, the Group employed a total of 1,126 (31 December 2017: 1,013) permanent employees.

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 employer voluntary contribution to mandatory provident fund scheme, various Group insurance schemes, and medical check-up plan.

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.

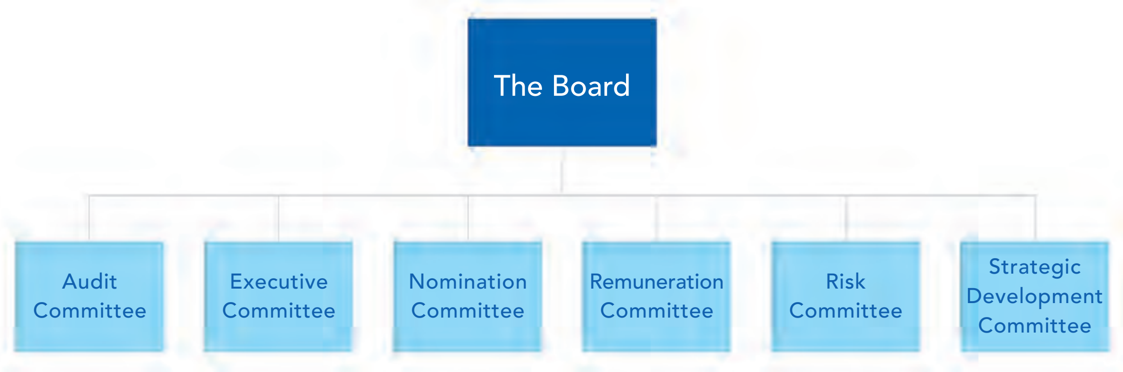
Corporate Governance Practices

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

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

Corporate Governance Structure

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



The following table shows the attendance of each director of the Company (the "Director(s)") and members of the respective Board Committees at the Board and the respective Board Committee meetings and general meetings held during the year ended 31 December 2018:

Name of members of the Board/ the respective Board Committees	Attendance/number of meetings held: Board meeting	Audit Committee meeting	Executive Committee meeting	Nomination Committee meeting	Remuneration Committee meeting	Risk Committee meeting	Strategic Development Committee meeting	General meeting
The Board								
Chairman and Non-executive Director								
JI Yuguang *(retired on 8 February 2018)*	1/1	n/a	n/a	1/1	1/1	n/a	n/a	n/a
QU Qiuping *(appointed on 8 February 2018)*	4/4	n/a	n/a	1/1	1/1	n/a	2/2	1/1
Deputy Chairman, Chief Executive Officer and Executive Director								
LIN Yong	5/5	n/a	13/17	n/a	n/a	n/a	2/2	1/1
Deputy Chairman and Executive Director								
LI Jianguo	5/5	n/a	n/a	n/a	n/a	n/a	2/2	1/1
Executive Directors								
POON Mo Yiu	5/5	n/a	16/17	n/a	n/a	n/a	n/a	1/1
SUN Jianfeng	5/5	n/a	15/17	n/a	n/a	n/a	n/a	1/1
SUN Tong *(appointed on 27 March 2018)*	3/3	n/a	11/13	n/a	n/a	n/a	n/a	1/1
Non-executive Directors								
CHENG Chi Ming Brian	5/5	n/a	n/a	n/a	1/2	n/a	2/2	1/1
WANG Meijuan	5/5	2/2	n/a	n/a	n/a	4/4	n/a	1/1
ZHANG Xinjun *(appointed on 27 March 2018)*	3/3	1/1	n/a	n/a	n/a	n/a	1/1	1/1
William CHAN	5/5	n/a	n/a	n/a	n/a	4/4	2/2	1/1
Independent Non-executive Directors								
TSUI Hing Chuen William	5/5	2/2	n/a	2/2	2/2	n/a	n/a	1/1
LAU Wai Piu	5/5	2/2	n/a	2/2	2/2	4/4	n/a	1/1
LIN Ching Yee Daniel *(resigned on 19 April 2018)*	2/2	1/1	n/a	n/a	n/a	n/a	n/a	n/a
WEI Kuo-chiang	5/5	n/a	n/a	n/a	2/2	4/4	n/a	1/1
WAN Kam To *(appointed on 19 June 2018)*	2/2	1/1	n/a	n/a	n/a	n/a	n/a	n/a
LIU Yan *(appointed on 19 June 2018)*	2/2	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Other Executive Committee Members								
ZHANG Xinjun *(resigned on 27 March 2018)*	n/a	n/a	4/4	n/a	n/a	n/a	n/a	n/a
SUN Tong	n/a	n/a	4/4	n/a	n/a	n/a	n/a	n/a
LO Wai Ho	n/a	n/a	16/17	n/a	n/a	n/a	n/a	n/a
ZHANG Yibin	n/a	n/a	15/17	n/a	n/a	n/a	n/a	n/a
SHI Ping	n/a	n/a	15/17	n/a	n/a	n/a	n/a	n/a
KONG Weipeng	n/a	n/a	15/17	n/a	n/a	n/a	n/a	n/a
JI Qingyu	n/a	n/a	16/17	n/a	n/a	n/a	n/a	n/a
Du Jinsong	n/a	n/a	11/13	n/a	n/a	n/a	n/a	n/a
Average attendance:	100%	100%	89%	100%	90%	100%	100%	100%

The Board

Composition

The Board currently comprises a total of 15 Directors, with 5 executive Directors, namely Mr. LIN Yong (Deputy Chairman and Chief Executive Officer), Mr. LI Jianguo (Deputy Chairman), Mr. POON Mo Yiu, Mr. SUN Jianfeng and Mr. SUN Tong; 5 non-executive Directors, namely Mr. QU Qiuping (Chairman), Mr. CHENG Chi Ming Brian, Ms. WANG Meijuan, Mr. ZHANG Xinjun and Mr. William CHAN; and 5 independent non-executive Directors, namely Mr. TSUI Hing Chuen William, Mr. LAU Wai Piu, Mr. WEI Kuo-chiang, Mr. WAN Kam To and Ms. LIU Yan. Biographical details of the Directors as of the date of this report are set out in the "Board of Directors" section of this Annual Report.

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.

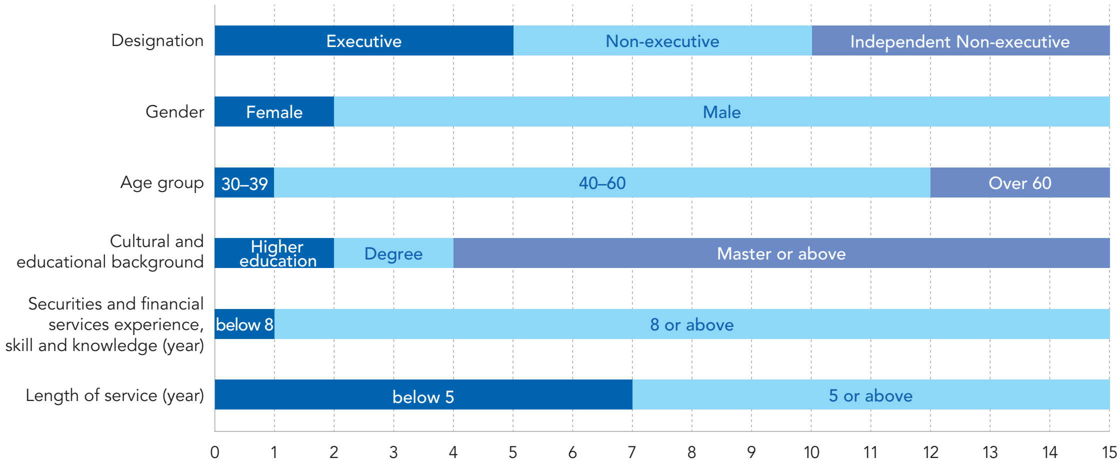
Following the resignation of Mr. LIN Ching Yee Daniel as independent non-executive Director of the Company on 19 April 2018, the proportion of independent non-executive Director of the Company fell below the specific requirement under Rule 3.10A of the Listing Rules, and the proportion of independent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

Board Diversity Policy

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

Selection of candidates will be based on a range of aforesaid Major Diversity Perspectives. The ultimate decision will be based on merit and contribution that the selected candidates will bring to the Board. The Nomination Committee reviews annually the Board's composition under Major Diversity Perspectives and monitors the implementation of the Board Diversity Policy. During the year, the Nomination Committee has reviewed its practice on Board diversity based on the Major Diversity Perspectives set forth and has come to the conclusion that it is a balanced Board. For the year ended 31 December 2018, the Board's composition under Major Diversity Perspectives was summarised as follows:



Meetings

The Board meets regularly at least 4 times a year at quarterly intervals and will meet at other times when the Board thinks appropriate. In general, notice of at least 14 days is given for a regular Board meeting so as to give all Directors an opportunity to attend. Agenda and meeting materials for each meeting are normally circulated to all Directors not less than 3 days in advance of the date of the meeting. Senior management may, from time to time, be invited to attend the Board meetings for making presentation and/or answering any queries that may be raised by the Board. During the year, 5 Board meetings were held with an average turnout of 100%.

Proceedings of the Board and the Respective Board Committee Meetings

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

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

Chairman and Chief Executive Officer

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

Non-executive Directors

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

Pursuant to the requirement of the Listing Rules, the Company has received from each of the independent non-executive Directors a written confirmation of his independence to the Company. The Company considers that all the independent non-executive Directors were independent in accordance with the Listing Rules throughout the year ended 31 December 2018.

Appointment and Re-election

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

Induction and Continuous Professional Development

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

Directors are encouraged to participate in continuing professional development to develop and refresh their knowledge and skills. They are required to submit to the Company annually details of training sessions undertaken by them in each financial year for the Company to maintain a training record for its Directors.

According to the training records maintained by the Company, the training received by each of the existing Directors during the year ended 31 December 2018 is summarised as follows:

	Regulatory updates or corporate governance related materials	Other trainings relevant to directors' profession or other relevant topics
Chairman and Non-executive Director		
QU Qiuping	✔	✔
Deputy Chairman, Chief Executive Officer and Executive Director		
LIN Yong	✔	✔
Deputy Chairman and Executive Director		
LI Jianguo	✔	✔
Executive Directors		
POON Mo Yiu	✔	✔
SUN Jianfeng	✔	✔
SUN Tong	✔	✔
Non-executive Directors		
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	✔	✔

Corporate Governance Function

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

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

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

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

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

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

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

Directors' Securities Transactions

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

Having made specific enquiry of all Directors, all Directors confirmed that they have complied with the required standard set out in the Model Code throughout the year ended 31 December 2018. Securities interests in the Company and its associated corporations held by each of the Directors are set out in the "Report of the Board of Directors" section of this Annual Report.

Board Committees

Audit Committee

The Audit Committee is currently composed of 3 independent non-executive Directors, namely Messrs. WAN Kam To (Chairman of the Audit Committee), TSUI Hing Chuen William and LAU Wai Piu and 2 non-executive Directors, namely Ms. WANG Meijuan and Mr. ZHANG Xinjun. The Chairman of the Audit Committee has the appropriate financial-related professional qualification and experience. The Audit Committee will meet no less than twice a year to review all business affairs managed by the executive Directors, in particular those related to connected transactions and continuing connected transactions, if any, and to review the interim and annual financial statements of the Group before their submission to the Board for approval. It will also review the effectiveness of the internal control system of the Group. The Audit Committee has reviewed the accounting principles and practices adopted by the Group and the consolidated results for the year ended 31 December 2018 of the Group. The terms of reference of the Audit Committee are aligned with the requirements of the Listing Rules and the recommendations set out in "A Guide for Effective Audit Committees" published by the Hong Kong Institute of Certified Public Accountants and any updates thereof. A copy of the terms of reference of the Audit Committee has been posted on the Company's website and the website of The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

During the year ended 31 December 2018, the Audit Committee met on 2 occasions with the presence of the external auditor and discharged its responsibilities to review the interim and annual results and the effectiveness of the internal control and risk management system of the Group. The work performed by the Audit Committee for the year ended 31 December 2018 included reviews of the following:

- the directors' report and the consolidated financial statements for the year ended 31 December 2017 of the Group, with a recommendation to the Board for approval;
- the consolidated financial statements for the 6 months ended 30 June 2018 of the Group, with a recommendation to the Board for approval;
- the audit fees for the year ended 31 December 2018 proposed by the external auditor, with a recommendation to the Board for approval;

- the new accounting policies and practices adopted by the Group;
- the continuing connected transactions undertaken by the Group;
- the internal control and risk management system of the Group;
- the findings and recommendations of the Group's internal auditor on the Group's operations and of the regulatory review carried out by the regulators;
- compliance status of the Group with the applicable regulatory and other legal requirements;
- the Group's investment policy and the adequacy of provision made for diminution in value for the Group's investments;
- the litigation cases of the Group;
- the adequacy of the provision for bad debts; and
- the error trades occurred during the 6 months ended 30 June 2018.

Executive Committee

The Executive Committee is currently composed of 4 executive Directors, namely Messrs. LIN Yong (Chairman of the Executive Committee), POON Mo Yiu, SUN Jianfeng and SUN Tong as well as heads of certain major business divisions of the Group. The Executive Committee is duly authorised by the Board to manage the day-to-day business of the Group.

Nomination Committee

The Nomination Committee is currently composed of 1 non-executive Director, namely Mr. QU Qiuping (Chairman of the Nomination Committee) and 3 independent non-executive Directors, namely Mr. TSUI Hing Chuen William, Mr. LAU Wai Piu and Ms. LIU Yan. The Nomination Committee is responsible for reviewing the structure, size and composition of the Board, including the skills, knowledge, experience of Directors and the time devoted by the Directors in fulfilling their responsibilities, making recommendations on any proposed changes to the Board to complement the Company's corporate strategy; making recommendations in respect of the appointment or reappointment and the succession plan of Directors, including but not limited to the Chairman and the CEO, to the Board for its approval and implementation, and assessing the independence of the independent non-executive Directors as set out in Rule 3.13 of the Listing Rules. The Nomination Committee will meet at least once a year to discharge its responsibilities in accordance with its term of reference. A copy of the terms of reference has been posted on the Company's website and the website of the Stock Exchange.

During the year ended 31 December 2018, the work performed by the Nomination Committee included reviews of the followings:

- the structure, size and composition of the Board (including the skills, knowledge and experience of directors), with recommendations made on any proposed changes to the Board to complement the Company's corporate strategy;
- the Board's composition under Major Diversity Perspectives;

- the proposal regarding appointment of:
  - Mr. QU Qiuping as the Chairman and non-executive Director of the Company, Chairman of the Nomination Committee and Strategic Development Committee and a member of the Remuneration Committee;
  - Mr. SUN Tong as an executive Director of the Company;
  - Mr. ZHANG Xinjun as non-executive Director of the Company, and a member of the Audit Committee and Strategic Development Committee;
  - Mr. WAN Kam To as an independent non-executive Director of the Company and the Chairman of the Audit Committee; and
  - Ms. LIU Yan as an independent non-executive Director and a member of the Nomination Committee.
- the proposal regarding re-designation of Mr. POON Mo Yiu from non-executive Director to executive Director.

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

Nomination Policy

Objective

This nomination policy is established based on the proposal made by the Nomination Committee of the Company and has been tabled at the meeting of the Board held on 19 December 2018 for review, consideration and approval. Nomination Committee plays the major role of recruitment of suitable candidates to sit on the Board, including appointment, re-appointment and/or re-designation of directors to ensure the Board possesses pre-requisite skills, experience and diversified perspectives in line with the Company's business development.

The Board bears the ultimate responsibility for the selection and appointment of directors. It will take Nomination Committee's recommendation into consideration for the appointment or re-appointment of candidates as the Company's directors.

Selection Criteria

The following criteria are taken into consideration for the proposed appointment and re-appointment of candidates as directors:

- Gender, age, culture, educational background, expertise, experience, skills and service term
- Time devoted to the Board/committee
- Integrity, achievement and experience in the industry
- Independence of candidate in the case of appointment of independent non-executive director
- Other factors as otherwise considered relevant by the Nomination Committee on a case-by-case basis

Nomination Procedure

According to the bye-law 86(2) of the New Bye-laws of the Company, the directors shall have the power from time to time and at any time to appoint any person as a director either to fill a casual vacancy on the Board or, as an addition to the existing Board but so that the number of directors so appointed shall not exceed any maximum number determined from time to time by the members in general meeting. Any Director so appointed by the Board shall hold office only until the next following general meeting of the Company (in the case of filling a casual vacancy) or until the next following annual general meeting of the Company (in the case of an addition to the Board), and shall then be eligible for re-election at that meeting. The following procedure should be adopted:

1. The Nomination Committee shall review the structure, size and composition under Major Diversity Perspectives on an annual basis, with or without the assistance of the external party or the Company, to identify and select candidates based on the criteria as set out in the sub-section "Selection Criteria" of section "Nomination Policy" above.

2. The Nomination Committee may make assessment to candidates including but not limited to interviews, background investigation, statement or reference materials in writing provided by such candidates or third parties.

3. The Nomination Committee has the right to convene a meeting or by way of resolution in writing to review appropriate criteria applicable for the selection of candidate as a director.

4. The Nomination Committee shall provide the Board with all required information of the candidates including the information as stipulated in Rule 13.51(2) and/or Rule 3.13 of the Listing Rules.

5. The Board shall review and determine appointment of directors by taking Nomination Committee's recommendation into consideration.

6. According to Rule 13.74 of the Listing Rules, the details required under Rule 13.51(2) of proposed new director or any directors proposed to be re-elected shall be disclosed in the circular accompanying notice to shareholders of the relevant general meeting, if such appointment or re-election is subject to shareholders' approval at that relevant general meeting.

The business in relation to re-appointment of existing directors shall be transacted by way of meeting or resolution in writing according to the criteria as set out in the sub-section "Selection Criteria" above.

Proposal by Shareholders

Shareholders of the Company can propose candidates for election as a director according to the section "The Procedures for a Shareholder to Propose a Person for Election as a Director" on the Company's website.

Succession Plan

The Board attaches high importance to the succession plan to ensure sustainable development of the Company. For effective management and better development of the Company, the Board consists of suitable members with relevant professional knowledge and skills. To build up its bench strength, the Company strives to train up its staff members with excellent and diversified backgrounds, experience and skills as prospective candidates to fill up the senior management or directorship in future.

Review on the Policy

The Nomination Committee will review this nomination policy on a regular basis to ensure it is in line with the Company's strategies and goals.

Remuneration Committee

The Remuneration Committee is currently composed of 3 independent non-executive Directors, namely Messrs. TSUI Hing Chuen William (Chairman of the Remuneration Committee), LAU Wai Piu and WEI Kuo-chiang and 2 non-executive Directors, namely Messrs. QU Qiuping and CHENG Chi Ming Brian. The responsibilities of the Remuneration Committee include setting remuneration policy of the Group and fixing remuneration packages of the Directors in accordance with the Listing Rules and the New Bye-laws. Details of the remuneration paid to the respective Directors are set out in note 11 to the financial statements. No Directors can determine their own remuneration packages. The Remuneration Committee is provided with sufficient resources to discharge its duties.

The Chairman of the Remuneration Committee will report their findings and recommendations to the Board for consideration and approval. The Remuneration Committee will meet at least once a year to discharge its responsibilities in accordance with its terms of reference. A copy of the terms of reference has been posted on the Company's website and the website of the Stock Exchange.

During the year ended 31 December 2018, the work performed by the Remuneration Committee included reviews of the following:

- the proposal for 2018 remuneration adjustment;
- the proposal for 2017 bonus distribution;
- the proposal of granting awarded shares pursuant to the share award scheme;
- the service agreements in respect of the appointment of Mr. QU Qiuping, Mr. SUN Tong, Mr. ZHANG Xinjun, Mr. WAN Kam To and Ms. LIU Yan;
- the service agreement in respect of the re-designation of Mr. POON Mo Yiu;
- the proposal of granting share options; and
- the renewal of service agreements of Mr. LIN Yong, Mr. JI Yuguang, Mr. CHENG Chi Ming Brian, Mr. TSUI Hing Chuen William, Mr. LAU Wai Piu, Ms. WANG Meijuan, Mr. Li Jianguo and Mr. WEI Kuo-chiang.

Risk Committee

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

During the year ended 31 December 2018, the work performed by the Risk Committee included reviews of the followings:

- the aggregate risk assessment report for the year ended 31 December 2017 of the Group;
- the risk assessment report for each quarter of the Group;
- the 2018 value at risk; and
- the 2018 risk policy.

Strategic Development Committee

The Strategic Development Committee is currently composed of 4 non-executive Directors, namely Messrs. QU Qiuping (Chairman of the Strategic Development Committee), CHENG Chi Ming Brian, ZHANG Xinjun and William CHAN and 2 executive Directors, namely Messrs. LIN Yong and LI Jianguo. The main responsibility of the Committee is to assist the Board in formulating medium to long term business development strategies and directions for the Group.

Company Secretary

The Company Secretary, namely Mr. LO Wai Ho, is a full time employee of the Company and has day-to-day knowledge of the Company's affairs. The Company Secretary is responsible for advising the Board on corporate governance matters. During the year ended 31 December 2018, the Company Secretary has confirmed that he has taken no less than 15 hours of relevant professional training.

Internal Control Framework

The Group has established robust internal control framework to promote effective and efficient governance of its business activities and operations, ensure reliability of its financial reporting and compliance with applicable laws and regulations.

An effective Internal control system enables the Group to achieve its objectives sustainably, adapt to the fast changing business, operating and regulatory environment we are in today, mitigate risks to the acceptable level according to the Group's risk appetite.

The Three Line of Defense Model

The Group's internal control framework is embodied by the three lines of defense model, in which all business units and supporting functions are the first line of defense that own and manage their respective business and operation risks. The Group's risk control and compliance functions together constitute the second line of defense for ongoing risk control and compliance over-sight of the Group. The Group's Internal Audit function is the third line of defense to provide independent review and assurance of the Group's internal control effectiveness with a risk-based approach.

Risk Management

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

Risk Appetite, Risk Management Framework and Culture

The Group's overall risk appetite is stable, emphasizing stable and conservative operational risk and liquidity risk management, making continuous effort in preserving relevant regulatory indicators consistently meet regulatory requirements; while developing our business in a steady and progressive way, maintaining stable profitability and excellent reputation and social image. The Group's risk tolerance is established starting from group's overall risk appetite and embodied in a set of quantitative risk indicators. Top-down approach attributes group risk tolerance to each business unit, forming risk management policy and operation procedure covering each business line, including approved product list (APL), approved trading limits (ATL), risk limits, concentration management, risk incidents reporting etc.

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

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

The RM, led by the Group Chief Risk Officer, works under the guidance of Risk Management Committee and Credit Approval Committee. In line with the international practices, the department has established four functional units for managing credit risk, market risk, operational risk and risk methodology and analysis respectively. The RM also collaborates with Treasury Department in managing liquidity risk.

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

Liquidity Risk

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

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

Credit Risk

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

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

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

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

Other than lending-oriented transactions, the Group also faces counterparty credit risk which is mainly related to OTC derivatives and securities financing transactions. The Group assesses counterparty's credit risk through assigning internal credit ratings based on counterparties' financials; establishing trading limit according to counterparty's credit standing and business demand; managing various trading master agreements with counterparties, including reviewing and setting credit terms under the agreements and closely monitoring and reporting of exposures and limit utilization. The Group monitors closely on the changes of exposures at counterparty level, due to Mark-to-Market fluctuation, against their respective limits.

Market Risk

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

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

Operational Risk

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

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

Legal and Compliance Risk

Legal risk refers to the risks of suffering from economical or reputational losses arising from breach of contract, litigation or legal dispute. Compliance risk refers to exposure to legal and regulatory penalties, financial forfeiture and adverse reputational impact when the Group fails to act in accordance with industry laws and regulations, internal policies or prescribed best practices.

The Group upholds a robust Legal and Compliance Risk Management Framework by understanding the regulatory environment on current business, assessing severity level and causes of identified legal and compliance risk and formulate on-going comprehensive plan to carry out remedies and refinements for mitigation and remediation.

To mitigate the relevant risks, the Group established a department comprised of professional legal and compliance teams. The compliance team carries out compliance monitoring and provides comments on business plans and activities, while the legal team actively handles legal documents reviewing and vetting and also manages legal disputes. All rounded Group policies, procedures and standardized templates are implemented and updated timely with business development and regulatory rules changes. Through sounded management system and procedures, the professional team monitors and prevents compliance risks in relation to anti-money laundering, conflict of interests, information barriers, market misconducts etc.. The Group's compliance culture and awareness are elevated by setting compliance responsibilities in each business line and subsidiary, conducting legal and compliance trainings to staff from time to time and providing internal guidelines on regulatory changes.

Technology Risk

Technology risk refers to the risk of loss related to information technology due to inadequate information technology and processing in terms of manageability, integrity, controllability, and continuity.

The Group has established an Information Technology Risk Management Framework which covers risk governance, communication, monitoring, assessment, mitigation and acceptance and is supported by a set of IT policies, standards and controls.

Reputational Risk

Reputational risk is the risk that the Group's reputation is damaged by reputation events, as reflected from negative publicity, as a result of business practices, conduct or financial condition of the Group or its representatives, potentially causing irreparable damage to the Group's brand value.

The Group has adopted the prudent and proactive approach to managing reputational risk. The Group's strong corporate governance, clearly communicated corporate values emphasizing integrity and ethical conduct in every business decision and activity; and integrated approach to managing risk set the foundation for minimizing reputation risk.

Responsibilities of Directors for the financial statements

The following responsibility statement of Directors regarding the financial statements shall be read in conjunction with the responsibility statement of the certified public accountants included in the audit report of this annual report. Each responsibility statement shall be understood separately.

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

Internal Auditor

The Group's Internal Audit function constitutes the third line of defense in its internal control framework. The Internal Audit function conducts independent analysis and appraisal of the Group's internal control adequacy and effectiveness. The head of the Internal Audit function reports directly to the Audit Committee semi-annually on the assessment of the Group's internal control effectiveness.

The Internal Audit function develops its annual audit plan with a risk-based approach that covers the Group's major business activities and supporting functions' operations, procedures, as well as its IT environment across all geographic locations. The annual audit plan is presented to and approved by the Audit Committee at the beginning of each year. The result of each audit will be reported directly to the Audit Committee and senior management.

In addition, a Group-wide internal control self-assessment exercise is conducted annually across all business, functions and locations of the Group to establish a long-term mechanism for evaluation, feedback, and continuous improvement of its internal control system.

Last but not least, ad hoc reviews may be conducted in addition to the annual audit plan on specific areas of concern identified by the Audit Committee and senior management.

External Auditor

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

	Fee charged For the year ended 31 December	
Type of Services	**2018**	2017
	HK$'000	HK$'000
Statutory audit service fee	**5,000**	4,300
Non-statutory audit service fee	**1,228**	5,521

Communication with Shareholders

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

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

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

Shareholders' Rights

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

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

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

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

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

2. The procedures for sending enquiries to the Board

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

3. The procedures for making proposals at shareholders' meetings

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

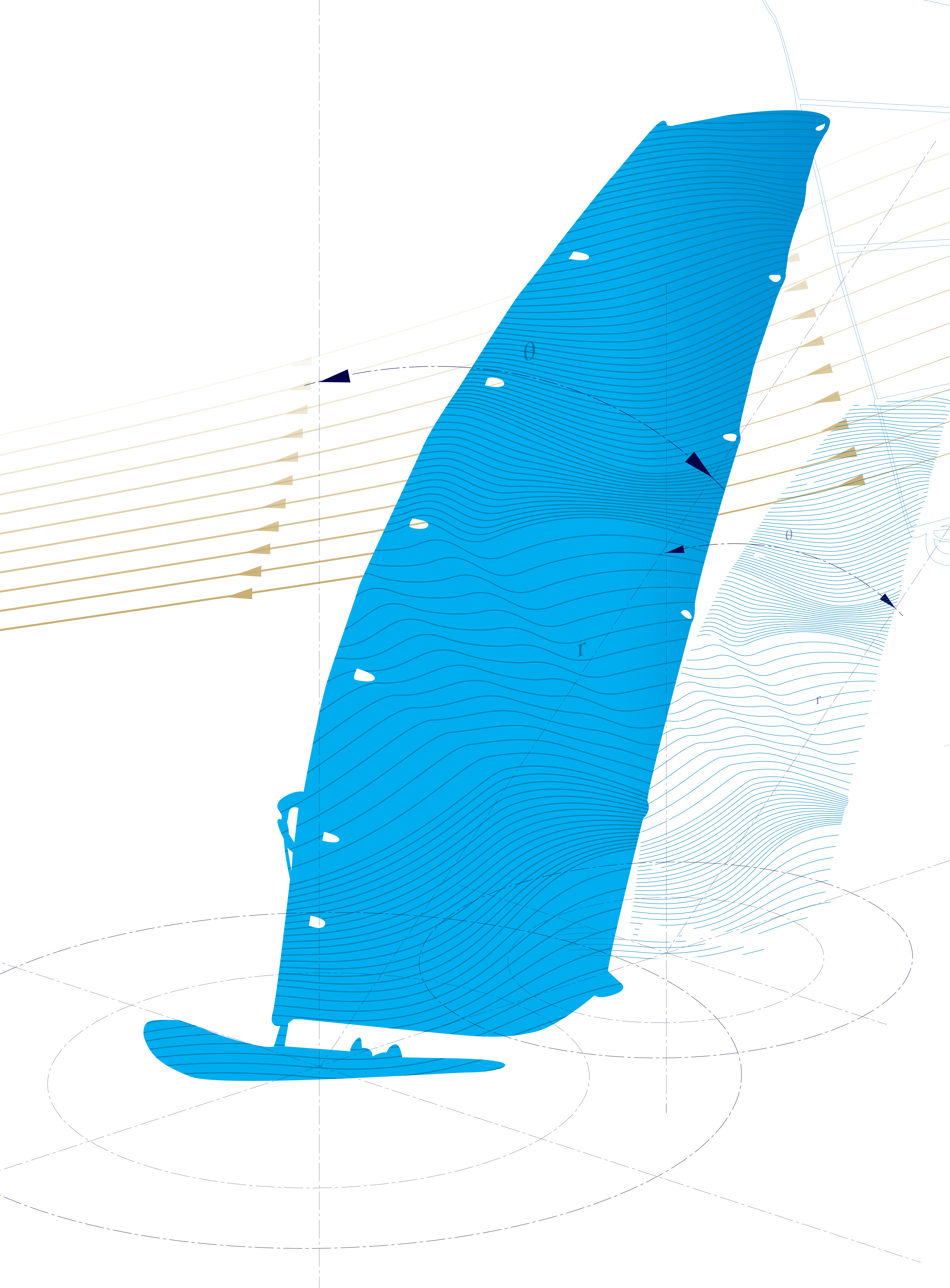
Moreover, the notice period concerning the notice to be given to all the shareholders for consideration of the proposals submitted by the shareholders concerned varies as follows pursuant to Bye-law 59(1) of the New Bye-laws:

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

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

Constitutional Documents

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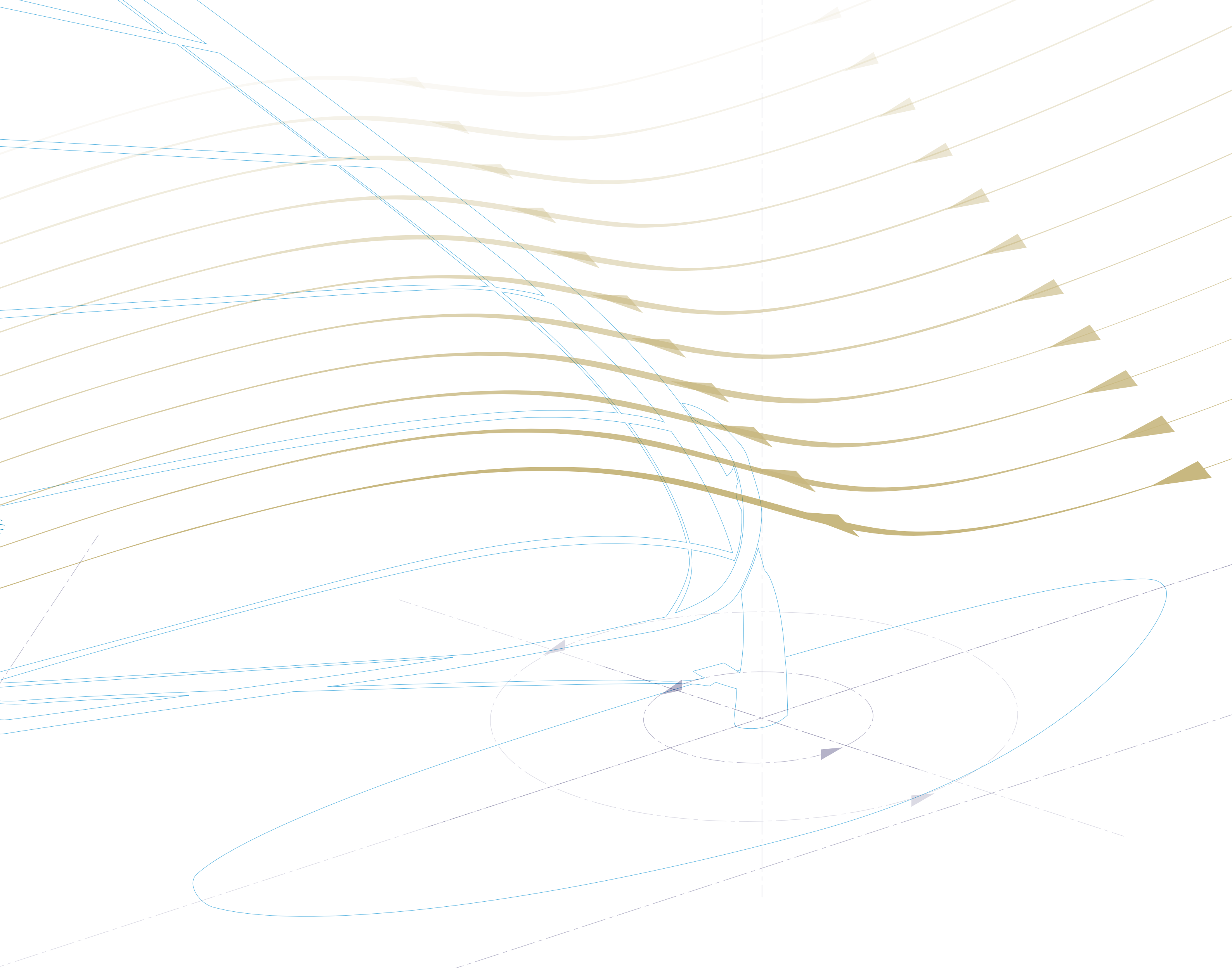

Ride the wind
Break the waves

As a longstanding supporter of Windsurfing Association of Hong Kong, Haitong International spares no effort to give a hand to the windsurfing events to demonstrate the never-give-up Hong Kong sportsmanship in the international arena.

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

Customers

Haitong International strives to expand its wealth management business for high-net-worth professional investors. We provide our high-net-worth customers and professional investors with top-notch investment solutions so as to maximize returns. In addition to traditional products like securities and futures, we also provide an array of wealth management products including fixed income, structured products, funds, leveraged investment and financing solutions. To address our clients' demand of global investment, we upgraded our U.S. stock trading platform in December 2018. Therefore, our customers are able to trade US stocks, HK stocks and A shares under one margin financing facility limit in each consolidated account.

In line with the business development of the Stock Connects, Haitong International constantly updates its trading and settlement systems to meet customers' needs for new investment opportunities. To educate our investors, our preeminent research team provided over 1,000 institutional investors with research reports covering about 1,100 listed companies in over 30 sectors in 9 languages. In addition, the Company also augments its cooperation and sharing of research reports with the parent company, Haitong Securities to provide A share investment information and strategies for clients.

15 years+ 商界展關懷 caringcompany®
Awarded by The Hong Kong Council of Social Service
香港社會服務聯會頒發

同心展關懷 caringorganisation® 2015-19
Awarded by The Hong Kong Council of Social Service
香港社會服務聯會頒發

Besides, the Company places a strong emphasis on internal risk management and regulation compliance at both local and global levels. To raise the bar of our IT risk management and network security, the Customer Services Department equipped all online trading platforms with the two-factor authentication login system and software token this year. We update relevant systems on a regular basis and training has been provided to relevant employees to ensure the trading platforms, product specifications, terms and conditions of services and operational procedures are in line with relevant laws and rules. In this way, clients are kept well informed of the features of and risks involved in the investment before they make investment decisions. Haitong International always values clients' suggestions and feedbacks. To enhance two-way communication, survey on client satisfactory level and suggestion is conducted quarterly for a better understanding of customers' satisfaction towards our products and services, enabling us to keep on improving the operational procedures as well as the products and service quality.

Employees

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

Haitong International always cares about the mental and physical well-being of its employees and advocates a work-life balance. The Company regularly organizes recreational activities for its staff and their families to relieve stress of staff and to encourage interactions amongst colleagues. Besides, Haitong International keeps its effort to help its staff through the dedicated "Staff Care Fund". The fund offers immediate support to staff suffering from serious financial or livelihood problems to help them weather adversity effectively.

01 MTs attended "Haitong International AI Conference 2018" as event helpers and event moderators

02 Employees helped out the beach restoration after Typhoon Mangkhut

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Haitong International always keeps itself from strength to strength and encourages its employees to sharpen up apace with time. With a plethora of training and sponsorship schemes, the Company helps its staff improve their professional knowhow and skills. In 2018, the Company hosted over 90 internal training sessions. Haitong International continued to support employees in obtaining finance related professional qualifications by providing study leaves and examination leaves to let them prepare well for the professional examinations. As an encouragement to achieve professionalism, Haitong International has set up an incentive mechanism by granting reward to staff members for acquisition of job-related professional qualifications.

To develop the bench strength for the Company, a "Management Trainee Program" has been launched since 2008 with which outstanding university graduates with potential are recruited and provided with the one-year integrated development programs encompassing professional training, job rotation and career development support.

Furthermore, in 2018, aligning with our internationalization strategy, we started to call on our employees to go beyond themselves, in terms of capabilities or expertise. We encouraged them to work abroad through the Overseas Attachment and Exchange Programs so as to nurture our upcoming elite talents to tie in with our international businesses.

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01, 02 The kickoff of MT Mentorship Program

03 Haitong International Basketball Team won the Championship in the "China Investment Bank Basketball League"

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Shareholders and Investors

Haitong International has been attaching emphasis to foster good communication with shareholders and investors. Analyst meetings and non-deal roadshows are held after the release of the interim and final results announcement, in which senior management were present to answer questions regarding the Company's results and development. Haitong International took active part in the investors conferences organized by sizable financial institutions and built up strong connections with about 300 investors and analysts around the world. With multichannel and effective communication, the Company kept investors informed of the Group's operations, financial conditions and business development in a timely and clear fashion, whilst follow-up questions and feedbacks from investors had been properly handled and forwarded to senior management regularly so that the interest and expectations of shareholders and investors could be taken into consideration when making operational and strategic decisions. In 2016, the share of the Company was included in the Stock Connects as an underlying share, and it was granted the Baa2 long-term issuer rating by Moody's Investors Service in September 2017. In 2018, a total of 10 research reports on Haitong International were released by 8 institutions, including one initial coverage report. The Company also organized annual general meeting (AGM) to build the connections among shareholders, investors and the management to express their opinions and questions. All announcements and press releases issued by the Company are uploaded to its own website for easy access of shareholders and investors. Furthermore, the Company conveys the Group's information to investors and analysts by virtue of social media such as Facebook Fan-page, Twitter and WeChat. In addition to relationship maintenance with shareholders, investors and sell side analysts, the Company continued to promote investors education about Hong Kong financial market. Each year, the Company invites domestic and oversea experts to investment seminars, workshops and forums, for the sake of raising local investors' awareness and understanding about development trend of global financial market as well as global asset allocation.

01 The Senior Management attended financial results announcement press conference

02 HTI provides investors with global macroeconomic forecast and market outlook

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Society

In the fall of 2017, Haitong International joined hands with the Windsurfing Association of Hong Kong to sponsor the windsurfing events organized by Windsurfing Association of Hong Kong and nurture windsurfers as the representative players for Hong Kong with an aim to foster the sport that Hong Kong people take pride in.

2018 is the 2nd year for Haitong International to title-sponsor Haitong International Hong Kong Windsurfing Open Championships. As a heavyweight international event with high standards and incentives, Haitong International Hong Kong Windsurfing Open Championships has attracted windsurfing athletes from the UK, Netherlands, Italy, HKSAR, Macau SAR and Chinese Taiwan to compete for the prize. In 2018, Haitong International also offered cash prizes up to HKD195,000 in total to outstanding windsurfers. In future, Haitong International will continue to support this sport with more resources to raise awareness of windsurfing in the community.

Since 2016, Haitong International Charitable Foundation has been cooperating with Helping Hand to unveil the "Haitong International 'Care for the Elderly, Care for the Brain' Project" to help elderly in need to improve their emotion and Dementia. As of today, the program has provided 330 activity hours for 5 elderly service units of the Helping Hand and 5,100 elderly has been benefited.

01 Haitong International title sponsored "Haitong International 2018 Hong Kong Open Windsurfing Championships"

02 Haitong International participated in "Care for the Elderly, Care for the Brain Project" – "Lok Fu Care Home Visit"

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Through Haitong International Charitable Foundation and Haitong International Caring Ambassador Volunteer Team, Haitong International effectively allocated its resources to support the activities run by non-government organizations. In 2018, the Company continued to support Helping Hand Healthbank Cookie after several years of cooperation, and called on its employees to take part in a lineup of charity events including Bloomberg Square Mile Relay and Great Walker Fundraising Trekking Event in Guangzhou, a campaign aiming at helping poverty-stricken children. During the year, Haitong International co-organized HTI Pizza Hut Kid's Tour with the Baptist Oi Kwan Social Service – Wan Chai Integrated Children and Youth Service Centre. In addition, the Company also worked with the Asia Children Education Association to roll out the "21st Century Cup" National English Speaking Competition Hong Kong Region, for which its foreign staff acted as the judge.

Like what it did last year, the Group has given its staff the SEs Gift Certificates as Mid-Autumn festive gifts. Those certificates are applicable to over 90 social enterprises or Fairtrade Shops. In this way, the Company hopes to raise its employees' awareness of social enterprises and contribute its spending power to society in a meaningful way. In response to the death toll amounting to 19 with over 60 injured due to the KMB bus rollover on 10 February 2018, Haitong International Charitable Foundation allocated part of its funds as financial assistance to the family of the dead and injured.

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01 Haitong International's staff team joined the "Bloomberg Square Mile Relay 2018"

02 Haitong International organized the "HTI Pizza Hut Kid's Tour". Volunteers were guiding ethnic minority children to make pizza.

03 Haitong International teamed up to support the "Good Walker in Guangzhou 2018"

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Environmental Protection

Haitong International has formulated the "Environmental Protection of Procurement and Office Equipment" policy and planned the environmental protection works. We encourage employees and suppliers to support our environmental initiatives. In addition to advocating paperless workplaces, the Company chose recycled paper for office paper and employee's business cards in reducing the need of felling of trees for paper production. The Group has set up designated recycle bins on each office floor to encourage employees to recycle waste paper and facilitate suppliers' recovery works. The Company endeavors to use office furniture efficiently and avoids the production of large-scale waste, thus reducing the burden on landfills. The Group has committed to reducing air pollution generated by renovation works. For this purpose, it coordinated with the Property Management Office to conduct indoor air quality assessment in 2018.

In 2017 and 2018, the Company participated in an electronic products recycling programme organized by "Caritas Computer Workshop" by donating its used computers to the charity group for recycling and renewing. Since 2013, the annual reports have been printed on recycled paper, showing the Group's environmentally astute attitude from every detail. As a recognition of its waste reduction efforts and concerns, the Company was granted the Wastewi$e Label in Class of Excellence by Hong Kong Awards for Environmental Excellence led by Environmental Campaign Committee (ECC) and Environmental Protection Department (EPD).

In 2018, automatic lighting system and lighting sensors were installed for the new office at Wong Chuk Hang as a pioneer to facilitate power consumption reduction and energy saving.

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

01 The Social Enterprises' Gift Certificate given by Haitong International to its staff.

02 The "Class of Excellence" Wastewi$e Label

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Board of Directors

Executive Directors

LIN Yong, aged 49, was appointed as an Executive Director of the Company on 23 December 2009. He has been a Deputy Chairman of the Board of Directors and the Managing Director of the Company as well as the Chief Executive Officer of the Group since 29 April 2011. He is also the Chairman of the Executive Committee as well as a member of the Strategic Development Committee of the Company. In addition, Mr. Lin is a director of subsidiary of the Company and a board member of Haitong Bank, S.A. ("Haitong Bank") and Haitong Banco de Investimento do Brasil S.A., wholly-owned subsidiaries of Haitong International Holdings Limited (formerly known as "Hai Tong (HK) Financial Holdings Limited") ("HTIH"). He also acts as the chairman of Haitong Bank since 30 October 2017. Mr. Lin holds a Doctorate Degree in Economics from Xi'an Jiaotong University and has over 20 years of experience in the investment banking industry. Mr. Lin joined Haitong Securities Co., Ltd. ("HSCL", whose shares are listed on The Stock Exchange of Hong Kong Limited and on the Shanghai Stock Exchange) in 1996 and was a general manager of the Investment Banking Department of HSCL from 2001 to 2007. He has been appointed as an assistant to general manager of HSCL with effect from 30 December 2014 and a director and general manager of HTIH since 2007. He is responsible for the overall operation of HTIH and the business development of the Group. In 2006, Mr. Lin was named "2006 Top Ten Outstanding Young Person in Financial Sector in Shanghai" (2006年上海首屆十大金融傑出青年) and was honoured as the"2014 Shanghai Financial Industry Leader" (2014滬上金融行業領袖) in 2014. He acts as an adjunct professor in Management College of Xiamen University since 12 May 2010 and acts as chairman of Chinese Securities Association of Hong Kong since 25 February 2019. Mr. Lin is an independent non-executive director of Zhongsheng Group Holdings Limited ("Zhongsheng Group"). The shares of Zhongsheng Group are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

LI Jianguo, aged 55, was appointed as an Executive Director of the Company on 13 January 2010 and a Deputy Chairman of the Board of Directors of the Company on 10 March 2010. He is also a member of the Strategic Development Committee of the Company. Mr. Li holds a Doctorate Degree in Economics from Xi'an Jiaotong University. He has 27 years of experience in the securities industry. Mr. Li was a general manager of Henan Securities Co., Ltd. from 1992 to 1998. He joined HSCL in 1998 and served as the deputy general manager of HSCL from 1998 to 1999. Mr. Li was the vice president and the general manager of Fullgoal Fund Management Co., Ltd. from 1999 to 2008. Mr. Li has been the assistant to the general manager of HSCL and the chairman of the board of directors of HTIH since 2008 and the vice chairman of HTIH since 9 August 2010.

POON Mo Yiu, aged 54, joined the Group in August 2008. He was appointed as an Executive Director of the Company on 1 July 2009 and was the Chief Operating Officer of the Group as well as a member of the Executive Committee of the Company prior to his re-designation as a Non-executive Director on 16 February 2016. Mr. Poon was re-designated as an Executive Director of the Company and was appointed as a member of the Executive Committee of the Company on 8 February 2018. He was also appointed as the Chief Operating Officer of the Group on 15 August 2018. Mr. Poon is also a director of various subsidiaries of the Company. He is a board member of Haitong Bank. Mr. Poon holds a Master of Business Administration Degree from The Chinese University of Hong Kong. He is a fellow of the Association of Chartered Certified Accountants, the Hong Kong Institute of Certified Public Accountants ("HKICPA") and the Institute of Chartered Accountants in England & Wales. Mr. Poon has extensive experience in financial management, management of information systems, accounting projects as well as various aspects of mergers and acquisitions. Prior to joining the Group, Mr. Poon worked for Sun Hung Kai & Co. Limited as the Group Chief Operating Officer and the Group Chief Financial Officer. He was also previously the Vice President in Finance of JPMorgan Chase Bank and the Group Financial Controller of Jardine Fleming Group in Asia before its merger with JPMorgan Chase Bank.

SUN Jianfeng, aged 42, joined the Group in 2010 and was appointed as an Executive Director of the Company with effect from 1 June 2017. He is the Chairman of Corporate Finance and is leading the Corporate Finance Function to provide a wide range of corporate finance services. He is also responsible for the development and management of the Leveraged and Acquisition Finance business. He is also a member of the executive committee of the Company. Mr. Sun is also a director of various subsidiaries of the Company as well as a responsible officer of Haitong International Capital Limited and Haitong International Capital (HK) Limited (formerly known as Hai Tong Capital (HK) Limited) under the Securities and Futures Ordinance. Mr. Sun holds a Master of Applied Economics from Xi'an Jiaotong University. He possesses extensive experience in the corporate finance industry. He participated and completed a number of IPOs in Hong Kong and China.

SUN Tong, aged 42, joined the Group in May 2010 and was appointed as an Executive Director of the Company with effect from 27 March 2018. He has been appointed as the Chief Investment Officer of the Group since September 2017 and is a member of Executive Committee of the Company. He is also a director of numerous subsidiaries of the Company, and serves as a responsible officer of Haitong International Securities Company Limited under the Securities and Futures Ordinance. Mr. Sun graduated with a Bachelor Degree in Computer Science from Nanjing Normal University and obtained a MBA Degree from the Chinese University of Hong Kong. Mr. Sun joined HSCL in 2000 and he is now a deputy general manager of HTIH.

Non-executive Directors

QU Qiuping, aged 57, was appointed as the Chairman of the Board and a Non-executive Director on 8 February 2018 and is the Chairman of the Nomination Committee and the Strategic Development Committee as well as a member of the Remuneration Committee of the Company. Mr. Qu is a member of the Chinese Communist Party and holds a Master degree in Economics from Fudan University. He is a senior accountant in the People's Republic of China (the "PRC") and was the accountant, deputy section chief, Youth League secretary of Nanshi District Office of the People's Bank of China Shanghai (中國人民銀行上海市南市區辦事處) from September 1980 to December 1983; the deputy section chief and section chief of Nanshi District Office of the Industrial and Commercial Bank of China Shanghai (中國工商銀行上海市南市區辦事處) from January 1984 to September 1992; the vice president of Nanshi Sub-branch of the Industrial and Commercial Bank of China Shanghai Branch (中國工商銀行上海市分行南市支行) from September 1992 to November 1995; the deputy head of the accounting and cashier department of the Industrial and Commercial Bank of China Shanghai Branch (中國工商銀行上海市分行) from November 1995 to December 1996 (He was in charge of the party and political work of Shanghai Jiading Sub-branch of the Industrial and Commercial Bank of China (中國工商銀行上海市嘉定支行) from December 1995 to December 1996); the president and deputy secretary of CPC party committee of Shanghai Baoshan Sub-branch of the Industrial and Commercial Bank of China (中國工商銀行上海市寶山支行) from December 1996 to March 1999; the head of the accounting and clearing department of the Industrial and Commercial Bank of China Shanghai Branch from March 1999 to December 1999; the assistant to the president of the Industrial and Commercial Bank of China Shanghai Branch from December 1999 to June 2000; the vice president of the Industrial and Commercial Bank of China Shanghai Branch from June 2000 to February 2005 (he was a visiting scholar at University of Pennsylvania from September 2002 to September 2003); the vice president of the Industrial and Commercial Bank of China Jiangsu Branch (中國工商銀行江蘇省分行) from February 2005 to September 2008; the deputy secretary of CPC party committee and the vice chairman of the board of directors of Bank of Shanghai (上海銀行) from September 2008 to November 2008; the president, deputy secretary of CPC party committee and the vice chairman of the board of directors of Bank of Shanghai from November 2008 to December 2010; the head of Investor Education Office of the Work Coordination Department of the Dispatched Offices of the CSRC (中國證監會派出機構工作協調部) from December 2010 to August 2012; and the head of the Department of Unlisted Public Company Supervision of the CSRC (中國證監會非上市公眾公司監管部) from August 2012 to April 2014. Mr. Qu has been the director of Self-discipline and Supervision Committee of the Securities Association of China (中國證券業協會自律監察專業委員會) since October 2015, and the member of Expert Committee of the Finance Research Centre of Counselors' Office of the State Council (國務院參事室金融研究中心) since October 2016. He has been the Council member of the Shenzhen Stock Exchange since April 2017; Vice Chairman of Securities Association of China since June 2017; a member of the Chinese People's Political Consultative Conference Shanghai Committee since December 2017; Chief Supervisor of Shanghai Association of Listed Companies since June 2018; and Chairman of Mergers and Acquisition Financing Professional Committee of the China Association for Public Companies (中國上市公司協會併購融資專業委員會) since October 2018. Mr. Qu has served as an executive Director, the general manager and the deputy secretary of CPC party committee of HSCL since 25 June 2014, and the chairman of the board of directors of HTIH since February 2018.

CHENG Chi Ming Brian, aged 36, joined the Group in June 2009 and was appointed as an Executive Director of the Company on 1 July 2009. He was re-designated as a Non-executive Director of the Company on 13 January 2010. Mr. Cheng is also a member of the Remuneration Committee and the Strategic Development Committee of the Company. Mr. Cheng holds a Bachelor of Science Degree from Babson College in Massachusetts, U.S.A. Mr. Cheng is currently an executive director of NWS Holdings Limited, chairman and non-executive director of Integrated Waste Solutions Group Holdings Limited, non-executive director of Wai Kee Holdings Limited and Leyou Technologies Holdings Limited. Mr. Cheng was a non-executive director of Newton Resources Ltd (resigned on 23 January 2017) and Beijing Capital International Airport Company Limited (resigned on 2 February 2018). The shares of all these companies are listed on the Stock Exchange. Mr. Cheng is also a director of certain subsidiaries of NWS Holdings Limited. He is mainly responsible for overseeing the infrastructure business and the merger and acquisition affairs of NWS Holdings Limited and its subsidiaries. In addition, Mr. Cheng is also the Chairman of Goshawk Aviation

Limited, and a director of SUEZ NWS Limited, PBA International Pte. Ltd. as well as a director of a number of companies in Mainland China, and a non-executive director of Tharisa plc (retired on 1 February 2017), whose shares are listed on the Johannesburg Stock Exchange Limited and the London Stock Exchange plc. Mr. Cheng is currently a member of the Thirteenth Shanghai Municipal Committee of the Chinese People's Political Consultative Conference. Mr. Cheng has previously worked as a research analyst in the Infrastructure and Conglomerates sector for CLSA Asia-Pacific Markets.

WANG Meijuan, aged 54, was appointed as a Non-executive Director of the Company on 1 September 2012 and is a member of the Audit Committee and the Risk Committee of the Company. She holds a Bachelor Degree and a Master Degree from the Shanghai University of Finance and Economics. Ms. Wang is a senior accountant in the PRC and possesses the qualification of securities practitioner in the PRC. She has worked as a lecturer for the department of management engineering of the Shanghai Institute of Building Materials and the senior manager of Da Hua Certified Public Accountants Co. Ltd. Ms. Wang has over 18 years of experience in the securities industry. She served in various positions in HSCL (formerly known as Haitong Securities Company before it was renamed in 2002), including the manager of audit department from May 2001 to August 2001, the assistant to general manager of audit department from August 2001 to March 2002, the deputy general manager of audit department from March 2002 to May 2006, the deputy general manager of risk control headquarters from May 2006 to September 2006, and the chief auditor and deputy general manager of risk control headquarters from September 2006 to March 2011. Currently, Ms. Wang is acting as an employee supervisor and the general manager of the audit department of HSCL and director or chairman of the supervisory committee of various affiliates of HSCL. She is a director of Haitong Capital Investment Co., Ltd. (海通開元投資有限公司) and Xi'an Aerospace and New Energy Industry Fund (西安航天新能源產業基金投資有限公司), a chairman of the supervisory committee of Haitong Futures Co., Ltd. (海通期貨股份有限公司) and Haitong UniTrust International Leasing Co., Ltd. (海通恒信國際租賃股份有限公司) and also a member of the Brokerage Business Committee of HSCL.

ZHANG Xinjun, aged 43, was appointed as a Non-executive Director of the Company on 27 March 2018 and is a member of Audit Committee and the Strategic Development Committee. Mr. Zhang holds a postgraduate Master degree in Management from the Department of Accounting of Nankai University. He is a Chinese Middle Grade Accountant and has extensive experience in financial accounting, finance management and merger and acquisition. Mr. Zhang joined the Company in April 2010 and was appointed as the Chief Financial Officer of Company and was also a member of the Executive Committee of Company. Prior to joining the Company, Mr. Zhang worked at the Planning and Finance Department of HSCL and had been the Chief Financial Officer of HTIH since January 2008. He has been appointed as the Chief Financial Officer of HSCL and will cease to act as the Chief Financial Officer of the Company with effect from 27 March 2018. Mr. Zhang is a board member of Haitong Bank.

William CHAN, aged 52, was appointed as a Non-executive Director on 2 January 2015 and is the Chairman of the Risk Committee and a member of the Strategic Development Committee of the Company. Mr. Chan was awarded a Master of Business Administration Degree from National University of Singapore and a Bachelor Degree in Shipbuilding from Dalian University of Technology in China. Mr. Chan has extensive experience in equity and bond analysis, trading and portfolio construction, currency trading, distress investment, quantitative research and derivative trading. Mr. Chan is currently a director of Harveston Asset Management Pte. Ltd. and MM River Fund Pte. Ltd.. He previously worked for China Aviation Oil (Singapore) Pte Ltd as Head of Strategic Investment and the Credit and Finance Manager of treasury department and financial risk unit for Asia Pacific of Dow Chemical Singapore.

Independent Non-executive Directors

TSUI Hing Chuen William JP, aged 67, was appointed as an Independent Non-executive Director of the Company on 1 July 2004 and is the Chairman of the Remuneration Committee, a member of the Audit Committee and the Nomination Committee of the Company. Mr. Tsui is the founding partner of Messrs. Lo, Wong & Tsui, Solicitors & Notaries since 1980. He has been a solicitor of the High Court of Hong Kong since 1977, a solicitor of the Supreme Court of England & Wales since 1981 as well as a barrister and solicitor of the Supreme Court of Victoria, Australia since 1983. He has also been an advocate and solicitor of the Supreme Court of Republic of Singapore since 1985 and a notary public appointed by the Archbishop of Canterbury, England since 1988. Mr. Tsui was appointed as a Justice of the Peace by the Government of Hong Kong in 1997. He was admitted to the Roll of Honour of The Law Society of Hong Kong in 2013. Mr. Tsui is currently an independent non-executive director of Mongolia Energy Corporation Limited and Vision Values Holdings Limited and he was an independent non-executive director of International Entertainment Corporation till June 2017. The shares of all these companies are listed on the Stock Exchange.

LAU Wai Piu, aged 54, was appointed as an Independent Non-executive Director of the Company on 1 December 2006 and is a member of the Audit Committee, the Nomination Committee, the Remuneration Committee and the Risk Committee of the Company. Mr. Lau is a member of the HKICPA and a fellow of the Association of Chartered Certified Accountants. He possesses over 20 years of extensive experience in accounting and financial management. Mr. Lau is currently an independent non-executive director of Mongolia Energy Corporation Limited and Vision Values Holdings Limited and he was an independent non-executive director of International Entertainment Corporation till June 2017. The shares of all these companies are listed on the Stock Exchange.

WEI Kuo-chiang, aged 68, was appointed as an Independent Non-executive Director of the Company on 31 December 2012 and is a member of the Remuneration Committee and the Risk Committee of the Company. He was awarded a Doctor of Philosophy Degree in Finance from the University of Illinois at Urbana-Champaign in the United States, a Master of Business Administration Degree in Finance from the National Chengchi University in Taiwan, and a Bachelor of Engineering Degree in Industrial Management from the National Taiwan University of Science and Technology. Mr. Wei is currently the Chair Professor of Financial Economics in the School of Accounting and Finance at The Hong Kong Polytechnic University. He previously acted as chair professor, professor, associate professor and assistant professor of finance at a number of prestigious universities, including the University of Mississippi, the University of Miami and the Indiana University at Bloomington/Indianapolis in the United States as well as The Hong Kong University of Science and Technology ("HKUST"), and also served as Director of Value Partners Center for Investment, Director of the Center for Asian Financial Markets and Director of Master of Science (Financial Analysis)/(Investment Management) Programs at the HKUST for many years. Mr. Wei has written a number of research papers on issues such as the United States and Global Capital Markets and Pricing of Assets and he was also a column writer on Hong Kong stock market and warrant trading for Hong Kong Economic Journal for many years. Moreover, he assisted to develop wealth management and investment models for, among others, Hang Seng Bank Limited and The Hongkong and Shanghai Banking Corporation Limited and also organized and conducted a consultancy project for the Government of Hong Kong and Asia-Pacific Economic Cooperation. Mr. Wei has been a council member of the Chinese Finance Annual Meeting and the Global Chinese Real Estate Congress since 2004 and 2008 respectively.

WAN Kam To, aged 66, was appointed as an Independent Non-executive Director of the Company on 19 June 2018 and is the chairman of the Audit Committee of the Company. Mr. Wan graduated from the accountancy department of Hong Kong Polytechnic (now known as The Hong Kong Polytechnic University) with a higher diploma in 1975. He was a partner of PricewaterhouseCoopers where he worked for over 30 years and accumulated extensive experience in auditing, finance advisory and management. Mr. Wan is currently a council member of The Open University of Hong Kong and a fellow member of Hong Kong Institute of Certified Public Accountants and the Association of Chartered Certified Accountants. Mr. Wan is also currently an independent non-executive director of various listed companies, namely A-Living Services Co., Ltd, China Resources Land Limited, Fairwood Holdings Limited, Harbin Bank Co., Ltd., Huaneng Renewables Corporation Limited, Kerry Logistics Network Limited, KFM Kingdom Holdings Limited, and Target Insurance (Holdings) Limited. The shares of all these companies are listed on the Stock Exchange. He also serves as an independent non-executive director of Shanghai Pharmaceuticals Holding Co., Ltd. (listed on the Stock Exchange and the Shanghai Stock Exchange (the "SSE")) and an independent director of China World Trade Center Co., Ltd. (listed on the SSE). Mr. Wan was previously as an independent non-executive Director of Dalian Port (PDA) Company Limited (listed on the Stock Exchange and the SSE) from June 2011 to June 2017 and S. Culture International Holdings Limited (listed on the Stock Exchange) from May 2013 to July 2017.

LIU Yan, aged 48, was appointed as an Independent Non-executive Director of the Company on 19 June 2018 and is a member of the Nomination Committee. She holds a Bachelor degree in economics from Central University of Finance and Economics and a master degree in Business Administration from University of Rochester. She is a member of Chinese Institute of Certified Public Accountants (CICPA) and passed all tests for Chartered Financial Analyst (CFA) Program. Ms. Liu has over 20 years of experience in auditing, financial management, taxation and fund management. From 1992 to 1994, Ms. Liu was employed as an analyst at Brilliance Group Holdings Limited. From 1994 to 2001, Ms. Liu worked at PricewaterhouseCoopers as an audit manager. In 2005, Ms. Liu joined Barclays Bank (New York) Global Financial Risk Management Department as an investment manager. She worked as a vice president for Angelo Gordon Asia Limited from 2007 to 2010. From 2010 to 2015, Ms. Liu was a managing director of Fund Management Department and Investment Management Department in China Everbright Limited (Hong Kong). Ms. Liu is currently an independent non-executive director of Tai United Holdings Limited and Great Wall Pan Asia Holdings Limited. She was an independent non-executive director of U Banquet Group Holding Ltd from November 2016 to September 2018. The shares of all these companies are listed on the Stock Exchange.

The board of directors of the Company (the "Board") is pleased to present its report and the audited financial statements of the Company and the Group for the year ended 31 December 2018.

Principal activities

The principal activity of the Company is investment holding. The Company's subsidiaries are principally engaged in wealth management, corporate finance, asset management, institutional clients and investment. There were no significant changes in the nature of the Group's principal activities during the year ended 31 December 2018.

Business Review

The business review of the Company for the year ended 31 December 2018 is set out in the sections headed, "Financial Highlights", "Chairman's Statement", "CEO's Review", "Financial Review", "Corporate Governance Report" and "Corporate Social Responsibility Report" on pages 2 to 3, pages 12 to 13, pages 16 to 19, pages 20 to 31, pages 32 to 49 and pages 52 to 59 respectively on this Annual Report.

Results and dividends

The Group's profit for the year ended 31 December 2018 and the state of affairs of the Company and the Group on date are set out in the financial statements on pages 93 to 242.

The Board has declared a second interim dividend of HK1.4 cents per share in cash for the year ended 31 December 2018, payable on Thursday, 25 April 2019 to shareholders whose names appear on the register of members of the Company on Thursday, 11 April 2019. Together with the interim dividend of HK7.6 cents per share paid on 24 October 2018, the total dividend payout for 2018 would be HK9 cents per share.

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

The register of members of the Company will be closed from Tuesday, 9 April 2019 to Thursday, 11 April 2019, both dates inclusive, during which period no transfer of shares will be registered. In order to qualify for the second interim dividend, unregistered holders of the shares of the Company should ensure that all completed transfer forms accompanied by the relevant share certificates must be lodged with the Company's Branch Share Registrar and Transfer Office in Hong Kong, Tricor Investor Services Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong, for registration not later than 4:30 p.m. on Monday, 8 April 2019. Shares of the Company will be traded ex-dividend as from Thursday, 4 April 2019.

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

The register of members of the Company will be closed from Tuesday, 21 May 2019 to Friday, 24 May 2019, both dates inclusive, during which period no transfer of shares will be registered. In order to qualify for attending and voting at the annual general meeting, unregistered holders of the shares of the Company should ensure that all completed transfer forms accompanied by the relevant share certificates must be lodged with the Company's Branch Share Registrar and Transfer Office in Hong Kong, Tricor Investor Services Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong, for registration not later than 4:30 p.m. on Monday, 20 May 2019.

Summary of financial information

A summary of the published results, assets, liabilities and non-controlling interests of the Group for the year ended 31 December 2018 and the previous 5 financial periods/years, as extracted from the audited financial statements and reclassified as appropriate, is set out on page 243 of this Annual Report. This summary does not form part of the audited financial statements.

Charitable contributions

During the year ended 31 December 2018, the Group made charitable contributions totalling HK$1,450,000.

Reserves

Details of movements in the reserves of the Company and the Group during the year ended 31 December 2018 are set out in note 42 to the financial statements and in the consolidated statement of changes in equity, respectively.

Distributable reserves

As at 31 December 2018, the Company's reserves available for distribution, calculated in accordance with the provisions of the Companies Act 1981 of Bermuda (as amended), amounted to HK$666,994,000, of which HK$81,056,000 has been proposed as a second interim dividend for the year ended 31 December 2018. In addition, the Company's share premium account, in the amount of HK$18,817,121,000, may be distributed in the form of fully paid bonus shares.

Fixed assets

Details of movements in the fixed assets of the Company and the Group during the year ended 31 December 2018 are set out in note 33 to the financial statements.

Share capital

Details of movements in the Company's share capital during the year ended 31 December 2018, together with the reasons thereof, are set out in note 38 to the financial statements.

Debentures Issued

Details of loans and other borrowings are set out in note 36 to the financial statements and details of the convertible bonds are set out in the Company's announcements on 18 July 2013, 10 October 2013, 4 November 2014, 12 October 2016 and 25 October 2016.

Equity-Linked Agreements

Other than the share option schemes and convertible bonds of the Company with details as respectively disclosed in this Report of the Board of Directors and note 39 to the financial statements, no equity-linked agreements were entered into by the Company that will or may result in the Company issuing shares or that require the Company to enter into any agreements that will or may result in the Company issuing shares during the year or subsisted at the end of the year.

Pre-emptive rights

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

Purchase, sale or redemption of listed securities of the Company

Neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities during the year ended 31 December 2018 other than as an agent for clients of the Company or its subsidiaries and for the share award scheme of the Company.

Major customers and suppliers

In the year ended 31 December 2018, the revenue attributable to the 5 largest customers of the Group accounted for less than 30% of the Group's total revenue for the year ended 31 December 2018.

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

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

Directors

The directors of the Company during the year ended 31 December 2018 and up to the date of this report are:

Executive directors:

LIN Yong	
LI Jianguo	
POON Mo Yiu	(redesignated from non-executive director to executive director on 8 February 2018)
SUN Jianfeng	
SUN Tong	(appointed on 27 March 2018)

Non-executive directors:

QU Qiuping	(appointed on 8 February 2018)
JI Yuguang	(retired on 8 February 2018)
CHENG Chi Ming Brian	
WANG Meijuan	
ZHANG Xinjun	(appointed on 27 March 2018)
William CHAN	

Independent non-executive directors:

TSUI Hing Chuen William	
LAU Wai Piu	
LIN Ching Yee Daniel	(resigned on 19 April 2018)
WEI Kuo-chiang	
WAN Kam To	(appointed on 19 June 2018)
LIU Yan	(appointed on 19 June 2018)

According to the Company's New Bye-law 86(2), Mr. WAN Kam To and Ms. LIU Yan, who have been appointed as independent non-executive directors of the Company with effect from 19 June 2018, shall hold office only until the annual general meeting and shall be eligible for election at the annual general meeting. In addition, pursuant to the Company's New Bye-laws 87(1) and (2), Mr. SUN Jianfeng, Mr. CHENG Chi Ming Brian, Mr. TSUI Hing Chuen William, Mr. LAU Wai Piu and Mr. WEI Kuo-chiang shall retire from office by rotation at the forthcoming annual general meeting and, being eligible, offer themselves for re-election.

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

Directors' biographical details

Biographical details of the directors of the Company are set out on pages 60 to 63 of this Annual Report.

Directors' service contracts

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

Directors' interests in transactions, arrangements or contracts

No director had a material interest, either directly or indirectly, in any transaction, arrangement or contract of significance to the business of the Group to which the Company or any of its subsidiaries was a party during the year ended 31 December 2018.

Permitted Indemnity Provision

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

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

As at 31 December 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 set out in Appendix 10 to the Listing Rules (the "Model Code"), were as follows:

The Company

Name of directors	Class of shares	Personal interests	Family interests	Corporate interests	Number of underlying shares held under equity derivatives	Total	Approximate percentage of the Company's total issued share capital*
QU Qiuping (appointed on 8 February 2018)	Share options	–	–	–	500,000	500,000	0.01
LIN Yong	Ordinary shares/ share options	6,241,312 (Note 3)	–	–	3,409,098 (Notes 1&2)	9,650,410	0.17
LI Jianguo	Ordinary shares/ share options	2,247,372 (Note 4)	–	–	1,205,385 (Notes 1&2)	3,452,757	0.06
POON Mo Yiu	Ordinary shares/ share options	2,428,420 (Note 5)	–	–	1,706,044 (Notes 1&2)	4,134,464	0.07
SUN Jianfeng	Ordinary shares/ share options	1,615,123 (Note 6)	–	–	2,205,685 (Notes 1&2)	3,820,808	0.07
SUN Tong (appointed on 27 March 2018)	Ordinary shares/ share options	1,440,230 (Note 7)	–	–	2,005,685 (Notes 1&2)	3,445,915	0.06
CHENG Chi Ming Brian	Share options	–	–	–	1,784,355 (Notes 1&2)	1, 784,355	0.03
WANG Meijuan	Share options	–	–	–	601,973 (Notes 1&2)	601,973	0.01
ZHANG Xinjun (appointed on 27 March 2018)	Ordinary shares/ share options	827,762 (Note 8)	–	–	2,005,685 (Notes 1&2)	2,833,447	0.05
William CHAN	Share options	–	–	–	903,409 (Notes 1&2)	903,409	0.02
TSUI Hing Chuen William	Ordinary shares/ share options	200,000 (Note 9)	–	–	1,050,121 (Notes 1&2)	1,250,121	0.02
LAU Wai Piu	Share options	–	–	–	1,331,569 (Notes 1&2)	1,331,569	0.02
WEI Kuo-chiang	Share options	–	–	–	903,409 (Notes 1&2)	903,409	0.02
WAN Kam To (appointed on 19 June 2018)	Share options	–	–	–	300,000	300,000	0.01
LIU Yan (appointed on 19 June 2018)	Share options	–	–	–	300,000	300,000	0.01

* the total number of shares of the Company was 5,789,746,388 as at 31 December 2018.

Notes:

1. 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	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

2. On 24 October 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 interim dividend for the 6 months ended 30 June 2018 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	803,211	4.657	805,269	4.645
	10 November 2017	801,775	5.027	803,829	5.014
LI Jianguo	12 May 2016	602,406	4.657	603,949	4.645
	10 November 2017	300,666	5.027	301,436	5.014
POON Mo Yiu	12 May 2016	702,808	4.657	704,608	4.645
	10 November 2017	300,666	5.027	301,436	5.014
SUN Jianfeng	12 May 2016	502,006	4.657	503,292	4.645
	10 November 2017	501,109	5.027	502,393	5.014
SUN Tong (appointed on 27 March 2018)	12 May 2016	502,006	4.657	503,292	4.645
	10 November 2017	501,109	5.027	502,393	5.014
CHENG Chi Ming Brian	3 September 2010	878,695	2.758	880,946	2.751
	12 May 2016	301,201	4.657	301,973	4.645
	10 November 2017	300,666	5.027	301,436	5.014
WANG Meijuan	12 May 2016	301,201	4.657	301,973	4.645
ZHANG Xinjun (appointed on 27 March 2018)	12 May 2016	502,006	4.657	503,292	4.645
	10 November 2017	501,109	5.027	502,393	5.014
William CHAN	12 May 2016	301,201	4.657	301,973	4.645
	10 November 2017	300,666	5.027	301,436	5.014
TSUI Hing Chuen William	3 September 2010	146,337	2.758	146,712	2.751
	12 May 2016	301,201	4.657	301,973	4.645
	10 November 2017	300,666	5.027	301,436	5.014
LAU Wai Piu	3 September 2010	427,066	2.758	428,160	2.751
	12 May 2016	301,201	4.657	301,973	4.645
	10 November 2017	300,666	5.027	301,436	5.014
WEI Kuo-chiang	12 May 2016	301,201	4.657	301,973	4.645
	10 November 2017	300,666	5.027	301,436	5.014

3. 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 31 December 2018 and a total of 305,882 awarded shares which were vested in tranches on 15 March 2018 and 19 March 2018 pursuant to the award scheme during the year ended 31 December 2018.

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

5. Those shares are held by Mr. POON Mo Yiu as beneficial owner, included 118,485 unvested awarded shares granted by the Company pursuant to the share award scheme as at 31 December 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 year ended 31 December 2018.

6. Those shares are held by Mr. SUN Jianfeng as beneficial owner, included 365,123 unvested awarded shares granted by the Company pursuant to the share award scheme as at 31 December 2018 and a total of 127,146 awarded shares which were vested in tranches on 15 March 2018 and 19 March 2018 pursuant to the award scheme during the year ended 31 December 2018.

7. Those shares are held by Mr. SUN Tong as beneficial owner, included 421,951 unvested awarded shares granted by the Company pursuant to the share award scheme as at 31 December 2018 and a total of 124,187 awarded shares which were vested in tranches on 15 March 2018 and 19 March 2018 pursuant to the award scheme during the year ended 31 December 2018.

8. Those shares are held by Mr. ZHANG Xinjun as beneficial owner, included 351,413 unvested awarded shares granted by the Company pursuant to the share award scheme as at 31 December 2018 and a total of 111,116 awarded shares which were vested in tranches on 15 March 2018 and 19 March 2018 pursuant to the award scheme during the year ended 31 December 2018.

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

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

Save as disclosed above, as at 31 December 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 Schemes" below, at no time during the year ended 31 December 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, or were any such rights exercised by them; or was the Company or any of its subsidiaries a party to any arrangement to enable the directors to acquire such rights in any other body corporate.

Shared-based compensation scheme

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

Share Option Schemes

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

Purpose of the 2002 Share Option Scheme:

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

Participants of the 2002 Share Option Scheme:

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

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

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

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

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

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

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

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

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

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

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

The basis of determining the exercise price:

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

The remaining life of the 2002 Share Option Scheme:

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

Details of movement of share options under the 2002 Share Option Scheme during the year ended 31 December 2018 were as follows:

	Number of share options									Price of Company's shares***	
Name or category of participants	At 1 January 2018	Granted during the year	Adjusted during the year	Exercised during the year	Lapsed during the year	At 31 December 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											
JI Yuguang (retired on 8 February 2018)	876,749	–	–	(876,749) (Note 1)	–	–	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 2)	4.79	3.93
CHENG Chi Ming Brian	876,749	–	4,197 (Note 3)	–	–	880,946	3 September 2010	3 March 2011 – 2 March 2019	2.751 (Note 3)	4.79	N/A
TSUI Hing Chuen William	146,013	–	699 (Note 3)	–	–	146,712	3 September 2010	3 March 2011 – 2 March 2019	2.751 (Note 3)	4.79	N/A
LAU Wai Piu	426,120	–	2,040 (Note 3)	–	–	428,160	3 September 2010	3 March 2011 – 2 March 2019	2.751 (Note 3)	4.79	N/A
	4,429,853	–	11,607	(2,985,642)	–	1,455,818					
Continuous contract employees											
In aggregate	1,382,257	–	5,368 (Note 3)	(260,684)	–	1,126,941	3 September 2010	3 March 2011 – 2 March 2019	2.751 (Note 1)	4.79	5.10
	1,382,257	–	5,368	(260,684)	–	1,126,941					
	5,812,110	–	16,975	(3,246,326)	–	2,582,759					

* 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. A total of 876,749 share options were exercise 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. Where applicable, 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 in form of scrip dividend and the number of share options were further adjusted with effect from 24 October 2018 consequent to the allotment of ordinary shares on the same day under interim dividend for the 6 months ended 30 June 2018 in form of scrip dividend.

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

Purpose of the 2015 Share Option Scheme:

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

Participants of the 2015 Share Option Scheme:

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

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

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

As at the date of this report, the total number of shares available for issue under the 2015 Share Option Scheme was 167,081,357 shares, which represented approximately 2.88% of the issued share capital of the Company at that day.

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

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

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

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

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

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

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

The basis of determining the exercise price:

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

The remaining life of the 2015 Share Option Scheme:

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

Movements of the share options under the 2015 Share Option Scheme during the year ended 31 December 2018 are listed below:

	Number of share options									Price of Company's shares***	
Name or category of participants	At 1 January 2018	Granted during the year	Adjusted during the year	Exercised during the year	Lapsed during the year	At 31 December 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											
QU Qiuping (appointed on 8 February 2018)	–	500,000	–	–	–	500,000	1 November 2018	28 May 2019 – 31 October 2023	2.904	2.64	N/A
LIN Yong	801,431	–	3,838 (Note 1)	–	–	805,269	12 May 2016	8 December 2016 – 11 May 2021	4.645 (Note 1)	4.25	N/A
	800,000	–	3,829 (Note 1)	–	–	803,829	10 November 2017	7 June 2018 – 9 November 2022	5.014 (Note 1)	4.58	N/A
	–	1,800,000	–	–	–	1,800,000	1 November 2018	28 May 2019 – 31 October 2023	2.904	2.64	N/A
LI Jianguo	601,072	–	2,877 (Note 1)	–	–	603,949	12 May 2016	8 December 2016 – 11 May 2021	4.645 (Note 1)	4.25	N/A
	300,000	–	1,436 (Note 1)	–	–	301,436	10 November 2017	7 June 2018 – 9 November 2022	5.014 (Note 1)	4.58	N/A
	–	300,000	–	–	–	300,000	1 November 2018	28 May 2019 – 31 October 2023	2.904	2.64	N/A
POON Mo Yiu	701,251	–	3,357 (Note 1)	–	–	704,608	12 May 2016	8 December 2016 – 11 May 2021	4.645 (Note 1)	4.25	N/A
	300,000	–	1,436 (Note 1)	–	–	301,436	10 November 2017	7 June 2018 – 9 November 2022	5.014 (Note 1)	4.58	N/A
	–	700,000	–	–	–	700,000	1 November 2018	28 May 2019 – 31 October 2023	2.904	2.64	N/A
SUN Jianfeng	500,893	–	2,399 (Note 1)	–	–	503,292	12 May 2016	8 December 2016 – 11 May 2021	4.645 (Note 1)	4.25	N/A
	500,000	–	2,393 (Note 1)	–	–	502,393	10 November 2017	7 June 2018 – 9 November 2022	5.014 (Note 1)	4.58	N/A
	–	1,200,000	–	–	–	1,200,000	1 November 2018	28 May 2019 – 31 October 2023	2.904	2.64	N/A
SUN Tong (appointed on 27 March 2018)	500,893	–	2,399 (Note 1)	–	–	503,292	12 May 2016	8 December 2016 – 11 May 2021	4.645 (Note 1)	4.25	N/A
	500,000	–	2,393 (Note 1)	–	–	502,393	10 November 2017	7 June 2018 – 9 November 2022	5.014 (Note 1)	4.58	N/A
	–	1,000,000	–	–	–	1,000,000	1 November 2018	28 May 2019 – 31 October 2023	2.904	2.64	N/A
CHENG Chi Ming Brian	300,534	–	1,439 (Note 1)	–	–	301,973	12 May 2016	8 December 2016 – 11 May 2021	4.645 (Note 1)	4.25	N/A
	300,000	–	1,436 (Note 1)	–	–	301,436	10 November 2017	7 June 2018 – 9 November 2022	5.014 (Note 1)	4.58	N/A
	–	300,000	–	–	–	300,000	1 November 2018	28 May 2019 – 31 October 2023	2.904	2.64	N/A

	Number of share options									Price of Company's shares***	
Name or category of participants	At 1 January 2018	Granted during the year	Adjusted during the year	Exercised during the year	Lapsed during the year	At 31 December 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
WANG Meijuan	300,534	–	1,439 (Note 1)	–	–	301,973	12 May 2016	8 December 2016 – 11 May 2021	4.645 (Note 1)	4.25	N/A
	–	300,000	–	–	–	300,000	1 November 2018	28 May 2019 – 31 October 2023	2.904	2.64	N/A
ZHANG Xinjun (appointed on 27 March 2018)	500,893	–	2,399 (Note 1)	–	–	503,292	12 May 2016	8 December 2016 – 11 May 2021	4.645 (Note 1)	4.25	N/A
	500,000	–	2,393 (Note 1)	–	–	502,393	10 November 2017	7 June 2018 – 9 November 2022	5.014 (Note 1)	4.58	N/A
	–	1,000,000	–	–	–	1,000,000	1 November 2018	28 May 2019 – 31 October 2023	2.904	2.64	N/A
William CHAN	300,534	–	1,439 (Note 1)	–	–	301,973	12 May 2016	8 December 2016 – 11 May 2021	4.645 (Note 1)	4.25	N/A
	300,000	–	1,436 (Note 1)	–	–	301,436	10 November 2017	7 June 2018 – 9 November 2022	5.014 (Note 1)	4.58	N/A
	–	300,000	–	–	–	300,000	1 November 2018	28 May 2019 – 31 October 2023	2.904	2.64	N/A
TSUI Hing Chuen William	300,534	–	1,439 (Note 1)	–	–	301,973	12 May 2016	8 December 2016 – 11 May 2021	4.645 (Note 1)	4.25	N/A
	300,000	–	1,436 (Note 1)	–	–	301,436	10 November 2017	7 June 2018 – 9 November 2022	5.014 (Note 1)	4.58	N/A
	–	300,000	–	–	–	300,000	1 November 2018	28 May 2019 – 31 October 2023	2.904	2.64	N/A
LAU Wai Piu	300,534	–	1,439 (Note 1)	–	–	301,973	12 May 2016	8 December 2016 – 11 May 2021	4.645 (Note 1)	4.25	N/A
	300,000	–	1,436 (Note 1)	–	–	301,436	10 November 2017	7 June 2018 – 9 November 2022	5.014 (Note 1)	4.58	N/A
	–	300,000	–	–	–	300,000	1 November 2018	28 May 2019 – 31 October 2023	2.904	2.64	N/A
LIN Ching Yee Daniel (resigned on 19 April 2018)	300,534	–	667 (Note 1)	–	(301,201)	–	12 May 2016	8 December 2016 – 11 May 2021	4.657	4.25	N/A
	300,000	–	–	–	(300,000)	–	10 November 2017	7 June 2018 – 9 November 2022	5.038	4.58	N/A
WEI Kuo-chiang	300,534	–	1,439 (Note 1)	–	–	301,973	12 May 2016	8 December 2016 – 11 May 2021	4.645 (Note 1)	4.25	N/A
	300,000	–	1,436 (Note 1)	–	–	301,436	10 November 2017	7 June 2018 – 9 November 2022	5.014 (Note 1)	4.58	N/A
	–	300,000	–	–	–	300,000	1 November 2018	28 May 2019 – 31 October 2023	2.904	2.64	N/A
WAN Kam To (appointed on 19 June 2018)	–	300,000	–	–	–	300,000	1 November 2018	28 May 2019 – 31 October 2023	2.904	2.64	N/A
LIU Yan (appointed on 19 June 2018)	–	300,000	–	–	–	300,000	1 November 2018	28 May 2019 – 31 October 2023	2.904	2.64	N/A
	10,410,171	8,900,000	47,630	–	(601,201)	18,756,600					

Name or category of participants	Number of share options: At 1 January 2018	Granted during the year	Adjusted during the year	Exercised during the year	Lapsed during the year	At 31 December 2018	Date of grant of share options*	Exercise period of share options	Exercise price of share options** HK$ per share	Price of Company's shares***: At immediately preceding the grant date of share options HK$ per share	At immediately preceding the exercise date of share options HK$ per share
Continuous contract employees											
In aggregate	10,167,929	–	45,272 (Note 1)	(500,880)	(300,969) (Note 2)	9,411,352	12 May 2016	8 December 2016 – 11 May 2021	4.645 (Note 1)	4.25	N/A
	8,650,000	–	39,936 (Note 1)	–	(400,444) (Note 2)	8,289,492	10 November 2017	7 June 2018 – 9 November 2022	5.014 (Note 1)	4.58	N/A
	–	10,260,000	–	–	–	10,260,000	1 November 2018	28 May 2019 – 31 October 2023	2.904	2.64	N/A
	18,817,929	10,260,000	85,208	(500,880)	(701,413)	27,960,844					
	29,228,100	19,160,000	132,838	(500,880)	(1,302,614)	46,717,444					

* 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 in form of scrip dividend. The number of share options were further adjusted with effect from 24 October 2018 consequent to the allotment of ordinary shares on the same day under interim dividend for the 6 months ended 30 June 2018 in form of scrip dividend.

2. These share options were cancelled or lapsed during the year ended 31 December 2018 as a result of staff resignation.

Share Award Scheme

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

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

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

Details of the Awarded Shares granted, vested, lapsed and unvested during the year ended 31 December 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 year	Number of awarded shares vested during the year	Number of awarded shares lapsed during the year	Number of awarded shares unvested as at 31 December 2018	Vesting dates
11 March 2016	4,565,654	–	2,252,593	149,898	2,163,163	15/03/2017 15/03/2018 15/03/2019
28 April 2017	3,976,313	–	1,318,237	108,611	2,549,465	19/03/2018 19/03/2019 19/03/2020
28 May 2018	–	7,010,493	–	171,613	6,838,880	13/05/2019 13/05/2020 13/05/2021

Further details of the Share Award Scheme are disclosed in note 39 to the financial statements.

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

As at 31 December 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")	–	3,681,633,864	–	3,681,633,864	63.59
Haitong International Holdings Limited ("HTIH")	3,681,633,864	–	–	3,681,633,864	63.59

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

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

Save as disclosed above, as at 31 December 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.

Management Contracts

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the year ended 31 December 2018.

Directors' Interests in Competing Businesses

Mr. QU Qiuping (Chairman of the Company) is an executive director, the general manager and the deputy secretary of CPC Party committee of HSCL as well as the chairman of HTIH. Mr. LIN Yong (Deputy Chairman and Chief Executive Officer of the Company) is a director and general manager of HTIH, an assistant to the general manager of HSCL, a board member and chairman of Haitong Bank and a board member of Haitong Banco de Investimento do Brasil S.A.. Mr. LI Jianguo (Deputy Chairman of the Company) is the vice chairman of HTIH and an assistant to the general manager of HSCL. Mr. POON Mo Yiu (Executive Director of the Company) is a board member of Haitong Bank. Mr. SUN Tong (Executive Director of the Company) is the deputy general manager of HTIH. Ms. WANG Meijuan (Non-executive Director of the Company) is a director of Haitong Capital Investment Co., Ltd. and the chairman of supervisory committee of Haitong Futures Co., Ltd and Haitong UniTrust International Leasing Co., Ltd. (all being the group companies of HSCL) and a member of the Brokerage Business Committee, an employee supervisor and the general manager of the audit department of HSCL. Mr. ZHANG Xinjun (Non-executive Director of the Company) is the chief financial officer of HSCL and a board member of Haitong Bank. HSCL competes or may compete, either directly or indirectly, with the business of the Group.

The Board considers that, having considered the facts that:

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

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

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

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

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

the Group's interest is adequately safeguarded.

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

Based on the above, as at 31 December 2018, none of the directors of the Company and their associates was considered to have interests in the businesses which compete or are likely to compete, either directly or indirectly, with the businesses of the Group.

Continuing Connected Transactions

On 14 March 2016, the Company has entered into a master agreement ("Master Agreement") with HSCL pursuant to which, among others, the Group agreed to engage in various services, investment and financial transactions with the HSCL Group for a term of 3 years from 1 January 2016 to 31 December 2018. The services covered under the Master Agreement include, among others, brokerage transactions, investment management and advisory services, corporate finance transactions, fund investment, financial assistance and securities lending transactions, and underwriting services ("Transactions").

HSCL is the holding company of HTIH, a controlling shareholder of the Company, and therefore HSCL is a connected person of the Company and the Transactions constitute continuing connected transactions under Chapter 14A of the Listing Rules. Details of the Transactions were disclosed by the Company in the announcement of the Company dated 14 March 2016 ("2016 Announcement") and the circular of the Company dated 11 April 2016.

The annual caps in respect of the continuing connected transactions contemplated under the Master Agreement for each of the three years ended 31 December 2018 and the transaction amount received/paid by the Group for the year ended 31 December 2018 are shown below:–

	Annual caps For the financial year ended 31 December			Historical transaction figures for the financial year ended 31 December
Transactions	2016 (HK$ million)	2017 (HK$ million)	**2018 (HK$ million)**	2018 (HK$ million)
(1) Service transactions (Category 1 Transactions)				
(a) Income from service transactions provided to member(s) of the HSCL Group (including fees and commissions from the HSCL Group in respect of the underwriting by the Group)	371.8	475.3	**604**	6.16
(b) Expenses incurred and/or to be incurred for service transactions provided by member(s) of the HSCL Group (including fees and commissions to be paid by the Group in respect of the underwriting by the HSCL Group)	120.5	180.3	**210.1**	41.44
(2) Investment and financial transactions (Category 2 Transactions, but excluding underwriting commitments which are set out in (3) below)				
(a) Sum received and/or to be received from HSCL Group attributable to the fund investment, financial assistance and securities lending transaction	7,640	7,790	**7,912.3**	Nil

Transactions		Annual caps For the financial year ended 31 December 2016 (HK$ million)	2017 (HK$ million)	**2018 (HK$ million)**	Historical transaction figures for the financial year ended 31 December 2018 (HK$ million)
(b)	Sum paid and/or to be paid to HSCL Group attributable to the fund investment, financial assistance and securities lending transactions	6,760	7,145	**7,672.5**	558.96
(c)	Transaction amount attributable to principal-to-principal transactions between the Group and the HSCL Group	54,639	54,648.8	**54,665.8**	1,183.97
(3)	**Underwriting commitments**				
(a)	Amount of underwriting commitments to be provided by the Group	4,800	7,200	**10,800**	436.50
(b)	Amount of underwriting commitments to be provided by the HSCL Group	4,800	7,200	**10,800**	Nil

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

The Company's auditor was engaged to report on the Group's continuing connected transactions in accordance with Hong Kong Standard on Assurance Engagements 3000 (Revised) "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants. The auditor has issued his unqualified letter containing his findings and conclusions in respect of the continuing connected transactions disclosed by the Group in accordance with Rule 14A.56 of the Listing Rules. A copy of the auditor's letter has been provided by the Company to the Stock Exchange. The auditor has confirmed in its letter to the Board that nothing has come to its attention which causes it to believe that:

(i) the Transactions have not been approved by the Board;

(ii) the Transactions were not, in all material respects, in accordance with the pricing policies of the Group;

(iii) the Transactions were not entered into, in all material respects, in accordance with the relevant agreements governing such transactions; and

(iv) the Transactions have exceeded the annual cap disclosed in the 2016 Announcement in report of each of the Transaction.

A summary of all related party transactions undertaken by the Group during the year ended 31 December 2018 is contained in note 41 to the consolidated financial statements. All the related parties transactions described in this note, other than the Transactions, do not fall under the definition of "connected transaction" or "continuing connected transaction" under the Listing Rules.

The Company has complied with the disclosure requirements prescribed in Chapter 14A of the Listing Rules with respect to the connected transactions and continuing connected transactions entered into by the Group during the year ended 31 December 2018.

Connected Transactions

Reference be made to the announcement of the Company dated 15 December 2017, Haitong International (BVI) Limited ("Haitong International BVI"), a wholly-owned subsidiary of the Company, entered into:

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

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

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

As further disclosed in the announcement of the Company dated 23 February 2018, the acquisitions of Haitong USA and Haitong UK by the Company were completed on 23 February 2018.

Disclosure pursuant to Rule 13.21 of the Listing Rules

On 16 March 2017, the Company (as borrower) entered into a facility agreement (the "Facility Agreement I") with certain financial institutions (as lenders) in respect of a term loan facility in an aggregate amount of HK$2,004,000,000 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 II") 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.

On 6 March 2019, the Company (as borrower) entered into a facility agreement (the "Facility Agreement III") with certain financial institutions (as lenders) in respect of a revolving credit facility in an aggregate amount of HK$16,000,000,000 for a term of up to 36 months.

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

(1) HSCL ceases to directly or indirectly own more of the issued capital in the Company than any other direct or indirect shareholder of the Company (for Facility Agreement I)/HSCL ceases to be the largest shareholder of the Company (for Facility Agreement II and Facility Agreement III); 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 16 March 2017, 15 March 2018 and 6 March 2019 respectively.

Sufficiency of public float

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

Corporate governance

The Company's corporate governance principles and practices are set out in the Corporate Governance Report on pages 32 to 49 of this Annual Report.

Compliance with Relevant Laws and Regulations

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

Auditors

The financial statements for the year ended 31 December 2018 of the Company have been audited by Deloitte Touche Tohmatsu who will retire and, being eligible, offer themselves for reappointment.

On behalf of the Board

QU Qiuping
Chairman

Hong Kong, 22 March 2019

Deloitte. 德勤

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

Opinion

We have audited the consolidated financial statements of Haitong International Securities Group Limited (the "Company") and its subsidiaries (collectively referred to as "the Group") set out on pages 93 to 242, which comprise the consolidated statement of financial position as at 31 December 2018, and the consolidated statement of profit or loss and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2018, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

Basis for Opinion

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

Key Audit Matters

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

Key audit matter	How our audit addressed the key audit matter

Adoption of HKFRS 9 "Financial Instruments" ("HKFRS 9") on the application of Expected Credit Loss ("ECL") Model on advances to customers in margin financing, advances to customers for merger and acquisition activities, asset-backed financing to customers (collectively referred to as the "Advances to Customers") and investment securities at amortised cost ("Debt Investment Securities")

We identified the impairment of Advances to Customers and Debt Investment Securities (other than the impairment of Advances to Customers in stage 3 as separately discussed), arising from the application of the ECL Model upon the adoption of HKFRS 9, as a key audit matter due to the significant judgement and estimation by management to determine the ECL amount at the reporting date.

As detailed in note 4 to the consolidated financial statements, the ECL measurement involves significant management judgement, with the involvement of the Group's internal expert, in (i) the selection of appropriate models and key inputs used in the ECL model, including the probability of default ("PD") and loss given default ("LGD"), and (ii) the selection and use of reasonable and supportable forward-looking information without undue cost or effort in the ECL model to estimate the future movement of different economic drivers and how these drivers will affect each other and the correlation with the key inputs, including PD and LGD.

The management further assesses whether there has been a significant increase in credit risk ("SICR") for exposures since initial recognition. If there has been a SICR, the Group will measure the loss allowance based on lifetime ECL rather than 12-month ECL. In assessing whether the credit risk of an asset has significantly increased, the Group takes into account qualitative and quantitative reasonable and supportable forward-looking information with significant judgments involved.

Our procedures in relation to the impairment of Advances to Customers and Debt Investment Securities including Advances to Customers in stage 3 in respect of which further procedures are separately outlined, arising from the application of the ECL Model upon the adoption of HKFRS 9, included:

- Understanding the Group's established credit risk policies and procedures for impairment assessment in relation to the application of ECL model under HKFRS 9, including model set up and approval and selection and application of assumptions and key inputs into the model;

- Understanding the key controls over on-going monitoring processes, including:

  (i) the margin call procedures for margin shortfall and actions taken by management for advances to customers in margin financing;

  (ii) the periodic reviews for identification of any potential delinquency in principal or interest repayment for Advances to Customers and Debt Investment Securities;

Key audit matter	How our audit addressed the key audit matter
The total gross amount of (i) advances to customers in margin financing, (ii) advances to customers for merger and acquisition activities, (iii) asset-backed financing to customers and (iv) debt investments classified as investment securities at amortised cost, under stages 1 and 2 as at 31 December 2018, are HK$15,142 million, HK$3,581 million, HK$5,345 million and HK$5,372 million less impairment loss of HK$60.1 million, HK$8.8 million, HK$7.5 million and HK$12.6 million respectively. Please see notes 18, 21, 22, 23 and 45 to the consolidated financial statements.	• Assessing the reasonableness and appropriateness of the management's judgement on staging criteria for determining if SICR has occurred (stage 1 or 2) or the financial asset is credit-impaired (stage 3) and the basis for classification of exposures into the 3 stages as required by HKFRS 9 and examining supporting information on a sample basis to assess the appropriateness of the classification of loan exposures as at the end of the reporting period; • Evaluating, together with our internal valuation specialists, the reasonableness and appropriateness of the ECL models and assumptions, information and parameters used in the model in establishing the forward looking factors, and the relationship between the forward looking factors and the key inputs, including PD and LGD, in the ECL model to determine the impairment loss of Advances to Customers and Debt Investment Securities in stage 1 or 2; and • Testing the accuracy and completeness of key data sources applied in the ECL computation on a sample basis by checking to the Group's supporting information, the relevant loan files and external data sources, as applicable.

Key audit matter	How our audit addressed the key audit matter
Impairment of Advances to Customers in Stage 3	
We identified the impairment of Advances to Customers in Stage 3 as a key audit matter due to the involvement of significant management judgement and estimation uncertainty in determining the ECL amount. As set out in notes 21, 23 and 45 to the consolidated financial statements, the total gross amount as at 31 December 2018 of (i) advances to customers in margin financing and (ii) asset-backed financing to customers at amortised cost amounted to HK$16,568 million and HK$5,448 million respectively, of which HK$1,425 million and HK$103 million respectively are classified as Stage 3. An ECL of HK$555 million and HK$102 million has been recognised in relation to (i) advances to customers in margin financing and (ii) asset-backed financing to customers at amortised cost under stage 3, respectively, as disclosed in notes 21, 23 and 45 to the consolidated financial statements. As detailed in note 4 to the consolidated financial statements, the advances to customers in margin financing classified as stage 3 include a margin loan to a customer with a gross amount of HK$830 million and an impairment loss of HK$164 million (the "Margin Loan"). The primary source of repayment for this margin loan is from the pledged securities and one of the major pledged security is suspended for trading and under a debt restructuring process. The management assessed the impairment by determining the fair value of the collateral on the basis of an accepted valuation method, which includes assumptions regarding the status and progress of the debt restructuring and estimates of unobservable inputs which require significant judgment.	Our procedures in relation to the impairment of Advances to Customers in Stage 3 included those covered in the above key audit matter related to ECL model on Advances to Customers and Debt Investment Securities and the following additional procedures: • For impairment of the Margin Loan, our procedures included: – Corroborating and challenging management's assessment and expectation of reasonably possible outcomes on the recoverability of the loan to the borrower and the estimated fair value and future cash flows from the pledged security against our understanding of the situation and the industry of the pledged security from reading public announcements and other externally available information; and – Discussing with the management the valuation of the pledged security and together with our own internal valuation specialists: (i) Assessing whether the selection of the valuation methodology is appropriate for the pledged security; (ii) Assessing the reasonableness of the assumptions and judgements used by management in determining the status and progress of the restructuring against publicly available information and other information from related external parties; and

Key audit matter	How our audit addressed the key audit matter
In assessing the lifetime ECL on individual credit-impairment financial assets classified as stage 3, the Group performed the assessment based on the Group's historical credit loss experience, adjusted for factors that are specific to the borrowers, general economic conditions at the reporting date as well as the forecast of future conditions with significant judgment involved. The Group also reviews the value of the collateral received from the customers in determining the impairment. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.	(iii) Evaluating the appropriateness of key inputs used in the valuation of the pledged security by independently checking to the external data. • For the remaining Advances to Customers classified as stage 3, we examined the underlying documentation supporting the value of the collateral, if any, and management's key estimations used in the individual impairment assessment on a sample basis. We also examined the estimated future cash flows and the fair value of collateral for all impaired amounts.

Key audit matter	How our audit addressed the key audit matter
Valuation of Level 3 financial instruments	
We identified the valuation of Level 3 financial instruments as a key audit matter due to the significance of the judgement and estimates made by management and the subjectivity in the determination of Level 3 fair value given the lack of availability of market-based data. Please see note 46 to the consolidated financial statements. The total fair value of financial assets held for trading and market making activities, investment securities at FVTPL, asset acquired for financial products issued and financial products issued at fair value classified as Level 3 amounted to HK$448 million, HK$1,223 million, HK$363 million and HK$342 million respectively as at 31 December 2018 as disclosed in note 46 to the consolidated financial statements. As detailed in note 4, included in the level 3 of investment securities at FVTPL and financial asset held for trading and market making activities of HK$1,223 million and HK$448 million, respectively, are debt investments of HK$382 million ("Debt Investments"). The debt issuer is in financial difficulties and under a debt restructuring process. The fair value is determined on the basis of an accepted valuation method which consists of assumptions regarding the status and progress of the debt restructuring and estimates of unobservable inputs which require significant judgment.	Our procedures in relation to the valuation of Level 3 financial instruments included: • Understanding the Group's valuation models for Level 3 financial instruments and the key controls over selection of valuation methods and determining the valuation of such instruments; • Discussing with management, together with our own internal valuation specialists, where necessary, on the valuation of the Level 3 financial instruments, and: (i) Evaluating the appropriateness of the valuation methodologies and assumptions based on the industry knowledge; or (ii) Evaluating the appropriateness of the key inputs by independently checking to the external data; or by evaluating the rationale of management's judgement on the key inputs; or by performing sensitivity analysis with reference to available market information, to evaluate the reasonableness of the valuation, where appropriate. (iii) Evaluating the reasonableness and appropriateness of key inputs used in assessing the estimated future cash flows of the Debt Investments by considering the publicly available information of the debt issuer and our understanding from publicly available information and other information from related external parties.

Other Information

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

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

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

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

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

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

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

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

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

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

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

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

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

Deloitte Touche Tohmatsu
Certified Public Accountants

Hong Kong
22 March 2019

Consolidated Statement of Profit or Loss

For the year ended 31 December 2018

	NOTES	2018 HK$'000	2017 HK$'000
Revenue			
Commission and fee income	6	**2,130,334**	2,013,575
Interest income	6	**2,575,717**	2,152,832
Net investment gains	6	**1,622,731**	3,028,614
		6,328,782	7,195,021
Other income and gains or losses	6	**28,868**	(92,986)
		6,357,650	7,102,035
Salaries and allowances, bonuses and pension	7	**(1,154,662)**	(1,148,974)
Commission expenses	7	**(254,517)**	(288,467)
Amortisation and depreciation	30 & 33	**(98,144)**	(62,616)
Impairment losses, net of reversal	8	**(238,771)**	(246,295)
Other expenses		**(731,825)**	(594,540)
		(2,477,919)	(2,340,892)
Finance costs	9	**(2,473,278)**	(1,659,631)
Share of results of investments accounted for using the equity method		**(226,869)**	470,727
Profit before tax	10	**1,179,584**	3,572,239
Income tax expense	13	**(156,746)**	(543,551)
Profit for the year attributable to owners of the Company		**1,022,838**	3,028,688
Earnings per share attributable to owners of the Company	14		
— Basic (HK cents per share)		**18.25**	56.53
— Diluted (HK cents per share)		**17.27**	51.68

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31 December 2018

	2018 HK$'000	2017 HK$'000
Profit for the year attributable to owners of the Company	**1,022,838**	3,028,688
Other comprehensive (expense) income:		
Items that may be reclassified subsequently to profit or loss:		
Available-for-sale investments		
Net fair value changes during the year	**–**	237,379
Reclassification adjustment to profit or loss on disposal and deemed disposal	**–**	(190,859)
Changes in fair value of derivatives designated as cash flow hedge	**7,169**	21,015
Exchange differences on translating foreign operations arising during the year	**(122,578)**	58,425
Other comprehensive (expense) income for the year	**(115,409)**	125,960
Total comprehensive income for the year attributable to owners of the Company	**907,429**	3,154,648

	NOTES	2018 Current HK$'000	2018 Non-current HK$'000	2018 Total HK$'000	2017 Current HK$'000	2017 Non-current HK$'000	2017 Total HK$'000
ASSETS							
Cash and cash equivalents		**7,088,829**	**-**	**7,088,829**	4,536,816	–	4,536,816
Cash held on behalf of customers	16	**15,998,360**	**-**	**15,998,360**	19,768,481	–	19,768,481
Financial assets held for trading and market making activities	17	**34,314,567**	**-**	**34,314,567**	26,052,327	–	26,052,327
Investment securities	18	**10,295,263**	**15,850,602**	**26,145,865**	15,417,396	10,370,907	25,788,303
Assets acquired for financial products issued	19	**25,484,416**	**2,268,434**	**27,752,850**	11,140,369	1,139,283	12,279,652
Derivative financial instruments	20	**540,563**	**-**	**540,563**	693,676	–	693,676
Advances to customers in margin financing	21	**15,952,460**	**-**	**15,952,460**	16,369,217	–	16,369,217
Advances to customers for merger and acquisition activities	22	**2,477,467**	**1,094,666**	**3,572,133**	4,295,885	38,333	4,334,218
Asset-backed financing to customers	23	**5,113,873**	**224,744**	**5,338,617**	3,052,873	1,045,756	4,098,629
Reverse repurchase agreements	24	**4,343,561**	**-**	**4,343,561**	2,921,857	–	2,921,857
Accounts receivable	25	**6,968,476**	**-**	**6,968,476**	5,946,394	–	5,946,394
Tax recoverable		**213,656**	**-**	**213,656**	76,233	–	76,233
Prepayments, deposits and other receivables	26	**1,529,261**	**53,050**	**1,582,311**	891,574	17,114	908,688
Investments accounted for using the equity method	27	**-**	**154,440**	**154,440**	–	5,872,866	5,872,866
Goodwill and other intangible assets	30	**-**	**473,391**	**473,391**	–	268,695	268,695
Other assets	31	**-**	**76,296**	**76,296**	–	128,445	128,445
Investment property	32	**-**	**231,539**	**231,539**	–	–	–
Property and equipment	33	**-**	**420,968**	**420,968**	–	178,243	178,243
Deferred tax assets		**-**	**12,203**	**12,203**	–	1,098	1,098
Total assets		**130,320,752**	**20,860,333**	**151,181,085**	111,163,098	19,060,740	130,223,838

	NOTES	2018 Current HK$'000	2018 Non-current HK$'000	2018 Total HK$'000	2017 Current HK$'000	2017 Non-current HK$'000	2017 Total HK$'000
LIABILITIES AND EQUITY							
Liabilities							
Financial liabilities held for trading and market making activities	17	**4,405,866**	**-**	**4,405,866**	4,604,688	–	4,604,688
Financial products issued at fair value	19	**13,315,922**	**638,846**	**13,954,768**	11,284,590	852,245	12,136,835
Derivative financial instruments	20	**505,496**	**-**	**505,496**	1,323,116	–	1,323,116
Repurchase agreements	34	**24,089,043**	**-**	**24,089,043**	11,307,114	–	11,307,114
Accounts payable	35	**20,974,552**	**-**	**20,974,552**	26,469,683	–	26,469,683
Bank loans and other borrowings	36	**33,776,139**	**-**	**33,776,139**	30,755,297	–	30,755,297
Debt securities in issue	36	**15,803,992**	**9,243,635**	**25,047,627**	1,201,216	14,422,099	15,623,315
Other liabilities arising from consolidation of investment funds	29	**483,781**	**-**	**483,781**	271,601	–	271,601
Tax payable		**260,633**	**-**	**260,633**	468,785	–	468,785
Other payables and accruals	37	**1,259,472**	**586,189**	**1,845,661**	1,291,693	586,189	1,877,882
Deferred tax liabilities		**-**	**27,182**	**27,182**	–	17,643	17,643
Total liabilities		**114,874,896**	**10,495,852**	**125,370,748**	88,977,783	15,878,176	104,855,959
Equity							
Share capital	38			**578,975**			550,086
Reserves				**25,150,306**			23,827,638
Proposed dividends	15			**81,056**			990,155
Total shareholders' equity				**25,810,337**			25,367,879
Total liabilities and shareholders' equity				**151,181,085**			130,223,838
Net current assets				**15,445,856**			22,185,315

The associated financial statements on pages 93 to 242 were approved and authorised for issue by the board of directors on 22 March 2019 and are signed on its behalf by:

LIN Yong	**POON Mo Yiu**
DIRECTOR	*DIRECTOR*

	Attributable to owners of the Company														
	Share capital HK$'000	Share premium account[1&2] HK$'000	Share option reserve[1] HK$'000	Share award reserve[1] HK$'000	Shares held for employee share award scheme[1] HK$'000	Capital redemption reserve[1] HK$'000	Contributed surplus[1] HK$'000	Capital reserve[1] HK$'000	Investments revaluation reserve[1] HK$'000	Exchange reserve[1] HK$'000	Hedging reserve[1] HK$'000	Convertible bond reserve[1] HK$'000	Proposed cash/scrip dividends HK$'000	Retained profits[1] HK$'000	Total HK$'000
At 1 January 2017	533,653	17,118,104	23,760	13,345	(128,020)	5,102	21	40,383	114,869	(14,115)	(28,184)	200,538	426,923	4,142,645	22,449,024
Profit for the year	–	–	–	–	–	–	–	–	–	–	–	–	–	3,028,688	3,028,688
Other comprehensive income for the year	–	–	–	–	–	–	–	–	46,520	58,425	21,015	–	–	–	125,960
Total comprehensive income	–	–	–	–	–	–	–	–	46,520	58,425	21,015	–	–	3,028,688	3,154,648
Recognition of equity-settled share-based payment (note 39)	–	–	2,910	18,395	–	–	–	–	–	–	–	–	–	–	21,305
Vesting of shares for the share award scheme	–	(4,677)	–	(9,804)	14,481	–	–	–	–	–	–	–	–	–	–
Shares issued under share option scheme (notes 38 & 39)	333	8,955	(77)	–	–	–	–	–	–	–	–	–	–	–	9,211
Share awards lapsed	–	899	–	(899)	–	–	–	–	–	–	–	–	–	–	–
Share options lapsed	–	2,593	(2,593)	–	–	–	–	–	–	–	–	–	–	–	–
2016 final dividend declared and settled in cash and scrip	7,862	325,847	–	–	–	–	–	–	–	–	–	–	(426,923)	(256)	(93,470)
2017 interim dividend declared and settled in cash and scrip (note 15)	8,238	360,771	–	–	–	–	–	–	–	–	–	–	–	(541,848)	(172,839)
2017 second interim dividend declared and settled in cash and scrip (note 15)	–	–	–	–	–	–	–	–	–	–	–	–	990,155	(990,155)	–
At 31 December 2017	550,086	17,812,492	24,000	21,037	(113,539)	5,102	21	40,383	161,389	44,310	(7,169)	200,538	990,155	5,639,074	25,367,879
HKFRS 9 adjustment	-	-	-	-	-	-	-	-	(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 year	-	-	-	-	-	-	-	-	-	-	-	-	-	1,022,838	1,022,838
Other comprehensive (expense) income for the year	-	-	-	-	-	-	-	-	-	(122,578)	7,169	-	-	-	(115,409)
Total comprehensive income	-	-	-	-	-	-	-	-	-	(122,578)	7,169	-	-	1,022,838	907,429
Recognition of equity-settled share-based payment (note 39)	-	-	16,492	20,049	-	-	-	-	-	-	-	-	-	-	36,541
Vesting of shares for the share award scheme	-	(6,216)	-	(14,986)	20,629	-	-	-	-	-	-	-	-	-	(573)
Purchases of shares held under the share award scheme	-	-	-	-	(62,462)	-	-	-	-	-	-	-	-	-	(62,462)
Share issued upon conversion of convertible bond	73	2,234	-	-	-	-	-	-	-	-	-	(67)	-	-	2,240
Shares issued under share option scheme (notes 38 & 39)	375	12,233	(1,310)	-	-	-	-	-	-	-	-	-	-	-	11,298
Share awards lapsed	-	174	-	(174)	-	-	-	-	-	-	-	-	-	-	-
Share options lapsed	-	869	(869)	-	-	-	-	-	-	-	-	-	-	-	-
2017 second interim dividend declared and settled in cash and scrip (note 15)	16,169	701,217	-	-	-	-	-	-	-	-	-	-	(990,155)	(293)	(273,062)
2018 interim dividend declared and settled in cash and scrip (note 15)	12,272	295,318	-	-	-	-	-	-	-	-	-	-	-	(430,694)	(123,104)
Proposed 2018 second interim dividend (note 15)	-	-	-	-	-	-	-	-	-	-	-	-	81,056	(81,056)	-
At 31 December 2018	**578,975**	**18,818,321**	**38,313**	**25,926**	**(155,372)**	**5,102**	**21**	**40,383**	**-**	**(78,268)**	**-**	**200,471**	**81,056**	**6,255,409**	**25,810,337**

1 These reserve accounts represent the consolidated reserves other than share capital and proposed cash/scrip dividends of approximately HK$25,231 million (31 December 2017: approximately HK$23,828 million) in the consolidated statement of financial position.

2 As at 31 December 2018, the trustee of the share award scheme held 33,370,909 ordinary shares of the Company (31 December 2017: 19,266,739 shares) for the share award scheme, which was adopted by the Board of directors of the Company (the "Board") on 19 December 2014, through purchases in the open market. The trustee purchased 21,724,000 and 17,675,000 ordinary shares during the year ended 31 December 2015 and year ended 31 December 2018 with total costs (including related transaction costs) of approximately HK$128 million and HK$62 million. During the year ended 31 December 2018, 7,010,493 (2017: 4,246,234 awarded shares) awarded shares were granted by the Company. 171,613 shares lapsed during the year ended 31 December 2018 in relation to the grant by the Company for the year ended 31 December 2018, and 108,611 shares and 269,921 shares lapsed during the year ended 31 December 2018 and 2017 respectively in relation to the grant by the Company during the year ended 31 December 2017, and 149,898 shares and 524,975 shares lapsed during the year ended 31 December 2018 and 2017 respectively in relation to grant by the Company during the year ended 31 December 2016. In addition, 2,252,593 shares and 1,318,237 shares were vested during the current year in relation to the grant by the Company during the year ended 31 December 2016 and 2017. Amount transferred from "Shares held for employee share award scheme" to "Share premium account" represents shares vested during the current year, and amount transferred from "Share award reserve" to "Share premium account" represents cumulative equity-settled share-based payment amount recognised on awarded shares vested during the current year. Details of the share award scheme of the Company has been disclosed in note 39 to the consolidated financial statements and should be read in conjunction with the relevant announcements of the share award scheme made by the Company.

Consolidated Statement of Cash Flows

For the year ended 31 December 2018

	2018 HK$'000	2017 HK$'000
OPERATING ACTIVITIES		
Profit before tax	**1,179,584**	3,572,239
Adjustments for:		
Interest income	**(2,575,717)**	(2,382,568)
Interest income from held-to maturity investments and others	**–**	(4,615)
Finance costs	**2,473,278**	1,659,631
Share of results of investments accounted for using the equity method	**226,869**	(470,727)
Dividend income	**(177,112)**	(734,670)
Loss on disposal of property and equipment	**1,378**	733
Amortisation and depreciation	**98,144**	62,616
Foreign exchange difference from held-to-maturity investments	**–**	(729)
Gain on disposal of available-for-sale investments	**–**	(190,859)
Impairment losses on advances to customers in margin financing	**383,714**	141,115
Impairment losses on advances to customers for merger and acquisition activities	**–**	108,647
Impairment losses on reverse repurchase agreements	**14**	–
Reversal of impairment losses on advances to customers in margin financing	**(30,000)**	(3,467)
Reversal of impairment losses on advances to customers for merger and acquisition activities	**(106,487)**	–
Reversal of impairment losses on asset-backed financing to customers	**(5,340)**	–
Reversal of impairment losses on investment securities at amortised cost	**(2,300)**	–
Reversal of impairment losses on cash and cash equivalents	**(10)**	–
Reversal of impairment losses on cash held on behalf of customers	**(281)**	–
Reversal of impairment losses on accounts receivable	**(539)**	–
Vesting of shares for the share award scheme	**(573)**	–
Equity-settled share-based payment	**36,541**	21,305
Operating cash flows before movements in working capital	**1,501,163**	1,778,651
Decrease (increase) in other assets	**56,063**	(55,000)
Decrease in advances to customers in margin financing	**33,190**	4,310,470
Decrease (increase) in advances to customer for merger and acquisition activities	**861,899**	(1,586,742)
Decrease (increase) in asset-backed financing to customers	**270,756**	(2,929,687)
Increase in accounts receivable	**(997,503)**	(785,507)
Decrease in prepayments, deposits and other receivables	**27,679**	264,255
Increase in financial assets held for trading and market making activities	**(8,168,069)**	(1,961,843)
Increase in investment securities	**(1,978,689)**	(12,228,813)
(Increase) decrease in assets acquired for financial products issued	**(15,473,198)**	4,462,933
Decrease in cash held on behalf of customers	**3,769,373**	540,134
Decrease in accounts payable	**(5,495,390)**	(2,067,325)
Increase in repurchase agreements	**12,781,929**	1,720,951
(Increase) decrease in reverse repurchase agreements	**(1,421,719)**	679,096
(Decrease) increase in financial liabilities held for trading and market making activities	**(198,822)**	1,460,962
Increase (decrease) in financial products issued at fair value	**1,817,933**	(2,079,558)
(Decrease) increase in derivative financial instruments	**(657,338)**	1,262,222
(Decrease) increase in other payables and accruals	**(251,552)**	899,059
Increase in other liabilities	**212,180**	139,000
Cash used in operations	**(13,310,115)**	(6,176,742)
Interest received	**1,897,780**	2,261,419
Dividend received	**177,112**	734,670
Interest paid	**(2,425,260)**	(1,424,025)
Tax paid	**(498,757)**	(293,393)
NET CASH USED IN OPERATING ACTIVITIES	**(14,159,240)**	(4,898,071)

	NOTE	**2018 HK$'000**	2017 HK$'000
INVESTING ACTIVITIES			
Proceeds from disposal of property and equipment		**258**	634
Proceeds from disposal of available-for-sale investments		**–**	8,429,116
Purchases of intangible assets		**(60,969)**	–
Interest received from debt securities		**–**	4,530
Purchases of property and equipment		**(44,725)**	(106,037)
Purchases of available-for-sale investments		**–**	(1,032,772)
Purchases of investments accounted for using the equity method		**–**	(1,878,051)
Disposal of investments accounted for using the equity method		**5,491,557**	901,459
Net cash outflow on acquisition of leasehold, land and building and investment properties (Note 2)		**(498,668)**	–
Net cash (outflow) inflow on acquisition of subsidiaries	43	**(142,624)**	123,229
NET CASH FROM INVESTING ACTIVITIES		**4,744,829**	6,442,108
FINANCING ACTIVITIES			
Proceeds from issuance of non-convertible notes		**15,921,593**	599,665
Proceeds from shares issued upon exercise of share options		**11,298**	9,211
Repayment of non-convertible notes		**(6,473,878)**	(1,649,680)
Net proceeds (repayment) for bank loans and other borrowings raised		**2,966,039**	(2,871,277)
Dividends paid to shareholders		**(396,166)**	(266,309)
Purchase of shares held under share award scheme		**(62,462)**	–
NET CASH FROM (USED IN) FINANCING ACTIVITIES		**11,966,424**	(4,178,390)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		**2,552,013**	(2,634,353)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR		**4,536,816**	7,171,169
CASH AND CASH EQUIVALENTS AT END OF YEAR		**7,088,829**	4,536,816
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and cash equivalents (Note 1)		**7,088,829**	4,536,816

Notes:

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

2. 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 32 and note 33 of the consolidated financial statements.

Disclosure in relation to the changes in liabilities arising from financing activities are detailed in note 36 to the 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 and investment. Details of the business segments of the Company and its subsidiaries (collectively referred as the "Group") are disclosed in note 5 to the consolidated financial statements.

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

The consolidated financial statements are presented in Hong Kong dollars (("HK$") which is the same as the functional currency of the Company), unless otherwise stated, and were approved for issue by the Board on 22 March 2019.

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

New and Amendments to HKFRSs that are mandatorily effective for the current year

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

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 HKFRS 4	Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts
Amendments to HKAS 28	As part of the Annual Improvements to HKFRSs 2014 – 2016 Cycle
Amendments to HKAS 40	Transfers of Investment Property

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

2.1 HKFRS 9 "Financial Instruments"

In the current year, 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 and other items (for example contract assets (if any)) and (3) general hedge accounting.

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

2.1 HKFRS 9 "Financial Instruments" (continued)

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 under ECL model) 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.

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

In addition, the Group applied the hedge accounting prospectively.

Accounting policies resulting from application of HKFRS 9 are disclosed in note 3.

Summary of effects arising from initial application of HKFRS 9

The table below illustrates the classification and measurement 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 held for trading and market making activities, at fair value through profit or loss HK$'000	Investment securities, at fair value through profit or loss HK$'000	Investment securities, at amortised cost HK$'000	Advances to customers in margin financing, at amortised cost HK$'000	Advances to customers for merger and acquisition activities, at amortised cost HK$'000	Asset-backed financing to customers, at amortised cost HK$'000	Reverse repurchase agreements, at amortised cost HK$'000	Investment securities classified as held-to-maturity investments, at amortised cost HK$'000
Closing balance at 31 December 2017 – HKAS 39		4,536,816	19,768,481	26,052,327	11,856,132	5,733,689	16,369,217	4,334,218	4,098,629	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 asset-backed financing to customers	(c)	–	–	–	156,317	–	–	–	(156,317)	–	–
From investment securities, at amortised cost	(d)	–	–	–	781,585	(781,585)	–	–	–	–	–
Remeasurement											
Impairment under ECL model	(e)	(59)	(1,029)	–	–	(14,945)	(29,853)	(6,673)	(11,456)	(1)	–
Opening balance at 1 January 2018		4,536,757	19,767,452	26,146,498	19,225,168	4,937,159	16,339,364	4,327,545	5,604,033	2,921,856	–

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

2.1 HKFRS 9 "Financial Instruments" (continued)

Summary of effects arising from initial application of HKFRS 9 (continued)

	NOTES	Accounts receivable, at amortised cost HK$'000	Deposits and other receivables, at amortised cost HK$'000	Investment securities classified as 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 asset-backed financing to customers	(c)	–	–	–	–	–	–
From investment securities, at amortised cost	(d)	–	–	–	–	–	–
Remeasurement							
Impairment under ECL model	(e)	(2,869)	–	–	11,036	–	(55,849)
Opening balance at 1 January 2018		5,943,525	736,427	–	12,134	–	5,744,614

Notes:

(a) *From investment securities classified as available-for-sale ("AFS") investments to investment securities at fair value through profit or loss ("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 that were reclassified from investment securities classified as AFS investments to investment securities at FVTPL since the cash flows do not represent solely payments of principal and interest on the principal amount outstanding ("SPPI"). 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.

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

2.1 HKFRS 9 "Financial Instruments" (continued)

Summary of effects arising from initial application of HKFRS 9 (continued)

Notes: (continued)

(a) *(continued)*

From investment securities classified as AFS debt investments to asset-backed financing to customers measured at amortised cost

At the date of initial application of HKFRS 9, unlisted debt investments of HK$1,673 million were reclassified from investment securities classified as AFS investments to asset-backed financing to customers measured at amortised cost since the Group's business model is to hold these assets for collection of contractual cash flows, and the cash flows represent SPPI. The directors of the Company considered that the fair value of these debt investments is approximate to their amortised cost.

(b) *From investment securities classified as held-to-maturity investments to financial assets held for trading and market making activities*

At the date of initial application of HKFRS 9, unlisted debt security of HK$94 million previously classified as held-to-maturity investments was reclassified to financial asset held for trading and market making activities that are measured at FVTPL as the directors of the Company re-considered that this debt security was 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 this debt investment approximates to its carrying value. Such debt security was derecognised in 2018.

(c) *From asset-backed financing to customers to investment securities at FVTPL*

Asset-backed financing to customers of HK$156 million was reclassified to investment securities that are measured at FVTPL upon the application of HKFRS 9 because its cash flows do not represent SPPI. At the 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) *From investment securities at amortised cost to investment securities at FVTPL*

Investment securities of HK$782 million previously measured at amortised cost was reclassified to investment securities that are measured at FVTPL upon the application of HKFRS 9 because its cash flows do not represent SPPI. At the date of transition, the directors of the Company considered that the fair value did not materially differ from the carrying value under HKAS 39.

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

2.1 HKFRS 9 "Financial Instruments" (continued)

Summary of effects arising from initial application of HKFRS 9 (continued)

Notes: (continued)

(e) *Impairment under ECL model*

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$'000	Additional impairment allowance under re-measurement HK$'000	Impairment allowance under HKFRS 9 HK$'000
Advances to customers in margin financing (note)	239,204	29,853	269,057
Advances to customers for merger and acquisition activities (note)	108,647	6,673	115,320
Asset-backed financing to customers (note)	102,883	11,456	114,339
Investment securities at amortised cost (note)	–	14,945	14,945
Cash and cash equivalents	–	59	59
Cash held on behalf of customers	–	1,029	1,029
Reverse repurchase agreements	–	1	1
Accounts receivable	–	2,869	2,869
Total	450,734	66,885	517,619

Note: For the impairment assessment process on investment securities at amortised cost, advances to customers in margin financing, advances to customers for merger and acquisition activities and asset-backed financing to customers, please refer to notes 18, 21, 22 and 23 respectively.

Such amount represents the impairment under ECL model upon application of HKFRS 9.

Loss allowances for advances to customers in margin financing, advances to customers for merger and acquisition activities, asset-backed financing to customers, investment securities at amortised cost, cash and cash equivalents, cash held on behalf of customers, reverse repurchase agreements and accounts receivable that is not result of transactions within the scope of HKFRS 15, are measured on 12m ECL basis ("Stage 1") as there had been no significant increase in credit risk since initial recognition, except for those advances to customers in margin financing, advances to customers for merger and acquisition activities and asset-backed financing to customers which are measured on lifetime ECL basis as those credit risk had increased significantly ("Stage 2") or assessed to be credit-impaired ("Stage 3") since initial recognition.

As at 1 January 2018, the additional credit allowance of HK$66,885,000 has been recognised against the retained profits. The additional loss allowance is charged against the respective asset. Deferred tax assets of HK$11,036,000 have been recognised for the additional loss allowance.

(f) *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 cross currency swap as hedging instruments for cash flow hedges. As such, the adoption of the hedge accounting requirements of HKFRS 9 had not resulted in adjustments to comparative figures.

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

2.2 HKFRS 15 "Revenue from Contracts with Customers"

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

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 at the initial application and during the current year, and accordingly, there is no adjustment on the opening consolidated statement of financial position and consolidated statement of changes in equity.

Information about the Group's performance obligations and the accounting policies resulting from application of HKFRS 15 are disclosed in note 3.

New and amendments to standards and interpretations that have been issued but not yet effective

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

HKFRS 16	Leases[1]
HKFRS 17	Insurance Contracts[3]
HK(IFRIC) – Int 23	Uncertainty over Income Tax Treatments[1]
Amendments to HKFRS 3	Definition of a Business[4]
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[2]
Amendments to HKFRS 9	Prepayment Features with Negative Compensation[1]
Amendments to HKAS 1 and HKAS 8	Definition of Material[5]
Amendments to HKAS 19	Plan Amendment, Curtailment or Settlement[1]
Amendments to HKAS 28	Long-term Interests in Associates and Joint Ventures[1]
Amendments to HKFRSs	Annual Improvements to HKFRSs 2015 – 2017 Cycle[1]

1 Effective for annual periods beginning on or after 1 January 2019
2 Effective for annual periods beginning on or after a date to be determined
3 Effective for annual periods beginning on or after 1 January 2021
4 Effective for business combination for which the acquisition date is on or after the beginning of the first annual period beginning on or after 1 January 2020
5 Effective for annual periods beginning on or after 1 January 2020

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

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

HKFRS 16 "Leases"

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

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

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

Furthermore, extensive disclosures are required by HKFRS 16.

As at 31 December 2018, the Group has non-cancellable operating lease commitments of HK$215 million as disclosed in note 40. A preliminary assessment indicates that these arrangements will meet the definition of a lease. Upon application of HKFRS 16, the Group will recognise a right-of-use asset and a corresponding liability in respect of all these leases unless they qualify for low value or short-term leases.

In addition, the Group currently considers refundable rental deposits paid of HK$29,058,000 as rights and obligations under leases to which HKAS 17 applies. Based on the definition of lease payments under HKFRS 16, such deposits are not payments relating to the right to use the underlying assets, accordingly, the carrying amounts of such deposits may be adjusted to amortised cost. Adjustments to refundable rental deposits paid would be considered as additional lease payments and included in the carrying amount of right-of-use assets.

The application of new requirements may result in changes in measurement, presentation and disclosure as indicated above. The Group intends to elect the practical expedient to apply HKFRS 16 to contracts that were previously identified as leases applying HKAS 17 and HK(IFRIC) – Int 4 "Determining whether an Arrangement contains a Lease" and not apply this standard to contracts that were not previously identified as containing a lease applying HKAS 17 and HK(IFRIC) – Int 4. Therefore, the Group will not reassess whether the contracts are, or contain a lease which already existed prior to the date of initial application. Furthermore, the Group intends to elect the modified retrospective approach for the application of HKFRS 16 as lessee and will recognise the cumulative effect of initial application to opening retained profits without restating comparative information.

3. Basis of Preparation and Significant Accounting Policies

Change in presentation of statements of financial position

To better reflect the business operations and activities of the Group and the Company in relation to interest bearing assets, trading and market making activities and investment holding, the directors of the Company decided to present and group the relevant financial instruments in accordance with the portfolio the financial instruments are managed in under respective business operations and activities in the consolidated statement of financial positions.

Asset-backed financing to customers and advances to customers for merger and acquisition activities

From 2018 onwards, the comparative figures of "advances to customers for merger and acquisition activities" and "asset-backed financing to customers" of HK$4,334,218,000 and HK$4,098,629,000 respectively, which were previously presented under "other loans and receivables" in the prior year, have been reclassified to conform with the current year presentation. There is no financial impact on the financial position of the Group and the Company.

Financial assets held for trading and market making activities

From 2018 onwards, "financial assets held for trading and market making activities", which are measured at FVTPL in both current and prior year, are presented separately in the statement of financial positions of the Group and the Company. Accordingly, the comparative figures of "financial assets held for trading and market making activities" of HK$26,052,327,000, which were presented under "Financial assets at fair value through profit or loss" in the prior year, has been reclassified to conform with the current year presentation. There is no financial impact on the financial position of the Group and the Company.

Investment securities

From 2018 onwards, the assets held under investment holding, which include debt securities classified as receivables, available-for-sale investments, held-to-maturity investments and other financial instruments at FVTPL, are grouped under "investment securities" in the statement of financial positions of the Group and the Company. Accordingly, the comparative figures of debt securities classified as receivables of HK$5,733,689,000, available-for-sale investments of HK$8,104,311,000, held-to-maturity investments of HK$94,171,000 and other financial instruments at FVTPL of HK$11,856,132,000, which were presented under "other loans and receivables", "available-for-sale investments", "held-to-maturity investments" and "financial assets at FVTPL", respectively in the prior year have been reclassified to conform with the current year presentation. There is no financial impact on the statement of financial position of the Group and the Company.

Significant accounting policies

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

The consolidated financial statements have been prepared on the historical cost basis except for investment property, available-for-sale investments, financial assets and liabilities held for trading and market making activities, investment securities measured at fair value, assets acquired for financial products issued, derivative financial instruments and financial products issued at fair value, which are measured at fair values.

3. Basis of Preparation and Significant Accounting Policies (continued)

Significant accounting policies (continued)

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

Fair value

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

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

For financial instruments and investment properties which are transacted at fair value and a valuation technique that unobservable inputs is to be used to measure fair value in subsequent periods, the valuation technique is calibrated so that at initial recognition the results of the valuation technique equals the transaction price.

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

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

The principal accounting policies are set out below.

Basis of consolidation

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

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

3. Basis of Preparation and Significant Accounting Policies (continued)

Significant accounting policies (continued)

Basis of consolidation (continued)

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

When the Group, which is acting as a fund manager, manages and has an investment in a fund, it may determine that its decision-making powers over the relevant activities of the fund are exercised in the capacity of an agent of the investors as a group and, therefore, it does not control the fund as a principal.

An agent is a party primarily engaged to act on behalf and for the benefit of another party or parties (the principal(s)) and therefore does not control the investee when it exercises its decision-making authority. In determining whether it is an agent to the fund, the Group would assess:

- the scope of its decision-making authority over the investee;
- the rights held by other parties;
- the remuneration to which it is entitled in accordance with the remuneration agreement(s); and
- the decision maker's exposure to variability of returns from other interests that it holds in the investee.

Different weightings shall be applied by the Group to each of the factors on the basis of particular facts and circumstances unless a single party holds substantive rights to remove the decision maker (removal rights) and can remove the decision maker without cause.

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

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

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

Loss of control of a subsidiary

When the Group loses control of a subsidiary, a gain or loss is recognised in profit or loss and is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the carrying amount of the assets (including goodwill), and liabilities of the subsidiary attributable to the owners of the Company. All amounts previously recognised in other comprehensive income in relation to that subsidiary are accounted for as if the Group had directly disposed of the related assets or liabilities of the subsidiary (i.e. reclassified to profit or loss or transferred to another category of equity as specified/permitted by applicable HKFRSs). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under HKFRS 9/HKAS 39, or when applicable, the cost on initial recognition of an investment in an associate or a joint venture.

3. Basis of Preparation and Significant Accounting Policies (continued)

Significant accounting policies (continued)

Business combinations

Acquisitions of businesses are accounted for using the acquisition method (including acquisition of subsidiaries of HSCL). The consideration transferred in a business combination is measured at fair value. Acquisition-related costs are generally recognised in profit or loss as incurred.

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

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

Acquisition of a subsidiary not constituting a business

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 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.

Goodwill

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

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

3. Basis of Preparation and Significant Accounting Policies (continued)

Significant accounting policies (continued)

Investments in associates and joint ventures

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

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

The results and assets and liabilities of associates and joint ventures are incorporated in these consolidated financial statements using the equity method of accounting. The financial statements of associates and joint ventures used for equity accounting purposed are prepared using uniform accounting policies as those of the Group for like transactions and events in similar circumstances. Under the equity method, an investment in an associate or a joint venture is initially recognised in the consolidated statement of financial position at cost and adjusted thereafter to recognise the Group's share of the profit or loss and other comprehensive income of the associate or joint venture. Changes in net assets of the associate/joint venture other than profit or loss and other comprehensive income are not accounted for unless such changes resulted in changes in ownership interest held by the Group.

An investment in an associate or a joint venture is accounted for using the equity method from the date on which the investee becomes an associate or a joint venture.

The Group assesses whether there is an objective evidence that the interests in an associate or a joint venture may be impaired. When any objective evidence exists, the entire carrying amount of the investment is tested for impairment in accordance with HKAS 36 "Impairment of Assets" as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs of disposal) with its carrying amount. Any impairment loss recognised forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognised in accordance with HKAS 36 to the extent that the recoverable amount of the investment subsequently increases.

When the Group ceases to have significant influence over an associate or joint control over a joint venture, it is accounted for as a disposal of the entire interest in the investee with a resulting gain or loss being recognised in profit or loss. When the Group retains an interest in the former associate or joint venture and the retained interest is a financial asset within the scope of HKFRS 9/HKAS 39, the Group measures the retained interest at fair value at that date and the fair value is regarded as its fair value on initial recognition. The difference between the carrying amount of the associate or joint venture at the date the equity method was discontinued, and the fair value of any retained interest and any proceeds from disposing the relevant interest in the associate or joint venture is included in the determination of the gain or loss on disposal of the associate or joint venture.

3. Basis of Preparation and Significant Accounting Policies (continued)

Significant accounting policies (continued)

Investments in associates and joint ventures (continued)

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

The Group acting as a fund manager, may determine that it has significant influence over the fund whether in the capacity of an agent to the fund (see the accounting policy above for the determination of agent). In such situation, the Group would recognise the investment as a financial instrument (see the accounting policy below).

Revenue from contracts with customers (upon application of HKFRS 15 on 1 January 2018)

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.

A performance obligation represents a goods and services (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 or 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.

3. Basis of Preparation and Significant Accounting Policies (continued)

Significant accounting policies (continued)

Revenue from contracts with customers (upon application of HKFRS 15 on 1 January 2018) (continued)

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.

A contract asset and a contract liabilities relating to the same contract are accounted for and presented on a net basis.

Description of the Group's performance obligation of main source of income under the scope of HKFRS 15 are as follows:

(1) Brokerage

The Group provides broking and dealing services for securities, futures and options contracts. Commission income is recognised at a point in time on the execution date of the trades at a certain percentage of the transaction value of the trades executed. The Group provides custodian and handling services for securities, futures and options customer accounts. Fee income is recognised when the transaction is executed and service is completed, except for custodian service fee which is recognized over time.

(2) Corporate finance

The Group provides placing, underwriting or sub-underwriting services to customers for their fund raising activities in equity and debt capital markets, and also financial products arrangement services. Revenue is recognised when the relevant placing, underwriting, sub-underwriting or financial products arrangement activities are completed. Accordingly, the revenue is recognised at a point in time.

The Group also provides sponsoring services to clients for their fund raising activities and corporate advisory services to corporate clients for their corporate actions. The Group considers that all the services promised in a particular contract of being a sponsor or corporate advisor are interdependent and interrelated and should be therefore accounted for as a single performance obligation. As there is enforceable right to payment for the Group for the performance of services completed up to date based on the contracts with customers regarding sponsor or corporate advisory services, the revenue is recognised over time based on the stage of completion of the contract, the services transferred to customers up to date.

(3) Asset management

The Group provides asset management and investment advisory services on diversified and comprehensive investment products to customers. The customers simultaneously receives and consumes the benefit provided by the Group, hence the revenue is recognised as a performance obligation satisfied over time. Asset management fee income is charged at a fixed percentage per month of the net asset value of the managed accounts under management of the Group. Investment advisory fee income is charged at a fixed amount per month for managing the investment portfolio of each client.

3. Basis of Preparation and Significant Accounting Policies (continued)

Significant accounting policies (continued)

Revenue from contracts with customers (upon application of HKFRS 15 on 1 January 2018) (continued)

(3) Asset management (continued)

The Group is also entitled to a performance fee when there is a positive performance for the relevant performance period and it is recognised at the end of the relevant performance period, when it is highly probable that a significant reversal in the amount of cumulative revenue recognised will not occur when the uncertainty associated with the variable consideration is subsequently resolved.

Variable consideration

For contracts that contain variable consideration, such as performance and incentive 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.

Revenue recognition (prior to 1 January 2018)

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

- Commission income on securities dealing and broking, futures and options dealing and broking and bullion contracts dealing are recorded as income on a trade date basis when the relevant contract notes are executed;
- Commission income on underwriting and placing, financial advisory and consultancy fees are recorded as income in accordance with the terms of underlying agreements when the relevant significant acts have been completed;
- Asset management fee and performance fee income and handling, custodian and other service fee income are recorded when services are rendered;

3. Basis of Preparation and Significant Accounting Policies (continued)

Significant accounting policies (continued)

Revenue recognition (prior to 1 January 2018) (continued)

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

- Realised gains or losses from available-for-sale investments, financial assets/liabilities held for trading and market making activities, investment securities measured at fair value, assets acquired for financial products issued, financial products issued at fair value, derivative financial instruments, leveraged foreign exchange transactions and bullion contracts trading are recognised on the transaction dates when the relevant contract notes are executed whilst the unrealised profits or losses are recognised from valuation at the end of the reporting period in accordance with the accounting policies for financial instruments (see the accounting policies below); and

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

Property and equipment (including leasehold land and building)

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

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

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

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

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

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

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

3. Basis of Preparation and Significant Accounting Policies (continued)

Significant accounting policies (continued)

Investment properties

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.

An investment property shall be reclassified as property and equipment when a commencement of owner-occupation occurs and consequently the investment property ceases to meet the definition of investment property. For a transfer from investment property carried at fair value to property and equipment, the property's deemed cost for subsequent accounting shall be its fair value at the date of change in use.

Intangible assets

Intangible assets acquired separately

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

Internally-generated intangible assets – research and development expenditure

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

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

3. Basis of Preparation and Significant Accounting Policies (continued)

Significant accounting policies (continued)

Intangible assets (continued)

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

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

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

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

Intangible assets acquired in a business combination

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

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

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

Derecognition of intangible assets

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

3. Basis of Preparation and Significant Accounting Policies (continued)

Significant accounting policies (continued)

Operating lease

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

When the Group acts as the lessor, rental income from operating leases is recognised in profit or loss on a straight-line basis over the term of the relevant lease. Rental income which are determined that it is not derived from the Group's ordinary course of business is presented as "other income and gain or loss" in the consolidated statement of profit or loss.

Foreign currency translation

- Functional and presentation currency

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

- Transactions and balances

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

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

- Group companies

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

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

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

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

3. Basis of Preparation and Significant Accounting Policies (continued)

Significant accounting policies (continued)

Employee benefits

Pension scheme

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

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

Paid leave carried forward

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

Bonus plans

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

Share-based payment transactions

Share options granted to employees

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

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

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

3. Basis of Preparation and Significant Accounting Policies (continued)

Significant accounting policies (continued)

Employee benefits (continued)

Share-based payment transactions (continued)

Share options granted to employees (continued)

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

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

Share award scheme to employees

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

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

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

Taxation

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

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

3. Basis of Preparation and Significant Accounting Policies (continued)

Significant accounting policies (continued)

Taxation (continued)

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

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

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

Impairment on non-financial assets

Goodwill and assets (tangible and non-tangible) that have an indefinite useful life are not subject to amortisation and are tested at least annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired. Assets subject to amortisation are reviewed for impairment whenever there is any indication that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount (i.e., the higher of an asset's fair value less costs to sell and value-in-use). The recoverable amount of tangible and intangible assets are estimated individually, when it is not possible to estimate the recoverable amount individually, the Group estimates the recoverable amount of the cash generating unit to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified. For the purpose of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows which are largely independent of the cash inflows from assets or group of assets (cash generating units). Such impairment losses are recognised in the consolidated statement of profit or loss. An impairment loss other than in relation to goodwill is reversed if the circumstances and events leading to the impairment cease to exist.

Financial instruments

Financial assets and financial liabilities are recognised when a group entity becomes a party to the contractual provisions of the instrument. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the market place.

3. Basis of Preparation and Significant Accounting Policies (continued)

Significant accounting policies (continued)

Financial instruments (continued)

Financial assets and financial liabilities are initially measured at fair value except for trade receivables arising from contracts with customers which are initially measured in accordance with HKFRS 15 since 1 January 2018. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets or financial liabilities that are measured at FVTPL) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities that are measured at FVTPL are recognised immediately in profit or loss.

Interest/dividend income which are derived from the Group's ordinary course of business are presented as revenue.

Financial assets

Classification and subsequent measurement of financial assets (upon application of HKFRS 9 on 1 January 2018)

Financial assets that meet the following conditions are subsequently measured at amortised cost:

- the financial asset is held within a business model whose objective is to collect contractual cash flows; and
- the contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets that meet the following conditions are subsequently measured at fair value through other comprehensive income ("FVTOCI"):

- the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling; and
- the contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

All other financial assets are subsequently measured at FVTPL, except that the derivative is designated as a hedging instrument in a cash flow hedge or at the date of initial application/initial recognition of a financial asset the Group may irrevocably elect to present subsequent changes in fair value of an equity investment in other comprehensive income ("OCI") if that equity investment is neither held for trading nor contingent consideration recognised by an acquirer in a business combination to which HKFRS 3 "Business Combinations" applies.

A financial asset is classified as held for trading if:

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

In addition, the Group may irrevocably designate a financial asset that are required to be measured at the amortised cost or FVTOCI as measured at FVTPL if doing so eliminates or significantly reduces an accounting mismatch.

3. Basis of Preparation and Significant Accounting Policies (continued)

Significant accounting policies (continued)

Financial instruments (continued)

Financial assets (continued)

Classification and subsequent measurement of financial assets (upon application of HKFRS 9 on 1 January 2018) (continued)

(i) Amortised cost and interest income

Interest income is recognised using the effective interest method for financial assets measured subsequently at amortised cost. Interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset, except for financial assets that have subsequently become credit-impaired (see below). For financial assets that have subsequently become credit-impaired, interest income is recognised by applying the effective interest rate to the amortised cost of the financial asset from the next reporting period (with the amortised cost being the gross carrying amount less the impairment allowance). If the credit risk on the credit-impaired financial instrument improves so that the financial asset is no longer credit-impaired, interest income is recognised by applying the effective interest rate to the gross carrying amount of the financial asset from the beginning of the reporting period following the determination that the asset is no longer credit-impaired.

(ii) Financial assets at FVTPL

Financial assets that do not meet the criteria for being measured at amortised cost 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 dividend and interest income on the financial assets.

Impairment of financial assets (upon application of HKFRS 9 on 1 January 2018)

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, advances to customers for merger and acquisition activities and asset-backed financing to customers, investment securities at amortised cost, reverse repurchase agreements, accounts receivable that is not result of transactions within the scope of HKFRS 15, 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.

3. Basis of Preparation and Significant Accounting Policies (continued)

Significant accounting policies (continued)

Financial instruments (continued)

Financial assets (continued)

Impairment of financial assets (upon application of HKFRS 9 on 1 January 2018) (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 there has been a significant increase in credit risk since initial recognition, in which case the Group recognises lifetime ECL.

(i) 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.

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.

3. Basis of Preparation and Significant Accounting Policies (continued)

Significant accounting policies (continued)

Financial instruments (continued)

Financial assets (continued)

Impairment of financial assets (upon application of HKFRS 9 on 1 January 2018) (continued)

(i) Significant increase in credit risk (continued)

For loan commitment, 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 regularly monitors the effectiveness of the criteria used to identify whether there has been a significant increase in credit risk and revises them as appropriate to ensure that the criteria are capable of identifying significant increase in credit risk before the amount becomes past due.

(ii) Definition of default

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.

(iii) Credit-impaired financial assets

A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of that financial asset have occurred. Evidence that a financial asset is credit impaired includes observable data about the following events:

(a) significant financial difficulty of the issuer or the borrower;

(b) a breach of contract, such as a default or past due event;

(c) the lender(s) of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession(s) that the lender(s) would not otherwise consider;

(d) it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation; or

(e) the disappearance of an active market for that financial asset because of financial difficulties.

3. Basis of Preparation and Significant Accounting Policies (continued)

Significant accounting policies (continued)

Financial instruments (continued)

Financial assets (continued)

Impairment of financial assets (upon application HKFRS 9 on 1 January 2018) (continued)

(iv) Write-off policy

The Group writes off a financial asset when there is information indicating that the counterparty is in severe financial difficulty and there is no realistic prospect of recovery, for example, when the counterparty has been placed under liquidation or has entered into bankruptcy proceedings. Financial assets written off may still be subject to enforcement activities under the Group's recovery procedures, taking into account legal advice where appropriate. A write-off constitutes a derecognition event. Any subsequent recoveries are recognised in profit or loss.

(v) 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. Estimation of ECL reflects an unbiased and probability-weighted amount that is determined with the respective risks of default occurring as the weights.

Generally, the ECL is the difference between all contractual cash flows that are due to the Group in accordance with the contract and 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.

Where ECL is measured on a collective basis or cater for cases where evidence at the individual instrument level may not yet be available, the financial instruments are grouped on the following basis:

- Nature of financial instruments (i.e. the Group's accounts receivable, advances to customers in margin financing, advances to customers for merger and acquisition activities and asset-backed financing to customers, investment securities at amortised cost, reverse repurchase agreements, cash and cash equivalents and cash held on behalf of customers are each assessed as a separate group);

3. Basis of Preparation and Significant Accounting Policies (continued)

Significant accounting policies (continued)

Financial instruments (continued)

Financial assets (continued)

Impairment of financial assets (upon application of HKFRS 9 on 1 January 2018) (continued)

(v) Measurement and recognition of ECL (continued)

- Past-due status; and
- External credit ratings where available.

The grouping is regularly reviewed by management to ensure the constituents of each group continue to share similar credit risk characteristics.

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, advances to customers for merger and acquisition activities and asset-backed financing to customers and investment securities at amortised cost, where the corresponding adjustment is recognised through a loss allowance account.

Classification and subsequent measurement of financial assets (before application of HKFRS 9 on 1 January 2018)

Financial assets of the Group are classified into the following specified categories: financial assets at FVTPL, held-to-maturity investments, AFS financial assets and loans and receivables. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

Effective interest method

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

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

Financial assets at FVTPL

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

3. Basis of Preparation and Significant Accounting Policies (continued)

Significant accounting policies (continued)

Financial instruments (continued)

Financial assets (continued)

Financial assets at FVTPL (continued)

A financial asset is classified as held for trading if:

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

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

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

Financial assets at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognised in profit or loss. The net gain or loss recognised in profit or loss excludes any interest paid on the financial assets. Fair value is determined in the manner described in note 46.

Loans and receivables

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

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

3. Basis of Preparation and Significant Accounting Policies (continued)

Significant accounting policies (continued)

Financial instruments (continued)

Financial assets (continued)

Held-to-maturity investments

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

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

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

AFS financial assets

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

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

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

Impairment of financial assets (before application of HKFRS 9 on 1 January 2018)

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

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

3. Basis of Preparation and Significant Accounting Policies (continued)

Significant accounting policies (continued)

Financial instruments (continued)

Financial assets (continued)

Impairment of financial assets (before application of HKFRS 9 on 1 January 2018) (continued)

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

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

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

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

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

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

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

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

3. Basis of Preparation and Significant Accounting Policies (continued)

Significant accounting policies (continued)

Financial instruments (continued)

Financial liabilities and equity

Classification as debt or equity

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

Equity instruments

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

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

Financial liabilities

All financial liabilities are subsequently measured at amortised cost using the effective interest method or at FVTPL.

Financial liabilities at FVTPL

Financial liabilities are classified as at FVTPL when the financial liability is (i) held for trading, or (ii) those designated as at FVTPL.

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

A financial liability is classified as held for trading if:

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

A financial liability other than a financial liability held for trading may be designated as at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial liability forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or

3. Basis of Preparation and Significant Accounting Policies (continued)

Significant accounting policies (continued)

Financial instruments (continued)

Financial liabilities and equity (continued)

Financial liabilities at FVTPL (continued)

- it forms part of a contract containing one or more embedded derivatives, and HKFRS 9/HKAS 39 permits the entire combined contract to be designated as at FVTPL.

Financial liabilities at FVTPL are measured at fair value, with any gains or losses arising on remeasurement recognised in profit or loss. The net gain or loss recognised in profit or loss excludes any interest expense on the financial liabilities. Fair value is determined in the manner described in note 46.

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

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

Net assets attributable to holders of non-controlling interests in consolidated investment funds are determined based on the attributable shares or units of the residual assets of the consolidated investment fund after deducting the consolidated investment fund's other liabilities. The holders have the right to put their attributable shares to the fund for cash with no cause.

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

In the case of acquisition or disposals of such non-controlling interests in consolidated investment funds, any difference between the acquisition cost or sale price of these non-controlling interests and the carrying value of these non-controlling interests is recognised in the consolidated statement of profit or loss.

Financial liabilities at amortised cost

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

Effective interest method

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

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

3. Basis of Preparation and Significant Accounting Policies (continued)

Significant accounting policies (continued)

Financial instruments (continued)

Compound financial instruments

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

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

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

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

Derivative financial instruments

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

Repurchase agreements

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

3. Basis of Preparation and Significant Accounting Policies (continued)

Significant accounting policies (continued)

Financial instruments (continued)

Reverse repurchase agreements

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

Hedge accounting

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

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

Assessment of hedging relationship and effectiveness (under HKFRS 9 since 1 January 2018)

For hedge effectiveness assessment, the Group considers whether the hedging instrument is effective in offsetting changes in cash flows of the hedged item attributable to the hedged risk, which is when the hedging relationships meet all of the following hedge effectiveness requirements:

- there is an economic relationship between the hedged item and the hedging instrument;
- the effect of credit risk does not dominate the value changes that result from that economic relationship; and
- the hedge ratio of the hedging relationship is the same as that resulting from the quantity of the hedged item that the Group actually hedges and the quantity of the hedging instrument that the entity actually uses to hedge that quantity of hedged item.

If a hedging relationship ceases to meet the hedge effectiveness requirement relating to the hedge ratio but the risk management objective for that designated hedging relationship remains the same, the Group adjusts the hedge ratio of the hedging relationship (i.e. rebalances the hedge) so that it meets the qualifying criteria again.

Assessment of hedging relationship and effectiveness (before application of HKFRS 9 on 1 January 2018)

A hedge is regarded as highly effective only if both of the following conditions are met:

- at the inception and in subsequent periods, the hedge is expected to be highly effective; and
- the actual results of the hedge are within a range of 80 to 125 per cent.

3. Basis of Preparation and Significant Accounting Policies (continued)

Significant accounting policies (continued)

Financial instruments (continued)

Hedge accounting (continued)

Cash flow hedges

The effective portion of changes in the fair value of derivatives and other qualifying hedging instruments that are designated and qualify as cash flow hedges is recognised in other comprehensive income and accumulated under the heading of cash flow hedging reserve, limited to the cumulative change in fair value of the hedged item from inception of the hedge. The gain or loss relating to the ineffective portion is recognised immediately in profit or loss, and is included in the 'other gains and losses' line item.

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

Discontinuation of hedge accounting (under HKFRS 9 since 1 January 2018)

The Group discontinues hedge accounting prospectively only when the hedging relationship (or a part thereof) ceases to meet the qualifying criteria (after rebalancing, if applicable). This includes instances when the hedging instrument expires or is sold, terminated or exercised. Discontinuing hedge accounting can either affect a hedging relationship in its entirety or only a part of it (in which case hedge accounting continues for the remainder of the hedging relationship).

Any gain or loss recognised in other comprehensive income and accumulated in equity at that time remains in equity and is recognised when the forecast transactions is ultimately recognised in profit or loss.

Discontinuation of hedge accounting (before application of HKFRS 9 on 1 January 2018)

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

Derecognition of financial instruments

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

3. Basis of Preparation and Significant Accounting Policies (continued)

Significant accounting policies (continued)

Financial instruments (continued)

Derecognition of financial instruments (continued)

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

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

4. Critical Accounting Judgements and Key Sources of Estimation Uncertainty

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

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

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

Key sources of estimation uncertainty

The application of Expected Credit Loss ("ECL") Model

The directors of the Company estimate the amount of loss allowance for ECL on financial assets at amortised cost based on the credit risk of the respective financial instrument. The loss allowance amount is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows with the consideration of expected future credit loss of the respective financial instrument. The assessment of the credit risk and therefore expected cash flows of the respective financial instrument involves a high degree of estimation and uncertainty. When the actual future cash flows are less than expected or more than expected, a material impairment loss or a material reversal of impairment loss may arise, accordingly. The information about the ECL and the financial assets at amortised cost are disclosed in respective notes to the financial statements.

Upon adoption of HKFRS 9, the Risk Management Department is responsible in developing and maintaining the processes for measuring ECL including monitoring of credit risk, incorporation of forward looking information and the method used to measure ECL; and ensuring that the Group has policies and procedures in place to appropriately maintain and validate models used to assess and measure ECL.

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

Key sources of estimation uncertainty (continued)

The application of Expected Credit Loss ("ECL") Model (continued)

Incorporation of forward-looking information

The Group employs internal experts who use external and internal information to generate scenario of future forecast of relevant economic variables. The internal and external information used includes the historical data of the Group and economic data and forecasts published by governmental bodies and monetary authorities respectively. Accordingly, when measuring ECL the Group selects and uses reasonable and supportable forward-looking information without undue cost or effort in its assessment by judgements, which is based on assumptions and estimates for the future movement of different economic drivers and how these drivers will affect each other as well as the correlation.

Measurement of ECL

Probability of default ("PD") constitutes a key input in measuring ECL. PD is an estimate of the likelihood of default over a given time horizon, the calculation is based on reasonable and appropriate statistical rating models selected by the management with judgements. These statistical models are based on market data (where available), as well as internal data comprising both quantitative and qualitative factors which includes historical data, assumptions and expectations of future conditions. The management gathers this information and adjust the data to reflect probability-weighted forward-looking information that is reasonable and supportable available without undue cost or effort.

Loss Given Default ("LGD") is an estimate of the loss arising on default. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, taking into account cash flows from collateral and integral credit enhancements with significant judgments involved. The LGD models for secured assets consider forecasts of future collateral valuation taking into account sale discounts, transaction volume of the secured assets and seniority of claim. For unsecured loans, the calculation of LGD includes the judgments in determining the proportion of loan recovered after default and the duration of recovery.

In assessing the lifetime ECL on credit-impaired financial assets classified as stage 3, the Group performs the assessment based on the Group's historical credit loss experience, adjusted for factors that specific to the debtors or borrowers, general economic conditions and both the current conditions at the reporting date as well as the forecast of future conditions with significant judgments involved. Moreover, the Group also reviews the value of the collateral received from the customers in determining the impairment. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce material differences between loss estimates and actual loss experience. As at 31 December 2018, included in the advances to customers in margin financing of gross amount HK$16,567,822,000 is a margin loan to an independent customer of gross amount HK$829,787,000 that its major pledged stock is suspended for trading and under a debt restructuring process that the Group makes significant judgments in assessing the status and progress of the restructuring. The valuation is dependent on whether the debt restructuring can be subsequently effected.

Relevant information with regard to the exposure of credit risk and expected credit losses are set out in respective notes to the consolidated financial statements.

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

Key sources of estimation uncertainty (continued)

Fair value of derivatives and financial instruments

The Group selects appropriate valuation techniques for financial instruments which are classified as Level 2 and 3 investments in accordance with the Group's significant accounting policies as disclosed in note 3 to the consolidated financial statements. Note 46 to the consolidated financial statements provides detailed information about the key assumptions used in the determination of the fair value of material financial instruments.

As at 31 December 2018, included in the investment securities at FVTPL and financial asset held for trading and market making activities of HK$20,786,804,000 and HK$34,314,567,000 respectively is debt investments of HK$382,000,000. The debt issuer is in financial difficulties and under a debt restructuring process that the Group makes significant judgments in assessing the status and progress of the restructuring when determining the fair value. The valuation is dependent on whether the restructuring can be subsequently effected.

Estimated impairment of goodwill

For goodwill arising from acquisitions in prior years, assessment performed to determine whether goodwill is impaired. This assessment requires an estimation of the value-in-use of the cash generating units to which goodwill has been allocated. The value-in-use calculation requires the Group to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate the present value. Where the actual future cash flows are less than expected, a material impairment loss may arise. As at 31 December 2018, the carrying value of goodwill amounted to HK$380,099,000 (2017: HK$223,985,000). Details of the recoverable amount calculation are disclosed in note 30 to the consolidated financial statements.

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

Critical judgements in applying accounting policies

Determination of consolidation scope of certain investments

The Group invested in certain investment funds, partnerships and private equity investments (collectively referred to as "Investments" for the purpose of this note as well as notes 28 and 29) which have been formed so that voting or similar rights may not be the dominant factor in deciding who controls these Investments, such as when any voting rights relate to administrative tasks only, and the relevant activities are directed by means of contractual arrangements.

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

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

In conducting the assessment to determine the consolidated scope, the directors of the Company considers whether the Group has power to remove or control over the party having the ability to direct the relevant activities of the Investments based on the facts and circumstances and that the Group has material exposure to variable returns of the Investments or not. Detailed accounting policy on assessment of control are set out in "basis of consolidation" in note 3.

Significant increase in credit risk in measurement of ECL

As explained in note 3, the Group monitors all financial assets that are subject to impairment requirements to assess whether there has been a significant increase in credit risk since initial recognition. If there has been a significant increase in credit risk, the Company will measure the loss allowance based on lifetime rather than 12m ECL. HKFRS 9 does not define what constitutes a significant increase in credit risk. In assessing whether the credit risk of an asset has significantly increased the Group takes into account qualitative and quantitative reasonable and supportable forward-looking information with significant judgments involved. Information that will be taken into account when assessing whatever there is significant increase in credit risks are set out in "Impairment of financial assets" in note 3 and note 45.

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.

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

(a) the wealth management segment engages in provision of a full range of financial services and investment solutions to retail and high net-worth clients. Services provided include broking and dealing in securities, futures and options contracts, foreign exchange trading, over-the-counter products and risk management instruments sales, investment advisory service, financial planning service 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 mainly public funds, private funds and mandatory provident funds 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.

5. Segment Information (continued)

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

For the year ended 31 December 2018

	Wealth management HK$'000	Corporate finance HK$'000	Asset management HK$'000	Institutional clients HK$'000	Investment HK$'000	Consolidated HK$'000
Commission and fee income	665,921	974,653	278,475	211,285	–	2,130,334
Interest income	1,298,952	443,905	–	812,763	20,097	2,575,717
Net investment gains (losses)	176,583	184,560	–	1,346,899	(85,311)	1,622,731
Segment revenue	2,141,456	1,603,118	278,475	2,370,947	(65,214)	6,328,782
Other income and gains	17,056	2,988	–	2,342	6,482 [1]	28,868
	2,158,512	1,606,106	278,475	2,373,289	(58,732)	6,357,650
Segment expenses	(1,455,888)	(532,709)	(137,893)	(2,057,652)	(767,055)	(4,951,197)
Segment results	702,624	1,073,397	140,582	315,637	(825,787)	1,406,453
Share of results of investments accounted for using the equity method	–	–	–	–	(226,869)	(226,869)
Profit (loss) before tax	702,624	1,073,397	140,582	315,637	(1,052,656)	1,179,584
Income tax expense						(156,746)
Profit for the year						1,022,838
Amortisation and depreciation	(22,548)	(5,046)	(2,181)	(67,813)	(556)	(98,144)
Impairment losses, net of reversal	(347,227)	108,569	–	(2,832)	2,719	(238,771)
Finance costs	(434,210)	(262,647)	–	(1,191,972)	(584,449)	(2,473,278)

5. Segment Information (continued)

For the year ended 31 December 2017

	Wealth management HK$'000	Corporate finance HK$'000	Asset management HK$'000	Institutional clients HK$'000	Investment HK$'000	Consolidated HK$'000
Commission and fee income	757,158	754,665	328,920	172,832	–	2,013,575
Interest income	1,286,919	617,594	–	248,319	–	2,152,832
Net investment gains	149,226	473,275	–	1,221,320	1,184,793	3,028,614
Segment revenue	2,193,303	1,845,534	328,920	1,642,471	1,184,793	7,195,021
Other income and gains (losses)	28,999	2,415	–	7,984	(132,384)[1]	(92,986)
	2,222,302	1,847,949	328,920	1,650,455	1,052,409	7,102,035
Segment expenses	(1,374,145)	(803,917)	(67,681)	(1,156,640)	(598,140)	(4,000,523)
Segment results	848,157	1,044,032	261,239	493,815	454,269	3,101,512
Share of results of investments accounted for using the equity method	–	–	–	102,513	368,214	470,727
Profit before tax	848,157	1,044,032	261,239	596,328	822,483	3,572,239
Income tax expense						(543,551)
Profit for the year						3,028,688
Amortisation and depreciation	(19,571)	(1,926)	(956)	(38,280)	(1,883)	(62,616)
Impairment losses, net of reversal	(137,648)	(108,647)	–	–	–	(246,295)
Finance costs	(389,692)	(329,052)	–	(498,332)	(442,555)	(1,659,631)

1 This mainly represents net (loss) profit of consolidated investment funds attributable to third-party unit/shareholders.

The accounting policies of the operating segments are the same as the Group's accounting policies described in note 3. Segment result represents the profit earned by (loss from) each segment without allocation of share of results of investments accounted for using the equity method, and income tax expenses.

6. Revenue and Other Income and Gains or Losses

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

	2018 HK$'000	2017 HK$'000
Revenue		
Commission and fee income (note (i)):		
Commission on securities dealing and broking	**455,444**	514,024
Commission on futures and options dealing and broking	**118,974**	126,321
Commission on underwriting and placing	**767,557**	488,890
Financial advisory and consultancy fee income	**382,245**	495,703
Asset management fee and performance fee income	**278,475**	328,920
Handling, custodian and other service fee income	**127,639**	59,717
	2,130,334	2,013,575
Interest income:		
Interest income from advances to customers in margin financing	**1,099,998**	1,313,537
Interest income from investment securities at amortised cost	**282,867**	293,361
Interest income from advances to customers for merger and acquisition activities	**244,447**	183,133
Interest income from asset-backed financing to customers	**638,618**	214,452
Interest income from bank deposits and others	**309,787**	148,349
	2,575,717	2,152,832
Net investment gains (note (ii)):		
Net gain from distribution of over-the-counter products	**176,583**	146,224
Net gain from financial product issuance	**661,814**	257,453
Net gain from trading and market making of fixed income securities and equity derivatives	**685,085**	821,994
Net gain from financial assets/liabilities at FVTPL	**99,249**	1,382,348
Net gain and interest income arising from available-for-sale investments	**–**	420,595
	1,622,731	3,028,614
	6,328,782	7,195,021
Other income and gains or losses		
Others (note (iii))	**28,868**	(92,986)

6. Revenue and Other Income and Gains Or Losses (continued)

Notes:

(i) 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) To better reflect the major revenue sources in the "Net investment gains" of the Group, the Group has decided to present the revenue items of "Net investment gains" in accordance with its business activities. Comparative information has been reclassified to conform with the current year's presentation.

Of HK$735 million recognised and presented in "Dividend income" during the prior year, HK$3 million, HK$655 million and HK$77 million were included in "Net gain from distribution of over-the-counter products", "Net gain from financial assets/liabilities at FVTPL" and "Net gain from trading and market making of fixed income securities and equity derivatives".

During the current year, HK$73 million and HK$104 million of dividend income has been classified as "Net gain from financial assets/liabilities at FVTPL" and "Net gain from trading and market making of fixed income securities and equity derivatives".

(iii) Included in other income and gains or losses is the net loss on remeasurement of the liability in relation to the share of consolidated investment funds attributable to third-party unit/shareholders of HK$6 million (2017: net profit of HK$139 million). Details of the Group's interest in consolidated investment funds are disclosed in note 29 to the consolidated financial statements.

7. Employee Benefit Costs

	2018 **HK$'000**	2017 HK$'000
Salaries, bonuses and allowances	**1,123,823**	1,133,606
Pension scheme contributions (net)	**30,839**	15,368
	1,154,662	1,148,974
Commission to accounts executives (note)	**219,461**	268,820
	1,374,123	1,417,794

Note: Included in commission expenses of HK$254,517,000 (2017: HK$288,467,000) is commission to accounts executives of HK$219,461,000 (2017: HK$268,820,000).

8. Impairment Losses, Net of Reversal

	2018 HK$'000	2017 HK$'000
Impairment losses on:		
— advances to customers in margin financing	**383,714**	141,115
— advances to customers for merger and acquisition activities	**–**	108,647
— reverse repurchase agreements	**14**	–
Reversal of impairment losses:		
— advances to customers in margin financing	**(30,000)**	(3,467)
— advances to customers for merger and acquisition activities	**(106,487)**	–
— asset-backed financing to customers	**(5,340)**	–
— investment securities at amortised cost	**(2,300)**	–
— cash and cash equivalents	**(10)**	–
— cash held on behalf of customers	**(281)**	–
— accounts receivable	**(539)**	–
	238,771	246,295

9. Finance Costs

	2018 HK$'000	2017 HK$'000
Bank loans and overdrafts	**1,033,114**	871,733
Debt securities in issue:		
Convertible bonds	**66,202**	67,712
Non-convertible bonds	**452,787**	448,556
Non-convertible notes	**363,974**	90,552
Repurchase agreements	**547,750**	176,286
Others	**9,451**	4,792
	2,473,278	1,659,631

Details of the Group's loans and borrowings and debt securities in issue are disclosed in note 36.

10. Profit Before Tax

Profit before tax has been arrived at after charging:

	2018 HK$'000	2017 HK$'000
Minimum lease payments under operating leases:		
Land and buildings	**112,133**	89,999
Equipment	**201,444**	119,895
Auditor's remuneration:		
Statutory audit fee	**5,000**	4,300
Non-statutory audit service fee	**1,228**	5,521
Loss on disposal of property and equipment	**1,378**	733

11. Directors' and Chief Executive's Emoluments

Directors' remuneration for the year is as follows:

	2018 HK$'000	2017 HK$'000
Fees:		
Executive directors	**300**	300
Non-executive directors	**421**	600
Independent non-executive directors	**950**	850
	1,671	1,750
Other emoluments:		
Executive directors:		
Salaries and allowances	**11,146**	6,512
Bonuses (note (a))	**30,691**	26,601
Employee share option benefits	**2,143**	239
Pension scheme contributions	**487**	75
	44,467	33,427
Non-executive directors		
Employee share option benefits	**1,119**	195
Independent non-executive directors		
Employee share option benefits	**1,454**	260
	48,711	35,632

Note:

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

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

Independent non-executive directors

For the year ended 31 December 2018

	Fees HK$'000	Salaries and allowances HK$'000	Bonuses HK$'000	Employee share option benefits HK$'000	Employee share award benefits HK$'000	Pension Scheme contributions HK$'000	Total remuneration HK$'000
Lin Ching Yee, Daniel (Note (a))	60	–	–	326	–	–	386
Wei Kuo-chiang	200	–	–	356	–	–	556
Tsui Hing Chuen, William	250	–	–	356	–	–	606
Lau Wai Piu, Bill	200	–	–	356	–	–	556
Wan Kam To (Note (b))	133	–	–	30	–	–	163
Liu Yan (Note (c))	107	–	–	30	–	–	137
	950	–	–	1,454	–	–	2,404

For the year ended 31 December 2017

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

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

Notes:

(a) Resigned on 19 April 2018.

(b) Appointed on 19 June 2018.

(c) Appointed on 19 June 2018.

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

Executive directors and non-executive directors

For the year ended 31 December 2018

	Fees HK$'000	Salaries and allowances HK$'000	Bonuses HK$'000	Employee share option benefits HK$'000	Employee share award benefits HK$'000	Pension Scheme contributions HK$'000	Total remuneration HK$'000
Executive directors:							
Lin Yong (notes a & b)	–	4,212	15,345	1,051	–	211	20,819
Li Jianguo (note a)	300	–	–	356	–	15	671
Poon Mo Yiu (notes a & d)	–	2,693	4,604	71	–	127	7,495
Sun Jianfeng (note a)	–	2,405	6,138	665	–	120	9,328
Sun Tong (notes a & e)	–	1,836	4,604	–	–	14	6,454
	300	11,146	30,691	2,143	–	487	44,767
Non- executive directors:							
Ji Yuguang (notes c & f)	–	–	–	–	–	–	–
Qu Qiuping (notes c & g)	–	–	–	51	–	–	51
Cheng Chi Ming, Brian (note c)	200	–	–	356	–	–	556
Wang Meijuan (note c)	–	–	–	30	–	–	30
Chan William (note c)	200	–	–	356	–	–	556
Poon Mo Yiu (notes c & d)	21	–	–	326	–	–	347
Zhang Xinjun (note c & h)	–	–	–	–	–	–	–
	421	–	–	1,119	–	–	1,540
	721	11,146	30,691	3,262	–	487	46,307

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

Executive directors and non-executive directors (continued)

For the year ended 31 December 2017

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

Notes:

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

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

(c) The non-executive directors' emoluments shown above were for their services as directors of the Company or its subsidiaries. Except for the director fees waived by Mr. Ji Yuguang, Mr. Qu Qiuping, Ms. Wang Meijuan and Mr. Zhang Xinjun during the year ended 31 December 2018 (2017: Mr. Ji Yuguang and Ms. Wang Meijuan), there was no arrangement under which a director waived or agreed to waive any remuneration during the current year.

(d) Mr. Poon Mo Yiu was re-designated from non-executive director to executive director on 8 February 2018. The salaries and allowances received by Mr. Poon Mo Yiu represent remuneration for his service as an executive director, and the fees received by Mr. Poon Mo Yiu represent remuneration for his service as a non-executive director.

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

Executive directors and non-executive directors (continued)

Notes: (continued)

(e) Mr. Sun Tong was appointed as an executive director with effect on 27 March 2018.

(f) Mr. Ji Yuguang retired as an non-executive director with effect on 8 February 2018.

(g) Mr. Qu Qiuping was appointed as an non-executive director with effect on 8 February 2018.

(h) Mr. Zhang Xinjun was appointed as an non-executive director with effect on 27 March 2018.

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

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

12. Five Highest Paid Employees

The five highest paid employees during the current year included three directors (2017: one director), details of each director's remuneration are set out in note 11 above.

The total remuneration of two non-directors for the year ended 31 December 2018 and four non-directors for the year ended 31 December 2017 was as follows.

	2018 **HK$'000**	2017 HK$'000
Salaries, bonuses and allowances	**24,724**	55,331
Pension scheme contributions	**269**	102
Employee share option benefits	**332**	98
	25,325	55,531

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

	2018 **Number of individuals**	2017 Number of individuals
HK$10,000,001 to HK$10,500,000	**1**	–
HK$13,000,001 to HK$13,500,000	**–**	3
HK$15,000,001 to HK$15,500,000	**1**	–
HK$15,500,001 to HK$16,000,000	**–**	1
	2	4

Note: Details of the remuneration disclosed above do not include amounts paid or payable by way of commissions generated by employees of the Group. No amounts is paid or payable by the Group as inducement for directors to join the Group or compensation for the loss of office as a director in connection with the management of the affairs of any members of the Group during the year.

13. Income Tax Expense

	2018 HK$'000	2017 HK$'000
Current taxation:		
— Hong Kong	**174,882**	561,515
— Other jurisdictions	**35,483**	32,917
	210,365	594,432
Overprovision in prior years:		
— Hong Kong	**(52,053)**	(51,542)
Deferred tax:		
— Current year	**(1,566)**	661
	156,746	543,551

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

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

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

	2018 HK$'000	2017 HK$'000
Profit before tax	**1,179,584**	3,572,239
Taxation at income tax rate of 16.5%	**194,631**	589,419
Overprovision in respect of prior years	**(52,053)**	(51,542)
Tax effect of expenses not deductible for tax purpose	**54,462**	135,106
Tax effect of income not taxable for tax purpose	**(127,970)**	(53,010)
Tax effect of utilisation of estimated tax losses previously not recognised	**(12,508)**	(92,748)
Tax effect of estimated tax losses not recognised	**98,826**	8,648
Effect of different tax rates of subsidiaries operating in other jurisdictions	**1,358**	10,949
Others	**–**	(3,271)
Income tax expense	**156,746**	543,551

13. Income Tax Expense (continued)

The Group has estimated tax losses of approximately HK$762 million as at 31 December 2018 (31 December 2017: HK$239 million) that can be carried forward indefinitely for offsetting against future taxable profits of the respective companies in which the losses arose. These estimated tax losses have no expiry date but are subject to the approval of the Hong Kong Inland Revenue Department.

Deferred tax assets of HK$126 million (31 December 2017: HK$39 million) have not been recognised in respect of the tax losses as it is not probable that sufficient future taxable profits will be available in the subsidiaries in which the losses arose against which the unused tax losses can be utilised in the near future.

14. Earnings Per Share

Basic earnings per share

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

	2018	2017
Earnings		
Profit for the year attributable to owners of the Company (HK$'000)	**1,022,838**	3,028,688
Number of shares		
Weighted average number of ordinary shares in issue less shares held for the share award scheme (in thousands) (note (a))	**5,605,813**	5,357,312
Basic earnings per share (HK cents per share)	**18.25**	56.53

14. 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.

	2018	2017
Earnings		
Profit for the year attributable to owners of the Company (HK$'000)	**1,022,838**	3,028,688
Effect of dilutive potential ordinary shares		
— Interest on convertible bonds (net of tax) (HK$'000) (note (b))	**57,450**	56,540
Earnings for the purpose of diluted earnings per share (HK$'000)	**1,080,288**	3,085,228
Number of shares		
Weighted average number of ordinary shares in issue less shares held for the share award scheme (in thousands) (note (a))	**5,605,813**	5,357,312
Effect of dilutive potential ordinary shares:		
— Convertible bonds (in thousands) (note (b))	**644,341**	604,836
— Share options (in thousands) (note (c))	**1,246**	2,773
— Share awards (in thousands)	**3,620**	4,688
Weighted average number of ordinary shares for the purpose of diluted earnings per share (in thousands)	**6,255,020**	5,969,609
Diluted earnings per share (HK cents per share)	**17.27**	51.68

14. Earnings Per Share (continued)

Notes:

(a) As at 31 December 2018, the trustee of the share award scheme held 33,370,909 ordinary shares of the Company (31 December 2017: 19,266,739 shares) 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$155 million (31 December 2017: HK$113 million).

During the current year, 7,010,493 (31 December 2017: 4,246,234 awarded shares) awarded shares were granted by the Company. 171,613 awarded shares lapsed in respect of such grant, 108,611 awarded shares lapsed (31 December 2017: 269,921 awarded shares) in respect of the grant by the Company on 28 April 2017 and 149,898 awarded shares (31 December 2017: 524,975 awarded shares) in respect of the grant by the Company on 11 March 2016 lapsed during the year ended 31 December 2018. In addition, 1,318,237 awarded shares (31 December 2017: nil) were vested during the current year in relation to the grant made by the Company on 28 April 2017 and 2,252,593 awarded shares (31 December 2017: 2,457,261 awarded shares) were vested during the current year in relation to the grant made by the Company on 11 March 2016. Details of the share award scheme of the Company have been disclosed in note 39 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 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 36.

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 year. As at 31 December 2018, the convertible bonds issued in 2014 and 2016 that remain outstanding are convertible into ordinary shares of the Company at a conversion price of HK$4.32 (31 December 2017: HK$4.61) and HK$6.09 (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 year. The net profit is adjusted to eliminate the relevant interest expense less the tax effect.

(c) The computation of diluted earnings per share assumed the exercise of the Company's outstanding share options with the exercise price lower than the average market price during the years ended 31 December 2018 and 2017 and with the adjustment for the share options lapsed or exercised during the years.

15. Dividends

	2018 HK$'000	2017 HK$'000
Interim dividend paid		
— HK7.6 cents (2017: HK10 cents) per ordinary share	**430,694**	541,848
Proposed second interim dividend		
— HK1.4 cents (2017: HK18 cents) per ordinary share	**81,056**	990,155
	511,750	1,532,003

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. The shareholders were given the option to receive the interim dividend in new shares in lieu of cash. The interim dividend was paid on 24 October 2018, with a total of HK$123,104,000 cash dividend paid to shareholders and 122,721,931 shares were issued in scrip form with the amount of HK$307,590,000.

At a meeting of the Board held on 22 March 2019, the Board declared a second interim dividend of HK1.4 cents per share in cash for the year ended 31 December 2018. The second interim dividend is expected to be paid on or about 25 April 2019. 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.

16. Cash Held on Behalf of Customers

The Group maintains segregated accounts with authorised institutions to hold clients' monies arising from its normal course of business. The Group has classified the clients' monies as cash held on behalf of customers under the current assets section of the consolidated statement of financial position and recognised the corresponding accounts payable (note 35) to respective clients on the grounds that it is liable for any loss or misappropriation of clients' monies. The cash held on behalf of customers is restricted and governed by the Securities and Futures (Client Money) Rules under the Hong Kong Securities and Futures Ordinance ("HKSFO").

17. Financial Assets/Liabilities held for Trading and Market Making Activities

	2018 HK$'000	2017 HK$'000
Financial assets held for trading and market making activities – at fair value		
Listed equity investments	**612,530**	5,137,180
Exchange traded funds	**94,506**	521,677
Listed preference shares	**146,846**	203,721
Listed debt investments	**31,103,699**	17,231,406
Unlisted debt investments	**2,356,986**	1,391,083
Unlisted investment funds (note (i))	**–**	1,467,482
Unlisted certificate of deposits	**–**	99,778
	34,314,567	26,052,327
Financial liabilities held for trading and market making activities – at fair value		
Listed equity investments (note (ii))	**452,041**	2,189,118
Listed debt investments (note (ii))	**2,736,382**	2,352,204
Listed preference shares (note (ii))	**29,519**	37,466
Unlisted debt investments (note (ii))	**1,187,924**	25,900
	4,405,866	4,604,688

Details of disclosure for fair value measurement are set out in note 46.

Notes:

(i) The Group invested in unconsolidated investment funds. These investment funds invest in mainly 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. As at 31 December 2017, the carrying amount of HK$1,467 million in the consolidated statement of financial position represents the Group's maximum exposure.

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

18. Investment Securities

	2018 **HK$'000**	2017 HK$'000
Investment securities at fair value through profit or loss (note (i))		
Listed equity investments	**1,486,008**	2,346,146
Exchange traded funds	**138,481**	452,770
Listed debt investments	**2,291,763**	1,728,725
Unlisted partnership investments (note (iv))	**1,096,755**	–
Unlisted equity investments	**1,506,239**	178,470
Unlisted debt investments	**5,166,580**	4,484,498
Unlisted investment funds (note (ii))	**8,107,041**	2,665,523
Unlisted financial products	**993,937**	–
	20,786,804	11,856,132
Investment securities at amortised cost		
Unlisted debt investments	**5,371,706**	5,733,689
Less: Impairment allowance	**(12,645)**	–
	5,359,061	5,733,689
Held-to-maturity investments		
Unlisted debt security	**–**	94,171
Available-for-sale investments		
Listed equity investments, at fair value	**–**	111,200
Listed debt investments, at fair value	**–**	176,476
Unlisted fund investments, at fair value (note (ii))	**–**	5,007,439
Unlisted partnership investments, at fair value (note (iv))	**–**	472,358
Unlisted equity investments, at fair value	**–**	663,661
Unlisted debt investments, at fair value	**–**	1,673,177
	–	8,104,311
Investment securities	**26,145,865**	25,788,303
Less: Non-current portion (note (iii))	**(15,850,602)**	(10,370,907)
Current portion	**10,295,263**	15,417,396

18. Investment Securities (continued)

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 investment securities measured at FVTPL.

In addition, unlisted debt investments amounted to HK$1,673 million were reclassified from available-for-sale investments to asset-backed financing to customers 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 assets approximates to their amortised cost.

Details of disclosure for fair value measurement are set out in note 46.

Notes:

(i) Investment securities at fair value through profit or loss includes certain investment funds that are consolidated into the consolidated financial statements of the Group (note 29). Classification of investments as detailed above is based on the investments held by these investments funds.

(ii) The Group invested in investment funds. These investment funds invest in mainly 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 investment funds. The current carrying amount of HK$8,107 million (31 December 2017: HK$2,666 million) in the consolidated statement of financial position represents the Group's maximum exposure.

Unconsolidated investment funds that were classified as AFS investments are reclassified at FVTPL within investment securities upon application of HKFRS 9 on 1 January 2018 as disclosed in note 2.

(iii) As at 31 December 2018 and 2017, included in the non-current portion are unlisted debt investments and unlisted investment funds that the directors of the Company expect to realise them not within twelve months after each reporting period.

(iv) As at 31 December 2018, the unfilled capital commitment to the partnerships were HK$640 million (31 December 2017: HK$687 million).

Included in investment securities at amortised cost are HK$5,372 million (2017: HK$5,539 million) of investment securities that are secured.

The majority of these investment securities at amortised cost are secured and/or guaranteed with contractual maturity within 1 year from the reporting date. These investment securities are monitored 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 securities, and the latest announced or available information about the issuers and the underlying collateral held.

19. Assets acquired for Financial Products Issued/Financial Products Issued at Fair Value

	2018 HK$'000	2017 HK$'000
Assets – Assets acquired for financial products issued		
Listed equity investments, at fair value (note (ii))	**1,729,650**	2,510,765
Listed debt investments, at fair value (note (ii))	**15,848,326**	3,958,884
Unlisted equity investments, at fair value (notes (i) & (ii))	**550,806**	709,727
Unlisted partnership investments, at fair value (notes (i) & (ii))	**208,319**	300,498
Unlisted debt investments, at fair value (note (ii))	**–**	547,110
Unlisted investment funds, at fair value (notes (i) & (ii))	**6,335,630**	2,144,529
Unlisted financial products, at fair value (note (ii))	**3,080,119**	2,108,139
	27,752,850	12,279,652
Less: Non-current portion	**(2,268,434)**	(1,139,283)
Current portion	**25,484,416**	11,140,369
Liabilities – Financial products issued at fair value/ short position for financial products issued		
Unlisted issued financial products, at fair value (note (iii))	**13,683,694**	12,044,127
Listed equity investments, at fair value	**271,074**	92,708
	13,954,768	12,136,835
Less: Non-current portion	**(638,846)**	(852,245)
Current portion	**13,315,922**	11,284,590

Details of disclosure for fair value measurements are set out in note 46.

19. Assets acquired for Financial Products Issued/Financial Products Issued at Fair Value (continued)

Notes:

(i) As at 31 December 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$7,095 million (31 December 2017: HK$3,155 million) in the 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 at fair value 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 31 December 2018 and 31 December 2017, financial products issued at fair value are generally issued in the form of notes of which payouts are linked to the values/returns of certain underlying investments related to listed equity investments, listed/unlisted debt investments, listed/unlisted investment funds, unlisted financial products and unlisted equity or partnership investments.

The risk of economic exposure on these financial products is primarily hedged using financial assets as detailed in note (ii) above. These financial products were classified at FVTPL 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.

20. Derivative Financial Instruments

	2018 HK$'000	2017 HK$'000
Assets		
Swaps — held-for-trading	**80,978**	1,051
Forward foreign currency exchange contracts — held-for-trading	**53,529**	91,412
Listed futures/options/warrants — held-for-trading	**185,035**	558,125
Callable bull/bear contracts — held-for-trading	**480**	–
Unlisted options — held for trading	**220,541**	43,088
	540,563	693,676
Liabilities		
Swaps — cash flow hedges	**–**	7,169
Swaps — held-for-trading	**41,795**	8,581
Forward foreign currency exchange contracts — held-for-trading	**124,052**	109,830
Foreign currency option contracts — held-for-trading	**10,317**	32
Listed futures/options/warrants — held-for-trading	**251,514**	987,065
Callable bull/bear contracts — held-for-trading	**28,358**	201,999
Unlisted options — held-for-trading	**49,460**	8,440
	505,496	1,323,116

20. Derivative Financial Instruments (continued)

As at 31 December 2017, the notional principal amounts of the outstanding swap contracts held for cash flow hedging against the interest expenses from a note issued by the Group was HK$239 million. The contracts ended during the current year.

During both years, the profit or loss arising from ineffective portion of cash flow hedges is immaterial.

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

21. Advances to Customers in Margin Financing

	2018 **HK$'000**	2017 HK$'000
Loans to margin clients	**16,567,822**	16,608,421
Less: Impairment allowance	**(615,362)**	(239,204)
	15,952,460	16,369,217

The credit facility limits to margin clients are 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 with 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 interest bearing and secured by the underlying pledged securities. The Group maintains a list of approved stocks for margin lending at a specified loan to collateral ratio. As at 31 December 2018, advances to customers in margin financing of HK$16,125 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$71,407 million (31 December 2017: HK$84,580 million).

Details of credit risk profile disclosure are set out in "credit risk and impairment assessment" in note 45.

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.

22. Advances to Customers for Merger and Acquisition Activities

	2018 HK$'000	2017 HK$'000
Advances to customers for merger and acquisition activities	**3,580,966**	4,442,865
Less: Impairment allowance	**(8,833)**	(108,647)
	3,572,133	4,334,218
Less: Non-current portion	**(1,094,666)**	(38,333)
Current portion	**2,477,467**	4,295,885

Included in advances to customers for merger and acquisition activities are HK$3,379 million (2017: HK$4,243 million) of advances that are secured.

The majority of these advances to customers for merger and acquisition activities are secured and/or guaranteed with contractual maturity within 1 year from the reporting date and credit limits are set for borrowers. Regular reviews on these advances to customers for merger and acquisition activities 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 advances to customers for merger and acquisition activities, the latest announced or available information about the borrowers, the underlying collateral held and the latest status of the relevant merger and acquisition project. The Group seeks to maintain effective control over its advances to customers for merger and acquisition activities in order to minimise credit risk by reviewing the borrowers' and/or guarantors' financial positions.

As at 31 December 2018 and 2017, there was no past due advances to customers for merger and acquisition activities, except for a loan amounted to HK$200 million that 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 in 2017. During the prior year, an impairment loss of HK$109 million was recognised 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.

During the current year, the above-mentioned borrower with the property development project has completed the debt restructuring by introducing an independent new lender for additional funding to complete the property development project and a revised syndicated loans agreement has been entered among the borrower, new lender and the existing lenders, which includes the Group, with the extended maturity date in 2021. The management considered that the development project has entered the final stage and valuation can be estimated reliably after the debt restructuring with new funding injected. Based on current creditworthiness, the completion of debt restructuring and sufficient expected collateral value, the management determined that the credit risk of default has been significantly reduced in current year, therefore, the relevant impairment provision has been reversed.

Details of credit risk profile disclosure are set out in "credit risk and impairment assessment" in note 45.

Interest income derived from advances to customers for merger and acquisition activities was recognised as "interest income from advances to customers for merger and acquisition activities" as set out in note 6. The carrying value of advances to customers for merger and acquisition activities is approximate to their fair value.

23. Asset-Backed Financing to Customers

	2018 HK$'000	2017 HK$'000
Asset-backed financing to customers	**5,447,616**	4,201,512
Less: Impairment allowance	**(108,999)**	(102,883)
	5,338,617	4,098,629
Less: Non-current portion	**(224,744)**	(1,045,756)
Current portion	**5,113,873**	3,052,873

Included in asset-backed financing to customers are HK$5,448 million (2017: HK$4,202 million) that are secured.

The majority of these asset-backed financing to customers are secured and/or guaranteed with contractual maturity within 1 year from the reporting date and credit limits are set for borrowers. Regular reviews on these asset-backed financing to customers 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 asset-backed financing to customers 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 asset-backed financing to customers in order to minimise credit risk by reviewing the borrowers' and/or guarantors' financial positions.

As at 31 December 2018 and 2017, there was no past due asset-backed financing to customers, except for 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.

Details of credit risk profile disclosure are set out in "credit risk and impairment assessment" in note 45.

Interest income derived from asset-backed financing to customers was recognised as "interest income from asset-backed financing to customers" as set out in note 6. The carrying value of the asset-backed financing to customers is approximate to their fair value.

24. Reverse Repurchase Agreements

	2018 **HK$'000**	2017 HK$'000
Analysed by collateral type:		
Equities	**27,300**	4,800
Bonds and preference shares	**4,316,261**	2,917,057
Analysed by market:		
Inter-bank market	**4,343,561**	2,921,857
Analysed for reporting purposes:		
Current	**4,343,561**	2,921,857

Reverse 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 consolidated financial statements but regarded as "collateral" because the external investors retain substantially all the risks and rewards of these securities.

As at 31 December 2018, the fair value of the collateral was HK$4,440 million (31 December 2017: HK$2,829 million).

25. Accounts Receivable

	2018 **HK$'000**	2017 HK$'000
Accounts receivable from:		
— Clients	**696,902**	283,640
— Brokers, dealers and clearing houses	**5,179,109**	5,295,030
— Collateral paid under stock borrowing agreements	**688,739**	208,915
— Clients for subscription of new shares in IPO	**2,273**	–
— Others (note)	**401,453**	158,809
	6,968,476	5,946,394

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

There was no impaired accounts receivable as of the reporting dates for the prior year end. Details of impairment assessment for current year are set out in "credit risk and impairment assessment" in note 45.

25. Accounts Receivable (continued)

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

	2018 HK$'000	2017 HK$'000
Between 0 and 3 months	**6,939,488**	5,937,168
Between 4 and 6 months	**13,634**	2,373
Between 7 and 12 months	**8,687**	2,001
Over 1 year	**6,667**	4,852
	6,968,476	5,946,394

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

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 31 December 2018, the settlement dates are in the range of 2 to 7 days.

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

For accounts receivable from clients that are overdue, 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.

26. Prepayments, Deposits and Other Receivables

	2018 HK$'000	2017 HK$'000
Prepayments, deposits and other receivables (note)	**1,582,311**	908,688
Less: Non-current portion	**(53,050)**	(17,114)
Current portion	**1,529,261**	891,574

Note: Included in the amount of prepayments, deposits and other receivables are the interest receivable of HK$1,278 million (31 December 2017: HK$632 million) from bank deposits, brokerage customers and bonds investments which are receivable within one year.

27. Investments Accounted for Using the Equity Method

	2018 HK$'000	2017 HK$'000
Associates:		
Cost of unlisted investment in associates	–	412,096
Share of post-acquisition losses and other comprehensive expense, net of dividend received	–	(21,566)
	–	390,530
Joint ventures:		
Cost of unlisted investments in joint ventures	**155,084**	5,191,979
Share of post-acquisition (losses) profit and other comprehensive (expense) income, net of dividend received	**(644)**	290,357
	154,440	5,482,336
	154,440	5,872,866

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

Name of entity	Country of incorporation	Interests held by the Group As at 31 December 2018	As at 31 December 2017	Principal activities
Joint ventures				
Haitong Freedom Multi-Tranche Bond Fund (note a)	The Cayman Islands	**N/A**	38.63%	Investment holding
Haitong High Yield Bond Multi-Tranche Fund S.P. (note b)	The Cayman Islands	**78.05%**	35.09%	Investment holding
Associate				
Haitong International Investment Fund SPC-Fund I S.P. (note c)	The Cayman Islands	**N/A**	13.20%	Investment holding

As at 31 December 2018, Haitong Freedom Multi-Tranche Bond Fund is no longer a joint venture and Haitong International Investment Fund SPC – Fund I S.P. is no longer an associate. Please refer to notes (a) & (c) below for details.

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

All of the joint ventures and associates of the Group are accounted for using the equity method in these consolidated financial statements for the years ended 31 December 2018 and 31 December 2017. The directors consider the joint ventures and associate above are not significant to the Group's consolidated statement of financial position.

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

Notes:

(a) As at 31 December 2018 and 2017, the Group held the interests of participating shares of Haitong Freedom Multi-Tranche Bond Fund (referred as the "Fund" for the purpose of this paragraph) as disclosed above that the participating shares provide the Group with the share of returns from the Fund but not any decision-making power nor any voting right in daily operation of the Fund.

As at 31 December 2017, the Group held 50% of the management shares in the Fund and the other 50% management shares were held by another corporation. The management shareholders were empowered to make all the key financing and operating decisions in the Fund and require unanimous consent of the parties sharing control. The arrangement of sharing of control was contractually agreed by both parties. As such, the interests of the Group in the Fund were classified as a joint venture for the prior year.

On 30 September 2018, the Group entered into an agreement with the independent third-party to end the agreement of joint control contractually agreed with the independent third-party and the independent third party will not participate in investment decision of the Fund from that date. On the date of agreement, the Group has discontinued the use of equity method. In the opinion of the directors of the Company, the variable returns that the Group is exposed to with respect to the Fund is not significant and the Group is primarily acting as an agent. Therefore, the Group did not consolidate the Fund. The Group accounted for the interest in the Fund as financial assets at FVTPL in "Investment securities" and "Assets acquired for financial products issued" in accordance with HKFRS 9. The carrying amount of the interest in the Fund approximated the fair value on that date. The results of the Fund were recognised as "share of results of investments accounted for using the equity method" up to date of cessation of such joint control mentioned above. The carrying amount of the interest held by the Group amounted to HK$5,311 million as at 31 December 2017 represented the Group's maximum exposure in the Fund.

(b) As at 31 December 2018 and 2017, the Group held the interests of non-participating shares of Haitong High Yield Bond Multi-Tranche Fund S.P. (referred as the "Fund" for the purpose of this paragraph) as disclosed such that the non-participating shares provide the Group with the share of returns from the Fund but not any decision-making power nor any voting right in daily operation of the Fund. As at 31 December 2018 and 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 Fund and require unanimous consent of the parties sharing control. The arrangement of sharing of control is contractually agreed by both parties. As such, the interests of the Group in the Fund are classified as a joint venture.

There is no unfilled capital commitment to the Fund. The carrying amount of HK$154 million for the Fund in the consolidated statement of financial position represents the Group's maximum exposure as at 31 December 2018 (2017: HK$171 million).

(c) As at 31 December 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 31 December 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 the prior year.

During the current year, 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 Investment securities measured at FVTPL. Results of the Fund for the current year have been included in "Net gain from financial assets/liabilities at FVTPL" as set out in note 6.

28. Interests in Unconsolidated Investments

The Group invested in certain investment funds, partnerships and private equity investments (collectively referred to as the "Investments" for the purpose of notes 4, 28 and 29) with primary objectives for capital appreciation, investment income and selling in the near future for profit. Pursuant to subscription agreements or equivalent documents, the beneficial interests held by the Group in these Investments are in the form of participating shares or interests which primarily provide the Group with the share of returns from the Investments but not any decision making power nor any voting right to involve in and control the daily operation.

These Investments are set up and managed by respective investment manager or general partner who has the power and authority to manage and make decisions for the Investments, or through participations in decision making process of the underlying investee companies.

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

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

In the opinion of the directors of the Company, the variable returns that the Group is exposed to with respect to these Investments are not significant and/or 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 financial assets held for trading and market making activities, assets acquired for financial products issued and investment securities classified as AFS investments and measured at fair value through profit or loss as appropriate in notes 17, 18 and 19. Following the adoption of HKFRS 9 since 1 January 2018, the Group classified its interests in Investments as financial assets held for trading and market making activities, assets acquired for financial products issued and investment securities measured at FVTPL in notes 17, 18 and 19.

29. Interests in Consolidated Investment

The Group had consolidated certain Investments in accordance with the criteria set out in note 28. Especially for those investment funds where the Group involved as an investment manager and also as an investor, the Group assesses whether (i) the Group is acting as an agent/principal in these investment; (ii) there are any other external holders in these Investments which have power to remove or control over the party having the ability to direct the relevant activities of the Investments based on the facts and circumstances and (iii) the combination of investments it held together with its remuneration creates exposure to variability of returns from the activities of the asset management products that is of such significance that it indicates the Group is a principal.

As at 31 December 2018, the total assets and total liabilities (excluding the third party interest as stated below) of the consolidated Investments, which are not individually significant to the Group, were HK$11,216 million and HK$100 million (31 December 2017: HK$11,221 million and HK$384 million respectively).

29. Interests in Consolidated Investment (continued)

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

For the year ended 31 December 2018, investment returns related to interests held by third-party unit/shareholders of loss of HK$6 million (year ended 2017: gain of HK$139 million) in consolidated Investments are included in other income and gains or losses in the consolidated statement of profit or loss and the interests held by third-party unit holders/shareholders amounted to HK$484 million (31 December 2017: HK$272 million) as at 31 December 2018. Such amount is recognised as "other liabilities arising from consolidation of investment funds" in the consolidated statement of financial position.

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

30. Goodwill and Other Intangible Assets

	2018 HK$'000	2017 HK$'000
Goodwill	**380,099**	223,985
Other intangible assets	**93,292**	44,710
	473,391	268,695

Goodwill

(a) Carrying value/movement

	2018 HK$'000	2017 HK$'000
Cost		
At the beginning of the year	**223,985**	218,460
Goodwill arising on acquisition (note 43)	**156,114**	5,525
	380,099	223,985

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

30. Goodwill and Other Intangible Assets (continued)

Goodwill (continued)

(b) Impairment testing on goodwill

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

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

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

	2018 **HK$'000**	2017 HK$'000
Wealth management	**854**	854
Investment management	**9,000**	9,000
Equity research and sales advice	**147,843**	147,843
India operations	**60,763**	60,763
Singapore foreign exchange business	**5,525**	5,525
UK operations	**26,849**	–
US operations	**129,265**	–
	380,099	223,985

During the years ended 31 December 2018 and 31 December 2017, management of the Group determined that there are no impairments of any of its CGUs containing goodwill as the recoverable amounts of Unit A, Unit B, Unit C, Unit D, Unit E and Unit F (as defined above) exceed their respective carrying amounts.

As at 31 December 2018, management of the Group determined that there is no impairment of CGU containing goodwill as the recoverable amount of Unit E exceeds the carrying amount. Unit E CGU represents Haitong International Financial Services (Singapore) Pte. Limited ("Haitong International Financial Services"), where the Group acquired this subsidiary on 28 February 2017. Details of the acquisition are disclosed in note 43.

As at 31 December 2018, the management of the Group determined that there is no impairment of CGU containing goodwill as the recoverable amount of Unit F exceeds the carrying amount. Unit F CGU represents Haitong Securities USA LLC ("Haitong USA") and Haitong (UK) Limited ("Haitong UK", currently known as Haitong International (UK) Co. Limited), where the Group acquired this subsidiary on 23 February 2018. Details of the acquisition are disclosed in note 43.

30. Goodwill and Other Intangible Assets (continued)

Goodwill (continued)

(b) Impairment testing on goodwill (continued)

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

(i) Unit A

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

The discount rate applied to the cash flow projections is 5% (2017: 5%) and cash flows are using a growth rate of 10% (2017: 10%) which is determined based on past performance and management's expectations for the market development. The discount rate used reflects specific risks relating to Unit A.

(ii) Unit B

The recoverable amount of the investment management services CGU has been determined based on value-in-use calculation using cash flow projections covering a five-year period approved by the senior management. The discount rate applied to the cash flow projections is 5% (2017: 5%) and cash flows are using a growth rate of 6% (2017: 6%) for investment fund management and 6% (2017: 6%) for other fund management. The discount rate used reflect specific risks relating to Unit B.

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

(iii) Unit C

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

The valuation used the discounted cash flow approach and is based on a five-year performance projection and certain key assumptions (updated with latest market data) including an average growth rate of 9.7% from 2019 to 2021 and 4.4% from 2022 to 2023 (2017: an average growth rate of 9.7% from 2018 to 2020 and 4.4% from 2021 to 2022), a sustainable growth rate of 3% beyond 2023 (2017: a sustainable growth rate of 3% beyond 2022) and a discount rate of 15% (2017: 15%) which is determined based on past performance, the management's expectations for the market development and future business plan. The discount rate used reflects specific risks relating to Unit C.

30. Goodwill and Other Intangible Assets (continued)

Goodwill (continued)

(b) Impairment testing on goodwill (continued)

(iv) Unit D

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

The valuation used the discounted cash flow approach and is based on a five-year performance projection and certain key assumptions (updated with latest market data) including an average growth rate of 10% from 2019 to 2021 and 8% from 2022 to 2023 (2017: an average growth rate of 10% from 2018 to 2020 and 8% from 2021 to 2022), a sustainable growth rate of 3% beyond 2023 (2017: a sustainable growth rate of 3% beyond 2022) and a discount rate of 10% (2017: 10%) which is determined based on past performance, the management's expectations for the market development and future business plan. The discount rate used reflects specific risks relating to Unit D.

(v) Unit E

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

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

(vi) Unit F

The recoverable amount of Unit F has been determined based on value-in-use calculation using cash flow projections covering a five-year period approved by senior management. The discount rate applied to the cash flow projections is in the range of 17% to 21%, which is determined based on past performance, the management's expectations for the market development and future business plan. The discount rate used reflects specific risk relating to Unit F.

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

30. Goodwill and Other Intangible Assets (continued)

Other intangible assets

(a) Carrying value/movement

	Trading rights and licenses HK$'000	System and infrastructure HK$'000	Customer relationship HK$'000	Total HK$'000
Cost				
At 1 January 2017 and 31 December 2017	11,133	4,551	45,584	61,268
Acquired on acquisition of a subsidiary (note 43)	–	5,537	–	5,537
Addition	–	60,969	–	60,969
At 31 December 2018	11,133	71,057	45,584	127,774
Amortisation				
At 1 January 2017	3,522	–	7,323	10,845
Charge for the year	–	–	5,713	5,713
At 31 December 2017	3,522	–	13,036	16,558
Charge for the year	–	12,211	5,713	17,924
At 31 December 2018	3,522	12,211	18,749	34,482
Carrying values				
At 31 December 2018	7,611	58,846	26,835	93,292
At 31 December 2017	7,611	4,551	32,548	44,710

Other than the trading rights and licenses, and system and infrastructure, which have indefinite useful lives and useful life of 3 years respectively, the intangible asset of customer relationship is amortised over the expected useful life of 15 years.

31. Other Assets

	2018 HK$'000	2017 HK$'000
At cost:		
Deposits with the Stock Exchange:		
— Compensation fund	**650**	650
— Fidelity fund	**350**	350
— Mainland Securities and Settlement Deposit	**26,367**	55,715
Dealers' deposit with Hong Kong Securities and Futures Commission ("SFC")	**350**	350
Stamp duty deposits	**500**	500
Contributions to The Central Clearing and Settlement System Guarantee Fund	**29,305**	35,353
Admission fees paid to Hong Kong Securities Clearing Company Limited	**300**	300
Reserve fund with The SEHK Options Clearing House Limited	**7,481**	18,829
Deposits with HKFE Clearing Corporation Limited in contribution to the reserve fund	**4,793**	10,473
Cost of membership for a seat at The Chinese Gold and Silver Exchange Society	**486**	486
Compensation fund paid to The Shenzhen Stock Exchange Co., Ltd.	**–**	300
Settlement Risk Fund paid to The Shanghai Securities Central Clearing & Registration Corporation	**387**	387
Others	**5,327**	4,752
	76,296	128,445

32. Investment Property

	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	–
Transfer to property and equipment	(53,860)
At 31 December 2018	231,539

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.

The fair value of the Group's investment properties as at 31 December 2018 has been arrived at on the basis of a valuation carried out on the respective dates by Colliers International (Hong Kong) Limited, independent qualified professional valuers not connected to the Group. The fair value is based on market approach, by comparing recent arms-length sales of similar interests located in the surrounding area.

32. Investment Property (continued)

In determining the fair value of the relevant properties, management determine appropriate valuation techniques and inputs for fair value measurements. The Group engages third party qualified valuers to perform the valuation. The management works closely with the qualified external valuers to establish the appropriate valuation techniques and inputs to the model.

In estimating the fair value of the properties, the highest and best use of the properties is their current use.

The fair value of properties, which are all classified as level 3 fair value hierarchy, was determined based on the direct comparison approach assuming sale of the property interest in its existing state with the benefit of vacant procession and by making reference to recent comparable sales evidence as available in the relevant market.

The following table gives information about how the fair values of these investment properties are determined (in particular, the valuation techniques and inputs used), as well as 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.

Investment properties held by the Group	Fair value hierarchy as defined in note 46	Valuation techniques and key inputs	Significant unobservable inputs	Relationship of unobservable inputs to fair value
At 31 December 2018				
Commercial property units	Level 3	Direct comparison method based on market observable transactions of the similar location and adjusted to reflect the conditions of the subject properties The key input is level adjustment.	Level adjustment on individual floors of the property of 0.5%	The higher level, the higher the fair value

Note:

(a) Commercial property units are acquired and subsequently partially classified as investment properties and the rest property and equipment during the current year 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.

33. Property and Equipment

	Leasehold land and buildings HK$'000	Leasehold improvements HK$'000	Furniture, fixtures and equipment HK$'000	Computer hardware and equipment HK$'000	Total HK$'000
31 December 2018					
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 asset acquisition (note 32(a))	**215,959**	**27**	**3**	**–**	**215,989**
Arising from acquisition of a subsidiary (note 43)	**–**	**2,921**	**6,608**	**478**	**10,007**
Transfer from investment property	**53,860**	**–**	**–**	**–**	**53,860**
Additions	**–**	**12,350**	**5,155**	**27,220**	**44,725**
Disposals	**–**	**(871)**	**(291)**	**(474)**	**(1,636)**
Depreciation	**(6,412)**	**(7,394)**	**(6,591)**	**(59,823)**	**(80,220)**
At 31 December 2018, net of accumulated depreciation	**264,897**	**32,863**	**19,311**	**103,897**	**420,968**
At 31 December 2018					
Cost	**272,911**	**97,835**	**74,720**	**578,210**	**1,023,676**
Accumulated depreciation	**(8,014)**	**(64,972)**	**(55,409)**	**(474,313)**	**(602,708)**
Net carrying values	**264,897**	**32,863**	**19,311**	**103,897**	**420,968**
31 December 2017					
At 1 January 2017					
Cost	3,092	65,303	58,133	468,722	595,250
Accumulated depreciation	(1,524)	(49,237)	(42,854)	(371,970)	(465,585)
Net carrying values	1,568	16,066	15,279	96,752	129,665
At 1 January 2017, net of accumulated depreciation	1,568	16,066	15,279	96,752	129,665
Arising from acquisition of a subsidiary (note 43)	–	62	112	637	811
Additions	–	18,458	5,733	81,846	106,037
Disposals	–	(415)	(733)	(219)	(1,367)
Depreciation	(78)	(8,341)	(5,964)	(42,520)	(56,903)
At 31 December 2017, net of accumulated depreciation	1,490	25,830	14,427	136,496	178,243
At 31 December 2017					
Cost	3,092	83,408	63,245	550,986	700,731
Accumulated depreciation	(1,602)	(57,578)	(48,818)	(414,490)	(522,488)
Net carrying values	1,490	25,830	14,427	136,496	178,243

34. Repurchase Agreements

	2018 HK$'000	2017 HK$'000
Analysed by collateral type:		
Equities	**2,130,000**	1,800,300
Bonds and preference shares	**21,959,043**	9,506,814
Analysed by market:		
Inter-bank market	**24,089,043**	11,307,114
Analysed for reporting purposes:		
Current	**24,089,043**	11,307,114

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

As at 31 December 2018, the Group entered into repurchase agreements with financial institutions to sell equities, bonds and preferences shares recognised as financial assets at FVTPL with carrying amount of HK$30,915 million (31 December 2017: HK$13,662 million), which are subject to the simultaneous agreements to repurchase these investments at the agreed date and price.

35. Accounts Payable

	2018 HK$'000	2017 HK$'000
Accounts payable to:		
— Clients	**17,710,600**	22,012,013
— Brokers, dealers and clearing houses	**1,153,352**	912,708
— Collateral received under stock lending agreements	**1,708,575**	3,417,718
— Others	**402,025**	127,244
	20,974,552	26,469,683

35. Accounts Payable (continued)

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 agreements is repayable upon expiry of relevant stock lending agreements and the relevant stocks lent are returned by the borrower.

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

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

Except for the accounts payable to clients which bear interest at 0.001% as at 31 December 2018 (31 December 2017: 0.001%), all the accounts payable are non-interest bearing.

Accounts payable to clients also include those payables placed in segregated accounts with authorised institutions of HK$15,998,360,000 (31 December 2017: HK$19,768,481,000), HKFE Clearing Corporation Limited, the SEHK Options Clearing House Limited and other futures dealers totalling HK$1,060,245,000 (31 December 2017: HK$1,006,507,000).

36. Loans and Borrowings

	2018 HK$'000	2017 HK$'000
Debt securities in issue		
Non-current		
Convertible bonds (notes (a))	**3,792,050**	3,866,282
Non-convertible bonds (note (b))	**5,451,585**	10,083,594
Non-convertible notes (note (c))	**–**	472,223
Total non-current debt securities in issue	**9,243,635**	14,422,099
Current		
Convertible bonds (note (a))	**141,300**	2,224
Non-convertible bonds (note (b))	**4,687,020**	–
Non-convertible notes (note (c))	**10,975,672**	1,198,992
Total current debt securities in issue	**15,803,992**	1,201,216
Total debt securities in issue	**25,047,627**	15,623,315
Bank loans and other borrowings		
Secured borrowing		
— Bank loans (notes (d), (e) and (f))	**489,536**	2,033,791
Unsecured borrowing		
— Bank loans (notes (e) and (f))	**33,286,603**	28,701,506
— Other loans (note (f) and 41(a)(iv))	**–**	20,000
Total bank loans and other borrowings	**33,776,139**	30,755,297
Total borrowings	**58,823,766**	46,378,612

36. Loans and Borrowings (continued)

Notes:

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

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

As at 31 December 2018, the conversion prices of convertible bonds issued by the Company in 2014 and 2016 are HK$4.32 per share (31 December 2017: HK$4.61 per share) and HK$6.09 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.

During the current year, 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 31 December 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 year and the prior year.

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

As at 31 December 2018, the number of outstanding shares convertible under the convertible bonds issued in 2014 and 2016 are 31,712,962 (31 December 2017: 29,718,004) and 637,110,016 (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 announcements on 4 and 11 September 2014 as well as 2014 audited consolidated financial statements for details of the bonds.

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

(c) During the year ended 31 December 2018, the Company has issued medium term notes under the Company's Medium Term Note Programme (the "MTN Programme") in principal amount totalling HK$14,357 million with a maturity period of 1 year and repaid several medium term notes of principal amount totalling HK$4,938 million. As at 31 December 2018, the outstanding loan balances of HK$10,976 million (31 December 2017: HK$1,671 million) represent the unsecured and unguaranteed non-convertible notes.

36. Loans and Borrowings (continued)

Notes: (continued)

(d) Bank loans of HK$357 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$4,027 million (31 December 2017: HK$12,951 million) at fair value and the remaining amount is secured by debt investments of HK$339 million (31 December 2017: HK$1,428 million) held by the Group and presented in financial assets held for trading and market making activities to the consolidated statement of financial position.

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

(f) Bank loans and other loans are repayable on demand or within 1 year. As at 31 December 2018, there is no current portion of unsecured or secured 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: nil).

The table below details changes in the Group's loans and borrowings arising from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are those for which cash flows were, or future cash flows will be, classified in the Group's consolidated statement of cash flows from financing activities. Interest payments in relation to below liabilities are included in other payables and accruals and presented in operating cash flow.

	Dividend payable HK$'000	Convertible bonds HK$'000	Non-convertible bonds HK$'000	Non-convertible notes HK$'000	Bank loans and other borrowing HK$'000	Loan from the immediate holding company HK$'000 (note 41(a)(iv))	Total HK$'000
31 December 2018							
At 1 January 2018	**–**	**3,868,506**	**10,083,594**	**1,671,215**	**30,735,297**	**20,000**	**46,378,612**
Financing cash flows	**(396,166)**	**–**	**–**	**9,447,715**	**3,040,842**	**(20,000)**	**12,072,391**
Dividend declared	**1,420,849**	**–**	**–**	**–**	**–**	**–**	**1,420,849**
Settled in scrip dividend	**(1,024,976)**	**–**	**–**	**–**	**–**	**–**	**(1,024,976)**
Foreign exchange translation	**–**	**–**	**20,233**	**(242,038)**	**–**	**–**	**(221,805)**
Other changes	**293**	**64,844**	**34,778**	**98,780**	**–**	**–**	**198,695**
At 31 December 2018	**–**	**3,933,350**	**10,138,605**	**10,975,672**	**33,776,139**	**–**	**58,823,766**
31 December 2017							
At 1 January 2017	–	3,802,531	9,973,074	2,547,894	33,598,988	27,586	49,950,073
Financing cash flows	(266,309)	–	–	(1,050,015)	(2,863,691)	(7,586)	(4,187,601)
Dividend declared	968,771	–	–	–	–	–	968,771
Settled in scrip dividend	(702,718)	–	–	–	–	–	(702,718)
Foreign exchange translation	–	–	–	124,441	–	–	124,441
Other changes	256	65,975	110,520	48,895	–	–	225,646
At 31 December 2017	–	3,868,506	10,083,594	1,671,215	30,735,297	20,000	46,378,612

37. Other Payables and Accruals

	2018 HK$'000	2017 HK$'000
Other payables and accruals	**1,845,661**	1,877,882
Less: Non-current portion (note 48)	**(586,189)**	(586,189)
Current portion	**1,259,472**	1,291,693

Other payables are non-interest bearing.

38. Share Capital

	2018 HK$'000	2017 HK$'000
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:		
5,789,746,388 (31 December 2017: 5,500,858,791) ordinary shares of HK$0.10 each	**578,975**	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 options	3,327,798	333
Scrip dividend issued — 2016 final dividend (note 15)	78,617,528	7,862
Scrip dividend issued — 2017 interim dividend (note 15)	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 options	3,747,206	375
New shares issued under exercise of convertible bonds	724,637	73
Scrip dividend issued — 2017 second interim dividend (note 15)	161,693,823	16,169
Scrip dividend issued — 2018 interim dividend (note 15)	122,721,931	12,272
As at 31 December 2018	5,789,746,388	578,975

39. Share Option/Award Scheme

2002 Share option scheme

On 23 August 2002, the shareholders of the Company approved the adoption of a share option scheme (the "2002 Share Option Scheme"), which expired on 22 August 2012. A summary of the principal terms of the 2002 Share Option Scheme, as disclosed in accordance with the Listing Rules, is set out as follows:

The 2002 Share Option Scheme was adopted for the purpose of attracting, retaining and motivating talented employees to strive towards long term performance targets set by the Company and its subsidiaries and at the same time allowing the participants to enjoy the results of the Company attained through their efforts and contributions. Under the 2002 Share Option Scheme, options were granted to any full time employees, executive and non-executive directors of the Company or any of its subsidiaries or associates.

The maximum number of shares which may be issued upon exercise of all options to be granted under the 2002 Share Option Scheme and any other share option schemes of the Company shall not in aggregate exceed 10% of the total number of shares in issue as at the date of adoption of the 2002 Share Option Scheme (the "Scheme Mandate Limit") but the Company may seek approval of its shareholders at general meetings to refresh the Scheme Mandate Limit, save that the maximum number of shares in respect of which options may be granted by directors of the Company under the 2002 Share Option Scheme and any other share option schemes of the Company shall not exceed 10% of the issued share capital of the Company as at the date of approval by the shareholders of the Company at the general meeting where such limit is refreshed.

If refreshed, options previously granted under the 2002 Share Option Scheme and any other share option schemes of the Company (including those outstanding, cancelled, lapsed or exercised options) will not be counted for the purpose of calculating such 10% limit.

Notwithstanding the aforesaid in previous paragraph, the maximum number of shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the 2002 Share Option Scheme and any other share option schemes of the Company shall not exceed 30% (or such higher percentage as may be allowed under the Listing Rules) of the total number of shares in issue from time to time. The maximum number of shares issued and to be issued upon exercise of the options granted to each participant under the 2002 Share Option Scheme and any other share option schemes of the Company (including both exercised and outstanding options) in any 12-month period shall not exceed 1% of the total number of the Company's shares in issue. Any further grant of share options in excess of this limit is subject to approval by the shareholders of the Company at a general meeting.

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

39. Share Option/Award Scheme (continued)

2002 Share option scheme (continued)

The offer of a grant of share options may be accepted within 30 days from the date of the offer upon payment of a consideration of HK$1 by the grantee. The exercise period of the share options granted is determinable by the Board, and such period shall commence not earlier than 6 months from the date of grant of the options and expire not later than 10 years after the date of grant of the options. The vesting period of the share options is from the date of the grant until the commencement of the exercise period. All share options under the 2002 Share Option Scheme are subject to a 6-month vesting period.

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

Share options do not confer rights on the holders to dividends or to vote at shareholders' meetings.

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

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

	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 beginning of the year	**2.76**	**5,812**	2.77	9,132
Adjusted during the year (note)	**2.76**	**17**	2.76	8
Exercised during the year	**2.76**	**(3,246)**	2.77	(3,328)
Forfeited during the year	**–**	**–**	–	–
At end of the year	**2.76**	**2,583**	2.76	5,812

39. Share Option/Award Scheme (continued)

2002 Share option scheme (continued)

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

31 December 2018 Number of options '000	**Exercise price HK$ per share (note)**	**Exercise period**
2,583	2.751	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.

No new share options were granted for the years ended 31 December 2018 and 31 December 2017 under 2002 Share Option Scheme.

During the year, 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).

As at 31 December 2018, the Company had 2,582,759 (31 December 2017: 5,812,110) share options outstanding under the 2002 Share Option Scheme, which represented approximately 0.04% (31 December 2017: 0.11%) of the Company's shares in issue as at that date.

The exercise in full of the remaining share options would, under the present capital structure of the Company, result in the issue of 2,582,759 (2017: 5,812,110) additional ordinary shares of the Company and additional share capital of HK$258,000 (2017: HK$581,000) and share premium of HK$6,847,000 (2017: HK$15,483,000) (before issue expenses).

39. Share Option/Award Scheme (continued)

2015 Share option scheme

The shareholders of the Company approved the adoption of a new share option scheme (the "2015 Share Option Scheme") on 8 June 2015 (the "Adoption Date"). The 2015 Share Option Scheme was also approved by the shareholders of HSCL, the holding company of Haitong International Holdings Limited, the controlling shareholder of the Company, and Listing Committee of The Stock Exchange of Hong Kong Limited on 8 June 2015 and 12 June 2015 respectively. A summary of the principal terms of the 2015 Share Option Scheme, as disclosed in accordance with the Listing Rules, is set out as follows:

The 2015 Share Option Scheme was adopted to attract, retain and motivate talented employees to strive towards long term performance targets set by the Group and to provide them with an incentive to work better for the interest of the Group. Under the 2015 Share Option Scheme, share options could be granted to any full time or part-time employee, executive and non-executive (whether independent or not) directors of the Group, who, in the absolute opinion of the Board, have contributed to the Company or the Group.

The maximum number of shares of the Company (the "Shares") which may be issued upon exercise of all options to be granted under the 2015 Share Option Scheme and any other share option schemes shall not in aggregate exceed 212,924,439 shares, representing approximately 10% of the issued shares of the Company as at 30 November 2014, being the date of tentative approval of the 2015 Share Option Scheme by the management of the Company.

In respect of the period of 12 months from the Adoption Date and for each of the subsequent periods of 12 months from the previous anniversary of the Adoption Date (each of those 12-months periods is hereinafter referred to as a "Scheme Year"), the total number of shares of the Company which may be issued upon exercise of the options granted in each Scheme Year shall not exceed 21,292,444 shares (the "Annual Limit"). The Company may from time to time seek approval of its shareholders and the approval of the shareholders of HSCL (so long as the Company is a subsidiary of HSCL under the Listing Rules) in respective general meetings to renew the Scheme Limit and/or the Annual Limit such that the total number of shares of the Company in respect of which options may be granted by directors of the Company under the 2015 Share Option Scheme (i) in respect of the Scheme Limit, shall not exceed 10% of the issued share capital of the Company as at the date of approval of the refreshment; and (ii) in respect of the Annual Limit, shall not exceed 1% of the issued share capital of the Company as at the date of approval of the refreshment. Options previously granted under the 2015 Share Option Scheme and any other share option schemes of the Company (including those outstanding, cancelled, lapsed or exercised options) will not be counted for the purpose of calculating such limits as refreshed.

Notwithstanding the aforesaid in previous paragraph, the maximum number of shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the 2015 Share Option Scheme and any other share option schemes of the Company shall not exceed 30% (or such higher percentage as may be allowed under the Listing Rules) of the total number of shares in issue from time to time.

39. Share Option/Award Scheme (continued)

2015 Share option scheme (continued)

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

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

The offer of a grant of share options may be accepted within 28 days from the date of the offer upon payment of a consideration of HK$1 by the grantee. The exercise period of the share options granted is determinable by the directors of the company and notified by the directors of the company to each participant as being the period during which an option may be exercised, and in any event such period of time shall not exceed a period of 5 years, commencing on the Offer Date and expire on the last day of such period. The 2015 Share Option Scheme does not stipulate any performance target which needs to be achieved by the participant who accepts the offer of share options (the "Grantee") before the share options can be exercised. In order to sustain a long-term employment relationship between the Company and the Grantee(s), grantees must hold their share options for a holding period of not less than 6 months from the date of acceptance of the offer by the Grantee, before the share options can be exercised.

The exercise price of the share options is determinable by the directors, and shall be at least the highest of (i) the price equal to 110% of the closing price of the Company's shares as stated in the Stock Exchange's daily quotations sheet on the offer date; (ii) the average closing price of the Company's shares as stated in the Stock Exchange's daily quotations sheets for the 5 trading days immediately preceding the offer date; and (iii) the nominal value of the Company's shares. Share options do not confer rights on the holders to dividends or to vote at shareholders' meetings.

39. Share Option/Award Scheme (continued)

2015 Share option scheme (continued)

On 10 November 2017, the Company granted 13,400,000 share options at the exercise price of HK$5.038 per share to its directors and employees under the 2015 Share Option Scheme with a total of 13,350,000 share options being accepted. The option period of the share options is from 10 November 2017 to 9 November 2022. All the share options granted have a vesting period of 6 months from the date of acceptance. The closing price of the Company's shares on the date of grant was HK$4.58 per share. The estimated fair values of the options granted under 2015 Share Option Scheme on the grant date on 10 November 2017 is approximately HK$17.5 million, which was calculated using the Binomial Option Pricing model with the key inputs into the model as disclosed below.

	2017
Weighted average share price at the date of grant	HK$4.58
Initial exercise price	HK$5.038
Expected volatility	49.493%
Expected option life	5 years
Risk-free rate	1.42%
Expected dividend yield	3.849%
Early exercise multiples — directors	2.34
— employees	2.07

Expected volatility was determined using the historical volatility of the Company's share price over the previous 5 years at the grant date.

39. Share Option/Award Scheme (continued)

2015 Share option scheme (continued)

On 1 November 2018, the Company granted 19,160,000 share options at the exercise price of HK$2.904 per share to its directors and employees under the 2015 Share Option Scheme with a total of 19,160,000 share options being accepted. The option period of the share options is from 1 November 2018 to 31 October 2023. 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$2.64 per share. The estimated fair values of the options granted under 2015 Share Option Scheme on the grant date on 1 November 2018 is approximately HK$11.7 million, which was calculated using the Binomial Option Pricing model with the key inputs into the model as disclosed below.

	2018
Weighted average share price at the date of grant	**HK$2.64**
Initial exercise price	**HK$2.904**
Expected volatility	**48.504%**
Expected option life	**5 years**
Risk-free rate	**2.304%**
Expected dividend yield	**7.63%**
Early exercise multiples — directors	**1.74**
— employees	**1.98**

Expected volatility was determined using the historical volatility of the Company's share price over the previous 5 years at the grant date.

For the year ended 31 December 2018, the Group has recognised an equity-settled share-based payment of HK$16,492,000 (2017: HK$2,910,000) for the share options under the 2015 Share Option Scheme in the consolidated statement of profit or loss.

39. Share Option/Award Scheme (continued)

2015 Share option scheme (continued)

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

	2018 Weighted average exercise price HK$ per share	**2018** Number of options '000	2017 Weighted average exercise price HK$ per share	2017 Number of options '000
At beginning of the year	**4.674**	**29,228**	4.674	17,807
Granted and accepted during the year	**2.904**	**19,160**	5.038	13,350
Adjusted during the year (note)	**4.820**	**133**	4.668	22
Exercised during the year	**4.667**	**(501)**	–	–
Forfeited during the year	**4.862**	**(1,303)**	4.673	(1,951)
At end of the year	**4.031**	**46,717**	4.836	29,228

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

31 December 2018 Number of options '000	**Exercise price HK$ per share (note)**	**Exercise period**
14,847	4.645	8 December 2016 – 11 May 2021
12,710	5.014	7 June 2018 – 9 November 2022
19,160	2.904	28 May 2019 – 31 October 2023
46,717		

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.

39. Share Option/Award Scheme (continued)

2015 Share option scheme (continued)

During the year, 500,880 (31 December 2017: Nil) share options were exercised resulting in issuance of 500,880 (31 December 2017: Nil) ordinary shares of the Company with new share capital of HK$50,000 (31 December 2017: Nil) and share premium of HK$2,288,000 (31 December 2017: Nil) (before issuing expenses).

As at 31 December 2018, the Company had 46,717,444 (2017: 29,228,100) share options outstanding under the 2015 Share Option Scheme, which represented approximately 0.81% (2017: 0.53%) of the Company's shares in issue as at that date.

The exercise in full of the remaining share options would, under the present capital structure of the Company, result in the issue of 46,717,444 (2017: 29,228,100) additional ordinary shares of the Company and additional share capital of HK$4,672,000 (2017: HK$2,923,000) and share premium of HK$183,663,000 (2017: HK$138,438,000) (before issue expenses).

Share award scheme

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

Pursuant to the Scheme, the ordinary shares of HK$0.1 each in the capital of the Company will be acquired by the trustee at the cost of the Company and will be held in trust for the Selected Participants before vesting. The total number of shares granted under the Scheme shall be limited to 10% of the total issued share capital of the Company as at 19 December 2014 (the "Adoption Date") or such other percentage as determined by the Board from time to time.

No award of the shares shall be granted to any single Selected Participant which would result in the maximum number of awarded shares under the Scheme in the 12-month period up to and including the date of such grant representing in aggregate over 1% of the issued share capital of the Company as at the Adoption Date.

The Board has delegated the power and authority to the Administration Committee to handle operational matters of the Scheme but all major decisions in relation to the Scheme shall be made by the Board unless expressly provided for in the Scheme rules pursuant to the Scheme or the Board resolves to delegate such power to the Administration Committee.

Pursuant to the Scheme rules, the Board may, from time to time, at its absolute discretion and subject to such terms and conditions as it may think fit (including the basis of eligibility of each Participant determined by the Board and recommended by the Remuneration Committee from time to time) select any participant for participation in the Scheme as a Selected Participant and determine the number of awarded shares, upon the recommendation of the Remuneration Committee.

After the selection of the Selected Participant(s) and the determination of the number of awarded shares by the Board, the Administration Committee shall inform the trustee accordingly. The Administration Committee shall also inform the Selected Participant(s) by award notice. Provided that the respective Selected Participant(s) has (have) executed the relevant acceptance form(s) and returned the same together with a counterpart of the award notice(s) to the trustee through the Company within the period prescribed in the award notice(s), the Company shall during the award period pay or cause to be paid to the trustee for purchasing the awarded shares ("Reference Amount").

39. Share Option/Award Scheme (continued)

Share award scheme (continued)

After receiving the Reference Amount, the Trustee shall apply the same towards the purchase of awarded shares in the market through a broker at the prevailing market price on the Stock Exchange pursuant to the Scheme Rules and the Company would recognise as treasury shares in the consolidated statement of changes in equity.

The Administration Committee shall conduct a review of the performance conditions (if any) in relation to each Selected Participant at least once in each financial year during the award period if the award period is more than 12 months or once only during the award period if the award period is less than 12 months. The awarded shares will be vested if the Selected Participant is able to meet the relevant service conditions during the relevant period, or lapsed if the Selected Participant is unable to meet the relevant service conditions during the relevant period.

A Selected Participant shall not exercise or direct the trustee to exercise and the trustee shall not exercise the voting rights in respect of any awarded shares held under the trust.

Details of the awarded shares granted and unvested as at 31 December 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
11 March 2016	7,865,506	4,709,854	992,489	2,163,163	note (a)	31,383,000
28 April 2017	4,246,234	1,318,237	378,532	2,549,465	note (b)	19,320,000
28 May 2018	7,010,493	–	171,613	6,838,880	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 year ended 31 December 2018, the Group has recognised an equity-settled share-based payment of HK$20,049,000 (31 December 2017: HK$18,395,000) for the Scheme in consolidated statement of profit or loss.

As at 31 December 2018, the Company had 2,163,163 (2017: 4,565,654) awarded shares granted on 11 March 2016 which were outstanding under the Scheme. During the current year, 149,898 (2017: 524,975) and 2,252,593 (2017: 2,457,261) awarded shares granted on 11 March 2016 lapsed and were vested respectively.

As at 31 December 2018, the Company had 2,549,465 (2017: 3,976,313) awarded shares granted on 28 April 2017 which were outstanding under the Scheme. During the current year, 108,611 (2017: 269,921) and 1,318,237 (2017: nil) awarded shares granted on 28 April 2017 lapsed and were vested respectively.

As at 31 December 2018, the Company had 6,838,880 awarded shares granted on 28 May 2018 which were outstanding under the Scheme. During the current year, 171,613 awarded shares granted on 28 May 2018 lapsed.

39. Share Option/Award Scheme (continued)

Share award scheme (continued)

Notes:

(a) Pursuant to the agreed terms, the vesting date of one-third of the awarded shares granted on 11 March 2016 is on 15 March 2017 while the vesting date of another one-third of awarded shares granted on 11 March 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 awarded shares granted on 28 April 2017 is on 19 March 2018 while the vesting date of another one-third of awarded 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 awarded shares granted on 28 May 2018 would be on 13 May 2019 while the vesting date of another one-third of awarded shares granted on 28 May 2018 would be on 13 May 2020 and the vesting date for the remaining would be on 13 May 2021.

(d) Awarded Shares lapsed prior to their vesting date as a result of staff separations. Pursuant to the agreement, the lapsed shares would be held by the trustee which is subject to the approval from the Administration Committee for re-selection of any Selected Participant. The lapsed Awarded Shares were transferred out from share award reserve to share premium as disclosed in the consolidated statement of changes in equity.

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

	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 year	**62,462**	**17,675,000**	–	–
Vested and transferred out during the year	**(20,629)**	**(3,570,830)**	(14,481)	(2,457,261)
At 31 December	**155,372**	**33,370,909**	113,539	19,266,739

40. Commitments

(a) Operating lease arrangements

The Group leases certain of its office properties and data centre under operating lease arrangements. Leases for office properties are negotiated for terms ranging from one year to ten years, and those for data centre for terms of five years. At 31 December 2018 and 2017, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	2018 **HK$'000**	2017 HK$'000
Within one year	**88,914**	78,971
In the second to tenth years, inclusive	**126,198**	66,027
	215,112	144,998

(b) Capital commitments

In addition to the operating lease commitments detailed in note (a), the Group had the following commitments as at year end.

	2018 **HK$'000**	2017 HK$'000
Contracted, but not provided for:		
Computer equipment	**9,028**	4,225
Others	**2,572**	1,865
	11,600	6,090

41. Related Party Transactions

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

(a) On 12 November 2012, the Company entered into a master services agreement with Haitong Securities Co., Ltd. ("HSCL"), the ultimate holding company of the Company which took effect from 1 January 2013. Pursuant to the master service agreement, the Company and HSCL have each agreed to provide services to companies of the Group or HSCL and its subsidiaries. Such master services agreement was expired on 31 December 2015. On 14 March 2016, the Company entered into a new master services agreement with HSCL, for a term of 3 years from 1 January 2016 to 31 December 2018. The annual caps on continuing connected transactions were revised accordingly. Services covered under the new services agreement include broking transactions, investment management and advisory services, corporate finance transactions, fund investment, financial assistance and securities lending transactions, and underwriting services.

(i) Income and expenses from brokerage and related services amounted to HK$474,000 (2017: HK$407,000) and HK$669,000 (2017: HK$3,370,000) respectively for the current year in accordance with terms of the relevant agreements.

(ii) Income from investment management and advisory services amounted to HK$4,750,000 (2017: HK$3,335,000) for provision of investment management service and investment advisory service to Haitong International Holdings Limited (the immediate holding company of the Company) and its subsidiaries. The fee is charged in accordance with the relevant investment management agreement or investment advisory agreement.

(iii) During the year ended 31 December 2017, the Group received HK$561,000 of income from investment advisory services for provision of investment advisory services to a subsidiary of HSCL (the ultimate holding company of the Company). The fee is charged in accordance with the relevant investment advisory agreement.

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

As at 31 December 2018, the Company had no outstanding balance (31 December 2017: HK$20 million, the unsecured loan was chargeable at an interest rate of HIBOR+1.275% per annum). Interest expense for such intercompany loan for the current year amounted to HK$334,000 (2017: HK$997,000).

41. Related Party Transactions (continued)

(a) (continued)

(v) During the year ended 31 December 2018, 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 current year, 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 year, amortisation of the financial advisory fee paid amounted to HK$5,171,000, which was recognised in the statement of profit or loss as part of the interest expense.

(vi) During the year ended 31 December 2018, 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$2,511,000) was paid by the Company during the year. The note was repurchased by the Group in June 2018 and was cancelled in July 2018.

(vii) During the year ended 31 December 2018, 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 year and an interest expense of US$47,000 (equivalent to HK$366,000) was paid during the current year.

(viii) During the year ended 31 December 2018, 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). Part of the security was sold during the year and the outstanding principal amount as at 31 December 2018 is US$115 million (equivalent to approximately HK$901 million). Interest income amounted to US$6.9 million (equivalent to HK$54,364,000) was recognised by the Group during the current year.

(ix) During the year ended 31 December 2018, 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$20,000,000 and the reference obligation portfolio consists of one debt security 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 year ended 31 December 2018, a gain of US$335,000 (equivalent to HK$2,625,000) was recognised on this swap contract, and was recognised within "net gain arising from financial product issuance" in note 6. As at 31 December 2018, the carrying amount of this swap contract amounted to US$7,251,000 (equivalent to HK$56,784,000) and was recognised within financial products issued at fair value. Relevant contract was early terminated subsequent after the year end as of 14 January 2019.

41. Related Party Transactions (continued)

(a) (continued)

(x) The Company entered into a service agreement with Haitong Bank, pursuant to which Haitong Bank would provide financial advisory and consulting services to the Group in connection to services provided by the Group to external customers. Expenses paid by the Group in connection to the services provided by Haitong Bank amounted to EUR4,000,000 (equivalent to HK$35,599,000) (2017: EUR3,100,000; equivalent to HK$28,524,000). The expenses paid by the Group are based on the services agreements entered by the Group and Haitong Bank.

(xi) During the year, a subsidiary of HSCL and HSCL issued unsecured bond respectively. A subsidiary of the Company acted as one of the joint bookrunners in the offering. The relevant underwriting commission income recognised during the year amounted to HK$469,000 (2017: Nil) in accordance with terms of relevant subscription agreements.

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

	2018 **HK$'000**	2017 HK$'000
Short term employee benefits	**51,957**	100,676
Post-employment benefits	**1,106**	234
Share-based payments	**9,038**	1,542
Total compensation paid to key management personnel	**62,101**	102,452

42. Statement of Financial Position and Reserves Movement of the Company

(a) Statement of financial position of the Company

	2018			2017		
	Current HK$'000	Non-current HK$'000	Total HK$'000	Current HK$'000	Non-current HK$'000	Total HK$'000
ASSETS						
Assets						
Cash and cash equivalents	**34,762**	**–**	**34,762**	22,513	–	22,513
Tax recoverables	**93,375**	**–**	**93,375**	–	–	–
Prepayments, deposits and other receivables	**148,651**	**–**	**148,651**	155,788	–	155,788
Amount due from related company	**2**	**–**	**2**	–	–	–
Amounts due from subsidiaries	**90,224,541**	**–**	**90,224,541**	32,581,339	32,109,238	64,690,577
Property and equipment	**–**	**29,742**	**29,742**	–	31,283	31,283
Other assets	**–**	**1,095**	**1,095**	–	1,095	1,095
Investment in subsidiaries	**–**	**2,167,239**	**2,167,239**	–	2,167,239	2,167,239
Total assets	**90,501,331**	**2,198,076**	**92,699,407**	32,759,640	34,308,855	67,068,495
LIABILITIES AND EQUITY						
Liabilities						
Bank loans and other borrowings	**32,964,000**	**–**	**32,964,000**	28,183,347	–	28,183,347
Debt securities in issue	**14,909,022**	**–**	**14,909,022**	1,201,216	4,338,505	5,539,721
Tax payable	**102**	**–**	**102**	33,132	–	33,132
Other payables and accruals	**699,345**	**–**	**699,345**	625,943	–	625,943
Amounts due to subsidiaries	**23,949,408**	**–**	**23,949,408**	1,042,888	11,441,494	12,484,382
Total liabilities	**72,521,877**	**–**	**72,521,877**	31,086,526	15,779,999	46,866,525
Equity						
Share capital (note 38)			**578,975**			550,086
Reserves (note 42(b))			**19,517,499**			18,661,729
Proposed dividends (note 15)			**81,056**			990,155
Total equity			**20,177,530**			20,201,970
Total liabilities and equity			**92,699,407**			67,068,495
Net current assets			**17,979,454**			1,673,114

42. Statement of Financial Position and Reserves Movement of the Company (continued)

(b) Reserves movement of the Company

The amounts of the Group's reserves and the movements therein for the current year and prior year are presented in the consolidated statement of changes in equity.

The amounts of the Company's reserves and its movements are as follows:

	Share premium account HK$'000	Share option reserve HK$'000	Share award reserve HK$'000	Shares held for employee share award scheme HK$'000	Capital redemption reserve HK$'000	Contributed surplus HK$'000	Convertible bond reserve (note 38) HK$'000	Retained profits HK$'000	Total HK$'000
At 1 January 2017	17,116,904	23,760	13,345	(128,020)	5,102	2,697	200,538	707,698	17,942,024
Profit and total comprehensive income for the year	–	–	–	–	–	–	–	1,536,759	1,536,759
Exchange reserve	–	–	–	–	–	–	–	(1,596)	(1,596)
Recognition of equity-settled share based payment	–	2,910	18,395	–	–	–	–	–	21,305
Vesting of shares for the share award scheme	(4,677)	–	(9,804)	14,481	–	–	–	–	–
Shares issued under share option scheme	8,955	(77)	–	–	–	–	–	–	8,878
2016 final dividend declared and settled in cash	325,847	–	–	–	–	–	–	(256)	325,591
2017 interim dividend declared and settled in cash (note 15)	360,771	–	–	–	–	–	–	(541,848)	(181,077)
Proposed 2017 second interim dividend (note 15)	–	–	–	–	–	–	–	(990,155)	(990,155)
Share options lapsed	2,593	(2,593)	–	–	–	–	–	–	–
Share awards lapsed	899	–	(899)	–	–	–	–	–	–
At 31 December 2017	17,811,292	24,000	21,037	(113,539)	5,102	2,697	200,538	710,602	18,661,729
At 1 January 2018	**17,811,292**	**24,000**	**21,037**	**(113,539)**	**5,102**	**2,697**	**200,538**	**710,602**	**18,661,729**
Profit and total comprehensive income for the year	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**384,250**	**384,250**
Exchange reserve	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**432**	**432**
Recognition of equity-settled share based payment	**-**	**16,492**	**20,049**	**-**	**-**	**-**	**-**	**-**	**36,541**
Vesting of shares for the share award scheme	**(6,216)**	**-**	**(14,986)**	**20,629**	**-**	**-**	**-**	**-**	**(573)**
Purchases of shares held under the share award Scheme	**-**	**-**	**-**	**(62,462)**	**-**	**-**	**-**	**-**	**(62,462)**
Share issued under convertible bond	**2,234**	**-**	**-**	**-**	**-**	**-**	**(67)**	**-**	**2,167**
Shares issued under share option scheme	**12,233**	**(1,310)**	**-**	**-**	**-**	**-**	**-**	**-**	**10,923**
Share awards lapsed	**174**	**-**	**(174)**	**-**	**-**	**-**	**-**	**-**	**-**
Share options lapsed	**869**	**(869)**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
2017 second interim dividend declared and settled in cash	**701,217**	**-**	**-**	**-**	**-**	**-**	**-**	**(293)**	**700,924**
2018 interim dividend declared and settled in cash and scrip (note 15)	**295,318**	**-**	**-**	**-**	**-**	**-**	**-**	**(430,694)**	**(135,376)**
Proposed 2018 second interim dividend (note 15)	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(81,056)**	**(81,056)**
At 31 December 2018	**18,817,121**	**38,313**	**25,926**	**(155,372)**	**5,102**	**2,697**	**200,471**	**583,241**	**19,517,499**

42. Statement of Financial Position and Reserves Movement of the Company (continued)

(b) Reserves movement of the Company (continued)

The contributed surplus of the Group arose in 1996 as a result of the group reorganisation in preparation for the listing of the Company and represented the difference between the nominal value of the share capital issued by the Company and the aggregate net asset value of the subsidiaries acquired at the date of acquisition. Under the Companies Act 1981 of Bermuda (as amended), the Company may make distributions to its members out of the contributed surplus provided certain conditions are met.

The share option reserve of the Group comprises the fair value of share options granted which are yet to be exercised, as further explained in the accounting policy for share-based payment transactions in note 3 to the consolidated financial statements.

The consolidated profit and total comprehensive income attributable to equity holders of the Company for the year ended 31 December 2018 includes a profit and total comprehensive income of HK$384,250,000 (2017: profit and total comprehensive income of HK$1,536,759,000) which has been dealt with in the financial statements of the Company.

43. Investment in Subsidiaries

	2018 **HK$'000**	2017 HK$'000
Unlisted shares, at cost	**105,377**	105,377
Deemed contribution	**2,061,862**	2,061,862
	2,167,239	2,167,239

The deemed contribution represents the imputed interest on certain non-current interest free loan to subsidiaries calculated with reference to HKAS 39 "Financial instruments: Recognition and measurement" in prior years.

43. Investment in Subsidiaries (continued)

The particulars of principal subsidiaries that are body corporates as at 31 December 2018 are as follows:

Name	Place of incorporation/ registration and operations	Paid-up/ registered capital	Percentage of equity attributable to the Company Direct %	Indirect %	Principal activities
Haitong International (UK) Limited (note a)	England and Wales	GBP8,334,563	–	100 (2017: 100)	Brokerage, equity research and research sales
Haitong International Asset Management (HK) Limited (note b)	Hong Kong	HK$20,000,000	–	100 (2017: 100)	Provision of assets management services
Haitong International Asset Management Limited	Hong Kong	HK$13,000,000	–	100 (2017: 100)	Provision of assets management services
Haitong International Capital (HK) Limited (note c)	Hong Kong	HK$10,000,000	–	100 (2017: 100)	Corporate finance
Haitong International Capital Limited	Hong Kong	HK$20,000,000	–	100 (2017: 100)	Provision of corporate financial advisory services
Haitong International Futures Limited	Hong Kong	HK$400,000,000	–	100 (2017: 100)	Futures and options brokerage and trading
Haitong International Financial Products Limited	Hong Kong	HK$50,000,000	–	100 (2017: 100)	Market-making in financial instruments
Haitong International Financial Solutions Limited	Hong Kong	HK$1,000,000	–	100 (2017: 100)	Provision of financial solutions
Haitong International Investment Managers Limited	Hong Kong	HK$47,000,000	–	100 (2017: 100)	Provision of asset management services

43. Investment in Subsidiaries (continued)

Name	Place of incorporation/ registration and operations	Paid-up/ registered capital	Percentage of equity attributable to the Company Direct %	Indirect %	Principal activities
Haitong International Japaninvest K.K.	Japan	Yen10,000,000	–	100 (2017: 100)	Asian equity research, and research sales
Haitong International Research Limited	Hong Kong	HK$1,000,000	–	100 (2017: 100)	Provision of research services
Haitong International Securities (Australia) Pty Ltd	Australia	AU$1,380,435	–	100 (2017: 100)	Brokerage services
Haitong International Securities (USA) Inc.	United States	US$12,650,543	–	100 (2017: 100)	Equity research, research sales and stock market making
Haitong International Securities Company Limited	Hong Kong	HK$11,500,000,000	–	100 (2017: 100)	Securities brokerage and margin financing
Haitong International Securities Group (Singapore) Pte. Ltd.	Singapore	SG$730,550,721	–	100 (2017: 100)	Investment holding of Singapore operations
Haitong International Securities Nominees Limited	Hong Kong	HK$2	–	100 (2017: 100)	Provision of nominee and custodian services
Haitong Securities India Private Limited	India	INR260,732,520	–	100 (2017: 100)	Institutional stock broking and investment banking

Notes:

(a) Acquisition during the year as a company limited by shares.

(b) The company was renamed from Hai Tong Asset Management (HK) Limited to Haitong International Asset Management (HK) Limited with effect from 15 January 2018.

(c) The company was renamed from Hai Tong Capital (HK) Limited to Haitong International Capital (HK) Limited with effect from 9 February 2018.

43. Investment in Subsidiaries (continued)

In addition, the following consolidated investment funds are also subsidiaries for the purpose of Appendix 16 of the Listing Rules. These consolidated investment funds are not body corporates and therefore do not have any paid-up register capital.

Name	Place of incorporation/ registration and operations	Percentage of equity attributable to the Company Direct %	Indirect %	Principal activities
Haitong Smart Portfolio Fund S.P.	Cayman Islands	–	100 (2017: 100)	Fund investment
Haitong Dynamic Multi-Tranche Investment Fund II S.P.	Cayman Islands	–	100 (2017: 100)	Fund investment
Haitong International Innovation Fund SPC (consists of SP I to SP III)	Cayman Islands	–	100 (2017: N/A)	Private equity investment

The table above lists out the subsidiaries (within the definition as defined under the Listing Rules) of the Group which, in the opinion of the directors of the Company, principally affected the results or assets of the Group. At the end of the reporting period, the Company has other subsidiaries that are not material to the Group. To give details of other subsidiaries would, in the opinion of the directors of the Company, result in particulars of excessive length.

43. Investment in Subsidiaries (continued)

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 have been completed on the same date. Since then, both Haitong USA and Haitong UK become indirectly wholly owned subsidiaries of the Company.

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 consolidated statement of profit or loss.

43. Investment in Subsidiaries (continued)

Acquisition in 2018 (continued)

Assets acquired and liabilities recognised at the date of acquisition

	Haitong UK HK$'000	Haitong USA HK$'000
Property and equipment	828	9,179
Other intangible assets	–	5,537
Accounts receivable	26,958	–
Prepayments and other receivables	13,400	9,301
Investment securities	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.

Goodwill arising on acquisition

	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.

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

43. Investment in Subsidiaries (continued)

Acquisition in 2018 (continued)

Goodwill arising on acquisition (continued)

The goodwill is allocated to UK and US operations CGU. Details of the impairment testing are disclosed in note 30.

As disclosed in the condensed consolidated financial statements of the Group for the 6 months ended 30 June 2018, assets and liabilities are recognised at 23 February 2018 (and resulting goodwill recognised) are on a provisional basis. During the year ended 31 December 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 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**

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

Included in the profit for the year ended 31 December 2018 was loss of HK$35 million attributable to the business generated by Haitong UK and Haitong USA which has been acquired by the Group on 23 February 2018. Revenue for the year ended 31 December 2018 included HK$114 million generated by Haitong UK and Haitong USA.

Had the acquisition been completed on 1 January 2018, total revenue for the year ended 31 December 2018 would have been HK$6,392 million, and profit for the year ended 31 December 2018 would have been HK$993 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.

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 consolidated statement of cash flows.

43. Investment in Subsidiaries (continued)

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

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

As a result of this acquisition, the Group is expected to expand its existing business activities in Singapore (through a number of Singapore incorporated subsidiaries) into dealings in future contracts and leveraged foreign exchange, and transforming the Group's Singapore operations into a full-licensed financial services provider. Net assets acquired at the date of acquisition in this combination amounted to HK$62.5 million, with cash and cash equivalents of HK$191.2 million and accounts payable of HK$294.8 million being the largest asset item acquired and the largest liability assumed respectively. In addition, the directors considered the carrying value of each of the assets and liabilities acquired or assumed by the Group approximate their respective fair values.

Goodwill amounted to HK$5.5 million, which represents excess of consideration transferred over net assets acquired as a result of the acquisition, is recognised in the consolidated statement of financial position. The goodwill is allocated to Singapore foreign exchange business cash generating unit. Details of the impairment testing are disclosed in note 30.

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

Debt securities issued by subsidiaries

None of the subsidiaries had issued any debt securities during the current and prior years except for Haitong International Finance 2015 Limited and Haitong International Finance 2014 Limited which have issued US$700 million and US$600 million of guaranteed bonds in 2015 and 2014 respectively. Details of the debt securities issued are set out in note 36.

Significant restrictions

Cash and cash equivalents held by subsidiaries in the Mainland China are subject to exchange control restrictions. The carrying amount of these restricted assets in the consolidated financial statements at 31 December 2018 was approximately of HK$68.5 million (31 December 2017: HK$59.1 million).

44. Capital Management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern and to maintain healthy capital ratios in order to support its business and maximise shareholder value.

The Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives, policies or processes during the year.

The Group is not subject to any externally imposed capital requirements except for certain subsidiaries engaged in regulated activities as defined under the HKSFO. In addition, certain overseas subsidiaries are also subject to externally purposed capital requirements by overseas regulatory authorities, such as the Monetary Authority of Singapore and the UK Financial Conduct Authority.

During the year, the subsidiaries that are subject to minimum capital requirements imposed by respective regulatory activities, complied with all the minimum capital requirements.

The Group monitors capital using a leverage ratio, which is calculated by total assets excluding accounts payable to clients divided by the total shareholders' equity.

The leverage ratios as at the end of the reporting period were as follows:

	2018	2017
	HK$'000	HK$'000
Total assets	**151,181,085**	130,223,838
Less: Accounts payable to clients (note 35)	**(17,710,600)**	(22,012,013)
	133,470,485	108,211,825
Shareholders' equity	**25,810,337**	25,367,879
Leverage ratio (times)	**5.17**	4.27

45. Financial Risk Management

The Group's major financial instruments include refundable deposits and other receivables, investment securities classified as AFS investments/held-to-maturity investments/measured at FVTPL/amortised cost, advances to customers in margin financing, advances to customers for merger and acquisition activities and asset-backed financing to customers, financial assets/liabilities held for trading and market making activities, assets acquired for financial products issued, derivative financial instruments, accounts receivable, reverse repurchase agreements, cash and cash equivalents, repurchase agreements, financial products issued at fair value, accounts payables, debt securities in issue and bank loans and other borrowings. Advances to customers in margin financing, advances to customers for merger and acquisition activities and asset-backed financing to customers, financial assets or liabilities held for trading and market making activities, assets acquired for financial products issued, derivative financial instruments, reverse repurchase agreements, investment securities classified as AFS investments/held-to-maturity investments/measured at FVTPL/amortised cost, accounts receivable, financial products issued at fair value and accounts payable mainly arise from the Group's operations while cash and bank balances, repurchase agreements, bank loans and other borrowings and debt securities in issue are to maintain liquidity or to raise financing for the Group's operations.

The risks associated with these financial instruments include market risk (price risk, currency risk and interest rate risk), credit risk and liquidity risk. The policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in economic environment. Market risk comprises three types of risks: price risk, currency risk and interest rate risk.

The Group's exposures to market risk include price risk, currency risk and interest rate risk.

Price risk

Price risk is the risk that the fair values of equity investments, debt instruments, exchange trade funds, unlisted fund and partnership investment and derivatives decrease as a result of changes in the levels of equity indexes and the values of individual investment.

The Group is exposed to price risk mostly arising from equity investments, fund investments, and derivative financial instruments that are classified as financial assets/liabilities held for trading and market making activities, investment securities classified as AFS investments/measured at FVTPL. Majority of the Group's equity investments and exchange traded funds are listed on the Stock Exchange and respective overseas stock exchanges, while the unlisted investment fund are traded in the over-the-counter markets.

The Group has established a risk management mechanism led by the Board and the Executive Committee through its 2 sub-committees, the Risk Management Committee and the Capital Allocation and Investment Committee.

45. Financial Risk Management (continued)

Market risk (continued)

Price risk (continued)

In addition, the Group's exposures are closely monitored by other relevant internal control units, including the Risk Management Department, the Treasury Department, the Legal and Compliance Department and the Internal Audit Department.

Listed equity investments (including exchange traded funds)

The table below summarises the impact of changes in the Hong Kong Hang Seng Index and other relevant indexes on the Group's profit after tax for the year and on the investments revaluation reserve. The analysis is based on the assumption that the equity index had changed by 10% with all other variables held constant and all the listed equity instruments move according to the historical correlation with the index. The directors of the Company consider the Group's exposure to price risk arising from the listed equity investments acquired for the issued financial products presented in assets acquired financial products issued can be offset against the Group's exposure to price risk arising from the issued financial products presented in financial products issued at fair value and therefore excluded from the analysis below.

Hong Kong Hang Seng Index and other relevant indexes

	2018	
	Net impact on profit after tax HK$'000	**Impact on the investments revaluation reserve in equity HK$'000**
Increase by 10%	**89,289**	**–**
Decrease by 10%	**(89,289)**	**–**

Hong Kong Hang Seng Index and other relevant indexes

	2017	
	Net impact on profit after tax HK$'000	Impact on the investments revaluation reserve in equity HK$'000
Increase by 10%	703,606	9,960
Decrease by 10%	(703,606)	(9,960)

45. Financial Risk Management (continued)

Market risk (continued)

Price risk (continued)

Unlisted fund, unlisted equity and partnership investments

The fair value of unlisted fund, unlisted equity and partnership investments as well as unlisted financial products depend on the valuation of the respective investments or underlying investments. If the unit price increased/decreased by 5%, profit after tax for the year would have an estimated HK$415,932,000 increase/decrease (2017: HK$120,180,000 increase/decrease). For comparative disclosure, investments revaluation reserve in consolidated statement of profit or loss and other comprehensive income would have an estimated HK$307,173,000 increase/decrease for the year ended 31 December 2017.

The directors of the Company consider the Group's exposure to price risk arising from the unlisted fund, unlisted equity and partnership investments as well as unlisted financial product acquired for the issued financial products presented in assets acquired for financial products issued can be offset against the Group's exposure to price risk arising from the issued financial products presented in financial products issued at fair value.

Derivative financial instruments – held for trading

The fair value of derivative financial instruments held for trading depends on the underlying investment portfolio or linked index. If the fair value of the underlying investment portfolio or linked index increased/decreased by 5%, the fair value of derivative financial instruments held for trading and profit after tax would have an estimated HK$1,463,000 increase/decrease (2017: HK$26,279,000 decrease/increase).

Debt securities measured at fair value

For sensitivity analysis purpose of debt securities, if the prices of debt securities (measured at fair value) had been 2% higher/lower, the profit after tax for the year ended 31 December 2018 would have increased/decreased by approximately HK$619,771,000 (2017: HK$379,485,000). For comparative disclosure, investments revaluation reserve in consolidated statement of profit or loss and other comprehensive income would have an estimated HK$36,993,000 increase/decrease for the year ended 31 December 2017.

In opinion of the management, the sensitivity analysis is unrepresentative of the price risk as the year end exposure does not reflect the exposure during the year.

45. Financial Risk Management (continued)

Market risk (continued)

Currency risk

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate as a result of changes in foreign exchange rates.

The Group's foreign currency risk arises principally from its leveraged foreign exchange business as well as the Group's transactions and borrowings denominated in currencies other than Hong Kong dollars ("HKD"). The Group hedges economically majority of its client trades in its leveraged foreign exchange business back-to-back with external counterparties, such that the Group is not exposed to significant foreign currency risk.

During the year ended 31 December 2018, the Group had a cross currency swap with a notional contract amount of RMB200 million (equivalent to HK$239 million) which has been terminated before year end (2017: RMB200 million (equivalent to HK$239 million), which was designated as cash flow hedges of the currency risk inherent in a RMB denominated note issued by the Group. That cross currency swap was designated as an effective hedging instrument and hedge accounting is applied (see note 20 for details).

The majority of the Group's assets and liabilities are denominated in HKD, Euro ("EUR"), Singapore dollars ("SGD"), United States dollars ("USD") and Renminbi ("RMB"). The directors do not expect significant foreign exchange risk arising from USD denominated monetary items in view of the Hong Kong dollar pegged system to the USD.

At 31 December 2018, if EUR strengthened/weakened against HKD by 5% with all other variables including tax rate being constant, profit after tax for the year would have been HK$4,381,000 (2017: HK$15,354,000) higher/lower.

At 31 December 2018, if SGD strengthened/weakened against HKD by 5% with all other variables including tax rate being constant, profit after tax for the year would have been HK$5,895,000 (2017: HK$29,862,000) higher/lower.

At 31 December 2018, if RMB strengthened/weakened against HKD by 5% with all other variables including tax rate being constant, profit after tax for the year would have been HK$57,524,000 lower/higher (2017: HK$31,453,000 lower/higher).

In the opinion of the management, the sensitivity analysis is unrepresentative of the inherent foreign currency risk as the year end exposure does not reflect the exposure during the year.

45. Financial Risk Management (continued)

Market risk (continued)

Interest rate risk

Fair value interest rate risk

The Group's fair value interest rate risk relates primarily to investments in preference shares, debt securities, unlisted financial products and certificate of deposits within investment securities classified as AFS investments/measured at FVTPL, and financial assets/liabilities held for trading and market making activities all carried at fixed interest rates. The Group currently does not have a fair value hedging policy. However, the directors of the Company consider the Group's exposure to interest risk arising from the listed and unlisted debt investments and listed and unlisted preference shares acquired for the issued financial products presented in assets acquired for financial products issued can be offset against the Group's exposure to interest risk arising from the issued financial products presented in financial products issued at fair value.

The Group's fair value interest rate risk exposure is summarised as follows:

	2018 HK$'000	2017 HK$'000
Financial assets held for trading and market making activities	**33,607,531**	18,925,988
Investment securities at FVTPL	**8,452,280**	6,213,223
Financial liabilities held for trading and market making activities	**(3,953,825)**	(2,415,570)
Financial products issued at fair value	**(2,525,808)**	(761,463)
Investment securities classified as AFS investments	**–**	1,849,653
	35,580,178	23,811,831

At 31 December 2018, if market interest rates had been 25 basis points (2017: 25 basis points) higher/lower with all other variables held constant, profit after tax for the year would have decreased/increased by HK$74,274,000 (2017: decreased/increased by HK$45,846,000). For comparative disclosure, investments revaluation reserve in equity would have decreased/increased by HK$4,624,000 for the year ended 31 December 2017.

In the opinion of the management, the sensitivity analysis is unrepresentative of the fair value interest rate risk as the year end exposure does not reflect the exposure during the year.

45. Financial Risk Management (continued)

Market risk (continued)

Interest rate risk (continued)

Cash flow interest rate

The Group's cash flow interest rate risk relates primarily to the bank deposits, advances to customers in margin financing, advances to customers for merger and acquisition activities and asset-backed financing to customers, investment securities at amortised cost, debt securities in issue and bank loans and other borrowings.

The Group's cash flow interest rate risk is mainly concentrated on the fluctuation of HIBOR arising from the Group's HKD denominated borrowings as its interest-bearing assets and liabilities are mainly HKD denominated.

The Group's held-to-maturity investments were not subject to the interest rate risk as all investments are carried at amortised cost with fixed interest rate.

The Group's exposure to interest rate risk arising from the interest-bearing assets can be offset against the Group's interest-bearing liabilities. Management actively monitors the Group's net interest rate exposure through setting limits on the level of mismatch of interest rate re-pricing and duration gap and aims at maintaining an interest rate spread, such that the Group is always in a net interest-bearing asset position and derives net interest income. The directors of the Company considered that there is no concentration of interest rate risk exposure.

In relation to some variable rate borrowings, the Group enters into interest rate swaps to hedge against its exposures to changes in fair values of those borrowings. Interest rate swaps, denominated in RMB or HKD, have been entered into achieve an appropriate mix of fixed and floating rate exposure consistent with the Group's policy.

45. Financial Risk Management (continued)

Market risk (continued)

Interest rate risk (continued)

Cash flow interest rate (continued)

The Group's cash flow interest rate risk exposure arises on positions with the following carrying values:

	2018 **HK$'000**	2017 HK$'000
Advances to customers in margin financing	**15,952,460**	16,369,217
Advances to customers for merger and acquisition activities	**1,229,403**	1,700,000
Asset-backed financing to customers	**1,528,704**	828,000
Investment securities at amortised cost	**–**	1,646,000
Reverse repurchase agreements	**4,343,561**	2,921,857
Cash held on behalf of customers	**15,998,360**	19,768,481
Cash and cash equivalents	**7,088,829**	4,536,816
Bank loans and other borrowings (excluding those hedged by interest rate swaps)	**(33,521,656)**	(30,036,515)
Repurchase agreements	**(24,089,043)**	(11,307,114)
Debt securities in issue	**(1,490,000)**	–
	(12,959,382)	6,426,742

At 31 December 2018, if market interest rates had been 25 basis points (2017: 25 basis points) higher/lower with all other variables held constant, profit after tax for the year would have increased/decreased by HK$27,053,000 (2017: decreased/increased by HK$13,416,000). In the opinion of the management, the sensitivity analysis is unrepresentative of the cash flow interest rate risk as the year end exposure does not reflect the exposure during the year.

Credit risk and impairment assessment

As at 31 December 2018, the Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge an obligation by the counterparties is arising from the carrying amount of the respective recognised financial assets as stated in the consolidated statement of financial position.

Among the respective recognised financial assets as stated in the consolidated statement of financial position, the directors consider that investment securities at amortised cost, financial products issued at fair value, derivative financial instruments, advances to customers in margin financing, advances to customers for merger and acquisition activities and asset-backed financing to customers, accounts and other receivables, cash and cash equivalents and other assets represent the Group's maximum exposure to the credit risk arising from the default of the counterparty, with a maximum exposure equal to the carrying amounts of these financial assets in the consolidated statement of financial position.

45. Financial Risk Management (continued)

Credit risk and impairment assessment (continued)

In order to manage the credit risk, the Credit Approval Committee of the Group has appointed a group of authorised persons who are charged with the responsibility of approving credit limit of each customer, including advances to customers in margin financing, advances to customers for merger and acquisition activities and asset-backed financing to customers. The Credit Approval Committee is also responsible for the credit risk arising from the Group's investment in debt securities (including preference shares).

For margin lending, the Credit Approval Committee is responsible for approving of share acceptable for margin lending and setting stock margin ratio for each approved share. The approved share list is updated quarterly, and will be revised as and when deemed necessary by the Credit Approval Committee. The Credit Approval Committee will prescribe from time to time lending limits on individual share or on any individual customer and his/her associates.

The Credit and Product Management Department of the Group is responsible for overall monitoring of the credit risk of its customers and will make margin calls to those customers whose trades exceed their respective limits. Any such excess is required to be made good within two days for securities and the next day for futures of the deficiency report. The deficiency report will be monitored daily by the Head of the Credit and Product Management Department and responsible officers. Failure to meet margin calls may result in the liquidation of the customers' positions. For each individual loans and receivables, the Credit and Product Management Department will closely monitor financial position of the debtors and guarantors, and for the loans with collateral pledged to the Group, the Credit and Product Management Department will ensure sufficient collateral were received to maintain an acceptable loan to collateral value ratio.

For advances to customers for merger and acquisition activities, asset-backed financing to customers and investment securities at amortised cost, prior to the lending of a loan and subscription of debt securities, the Credit Approval Committee will review the financial strength, purpose of the borrowing, repayment ability of the borrower to ensure that the borrower has sound financial repayment ability. The Group assesses the credit profile of each individual debtor by analysing many factors that influence the default probability, including (but not limited to) the counterparty's financial profile, business prospects and management, macroeconomic development, industrial and sovereign risk, and historical performance. The Credit Approval Committee holds meeting from time to time as the chairperson considers appropriate and reviews from time to time the financial conditions of the borrower or the guarantors.

For the Group's issued financial products and investments in preference shares and debt securities, the Capital Allocation and Investment Committee, the Credit and Product Management Department, the Risk Management Department and respective business units of the Group assess the financial performance of the issuers to ensure that the issuers can satisfy the repayment of the principal and interest as they fall due. Failure to repay may result in legal actions and issue of demand letters to the issuers.

45. Financial Risk Management (continued)

Credit risk and impairment assessment (continued)

The Group has set portfolio size and single issuer limits to control the Group's exposure to the credit risk.

The Group also monitors the credit rating and market news of the issuers of respective equity, debts, preference shares, derivatives investments and unlisted financial products as well as the holders of unlisted financial products issued by the Group of respective equity, debts and preference shares investments and derivatives as well for any indication of potential credit deterioration. For those financial products issued by the Group, the directors will also maintain a regular communication with the holders and assess the performance of the underlying investments to evaluate if there is any indication of potential credit deterioration.

For other credit exposures such as the derivative financial instruments, accounts and other receivables and cash and cash equivalents, the Group ensures that the exposures are limited to reputable counterparties, such as the financial institutions, brokers, dealers or clearing houses, which are governed by regulators including the Hong Kong Monetary Authority, the SFC and other overseas regulators. The risk of default in repayment is considered to be minimal by the directors.

Other than concentration of credit risk on liquid funds which are deposited with several banks with high credit ratings, the Group does not have any other significant concentrations of credit risk.

The management is confident in its ability to continue to control and sustain minimal exposure of credit risk arising from below major recognised financial assets as stated in the consolidated statement of financial position.

- For accounts receivable, approximately HK$1,362,545,000 (2017: HK$3,932,850,000) was receivables from clients arising from dealing in securities, which normally had a delivery-against payment settlement term of 2 days.

  There is no concentration of credit risk with respect to the receivables, as the Group has a large number of clients who are internationally dispersed. Most of the accounts and other receivables from clients with overdue more than 30 days are fully secured by listed securities with market value significantly higher than the carrying amount.

- Advances to customers in margin financing are backed by collateral. The Group only accepts collateral in the form of cash and liquid stocks. Concentration risk of advances to customers in margin financing is managed by reference to individual customers. The aggregate credit exposure in relation to the ten largest outstanding customers, including corporate entities and individuals at 31 December 2018 was HK$7,355 million (31 December 2017: HK$5,836 million) which were secured by collateral.

45. Financial Risk Management (continued)

Credit risk and impairment assessment (continued)

- Loans and debt securities classified as advances to customers in margin financing, advances to customers for merger and acquisition activities and asset-backed financing to customers and investment securities at amortised cost are either secured or guaranteed. Concentration risk of loans and debt securities is managed by reference to individual borrowers and issuers. The aggregate credit exposure in relation to the ten largest outstanding loans borrowers and issuers of debt securities at 31 December 2018 was HK$9,212 million (31 December 2017: HK$8,843 million). There was no recent history of individual impairment allowance recognised for these ten largest parties.

- For stock-pledged repurchase and stock-acquired resale business, the directors of the Company stimulate and conduct strict due diligence and project review procedures, and control the credit risk relating to the business through marking the market, tracking projects, closing the position and other approaches. The directors of the Company focus on the investment diversification for credit-class fixed income securities investments and closely follow up the operation condition of counterparties and their credit ratings changes. Majorities of the above-mentioned businesses were entered with the counterparties with the credit rating of Baal or above issued by Moody's or BBB+ or above issued by Standards & Poor's.

- Other receivables were issued by corporations and reputable large commercial banks with issuer credit rating of B1 or above issued by Moody's or B+ or above issued by Standard & Poor's.

- Majority of derivative financial instruments are entered with reputable financial institutions with credit rating of Baa1 or above issued by Moody's or BBB+ or above issued by Standards & Poor's.

- Majority of cash and cash equivalents are deposited in reputable large commercial banks with credit rating of Baa2 or above issued by Moody's or BBB or above issued by Standards & Poor's ("S & P").

45. Financial Risk Management (continued)

Credit risk and impairment assessment (continued)

The Group's internal credit risk grading assessment comprises the following categories:

Internal credit rating	Description	Accounts receivable	Other financial assets/other items
Low risk	The counterparty has a low risk of default and does not have any past-due amounts	Lifetime ECL – not credit-impaired	12-month ECL
Watch list	The counterparty has past due amounts but the payment has not been past due for 5 days (advance to customers in margin financing: for any margin call less than 10 days)	Lifetime ECL – not credit-impaired	12-month ECL
Doubtful	There have been significant increases in credit risk since initial recognition through information developed internally or external resources or payments have been overdue for more than 30 days (advance to customers in margin financing: margin call outstanding for over 10 days)	Lifetime ECL – not credit-impaired	Lifetime ECL – not credit-impaired
Loss	There is evidence indicating the asset is credit-impaired or payment has been overdue for more than 90 days (advance to customers in margin financing: margin call outstanding for over 30 days)	Lifetime ECL – credit-impaired	Lifetime ECL – credit-impaired
Write-off	There is evidence indicating that the debtor is in severe financial difficulty and the Group has no realistic prospect of recovery	Amount is written off	Amount is written off

45. Financial Risk Management (continued)

Credit risk and impairment assessment (continued)

The tables below detail the credit risk exposures of the Group's financial assets, which are subject to ECL assessment:

2018	Note	External credit rating	Internal credit rating	12-month or lifetime ECL	Gross carrying amount HK$'000	HK$'000
Financial assets at amortised cost						
Advance to customers in margin financing	21	N/A	Low risk	12-month ECL	**10,962,390**	
			Watch list	12-month ECL	**3,210,147**	
			Doubtful	Lifetime ECL (not credit impaired)	**969,944**	
			Loss	Credit-impaired	**1,425,341**	**16,567,822**
Advance to customers for merger and acquisition activities	22	N/A	Low risk	12-month ECL	**3,380,937**	
			Watch list	12-month ECL	**200,029**	
			Doubtful	Lifetime ECL (not credit impaired)	**–**	
			Loss	Credit-impaired	**–**	**3,580,966**
Asset-backed financing to customers	23	N/A	Low risk	12-month ECL	**5,309,400**	
			Watch list	12-month ECL	**–**	
			Doubtful	Lifetime ECL (not credit impaired)	**35,333**	
			Loss	Credit-impaired	**102,883**	**5,447,616**
Investment securities at amortised cost	18	N/A	Low risk	12-month ECL	**5,371,706**	
			Watch list	12-month ECL	**–**	
			Doubtful	Lifetime ECL (not credit impaired)	**–**	
			Loss	Credit-impaired	**–**	**5,371,706**
Cash and cash equivalents		Above Baa2 (Moody)/BBB (S & P)	N/A	12-month ECL	**7,088,878**	**7,088,878**
Cash held on behalf of customers	16	Above Baa2 (Moody)/BBB (S & P)	N/A	12-month ECL	**15,999,107**	**15,999,107**
Accounts receivable	25	N/A	Low risk	12-month ECL	**5,876,011**	**5,876,011**

The estimated loss rates for each class of financial assets are estimated based on historical observed default rates over the expected life of the respective class of financial assets and are adjusted for forward-looking information that is available without undue cost or effort, include macro-economic data such as GDP growth, unemployment, benchmark interest rates and house prices. The identification of internal credit rating for individual financial assets regularly reviewed by management to ensure relevant information about specific financial assets is updated.

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

45. Financial Risk Management (continued)

Credit risk and impairment assessment (continued)

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

	Stage 1 HK$'000	Stage 2 HK$'000	Stage 3 HK$'000	Total HK$'000
As at 1 January 2018	15,823,494	246,086	538,841	16,608,421
As at 31 December 2018	14,172,537	969,944	1,425,341	16,567,822

Movement in the allowances for impairment that has been recognised for advances to customers in margin financing are as follows:

31.12.2018

	Stage 1 12-month ECL HK$'000	Stage 2 Lifetime ECL HK$'000	Stage 3 Lifetime ECL HK$'000	Impairment allowance under HKAS 39 HK$'000	Total HK$'000
As at 31 December 2017 under HKAS 39	–	–	–	239,204	239,204
Restated on adoption of HKFRS 9	24,922	4,931	239,204	(239,204)	29,853
As at 1 January 2018 – as restated	24,922	4,931	239,204	–	269,057
Changes due to financial instruments recognised as at 1 January:					
– Net remeasurement of ECL without transfer of stage	5,608	1,224	59,288	–	66,120
– Repayments	(1,606)	(19)	(8,374)	–	(9,999)
– Transfer from/to 12-month ECL to/from lifetime ECL	3,235	(3,924)	689	–	–
– Net remeasurement of ECL arising from transfer of stage	(5,938)	29,104	271,734	–	294,900
New lending	2,693	–	–	–	2,693
Transfer from/to 12-month ECL to/from lifetime ECL of new lending	(265)	159	106	–	–
Written off	–	–	(7,409)	–	(7,409)
As at 31 December 2018	28,649	31,475	555,238	–	615,362

45. Financial Risk Management (continued)

Credit risk and impairment assessment (continued)

31.12.2017

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

Analysis of the gross carrying amount of investment securities at amortised cost is as follows:

	Stage 1 HK$'000	**Stage 2 HK$'000**	**Stage 3 HK$'000**	**Total HK$'000**
As at 31 December 2017	**5,733,689**	**–**	**–**	**5,733,689**
Transferred to be measured at FVTPL	**(781,585)**	**–**	**–**	**(781,585)**
As at 1 January 2018	**4,952,104**	**–**	**–**	**4,952,104**
As at 31 December 2018	**5,371,706**	**–**	**–**	**5,371,706**

No investment securities at amortised cost had been past due as at 31 December 2018. The credit risk profiles of investment securities at amortised cost as at 31 December 2017 are as follows:

	2017 HK$'000
Neither past due nor impaired	5,733,689
Past due but not impaired	–
Impaired	–
Balance at the end of the year	5,733,689

45. Financial Risk Management (continued)

Credit risk and impairment assessment (continued)

Movement in the allowances for impairment that has been recognised for investment securities at amortised cost are as follows:

31.12.2018

	Stage 1 12-month ECL HK$'000	Stage 2 Lifetime ECL HK$'000	Stage 3 Lifetime ECL HK$'000	Impairment allowance under HKAS 39 HK$'000	Total HK$'000
As at 31 December 2017 under HKAS 39	–	–	–	–	–
Restated on adoption of HKFRS 9	14,945	–	–	–	14,945
As at 1 January 2018 — as restated	14,945	–	–	–	14,945
Change due to financial instruments recognised as at 1 January:					
— Net remeasurement of ECL	(6,336)	–	–	–	(6,336)
— Repayments	(2,095)	–	–	–	(2,095)
New lending	6,131	–	–	–	6,131
As at 31 December 2018	12,645	–	–	–	12,645

Analysis of the gross carrying amount of advances to customers for merger and acquisition activities is as follows:

	Stage 1 HK$'000	Stage 2 HK$'000	Stage 3 HK$'000	Total HK$'000
As at 1 January 2018	4,242,836	–	200,029	4,442,865
As at 31 December 2018	3,580,966	–	–	3,580,966

The credit risk profiles of advances to customers for merger and acquisition activities as at 31 December 2017 are as follows:

	2017 HK$'000
Neither past due nor impaired	4,242,836
Past due but not impaired	–
Impaired	200,029
Balance at the end of the year	4,442,865

45. Financial Risk Management (continued)

Credit risk and impairment assessment (continued)

Movement in the allowances for impairment that has been recognised for advances to customers for merger and acquisition activities are as follows:

31.12.2018

	Stage 1 12-month ECL HK$'000	Stage 2 Lifetime ECL HK$'000	Stage 3 Lifetime ECL HK$'000	Impairment allowance under HKAS 39 HK$'000	Total HK$'000
As at 31 December 2017 under HKAS 39	–	–	–	108,647	108,647
Restated on adoption of HKFRS 9	6,673	–	108,647	(108,647)	6,673
As at 1 January 2018 — as restated	6,673	–	108,647	–	115,320
Changes due to financial instruments recognised as at 1 January:					
— Transfer from/to 12m ECL to/from Lifetime ECL	108,647	–	(108,647)	–	–
— Net remeasurement of ECL without transfer of stage	112	–	–	–	112
— Net remeasurement of ECL arising from transfer of stage	(105,921)	–	–	–	(105,921)
— Repayments	(4,709)	–	–	–	(4,709)
New lending	4,031	–	–	–	4,031
As at 31 December 2018	8,833	–	–	–	8,833

31.12.2017

	Total HK$'000
As at 1 January 2017	–
Impairment losses recognised	108,647
As at 31 December 2017	108,647

45. Financial Risk Management (continued)

Credit risk and impairment assessment (continued)

Analysis of the gross carrying amount of asset-backed financing to customers is as follows:

	Stage 1 HK$'000	Stage 2 HK$'000	Stage 3 HK$'000	Total HK$'000
As at 31 December 2017	**4,098,629**	**–**	**102,883**	**4,201,512**
Reclassified from AFS investments under HKFRS 9	**1,673,177**	**–**	**–**	**1,673,177**
Reclassified to financial assets at FVTPL	**(156,317)**	**–**	**–**	**(156,317)**
As at 1 January 2018	**5,615,489**	**–**	**102,883**	**5,718,372**
As at 31 December 2018	**5,309,400**	**35,333**	**102,883**	**5,447,616**

The credit risk profiles of asset-backed financing to customers as at 31 December 2017 are as follows:

	2017 HK$'000
Neither past due nor impaired	4,098,629
Past due but not impaired	–
Impaired	102,883
Balance at the end of the year	4,201,512

45. Financial Risk Management (continued)

Credit risk and impairment assessment (continued)

Movement in the allowances for impairment that has been recognised for asset-backed financing to customers are as follows:

31.12.2018

	Stage 1 12-month ECL HK$'000	Stage 2 Lifetime ECL HK$'000	Stage 3 Lifetime ECL HK$'000	Impairment allowance under HKAS 39 HK$'000	Total HK$'000
As at 31 December 2017 under HKAS 39	–	–	–	102,883	102,883
Restated on adoption of HKFRS 9	11,456	–	102,883	(102,883)	11,456
As at 1 January 2018 — as restated	11,456	–	102,883	–	114,339
Changes due to financial instruments recognised as at 1 January:					
— Net remeasurement of ECL	(1,170)	–	(1,375)	–	(2,545)
— Repayments	(9,632)	–	–	–	(9,632)
New lending	7,363	–	–	–	7,363
Transfer from/to 12-month ECL to/from lifetime ECL of new lending	(1,518)	1,518	–	–	–
Net remeasurement of ECL arising from transfer of stage of new lending	–	(526)	–	–	(526)
As at 31 December 2018	6,499	992	101,508	–	108,999

45. Financial Risk Management (continued)

Credit risk and impairment assessment (continued)

31.12.2017

	Total HK$'000
As at 1 January 2017	102,883
Impairment losses recognised	–
As at 31 December 2017	102,883

Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting obligations associated with its financial liabilities. As part of the measures to safeguard liquidity, the Group has maintained substantial long term and other stand-by banking facilities, diversifying the funding sources and spacing out the maturity dates.

A number of the Group's activities in Hong Kong and overseas are subject to various statutory liquidity requirements as prescribed by respective regulators.

The Group has also put in place a monitoring system to ensure that it maintains adequate liquid capital to fund its business commitments and to comply with relevant liquid capital requirements imposed by respective regulators.

As at 31 December 2018, the Group has available unutilised overdrafts, and short and medium term bank loan facilities of approximately HK$25,503 million (31 December 2017: HK$23,533 million).

The table below presents the cash flows payable by the Group under non-derivative financial liabilities held for managing liquidity risk by remaining contractual maturities at the reporting date.

The amounts disclosed in the table are the contractual undiscounted cash flows. The table includes both interest and principal cash flows. In addition, the following table details the Group's liquidity analysis for its derivative financial instruments. The tables have been drawn up based on the undiscounted contractual net cash (inflows) and outflows on derivative instruments that settle on a net basis. When the amount payable is not fixed, the amount disclosed has been determined by reference to the projected interest rates as illustrated by the yield curves existing at the end of the reporting period. The liquidity analysis for the Group's derivative financial instruments are not prepared based on the contractual settlement dates as the management consider that the settlement dates are not essential for an understanding of the timing of the cash flows of derivatives that are held-for-trading.

45. Financial Risk Management (continued)

Liquidity risk (continued)

Liquidity table

	Repayable on demand or less than 3 months HK$'000	Over 3 months to 1 year HK$'000	Over 1 year to 5 years HK$'000	Total HK$'000
31 December 2018				
Convertible bonds issued	–	145,442	3,978,164	4,123,606
Non-convertible bonds issued	208,867	4,897,382	5,711,053	10,817,302
Non-convertible notes issued	1,758,793	9,415,649	–	11,174,442
Bank loans and other borrowings (note)	33,833,049	45,335	–	33,878,384
Repurchase agreements	21,911,027	2,178,016	–	24,089,043
Accounts payable	20,974,552	–	–	20,974,552
Financial liabilities held for trading and market making activities	4,405,866	–	–	4,405,866
Financial products issued at fair value	13,315,922	–	638,846	13,954,768
Other payables and accruals	1,265,691	–	–	1,265,691
Other liabilities arising from consolidation of investment funds	483,781	–	–	483,781
Derivative financial instruments — net settlement	505,496	–	–	505,496
	98,663,044	16,681,824	10,328,063	125,672,931

45. Financial Risk Management (continued)

Liquidity risk (continued)

Liquidity table (continued)

	Repayable on demand or less than 3 months HK$'000	Over 3 months to 1 year HK$'000	Over 1 year to 5 years HK$'000	Total HK$'000
31 December 2017				
Convertible bonds issued	13	3,983	4,123,891	4,127,887
Non-convertible bonds issued	208,449	208,449	10,830,358	11,247,256
Non-convertible notes issued	498,216	780,955	496,485	1,775,656
Bank loans and other borrowings (note)	31,311,274	–	–	31,311,274
Repurchase agreements	11,268,986	57,955	–	11,326,941
Accounts payable	26,469,683	–	–	26,469,683
Financial liabilities held for trading and market making activities	4,604,688	–	–	4,604,688
Financial products issued at fair value	11,284,590	–	852,245	12,136,835
Other payables and accruals	1,877,882	–	–	1,877,882
Other liabilities arising from consolidation of investment funds	271,601	–	–	271,601
Derivative financial instruments — net settlement	1,323,116	–	–	1,323,116
	89,118,498	1,051,342	16,302,979	106,472,819

Note: Bank loans with a repayment on demand clause are included in the "repayable on demand or less than 3 months" time band in the maturity analysis. As at 31 December 2018, the aggregate undiscounted principal amounts of these bank loans amounted to HK$3,190 million (31 December 2017: HK$4,723 million). Taking into account the Group's financial position, the directors do not believe that it is probable that the banks will exercise their discretionary rights to demand immediate repayment. The directors believe that such bank loans will be repaid within one year after the end of the reporting period (2017: within one year). At that time, the aggregate principal and interest cash outflows will amount to HK$3,196 million (31 December 2017: HK$4,729 million).

45. Financial Risk Management (continued)

Stock borrowing and lending arrangement

Under the normal course of business, the Group may enter into stock borrowing and lending arrangements with other financial institutions and its customers. Equity securities may be borrowed from the other financial institutions and lent to its customers or for the Group's proprietary short selling activity.

During the process, the Group receives cash collateral from the customers and also places cash collateral in other financial institutions as collateral.

	2018 **HK$'000**	2017 HK$'000
Equity securities borrowed from external financial institutions	**663,583**	386,885
Equity securities lent to counterparties and customers	**1,649,398**	3,574,095
Cash collateral received from counterparties and customers	**1,708,575**	3,417,718
Cash collateral held by financial institutions	**688,739**	208,915

46. Fair Value Measurements of Financial Instruments

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

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

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

	Fair value as at 31 December 2018 HK$'000	Fair value as at 31 December 2017 HK$'000	Fair value hierarchy	Basis of fair value measurement/ valuation techniques and key inputs
Recurring fair value measurements:				
Investment securities classified as AFS 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 investments	**-**	345,100	Level 3	Note (l)
— 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 (o)
— Unlisted equity investment	**-**	563,092	Level 2	Note (n)
— Unlisted debt investments	**-**	1,673,177	Level 2	Note (g)
	-	8,104,311		

46. Fair Value Measurements of Financial Instruments (continued)

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

	Fair value as at 31 December 2018 HK$'000	Fair value as at 31 December 2017 HK$'000	Fair value hierarchy	Basis of fair value measurement/ valuation techniques and key inputs
Financial assets held for trading and market making activities/investment securities at FVTPL				
— Listed equity investments	**2,008,645**	7,483,326	Level 1	Note (c)
— Listed equity investment	**89,893**	–	Level 2	Note (d)
— Exchange traded funds	**232,987**	974,447	Level 1	Note (c)
— Listed preference shares	**146,846**	203,721	Level 2	Note (e)
— Listed debt investments	**32,355,110**	18,708,955	Level 2	Note (e)
— Listed debt investment	**780,000**	–	Level 2	Note (d)
— Listed debt investment	**260,352**	251,176	2018: Level 3 2017: Level 2	2018: Note (m) 2017: Note (e)
— Unlisted partnership investments	**284,820**	–	Level 2	Note (d)
— Unlisted partnership investments	**811,935**	–	Level 3	Note (m)
— Unlisted equity investments	**645,343**	61,163	Level 2	Note (d)
— Unlisted equity investment with lock-up period	**56,246**	111,053	2018: Level 2 2017: Level 3	2018: Note (h) 2017: Note (l)
— Unlisted equity investment	**136,338**	–	Level 3	Note (o)
— Unlisted equity investments	**103,974**	–	Level 2	Note (b)
— Unlisted equity investment	**548,209**	–	Level 2	Note (g)
— Unlisted equity investments with lock-up period	**16,129**	6,254	Level 2	2018: Note (h) 2017: Note (d)
— Unlisted debt investments	**4,397,376**	5,522,305	Level 2	Note (e)
— Unlisted debt investments	**1,115,996**	353,276	Level 2	Note (d)
— Unlisted debt investments	**1,586,489**	–	Level 2	Note (g)
— Unlisted debt investments	**381,810**	–	Level 3	Note (n)
— Unlisted debt investment	**41,895**	–	Level 2	Note (j)
— Unlisted investment funds	**7,869,012**	4,133,005	Level 2	Note (a)
— Unlisted investment fund	**81,398**	–	Level 3	Note (m)
— Unlisted investment fund	**156,631**	–	Level 2	Note (d)
— Unlisted financial products	**993,937**	–	Level 2	Note (g)
— Unlisted certificated deposit	**–**	99,778	Level 2	Note (g)
	55,101,371	37,908,459		

46. Fair Value Measurements of Financial Instruments (continued)

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

	Fair value as at 31 December 2018 HK$'000	Fair value as at 31 December 2017 HK$'000	Fair value hierarchy	Basis of fair value measurement/ valuation techniques and key inputs
Assets acquired for financial products issued				
— Listed equity investments	**1,729,650**	2,510,765	Level 1	Note (c)
— Listed debt investments	**15,848,326**	3,958,884	Level 2	Note (e)
— Unlisted equity investments	**276,419**	353,044	Level 3	Note (l)
— Unlisted equity investment	**86,147**	85,974	2018: Level 3 2017: Level 2	2018: Note (l) 2017: Note (d)
— Unlisted equity investments	**11,356**	87,750	Level 2	Note (d)
— Unlisted equity investment with lock-up period	**56,246**	111,053	2018: Level 2 2017: Level 3	2018: Note (h) 2017: Note (l)
— Unlisted equity investment with lock-up period	**120,638**	71,906	Level 2	2018: Note (h) 2017: Note (d)
— Unlisted partnership investments	**–**	300,498	Level 2	Note (n)
— Unlisted partnership investments	**208,319**	–	Level 2	Note (d)
— Unlisted debt investment	**–**	547,110	Level 2	Note (g)
— Unlisted investment fund	**692,472**	691,083	Level 2	Note (g)
— Unlisted investment funds	**5,643,158**	1,453,446	Level 2	Note (a)
— Unlisted financial products	**516,885**	670	Level 2	Note (f)
— Unlisted financial products	**–**	91,576	Level 2	Note (k)
— Unlisted financial products	**2,115,990**	2,015,893	Level 2	Note (e)
— Unlisted financial products	**447,244**	–	Level 2	Note (a)
	27,752,850	12,279,652		
Derivatives financial instruments				
— Swap contracts	**80,978**	1,051	Level 2	Note (g)
— Forward foreign currency exchange contracts	**53,529**	91,412	Level 2	Note (g)
— Forward foreign currency option contracts	**6,915**	10,314	Level 2	Note (g)
— Listed options/warrants	**169,507**	558,125	2018: Level 2 2017: Level 1	2018: Note (p) 2017: Note (c)
— Cancellable bull/bear contracts	**480**	–	Level 2	Note (p)
— Listed futures	**15,528**	–	Level 1	Note (c)
— Unlisted options (related to listed equity)	**213,626**	32,774	Level 2	Note (j)
	540,563	693,676		
	83,394,784	58,986,098		

46. Fair Value Measurements of Financial Instruments (continued)

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

	Fair value as at 31 December 2018 HK$'000	Fair value as at 31 December 2017 HK$'000	Fair value hierarchy	Basis of fair value measurement/ valuation techniques and key inputs
Financial liabilities held for trading and market making activities at fair value				
— Listed equity investments	**452,041**	2,189,118	Level 1	Note (c)
— Listed debt investments	**2,736,382**	2,352,204	Level 2	Note (e)
— Listed preference shares	**29,519**	37,466	Level 2	Note (e)
— Unlisted debt investments	**1,187,924**	25,900	Level 2	Note (e)
Financial products issued at fair value				
— Unlisted structured note/financial products	**9,905,153**	9,367,672	Level 2	Note (i)
— Unlisted structured note/financial product	**86,147**	85,974	2018: Level 3 2017: Level 2	2018: Note (l) 2017: Note (i)
— Unlisted structured note/financial products	**255,541**	280,044	Level 3	Note (l)
— Unlisted structured note/financial product	**56,246**	48,526	2018: Level 2 2017: Level 3	2018: Note (i) 2017: Note (l)
— Unlisted structured note/financial products	**3,380,607**	2,261,911	Level 2	Note (q)
— Listed equity investments	**271,074**	92,708	Level 1	Note (c)
Derivative financial instruments				
— Swap contracts	**41,795**	15,750	Level 2	Note (g)
— Forward currency option contracts	**10,317**	32	Level 2	Note (g)
— Forward foreign currency exchange contracts	**124,052**	109,830	Level 2	Note (g)
— Listed options/warrants	**208,159**	987,065	2018: Level 2 2017: Level 1	2018: Note (p) 2017: Note (c)
— Callable bull/bear contracts	**28,358**	201,999	2018: Level 2 2017: Level 1	2018: Note (p) 2017: Note (c)
— Listed futures	**43,355**	–	Level 1	Note (c)
— Unlisted option	**49,460**	8,440	Level 2	Note (j)
	18,866,130	18,064,639		

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 was determined with reference to the recent transaction price of the investments.

(e) The fair value was determined with reference to the quoted price provided by brokers/financial institutions.

(f) The fair value was determined with reference to the quoted price of the underlying equities investments.

(g) The fair value was determined based on discounted cash flow model applying various market observable financial parameters, including interest rates, forward exchange rate, credit spread, yield spread, etc.

46. Fair Value Measurements of Financial Instruments (continued)

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

Notes: (continued)

(h) The fair value is derived from the net asset value of such unlisted direct equity investment that is mostly attributable from its underlying listed equity investment which is a restricted share with its fair value is determined with reference to the quoted market prices of the shares with an adjustment to discount the lack of marketability under the discounted cash flow approach. The directors of the Company considered that remaining assets or liabilities in such unlisted direct equity investment are not significant to the amount of overall investment and approximated to its fair value.

The unobservable input is the discount rate for lack of marketability with reference to the prices of listed securities when determining its fair value. The directors of the company considered that the relationship of unobservable inputs to the fair value of such investment is in negative relationship that the higher the discount rate adopted in the valuation assessment, the lower the fair value would be resulted. The director of the Company considered that the unobservable input is insignificant to the fair value as the lock-up period has ended before the reporting date.

(i) Included in financial liabilities designated at FVTPL are the structured notes issued with return linked to equity investments, debt investments, fund investments, index of respective stock exchanges, or partnership investments. The risk of economic exposure on these financial products is primarily hedged using financial instruments classified as financial assets designated at FVTPL. The Group managed relevant assets and liabilities on a pair basis and as such relevant liabilities are valued with directly reference to its hedging assets.

(j) The fair value was determined based on option pricing model with market observable inputs, such as quoted market price, dividend yield, volatility, foreign exchange rate, as key parameters.

(k) Fair value of the investments were determined based on the observable indexes of respective stock exchanges in consideration of the contract terms.

(l) The fair value is determined with reference to the 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.

(m) The fair value is determined based on discounted cash flows. Future cash flows are estimated based on expected cash flows discounted at rate taking into account the credit risk of the issuer.

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

46. Fair Value Measurements of Financial Instruments (continued)

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

Notes: (continued)

(n) The fair value is determined 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.

(o) The fair value was derived from the equity value of the unlisted equity investment based on market approach with the Price to Sale 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. The directors of the Company considered that the relationship of unobservable inputs to the fair value of such investment is in negative relationship that the higher the discount rate, the lower the fair value.

(p) 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 year, 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 during the year. Therefore these two financial instruments were transferred from Level 1 to Level 2 category.

(q) Included in the financial liabilities are the structured note with return linked to index of a specific exchange, listed equities or determined based on discounted cashflow model applying various market observable financial parameters including foreign exchange rate.

46. Fair Value Measurements of Financial Instruments (continued)

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

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

As at 31 December 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 32. As at 31 December 2017, no non-financial assets or liabilities were carried at fair value.

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

	2018		2017	
	Carrying amount HK$'000	**Fair value HK$'000**	Carrying amount HK$'000	Fair value HK$'000
Held-to-maturity investments				
debt investments (note i)	**–**	**–**	94,171	94,349
Convertible bonds (note ii)	**3,933,350**	**4,935,826**	3,868,506	4,070,117
Non-convertible bonds (note ii)	**10,138,605**	**10,207,298**	10,083,594	10,339,846
Non-convertible notes (note i)	**10,975,672**	**10,980,656**	1,671,215	1,671,205

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

46. Fair Value Measurements of Financial Instruments (continued)

Reconciliation of Level 3 fair value measurements

31 December 2018

		Financial assets measured at FVTPL		Financial liabilities measured at FVTPL
	Investment securities classified as available-for-sale investments HK$'000	Financial assets held for trading and market making activities/ investment securities at FVTPL HK$'000	Assets acquired for financial products issued HK$'000	Financial products issued at fair value HK$'000
Opening balance	437,969	111,053	464,097	(328,570)
Reclassification as financial asset at FVTPL (note viii)	(437,969)	437,969	–	–
Total gains (losses) in profit or loss (note iv)	–	120,047	44,890	(44,141)
Addition (ix)	–	222,635	–	–
Transfer into Level 3 (note iii)	–	891,182	86,147	(86,147)
Transfer into Level 2 (note vii)	–	(111,053)	(111,053)	48,526
Disposal	–	–	(121,515)	68,644
Closing balance	–	1,671,833	362,566	(341,688)

31 December 2017

		Financial assets measured at FVTPL		Financial liabilities measured at FVTPL
	Investment securities classified as available-for-sale investments HK$'000	Financial assets held for trading and market making activities/ investment securities at FVTPL HK$'000	Assets acquired for financial products issued HK$'000	Financial products issued at fair value HK$'000
Opening balance	426,539	111,986	3,728,594	(2,134,740)
Total (losses) gains in profit or loss (note iv)	–	(933)	(855)	1,738
Transfer into Level 3 (note iii)	437,969	–	275,865	(255,075)
Transfer into Level 2 (note vii)	(87,024)	–	–	–
Derecognition upon termination (note v)	–	–	(3,539,507)	2,059,507
Derecognition due to deconsolidation of an investment fund (note vi)	(339,515)	–	–	–
Closing balance	437,969	111,053	464,097	(328,570)

As at 31 December 2018, included in the level 3 of financial assets measured at FVTPL of HK$2,034 million is the (i) listed and unlisted debt investments of HK$260 million and HK$188 million under financial assets held for trading and market making activities, (ii) unlisted partnership investments of HK$812 million, unlisted equity investment of HK$136 million, unlisted debt investment of HK$194 million and unlisted investment fund of HK$81 million under investment securities at FVTPL and (iii) unlisted equity investments of HK$363 million under assets acquired for financial products issued.

46. Fair Value Measurements of Financial Instruments (continued)

Reconciliation of Level 3 fair value measurements (continued)

Notes:

(i) The fair values are based on discounted cash flows. The future cash flows are estimated based on applying the interest yield curves of different types of bonds as the key parameter. The most significant input is the discount rates of the instruments.

(ii) The fair values are based on the quoted prices from the SGX-ST and the Stock Exchange.

(iii) The fair value of financial assets measured at FVTPL of HK$595 million as at 31 December 2018 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 year, 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 financial assets measured at FVTPL of HK$382 million acquired during the year are determined based on significant unobservable inputs and involved significant judgment made by the management concerning the counterparties' credit risks.

The fair value of financial liabilities measured 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 year, 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.

(iv) For the year ended 31 December 2018, of the total gains or losses for the year included in profit or loss, gain of HK$121 million and loss of HK$1 million relate to unrealised gains or loss for the year included in profit or loss for financial assets measured at FVTPL and financial liabilities measured at FVTPL held at year end respectively. Fair value gains or losses on financial assets/liabilities measured at FVTPL are included in "Net gain from financial assets/liabilities at FVTPL" and "Net gain from financial products issuance" 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 year included in profit or loss for financial assets measured at FVTPL and financial liabilities measured at FVTPL held at year end respectively.

(v) Financial assets measured at FVTPL and financial liabilities measured at FVTPL 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) Investment securities classified as 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.

46. Fair Value Measurements of Financial Instruments (continued)

Reconciliation of Level 3 fair value measurements (continued)

Notes: (continued)

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

During the current year, the fair value of the Investments were determined with reference to observables inputs including the quoted price of the underlying equity investments as the issuer of the investment has gone listed during the year. Thus, the Investments was transferred from Level 3 to Level 2 categories. During the prior year, the fair value of the Investments were determined with reference to the net asset value of the unlisted equity investment which are unobservable in active market.

Investment securities classified as 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 2, the Group has reclassified investment securities classified as available-for-sale investments held as at 31 December 2017 as either financial assets at FVTPL or financial assets at amortised cost on 1 January 2018. The Level 3 available-for-sale investments are transferred to Level 3 financial assets measured at FVTPL at 1 January 2018.

(ix) During the current year, the Group has made further capital investments into the investments that were transferred into Level 3 during the year ended 31 December 2017.

47. Financial Assets and Financial Liabilities Offsetting

The disclosures set out in the tables below include financial assets and financial liabilities that:

- are offset in the Group's consolidated statement of financial position; or
- are subject to an enforceable master netting arrangement or similar agreement that covers similar financial instruments, irrespective of whether they are offset in the Group's consolidated statement of financial position.

Under the agreement of continuous net settlement made between the Group and Hong Kong Securities Clearing Company Limited ("HKSCC"), Clearing Participant of China Securities Depository and Clearing Corporation Limited ("CSDC") and brokers, the Group has a legally enforceable right to set off the money obligation receivable and payable with HKSCC, CSDC and brokers on the same settlement date and the Group intends to set off on a net basis.

In addition, the Group has a legally enforceable right to set off the accounts receivable and payable with brokerage clients that are due to be settled on the same date and the Group intends to settle these balances on a net basis.

47. Financial Assets and Financial Liabilities Offsetting (continued)

Except for balances which are due to be settled on the same date which is being offset, amounts due from/to HKSCC, CSDC, brokers and brokerage clients that are not to be settled on the same date, financial collateral including cash and securities received by the Group, deposits placed with HKSCC, CSDC and brokers do not meet the criteria for offsetting in the consolidated statement of financial position since the right of set-off of the recognised amounts is only enforceable following an event of default.

As at 31 December 2018

	Gross amounts of recognised financial assets after impairment	Gross amounts of recognised financial liabilities set off in the consolidated statement of financial position	Net amounts of financial assets presented in the consolidated statement of financial position	Related amounts not set off in the consolidated statement of financial position		Net amount
				Financial instruments	Collateral received	
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Financial assets						
Accounts receivable from clients, brokers, dealers and clearing houses	11,442,961	(4,474,485)	6,968,476	(1,141,587)	(147,354)	5,679,535
Deposits placed with clearing houses	76,296	–	76,296	–	–	76,296
Advances to customers in margin financing	15,952,460	–	15,952,460	(408,380)	(15,317,669)	226,411
Financial liabilities						
Accounts payable to clients, brokers, dealers and clearing houses	(25,449,037)	4,474,485	(20,974,552)	1,549,967	1,626,320	(17,798,265)
Financial liabilities held for trading and market making activities	(4,405,866)	–	(4,405,866)	–	4,405,866	–

47. Financial Assets and Financial Liabilities Offsetting (continued)

As at 31 December 2017

	Gross amounts of recognised financial assets after impairment HK$'000	Gross amounts of recognised financial liabilities set off in the consolidated statement of financial position HK$'000	Net amounts of financial assets presented in the consolidated statement of financial position HK$'000	Related amounts not set off in the consolidated statement of financial position: Financial instruments HK$'000	Related amounts not set off in the consolidated statement of financial position: Collateral received HK$'000	Net amount HK$'000
Financial assets						
Accounts receivable from clients, brokers, dealers and clearing houses	10,457,735	(4,511,341)	5,946,394	(225,333)	(303,026)	5,418,035
Deposits placed with clearing houses	128,445	–	128,445	(91,368)	–	37,077
Advances to customers in margin financing	16,369,217	–	16,369,217	(242,540)	(15,977,224)	149,453
Financial liabilities						
Accounts payable to clients, brokers, dealers and clearing houses	(30,981,024)	4,511,341	(26,469,683)	559,241	–	(25,910,442)
Financial liabilities held for trading and market making activities	(4,604,688)	–	(4,604,688)	–	4,604,688	–

48. Transfer of Financial Assets

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

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 if 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 34 to the consolidated financial statements.

Transfer of 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) certain investment securities to special purpose entities, which in turn issue securities with different tranches to investors with the investment securities transferred as the underlying asset. The Group may acquire different tranches, and accordingly, may retain part of the risks and rewards in relation to these investment securities. The Group would determine whether or not to derecognise these investment securities by evaluating the extent to which the Group retains risks and rewards.

As at 31 December 2018 and 31 December 2017, the Group assigned investment securities amounting to HK$586 million to an independent party with these transactions not qualifying for derecognition based on the group retaining substantially all risks and rewards. The corresponding liability of HK$586 million are recognised as other payables and accruals in the consolidated statement of financial position.

	31/12/2018 HK$'000	31/12/2017 HK$'000	31/12/2016 HK$'000	31/12/2015 HK$'000	31/12/2014 HK$'000
RESULTS					
REVENUE	**6,328,782**	7,195,021	5,350,817	5,808,359	2,713,291
OPERATING PROFIT	**1,406,453**	3,101,512	2,020,131	3,039,910	1,182,536
Share of (loss) profit of investments accounted for using the equity method	**(226,869)**	470,727	(27,658)	(53,522)	33,212
PROFIT BEFORE TAX	**1,179,584**	3,572,239	1,992,473	2,986,388	1,215,748
Income tax expense	**(156,746)**	(543,551)	(312,248)	(476,336)	(197,479)
PROFIT FOR THE YEAR	**1,022,838**	3,028,688	1,680,225	2,510,052	1,018,269
ASSETS AND LIABILITIES:					
TOTAL ASSETS	**151,181,085**	130,223,838	131,505,248	91,919,000	48,159,973
TOTAL LIABILITIES	**(125,370,748)**	(104,855,959)	(109,056,224)	(71,090,214)	(39,563,471)
SHAREHOLDERS' FUNDS	**25,810,337**	25,367,879	22,449,024	20,828,786	8,596,502

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

Legal Adviser in Hong Kong

Woo, Kwan, Lee & Lo

Legal Adviser on Bermuda Law

Conyers Dill & Pearman

Place of Incorporation

Bermuda

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Principal Place of Business

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Principal Share Registrar and Transfer Office

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