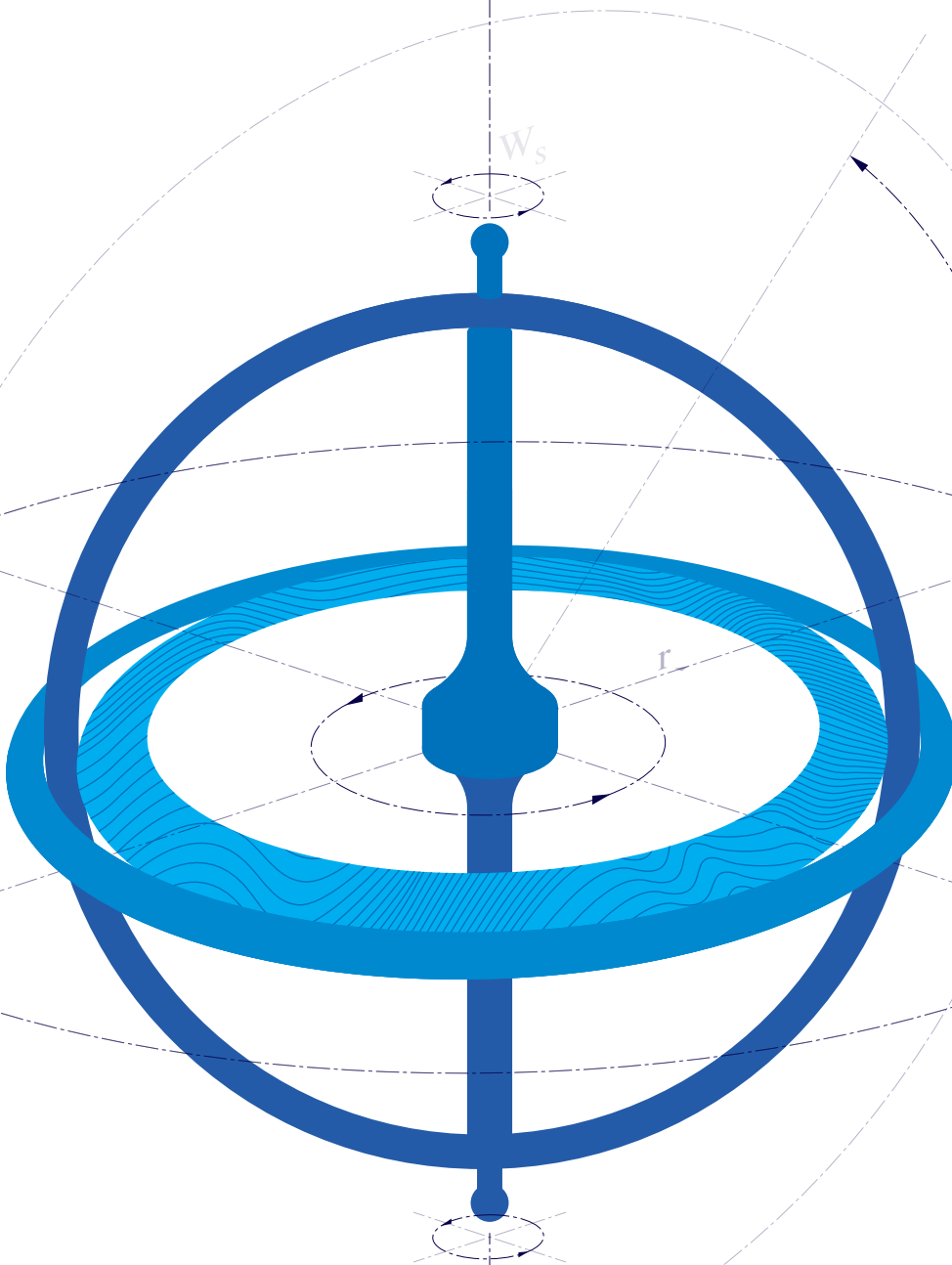




Stock Code : 665.HK

Redefine with Stability

Interim Report
2019



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.

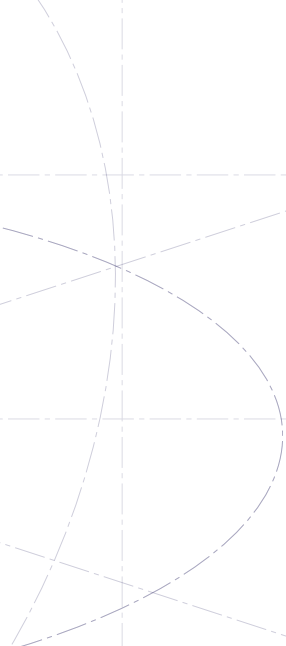
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Financial Highlights

Results

	Six months ended		Percentage change Increase/ (Decrease)
	30.6.2019	30.6.2018	
Revenue (HK\$'000) (Note 1)	4,108,628	3,557,157	16
— Commission and fee income	895,310	1,235,251	(28)
— Interest income	1,404,896	1,211,339	16
— Net investment gains	1,808,422	1,110,567	63
Net Profit Attributable to Shareholders (HK\$'000)	1,038,885	859,141	21
Per share			
Basic Earnings Per Share (HK Cents)	18.04	15.53	16
Diluted Earnings Per Share (HK Cents)	16.61	14.78	12

Financial Position

	30.6.2019		Percentage change Increase/ (Decrease)
	30.6.2019	31.12.2018	
Shareholders' Funds (HK\$'000)	26,740,141	25,810,337	4
Total Assets (HK\$'000)	157,446,529	151,181,085	4
Number of Shares in Issue (Note 2)	5,792,329,147	5,789,746,388	—
NAV Per Share (HK\$)	4.62	4.46	4

Notes:

- Comparison on revenue between six months ended 30 June 2019 and six months ended 31 December 2018 is as below:

	Six months ended		Percentage change Increase/ (Decrease)
	30.6.2019	31.12.2018	
Revenue (HK\$'000)	4,108,628	2,771,625	48
— Commission and fee income	895,310	895,083	—
— Interest income	1,404,896	1,364,378	3
— Net investment gains	1,808,422	512,164	253

- Certain equity rights conferred on share option holders were exercised during the period. Hence, the total number of shares of the Company was increased to 5,792,329,147 as at 30 June 2019.

REVIEW AND ANALYSIS OF RESULTS

In the first half of 2019, Haitong International Securities Group Limited (the “Company” or “Haitong International”) braved the challenges presented by the external environment like Sino-US trade war by redefining its business development strategies from time to time to keep all its business lines on a healthy growth track, hit new heights in terms of its international investment banking, investment, trading and operating capabilities, improve its risk management framework, maintain the debt structure at a reasonable level and keep its capital sufficient to address obscurity of the global market. During the period, the revenue of the Group stood at HK\$4.109 billion with a net profit of HK\$1.039 billion, representing a year-on-year increase of 16% and 21% respectively.

1. A Leading Financial Institution Ready to Serve the Globe

For global ECM business, Haitong International has successfully closed 24 IPO deals and topped the list among the investment banks in Hong Kong in terms of number of projects with a market share of around 33%. The Group forged ahead in the U.S. capital market and completed 3 equity financing projects during the period, among which, Luckin Coffee represents the largest IPO for an Asian company listed on the Nasdaq for the year. For global DCM business, the Company has clinched 125 bond issuance deals, and ranked second and third among financial institutions in the world in Offshore China Bonds League Table in terms of number of deals and underwriting amount. Haitong International also topped the list of the Asian (ex Japan) G3 high yield bond issuance among the financial services providers in the world in terms of number of bond deals and underwriting amount. For global leverage and acquisition financing, Haitong International successfully completed 5 projects during the period and set its foot in the Middle Eastern market for the first time and participated in the acquisition of Kuwait Energy PLC by a Hong Kong-listed company United Energy Group Limited.

2. Augmenting Global Investment Capabilities

For primary market, Haitong International’s private equity business crew has been prioritizing “New Economy” industries like consumption, healthcare and TMT and has completed 17 investment projects in aggregate in 2 years. It has exited investment from some of its projects, in the form of H shares and US shares, and reaped excellent returns. Haitong International aggressively devotes its efforts in investment and fund raising to expand its business territories.

For secondary market, Haitong International’s assets under management (AUM) exceeded HK\$48 billion with outstanding performances of a number of funds, among which, Haitong China A-Share Investment Fund saw a net increase of more than 20%, staying ahead of similar funds. Merited by its well-reputed brand name and strong connections in the Hong Kong market, Haitong International has launched Haitong Asian High Yield Bond Fund which is the first northbound fund issued by a Chinese financial services provider in Hong Kong.

3. A surge of Global Execution Capabilities

Acquitting itself well as the first-ever Chinese market maker on Nasdaq, Haitong International has constructed a cross-border, cross-market and cross-department trading and settlement system with the number of underlying U.S securities increasing more than fivefold during the period. The Group also provides clients with cross-asset investment offerings and solutions; the number of exchange traded options covered for market making has reached 75, rendering Haitong International No. 5 in the market. Thanks to its growing electronic trading execution capability, Haitong International has almost 100 institutional clients on board using algorithmic trading.

For fixed income, currency and commodities (“FICC”) business, Haitong International offered credit products, macro and synthetic products and institutional client solutions with increasing management efficacy. During the first half, the income from FICC saw a year-on-year increase of over 150%; for interest and credit product businesses, Haitong International provides 670 institutional clients around the world with bilateral liquidity quotations every day; for each of its New York and London platforms, steady income has been registered and the two centres are expected to become new profit drivers outside the Asian Pacific region.

For derivatives business, Haitong International has solidified its leadership in Hong Kong market. During the first half, the Company launched 1,397 warrants and CBBs with a turnover of up to HK\$380 billion, and ranked second in the Hong Kong market. As the first Chinese financial institution to issue inline warrants on the Stock Exchange of Hong Kong, Haitong International is geared up to provide diversified listed structured products for clients. At present, the Group can provide quotations for more than 60 structured products covering notes, OTC swaps and OTC options in different markets in the world. It is also an active market maker who provides services on overseas bourses including the Stock Exchange, Singapore Exchange and Nasdaq.

4. Full-fledged Global Operating and IT Infrastructure

The Group never swerves from the efforts to strengthen its global overall operational capabilities, bring the system upgrade into full play and put the development of automatic operation in a fast track on the strength of the central management of business data around the world with the application of its Central Data Management System (CDMS).

The Group spares no pains to improve its IT infrastructure. As a case in point, it has built a Big Data platform and has been modifying it from time to time and endeavors to build a central global institutional trading platform. More than this, attempts have been made on artificial intelligence and process automation to bring the Company’s smart and digital services to the new levels, and eventually contributes to the all-new fin-tech ecosystem.

PROSPECTS

In the second half of 2019, the global economic growth will still be threatened by the looming downside risk and there is a gesture of loose monetary policies ahead. Plagued by a barrage of external factors like Sino-U.S. trade friction, Brexit and spats between Italy and EU, the global economic growth is left in the extreme volatility. To counteract the economic slowdown, China may prefer relative loose monetary policies and aggressive fiscal policies in future.

Haitong International will step up its efforts to reinforce its fee-based businesses and expand its professional crews with adequate training and recruitment. Built on its clients lusting for investment banking services, Haitong international will revisit the ways of development on which the renowned private banks rely and to capture new client groups. Expanding its sales and research teams, adjusting incentive mechanism in a flexible way and giving support to the Group’s transformation and upgrades will be the items on the agenda.

Looking forward, Haitong International will adhere to its core values of being “Courageous, Sincere and Innovative”, demonstrate its professionalism, gather and train up a crew of high-caliber talents, raise the bar of its management, fulfill the compliance requirements and, develop and demonstrate its strengths to create values for employees, customers, shareholders and investors.

Overview of Financial Performance

During the 6 months ended 30 June 2019, the Company and its subsidiaries (collectively referred as the “Group”) achieved profit of HK\$1,039 million, rose by 21% as compared with the first half of 2018 and basic earnings per share were up by 16% at HK 18 cents per share. The profit for the first half of 2019 is at the same level as 2018 financial year of HK\$1,023 million. Total income (including revenue, other income and gains or losses, and share of results of investments accounted for using the equity method) of the Group for the first half of 2019 amounted to HK\$4,093 million, increased by 21% as compared with the first half of 2018 and 49% as compared with the second half of 2018.

Among the income streams, commission and fee income amounted to HK\$895 million. Compared with the second half of 2018, fee and commission income was broadly unchanged, while a decrease was noted as compared with the first half of 2018 due to decrease in average daily turnover in Hong Kong securities market of 23% and timing of recognition of underwriting and placing commission. Interest income was also broadly unchanged as compared with the second half of 2018 and stood at HK\$1,405 million, and grew by 16% as compared with the first half of 2018 due to increase in average yield. Interest generating assets shows a decrease by 3% as compared between balance as of 30 June 2019 and 31 December 2018.

Investment income (including share of results of investments accounted for using the equity method) increased by HK\$894 million year-on-year, or 98%, to HK\$1,808 million. Compared with the second half of 2018, investment gain grew by HK\$1,327 million, or 276%. As evident by the strong rebound of bond and stock indices, net gain from trading and market-making of fixed income securities and equity derivatives amounted to HK\$729 million, compared with HK\$364 million and HK\$321 million for the first and second halves of 2018. In addition, net gain from financial product issuance amounted to HK\$381 million, up by 154% year-on-year, which demonstrates the Group’s capability in financial product issuance and execution.

During the period ended 30 June 2019, the Group’s total costs (including salaries and allowances, bonus and pension, commission expenses, finance costs and operating expenses) were HK\$2,676 million, compared with HK\$2,329 million and HK\$2,569 million for the first and second halves of 2018. Finance costs amounted to HK\$1,455 million, increased by 33% as compared with the first half of 2018 due to increase in interest bearing liabilities and average funding cost, but increased only by 5% as compared with the second half of 2018 mainly due to the total assets of the Group increased by 4% as compared between total assets as at 30 June 2019 and 31 December 2018, while average funding cost as compared between the first half of 2019 and the second half of 2018 remained broadly the same.

As a result of strict cost control and continuing effort in optimization in human resources strategy, operating costs (including salaries and allowances, bonus and pension and operating expenses) amounted to HK\$1,129 million, increased by only 3% and 5% as compared with the first half of 2018 and the second half of 2018 respectively. Operating costs to total income ratio stood at 28%, improved from 32% and 39% for the first and second halves of 2018.

Net impairment losses for the first half of 2019 was HK\$206 million, compared with HK\$39 million and HK\$200 million for the first and second halves of 2018. An increase of net impairment loss as compared between the first half of 2019 and the first half of 2018 is mainly due to net impairment loss for the first half of 2018 included an one-off reversal of HK\$69 million.

Total assets as at 30 June 2019 amounted to HK\$157.4 billion, increased by HK\$6.3 billion (or 4%) from HK\$151.2 billion as at 31 December 2018. Net assets (which are also shareholders' equity) remained relatively stable as compared between 30 June 2019 and 31 December 2018, and amounted to HK\$26.7 billion as at 30 June 2019 (31 December 2018: HK\$25.8 billion). Net assets per share as at 30 June 2019 was HK\$4.62 per share, representing an increase of 4% from HK\$4.46 per share as at 31 December 2018. Annualized return on shareholders' funds (calculated by net profit divided by weighted average shareholders' equity) was 7.9% for the 6 months ended 30 June 2019.

Revenue

Revenue of the Group for the 6 months ended 30 June 2019 amounted to HK\$4,109 million, while revenue for the first half of 2018 and the second half of 2018 amounted to HK\$3,557 million and HK\$2,772 million respectively. The revenue streams and its proportion to revenue are detailed as below:

	2019 Jan-Jun		2018 Jan-Jun		2018 Jul-Dec	
	HK\$'000	%	HK\$'000	%	HK\$'000	%
Commission and fee income	895,310	21.8	1,235,251	34.7	895,083	32.3
Interest income	1,404,896	34.2	1,211,339	34.1	1,364,378	49.2
Net investment gains	1,808,422	44.0	1,110,567	31.2	512,164	18.5
	4,108,628	100.0	3,557,157	100.0	2,771,625	100.0

Commission and fee income amounted to HK\$895 million, which remained at the same level as the second half of 2018. Underwriting and placing commission recorded an increase from HK\$271 million for the second half of 2018 to HK\$334 million for the first half of 2019 while partly offset by decrease in performance fee income from asset management business due to performance fee income can only be recognized at the end of financial year under Hong Kong Financial Reporting Standard 15 "Revenue from Contracts with Customers". As compared with the first half of 2018, commission and fee income decreased by 28%, which was mainly due to year-on-year decrease in market turnover of Hong Kong securities market by 23% and the timing of recognition of underwriting and placing commission as underwriting income for a number of deals completed in 2017 was recognized in the first half of 2018.

Interest income amounted to HK\$1,405 million, which was increased by 16% and 3% as compared with the first and second halves of 2018. Interest generating assets (including advances to customers in margin financing, advances to customers for merger and acquisition activities, asset-backed financing to customers, and investment securities at amortized cost) decrease from HK\$30.5 billion as at 31 December 2017 to HK\$30.2 billion as at 31 December 2018, and further reduced to HK\$29.2 billion as at 30 June 2019, while average interest rate shows an increase since the first half of 2018 as the Group revisited its pricing strategy to maintain the interest spread during the interest rate rise cycle, consequently decrease in interest generating assets was outweighed by increase in average interest rate.

Net investment gains amounted to HK\$1,808 million, which shows a substantial improvement as compared with the first halves and second halves of 2018. During the current period, net gain from trading and market making of fixed income securities and equity derivatives (within institutional client segment) and net gain from financial assets/liabilities at fair value (within investment segment and corporate finance segment) increased substantially as a result of rebound of stock and bond indices. During the second half of 2018, investment loss on fund investments amounted to HK\$519 million while an investment gain of HK\$661 million was recorded for the first half of 2019, which drives the substantial increase of net investment gains for the first half of 2019. In addition, net gain from financial product issuance increased from HK\$150 million for the first half of 2018 to HK\$381 million for the first half of 2019.

Total Costs

An analysis of total costs is as below:

	Jan-Jun 2019 HK\$'000	Jan-Jun 2018 HK\$'000	(Note 1) +/-%	Jul-Dec 2018 HK\$'000	(Note 2) +/-%
Salaries and allowances, bonuses and pension	677,548	599,804	+13.0	554,858	+22.1
Commission expenses	90,925	145,354	-37.4	109,163	-16.7
Finance costs	1,455,257	1,092,212	+33.2	1,381,066	+5.4
Operating expenses:					
– Amortisation and depreciation	102,654	46,037	+123.0	52,107	+97.0
– Information technology related expenses	104,029	85,343	+21.9	116,101	-10.4
– Other operating expenses	245,095	360,132	-31.9	355,317	-31.0
Total costs	2,675,508	2,328,882	+14.9	2,568,612	+4.2
Net impairment allowance	205,903	38,552	+434.1	200,219	+2.8
Foreign exchange difference, net	(27,968)	736	N/A	(185,804)	-84.9
	2,853,443	2,368,170	+20.5	2,583,027	+10.5

Note 1: Percentage change as compared between the first half of 2019 and the first half of 2018

Note 2: Percentage change as compared between the first half of 2019 and the second half of 2018

Salaries and allowances, bonuses and pension increased by 13% and 22% as compared between the first half of 2019 and the first and second halves of 2018 respectively. Except for general salary increment effective from January 2019, basic salaries remained stable across the three 6-month periods with number of staff increased slightly from 1,092 as at 30 June 2018 to 1,119 as at 30 June 2019. Provision for bonuses and incentives increased as a result of increase in the Group's net profit.

Commission expenses decreased as compared by 37% between the first half of 2019 and the first half of 2018 due to decrease in commission on securities dealing and broking. As compared with the second half of 2018, commission expenses decreased by 17% due to more transactions were conducted by clients (such as institutional clients and corporate clients) where the Group did not need to pay commission to sales persons.

Finance costs increased by 33% year-on-year due to increase in average interest bearing liabilities (including increase in debt securities in issue, bank and other borrowings and repurchase agreements) as compared between the first half of 2019 and the first half of 2018. 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 increased since early 2018, and consequently drove the increase in finance cost. Finance costs increased by 5% as compared between the first half of 2019 and the second half of 2018, which is in line with increase in total assets by 4% as compared between 30 June 2019 and 31 December 2018. Average funding cost remained stable as compared between these two periods.

Net impairment loss allowance was HK\$206 million, compared with HK\$39 million and HK\$200 million for the first and second halves of 2018. An increase from net impairment loss as compared between the first half of 2019 and the first half of 2018 is due to net impairment loss for the first half of 2018 included an one-off reversal of HK\$69 million in relation to a loan to corporate client.

Depreciation and amortization increased substantially as compared between the first half of 2019 and each of the two preceding periods. Depreciation charges for the first half of 2019 also include depreciation of right-of-use assets amounting to HK\$46 million following the adoption of Hong Kong Financial Reporting Standard 16 "Leases", which came into effect on 1 January 2019. Correspondingly, there was a similar decrease in rental expenses. In addition, depreciation on trading platforms and back office systems also drove the increase in depreciation and amortization.

Information technology ("IT") related expenses increased year-on-year due to additional expenses (that are not qualified for capitalization under accounting standard) incurred in system developments. As compared between the first half of 2019 and the second half of 2018, IT related expenses reduced by 10% due to rental expense on data centre was classified as depreciation under HKFRS 16 instead of IT related expenses.

Other operating expenses decreased due to strict cost control exercised by the Group. As compared between the first half of 2019 and each of the two preceding periods, operating expenses such as legal and professional fee and handling fee decreased as compared with these two preceding periods. In addition, rental expense which was previously recognized within other operating expenses is classified as depreciation upon adoption of HKFRS 16 on 1 January 2019 as mentioned above.

Analysis by Business Segments

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

Segment revenue	For the six months ended 30 June			
	2019 HK\$'000	%	2018 HK\$'000 (As restated)	%
Wealth management	1,072,473	26.1	1,082,988	30.4
Corporate finance	670,961	16.3	848,627	23.9
Asset management	106,947	2.6	138,464	3.9
Institutional clients	1,635,499	39.8	994,551	28.0
Investment	622,748	15.2	492,527	13.8
	4,108,628	100.0	3,557,157	100.0

Segment profit before tax	For the six months ended 30 June					
	2019 HK\$'000	%	Segment margin	2018 HK\$'000 (As restated)	%	Segment margin
Wealth management	289,302	23.3	27%	417,918	37.3	39%
Corporate finance	344,573	27.8	51%	620,660	55.4	73%
Asset management	43,045	3.5	40%	48,228	4.3	35%
Institutional clients	370,624	29.9	23%	34,348	3.0	3%
Investment	192,218	15.5	32%	(99,373)	N/A	N/A
	1,239,762	100.0	30%	1,021,781	100.0	29%

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 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.

Analysis of results

	For the six months ended 30 June		
	2019 HK\$'000	2018 HK\$'000	+/-%
Commission and fee income	271,108	401,323	-32.4
Interest income	744,769	615,305	+21.0
Net investment gains	56,596	66,360	-14.7
Segment revenue	1,072,473	1,082,988	-1.0
Other income and gains or losses	3,792	17,750	-78.6
Segment expenses	1,076,265 (786,963)	1,100,738 (682,820)	-2.2 +15.3
Segment profit before tax	289,302	417,918	-30.8
Segment margin (%)	27	39	-12

Segment revenue

Segment revenue for the first half of 2019 amounted to HK\$1,072 million, which reduced by 1% as compared with the first half of 2018. Among the income streams, commission and fee income decreased by 32% as compared with the first half of 2018 due to decrease in market turnover in Hong Kong securities market. The Group's market share in Hong Kong securities market increased while commission rate charged to wealth management customers remained stable.

Interest income of this segment comprised interest income from advances to customers in margin financing and interest spread from deposits placed by wealth management customers. Increase in interest income was driven by yield enhancement due to increase in market interest rate, which outweighed decrease in margin loan size. Since the first half of 2018, the Group's funding cost recorded an increase due to increase in market interest rate and the Group adjusted the base rate (which is priced at prime rate) charged to wealth management customers to maintain the interest margin. The Group's margin loan size recorded a decrease during 2019, reducing from HK\$17.3 billion as at 30 June 2018 to HK\$16.0 billion as at 31 December 2018, and further decreased to HK\$14.4 billion as at 30 June 2019.

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 trading conducted by customers and such spread income reduced by 15% year-on-year. Turnover on foreign exchange recorded a year-on-year decrease and consequently the spread income also decreased.

Segment profit before tax and segment margin

Funding cost borne by this segment decreased from HK\$257 million for the first half of 2018 to HK\$238 million for the first half of 2019 due to decrease in margin loan size, while partially offset by increase in funding cost. However, impairment loss was increased from HK\$102 million to HK\$209 million which outweighed the decrease in finance cost.

As a result, segment profit before tax decreased by 30% year-on-year and segment margin reduced from 39% to 27%.

Corporate Finance Segment

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

Analysis of results

	For the six months ended 30 June		
	2019 HK\$'000	2018 HK\$'000 (As restated)	+/-%
Commission and fee income	412,656	588,488	-29.9
Interest income	230,479	214,683	+7.4
Net investment gains	27,826	45,456	-38.8
Segment revenue	670,961	848,627	-20.9
Other income and gains or losses	1,278	2,067	-38.2
Segment expenses	672,239 (327,666)	850,694 (230,034)	-21.0 +42.4
Segment profit before tax	344,573	620,660	-44.5
Segment margin (%)	51	73	-22

Segment revenue

The Group's underwriting and placing commission recorded a decrease as compared between the first half of 2019 and the first half of 2018 due to timing of recognition of income as fee income from certain deals completed in 2017 was only recognized in 2018 as the fee amount was only confirmed by relevant issuers during the first half of 2018. During the first half of 2019, the Group continues to demonstrate its leading position in the capital markets and ranked at the top in various rankings.

On the other hand, interest income from financing solutions provided to corporate clients for their merger and acquisition projects recorded an increase due to increase in interest rate charged.

Segment profit before tax and segment margin

Segment expenses recorded an increase due to a reversal of HK\$69 million of an impairment loss of a loan to corporate client recognized in prior period and increase in employee benefit costs. Employee benefit costs increased due to increase in number of staff and expansion of workforce as the Group is developing its capability in executing capital markets projects in other major financial centres.

Segment profit for the first half of 2019 amounted to HK\$345 million and segment margin decreased from 73% for the first half of 2018 to 51% for the first half of 2019.

Asset Management Segment

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

Analysis of results

	For the six months ended 30 June		
	2019 HK\$'000	2018 HK\$'000	+/-%
Segment revenue – Commission and fee income	106,947	138,464	-22.8
Segment expenses	(63,902)	(90,236)	-29.2
Segment profit before tax	43,045	48,228	-10.7
Segment margin (%)	40	35	+5

Segment revenue

Decrease in segment revenue was mainly attributable to decrease in average assets under management while partly offset by increase in average management fee rate.

Segment profit before tax and segment margin

Percentage decrease in segment expenses is higher than percentage decrease in segment revenue, which is due to decrease in segment direct expenses and lower operating costs of supporting units allocated to this segment. As a result, segment margin increased from 35% for the first half of 2018 to 40% for the first half of 2019, and segment profit before tax for the current period amounted to HK\$43 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, issuance and market making for a wide variety of financial instruments, such as fixed income products, currency and commodity products, futures and options, exchange traded funds and derivative products in major financial centers across the world for global institutional clients.

Analysis of results

	For the six months ended 30 June								
	Commission and fee income		Interest income		Net investment gains		Total		+/-%
	2019	2018	2019	2018	2019	2018	2019	2018	
HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000		
	(As restated)								
Fixed income, currency and commodities	-	-	40,233	24,022	629,109	234,478	669,342	258,500	+158.9
Institutional equities	104,599	106,976	380,570	349,516	480,988	279,559	966,157	736,051	+31.3
Segment revenue	104,599	106,976	420,803	373,538	1,110,097	514,037	1,635,499	994,551	+64.4
Other income and gains or losses							399	22,523	-98.2
Segment expenses							1,635,898	1,017,074	+60.8
							(1,265,274)	(982,726)	+28.8
Segment profit before tax							370,624	34,348	+979.0
Segment margin (%)							23	3	+20

Segment revenue

Increase in segment revenue for fixed income, currencies and commodities ("FICC") business is mainly attributable to the rebound of indices and increase in turnover of debt securities held by the Group. The balance of debt securities portfolio held by FICC business remained stable as compared between 30 June 2019 and 31 December 2018.

For institutional equities business, commission and fee income remained stable as compared with the prior period, while increase is observed in both interest income and net investment gains. Increase in interest income is due to increase in demand from clients for financing solutions since the first half of 2018, with average interest generating assets of institutional equities business recorded a year-on-year increase.

Net investment gain of institutional equities business represents net gain on financial product issuance and net gain on market making of equity derivatives. Since the first half of 2018, 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. 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. The Group is one of the pioneers in issuing in line warrants which is officially launched by The Stock Exchange of Hong Kong Limited in July 2019.

Segment profit before tax and segment margin

Finance costs borne by this segment increased by 66% (6 months ended 30 June 2019: HK\$781 million; the first half of 2018: HK\$469 million). Increase in finance costs due to increase in both average interest bearing liabilities and market interest rates. Financing obtained from repurchase agreements (which is detailed in note 30) increased from HK\$11.3 billion as at 31 December 2017 to HK\$24.1 billion as at 31 December 2018, and further increased to HK\$25.1 billion as at 30 June 2019. Employee benefit costs, other segment direct expenses and operating costs of supporting units allocated to this segment recorded a decrease as a result of strict cost control exercised by the Group.

Segment profit before tax for the current interim period amounted to HK\$371 million and segment margin stood at 23%.

Investment segment

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

Analysis of results

	For the six months ended 30 June		
	2019 HK\$'000	2018 HK\$'000	+/-%
Interest income	8,845	7,813	+13.2
Net investment gains	613,903	484,714	+26.7
Segment revenue	622,748	492,527	+26.4
Other income and gains or losses (note)	(20,892)	(13,306)	+57.0
	601,856	479,221	+25.6
Segment expenses	(409,638)	(382,354)	+7.1
	192,218	96,867	+98.4
Share of results of investments accounted for using the equity method	-	(196,240)	N/A
Segment profit before tax	192,218	(99,373)	N/A
Segment margin (%)	32	N/A	N/A

Note: This mainly represents net (loss) profit of consolidated investment funds attributable to third-party unitholders/shareholders. Details of the Group's interest in consolidated investment funds are disclosed in note 26 of the unaudited condensed consolidated financial statements.

Segment revenue (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, private equity investments and listed equity investments.

As evident by rebound of bond and stock indices, net investment gain increased from HK\$288 million (including share of results of investments accounted for using the equity method) for the first half of 2018 to HK\$614 million for the first half of 2019. In particular, an investment gain from a bond fund investment for the first half of 2019 amounted to HK\$456 million while an investment loss of HK\$196 million was recorded in same period last year. In addition, net investment gain from fund-of-fund investments, equity fund investments and private equity investments also contributed to the net investment gains for the current period, leading to substantial improvement of performance of this segment.

Segment loss/profit before tax and segment margin

Segment profit before tax for the current period amounted to HK\$192 million while segment margin for the current period was 32%.

Increase in segment expense is due to increase in finance cost, employee benefit costs, operating costs of supporting units allocated to this segment and segment direct expenses.

Assets and Liabilities

	30 June 2019 HK\$'000	31 December 2018 HK\$'000	+/-%
Total Assets	157,446,529	151,181,085	+4.1
Total Liabilities	130,706,388	125,370,748	+4.3
Net Assets	26,740,141	25,810,337	+3.6

Assets

Total assets increased by HK\$6.3 billion, or 4%, to HK\$157.4 billion as compared with last year-end.

Increase in total assets was mainly driven by increase in investment securities at fair value through profit or loss ("FVPL") (30 June 2019: HK\$28,221 million; 31 December 2018: HK\$20,787 million) and investment securities at amortised cost (30 June 2019: HK\$8,107 million; 31 December 2018: HK\$5,359 million), while offset partially by decrease in assets acquired for financial products issued (30 June 2019: HK\$22,810 million; 31 December 2018: HK\$27,753 million).

Increase in investment securities at fair value through profit or loss is mainly due to increase in investment in bond funds to ride on rebound of bond indices. Investment securities at amortized cost increased is due to increase in debt investments that are not held for trading purpose as the Group considers that these investments provide a stable return to the Group.

Investment securities and assets acquired for financial products issued are detailed in notes 15 and 16 of the unaudited condensed consolidated financial statements respectively.

Liabilities

Total liabilities increased by HK\$5.3 million, or 4%, to HK\$130.7 billion as compared with last year-end.

Increase in assets of the Group is mainly funded by bank loans. In March 2019, the Group entered into a 3-year revolving HK\$16 billion syndicated loan facilities. The interest rate of the new syndicated loan is reduced as compared with previous syndicated loan facilities entered. The new syndicated loan facility provides a stable funding source to the Group while helps to reduce the funding cost of the Group. As detailed in "Overview of Financial Performance" above, increase in finance costs for the current period as compared with the second half of 2018 was driven by increase in total assets while average funding costs remained stable between two periods.

Gearing ratio

The Group's gearing ratio (calculated by total assets excluding accounts payable to clients divided by shareholders' equity) decreased from 5.17 times as at 31 December 2018 to 5.16 times as at 30 June 2019.

Capital Structure and Regulatory Capital

	30 June 2019 HK\$'000	31 December 2018 HK\$'000	+/-%
Issued share capital	579,233	578,975	+0.04
Number of issued shares	5,792,329,147	5,789,746,388	+0.04

As at 30 June 2019, the total issued share capital of the Group stood at HK\$579.233 million (31 December 2018: HK\$578.975 million), comprising 5,792,329,147 shares of HK\$0.10 each (31 December 2018: 5,789,746,388 shares at HK\$0.10 each).

Issued share capital increased by during the current period was due to new shares issued as a result of exercise of share option by option holders. Details of movement of share capital during the current year are disclosed in note 33 of the unaudited condensed consolidated financial statements.

The Group has a number of entities that are subject to regulatory capital requirements set by respective regulators globally, including the Hong Kong Securities and Futures Commission, the Monetary Authority of Singapore, the United Kingdom Financial Conduct Authority, the United States Financial Industry Regulatory Authority and the Securities and Exchange Board of India. During the 6 months ended 30 June 2019, all these regulated entities complied with applicable regulatory capital requirements. In addition, as part of the regulatory capital contingency planning, the Group revisited the regulatory capital level of these regulated entities regularly to ensure the regulatory capital level of each entity is in excess of applicable regulatory requirement to absorb losses that may arise from any potential unforeseen circumstances.

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 2019. Details are disclosed in note 3 of the unaudited condensed consolidated financial statements.

Among the newly adopted standards or amendments to standards, HKFRS 16 "Leases" affects the accounting treatment on operating leases entered by the Group (in particular rental agreements for office premises), which requires recognition of "right-to-use assets" (except for short-term leases) based on initial and future lease payments and corresponding "lease liabilities". Right-to-use assets will be depreciated over the lease terms while payment made under the operating leases will be treated as repayment of lease liabilities (instead of recognizing as rental expenses). Consequently, the depreciation was increased during the current period as compared with the preceding period while rental expenses reduced.

Treasury Policies

The Group generally finances its business operations with internally generated cash flow, bank borrowings and funding from capital markets. On 6 March 2019, 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\$16 billion 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 the first half of 2019, drawdown of HK\$2,780 million, US\$574 million and CNH150 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 30 June 2019, the Group's cash and bank balance amounted to HK\$8,618 million, compared with HK\$7,089 million as at 31 December 2018. The Group has unutilized banking facilities of HK\$24,971 million (including syndicate loan and bilateral loan facilities) to ensure the Group's ability to meet funding needs when they arise.

Human Resources Policy

As at 30 June 2019, the Group employed a total of 1,119 (31 December 2018: 1,126) 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 product training courses. The Group's structured Management Trainee Development Program is instrumental to fuel the talent needs of the sustainable growth of businesses not only locally but globally.

Condensed Consolidated Statement of Profit or Loss

For the six months ended 30 June 2019

	NOTES	Six months ended	
		30.6.2019 HK\$'000 (unaudited)	30.6.2018 HK\$'000 (unaudited)
Revenue			
Commission and fee income	6	895,310	1,235,251
Interest income	6	1,404,896	1,211,339
Net investment gains	6	1,808,422	1,110,567
		4,108,628	3,557,157
Other income and gains or losses	6	(15,423)	29,034
		4,093,205	3,586,191
Salaries and allowances, bonuses and pension	7	(677,548)	(599,804)
Commission expenses	7	(90,925)	(145,354)
Amortisation and depreciation		(102,654)	(46,037)
Impairment losses, net of reversal	8	(205,903)	(38,552)
Operating expenses		(321,156)	(446,211)
		(1,398,186)	(1,275,958)
Finance costs	9	(1,455,257)	(1,092,212)
Share of result of investments accounted for using the equity method		–	(196,240)
Profit before tax		1,239,762	1,021,781
Income tax expense	10	(200,877)	(162,640)
Profit for the period attributable to owners of the Company		1,038,885	859,141
Earnings per share attributable to owners of the Company	11		
— Basic (HK cents per share)		18.04	15.53
— Diluted (HK cents per share)		16.61	14.78

Condensed Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the six months ended 30 June 2019

	Six months ended	
	30.6.2019 HK\$'000 (unaudited)	30.6.2018 HK\$'000 (unaudited)
Profit for the period attributable to owners of the Company	1,038,885	859,141
Other comprehensive (expense) income:		
<i>Items that will not be reclassified subsequently to profit or loss:</i>		
Fair value changes on investments in equity instruments at fair value through other comprehensive income	(602)	–
<i>Items that may be reclassified subsequently to profit or loss:</i>		
Fair value changes on investments in debt instruments at fair value through other comprehensive income	(586)	–
Changes in fair value of derivatives designated in cash flow hedge	–	7,169
Exchange differences on translating foreign operations	(15,821)	(67,925)
Other comprehensive expense for the period	(17,009)	(60,756)
Total comprehensive income for the period attributable to owners of the Company	1,021,876	798,385

Condensed Consolidated Statement of Financial Position

At 30 June 2019

	NOTES	30.6.2019 (unaudited)			31.12.2018 (audited)		
		Current HK\$'000	Non-current HK\$'000	Total HK\$'000	Current HK\$'000	Non-current HK\$'000	Total HK\$'000
ASSETS							
Cash and cash equivalents		8,617,689	-	8,617,689	7,088,829	-	7,088,829
Cash held on behalf of customers	13	15,796,480	-	15,796,480	15,998,360	-	15,998,360
Financial assets held for trading and market making activities	14	33,134,599	-	33,134,599	34,314,567	-	34,314,567
Investment securities	15	16,519,096	20,643,359	37,162,455	10,295,263	15,850,602	26,145,865
Assets acquired for financial products issued	16	17,367,514	5,442,069	22,809,583	25,484,416	2,268,434	27,752,850
Derivative financial instruments	17	158,157	-	158,157	540,563	-	540,563
Advances to customers in margin financing	18	14,386,582	-	14,386,582	15,952,460	-	15,952,460
Advances to customers for merger and acquisition activities	19	4,256,248	193,969	4,450,217	2,477,467	1,094,666	3,572,133
Asset-backed financing to customers	20	2,139,980	117,419	2,257,399	5,113,873	224,744	5,338,617
Reverse repurchase agreements	21	2,907,936	-	2,907,936	4,343,561	-	4,343,561
Accounts receivable	22	12,150,086	-	12,150,086	6,968,476	-	6,968,476
Tax recoverable		257,669	-	257,669	213,656	-	213,656
Prepayments, deposits and other receivables	23	1,776,930	125,074	1,902,004	1,529,261	53,050	1,582,311
Investments accounted for using the equity method	24	-	-	-	-	154,440	154,440
Goodwill and other intangible assets	27	-	497,919	497,919	-	473,391	473,391
Other assets		-	86,713	86,713	-	76,296	76,296
Investment property	28	-	192,471	192,471	-	231,539	231,539
Property and equipment	29	-	666,784	666,784	-	420,968	420,968
Deferred tax assets		-	11,786	11,786	-	12,203	12,203
Total assets		129,468,966	27,977,563	157,446,529	130,320,752	20,860,333	151,181,085

Condensed Consolidated Statement of Financial Position
At 30 June 2019

	NOTES	30.6.2019 (unaudited)			31.12.2018 (audited)		
		Current HK\$'000	Non-current HK\$'000	Total HK\$'000	Current HK\$'000	Non-current HK\$'000	Total HK\$'000
LIABILITIES AND EQUITY							
Liabilities							
Financial liabilities held for trading and market making activities	14	1,716,479	-	1,716,479	4,405,866	-	4,405,866
Financial products issued at fair value	16	13,637,391	1,923,895	15,561,286	13,315,922	638,846	13,954,768
Derivative financial instruments	17	508,559	-	508,559	505,496	-	505,496
Repurchase agreements	30	25,074,689	-	25,074,689	24,089,043	-	24,089,043
Accounts payable	31	22,383,263	-	22,383,263	20,974,552	-	20,974,552
Bank loans and other borrowings	32	39,167,394	-	39,167,394	33,776,139	-	33,776,139
Debt securities in issue	32	17,506,256	5,443,442	22,949,698	15,803,992	9,243,635	25,047,627
Other liabilities arising from consolidation of investment funds	26	424,469	-	424,469	483,781	-	483,781
Tax payable		474,068	-	474,068	260,633	-	260,633
Other payables, accruals and other liabilities		2,257,288	162,936	2,420,224	1,259,472	586,189	1,845,661
Deferred tax liabilities		-	26,259	26,259	-	27,182	27,182
Total liabilities		123,149,856	7,556,532	130,706,388	114,874,896	10,495,852	125,370,748
Equity							
Share capital	33			579,233			578,975
Reserves				25,639,598			25,150,306
Proposed dividends				521,310			81,056
Total shareholders' equity				26,740,141			25,810,337
Total liabilities and shareholders' equity				157,446,529			151,181,085
Net current assets				6,319,110			15,445,856

Condensed Consolidated Statement of Changes in Equity

For the six months ended 30 June 2019

	Attributable to owners of the Company														
	Share capital HK\$'000	Share premium account ¹ HK\$'000	Share option reserve ¹ HK\$'000	Share award reserve ¹ HK\$'000	Shares held for employee share award scheme ¹ HK\$'000 (note 34)	Capital redemption reserve ¹ HK\$'000	Contributed surplus ¹ HK\$'000	Capital reserve ¹ HK\$'000	Investment revaluation reserve ¹ HK\$'000	Exchange reserve ¹ HK\$'000	Hedging reserve ¹ HK\$'000	Convertible bond reserve ¹ HK\$'000	Proposed cash/scrip dividend HK\$'000	Retained profits ¹ HK\$'000	Total HK\$'000
At 31 December 2018 (audited)	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
HKFRS 16 adjustment	-	-	-	-	-	-	-	-	-	-	-	-	-	(7,715)	(7,715)
At 1 January 2019 (restated)	578,975	18,818,321	38,313	25,926	(155,372)	5,102	21	40,383	-	(78,268)	-	200,471	81,056	6,247,694	25,802,622
Profit for the period	-	-	-	-	-	-	-	-	-	-	-	-	-	1,038,885	1,038,885
Other comprehensive expense for the period	-	-	-	-	-	-	-	-	(1,188)	(15,821)	-	-	-	-	(17,009)
Total comprehensive (expense) income	-	-	-	-	-	-	-	-	(1,188)	(15,821)	-	-	-	1,038,885	1,021,876
Recognition of equity-settled share-based payment (note 34)	-	-	9,724	15,071	-	-	-	-	-	-	-	-	-	-	24,795
Vesting of shares for the share award scheme	-	(2,802)	-	(24,318)	27,120	-	-	-	-	-	-	-	-	-	-
Purchases of shares held under the share award scheme	-	-	-	-	(35,165)	-	-	-	-	-	-	-	-	-	(35,165)
Shares issued under share option scheme (note 34)	258	7,130	(283)	-	-	-	-	-	-	-	-	-	-	-	7,105
2018 second interim dividend declared and settled in cash (note 12)	-	-	-	-	-	-	-	-	-	-	-	-	(81,056)	(36)	(81,092)
Share options lapsed	-	2,190	(2,190)	-	-	-	-	-	-	-	-	-	-	-	-
Share awards lapsed	-	754	-	(754)	-	-	-	-	-	-	-	-	-	-	-
Proposed 2019 interim dividend (note 12)	-	-	-	-	-	-	-	-	-	-	-	-	521,310	(521,310)	-
At 30 June 2019 (unaudited)	579,233	18,825,593	45,564	15,925	(163,417)	5,102	21	40,383	(1,188)	(94,089)	-	200,471	521,310	6,765,233	26,740,141
At 1 January 2018 (audited)	550,086	17,812,492	24,000	21,037	(113,539)	5,102	21	40,383	-	44,310	(7,169)	200,538	990,155	5,744,614	25,312,030
Profit for the period	-	-	-	-	-	-	-	-	-	-	-	-	-	859,141	859,141
Other comprehensive (expense) income for the period	-	-	-	-	-	-	-	-	-	(67,925)	7,169	-	-	-	(60,756)
Total comprehensive (expense) income	-	-	-	-	-	-	-	-	-	(67,925)	7,169	-	-	859,141	798,385
Recognition of equity-settled share-based payment (note 34)	-	-	14,547	6,641	-	-	-	-	-	-	-	-	-	-	21,188
Vesting of shares for the share award scheme	-	(6,216)	-	(14,986)	20,629	-	-	-	-	-	-	-	-	-	(573)
Purchases of shares held under the share award scheme	-	-	-	-	(22,495)	-	-	-	-	-	-	-	-	-	(22,495)
Shares issued upon conversion of convertible bond	72	2,234	-	-	-	-	-	-	-	-	-	(67)	-	-	2,239
Shares issued under share option scheme (note 34)	375	12,233	(1,310)	-	-	-	-	-	-	-	-	-	-	-	11,298
2017 second interim dividend declared and settled in cash and scrip (note 12)	16,169	701,217	-	-	-	-	-	-	-	-	-	-	(990,155)	(293)	(273,062)
Share options lapsed	-	440	(440)	-	-	-	-	-	-	-	-	-	-	-	-
Share awards lapsed	-	77	-	(77)	-	-	-	-	-	-	-	-	-	-	-
Proposed 2018 interim dividend (note 12)	-	-	-	-	-	-	-	-	-	-	-	-	430,694	(430,694)	-
At 30 June 2018 (unaudited)	566,702	18,522,477	36,797	12,615	(115,405)	5,102	21	40,383	-	(23,615)	-	200,471	430,694	6,172,768	25,849,010

¹ These reserve accounts represent the unaudited consolidated reserves other than share capital and proposed cash/scrip dividend of approximately HK\$25,640 million (31 December 2018: approximately HK\$25,150 million) in the unaudited condensed consolidated statement of financial position.

Condensed Consolidated Statement of Cash Flows

For the six months ended 30 June 2019

	Six months ended	
	30.6.2019	30.6.2018
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
OPERATING ACTIVITIES		
Operating cash flows before movements in working capital	1,465,760	1,501,247
(Increase) decrease in other assets	(10,417)	9,203
Decrease (increase) in advances to customers in margin financing	1,366,203	(1,022,039)
Increase in advances to customers for merger and acquisition activities	(878,041)	(284,409)
Decrease (increase) in asset-backed financing to customers	3,073,263	(2,980,417)
Increase in accounts receivable	(5,182,400)	(5,401,549)
Increase in prepayments, deposits and other receivable	(225,646)	(97,163)
Decrease (increase) in financial assets held for trading and market making activities	1,179,968	(6,984,429)
Increase in investment securities	(11,015,253)	(4,277,577)
Decrease (increase) in asset acquired for financial products issued	4,943,267	(6,167,027)
Decrease in cash held on behalf of customers	201,831	775,686
Increase in accounts payable	1,408,711	654,910
Increase in repurchase agreements	985,646	12,014,583
Decrease (increase) in reverse repurchase agreements	1,435,639	(1,226,273)
Decrease in financial liabilities held for trading and market making activities	(2,689,387)	(724,529)
(Decrease) increase in other liabilities	(59,312)	512,342
Increase in financial liabilities at fair value through profit or loss – financial products issued	1,606,517	988,458
Increase (decrease) in derivative financial instruments	385,469	(636,855)
Increase (decrease) in other payables, accruals and other liabilities	379,051	(231,077)
Cash used in operations	(1,629,131)	(13,576,915)
Interest received	1,310,849	862,753
Dividend received	66,159	83,836
Interest paid	(1,348,199)	(1,218,663)
Tax paid	(31,961)	(2,136)
NET CASH USED IN OPERATING ACTIVITIES	(1,632,283)	(13,851,125)

Condensed Consolidated Statement of Cash Flows

For the six months ended 30 June 2019

	NOTES	Six months ended	
		30.6.2019 HK\$'000 (unaudited)	30.6.2018 HK\$'000 (unaudited)
INVESTING ACTIVITIES			
Proceeds from disposal of property and equipment		1,532	89
Purchase of intangible assets		(25,994)	(52,315)
Purchases of property and equipment		(14,693)	(12,403)
Disposal of investments accounted for using equity method		154,440	1,912,836
Net cash outflow on acquisition of leasehold land and building and investment property (note 2)		–	(498,668)
Net cash outflow on acquisition of subsidiaries	37	–	(142,624)
NET CASH FROM INVESTING ACTIVITIES		115,285	1,206,915
FINANCING ACTIVITIES			
Proceeds from issuance of non-convertible notes		7,445,861	10,905,777
Proceeds from share issued upon exercise of share options	34	7,105	11,298
Net proceeds for bank loans and other borrowings raised		5,391,255	4,750,871
Repayment of lease liabilities		(45,710)	–
Dividends paid to shareholders	12	(81,092)	(273,062)
Purchase of shares held under share award scheme	34	(35,165)	(22,495)
Repayment of non-convertible notes		(9,636,396)	(863,482)
NET CASH FROM FINANCING ACTIVITIES		3,045,858	14,508,907
NET INCREASE IN CASH AND CASH EQUIVALENTS		1,528,860	1,864,697
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD		7,088,829	4,536,816
CASH AND CASH EQUIVALENTS AT END OF PERIOD		8,617,689	6,401,513
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and cash equivalents (note 1)		8,617,689	6,401,513

Notes:

- For the purpose of the condensed consolidated statement of cash flows, cash and cash equivalents comprise cash on hand and demand deposits, are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.
- Leasehold land and building and investment properties acquired during the 6 months ended 30 June 2018 was transacted through acquisition of legal entities, where such acquisition does not qualify for business combination under Hong Kong Financial Reporting Standard 3, "Business Combination". Acquisition of leasehold land and building and investment properties are detailed in note 28 and note 29 of the unaudited condensed consolidated financial statements.

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2019

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.

The Company’s immediate holding company and ultimate holding company are Haitong International Holdings Limited (incorporated in Hong Kong with limited liability) and Haitong Securities Co., Limited (“HSCL”) (incorporated in the People’s Republic of China (“PRC”) with limited liability) respectively.

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

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

2. Basis of Preparation

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

3. Principal Accounting Policies

The unaudited condensed consolidated financial statements have been prepared on the historical cost basis except for investment property and certain financial instrument, which are measured at fair values.

Other than changes in accounting policies resulting from application of new and amendments to Hong Kong Financial Reporting Standards (“HKFRSs”), the accounting policies and methods of computation used in the unaudited condensed consolidated financial statements for the six months ended 30 June 2019 are the same as those followed in the preparation of the Group’s audited consolidated financial statements for the year ended 31 December 2018.

3. Principal Accounting Policies (continued)

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

Application of new and amendments to HKFRSs

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

HKFRS 16	Leases
HK(IFRIC) – Int 23	Uncertainty over Income Tax Treatments
Amendments to HKFRS 9	Prepayment Features with Negative Compensation
Amendments to HKAS 19	Plan Amendment, Curtailment or Settlement
Amendments to HKAS 28	Long-term Interests in Associates and Joint Ventures
Amendments to HKFRSs	Annual Improvements to HKFRSs 2015-2017 Cycle

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

3.1 Impacts and changes in accounting policies of application on HKFRS 16 "Leases"

The Group has applied HKFRS 16 for the first time in the current interim period. HKFRS 16 superseded HKAS 17 "Leases" ("HKAS 17"), and the related interpretations.

3.1.1 Key changes in accounting policies resulting from application of HKFRS 16

The Group applied the following accounting policies in accordance with the transition provisions of HKFRS 16.

Definition of a lease

A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

For contracts entered into or modified on or after the date of initial application, the Group assesses whether a contract is or contains a lease based on the definition under HKFRS 16 at inception or modification date. Such contract will not be reassessed unless the terms and conditions of the contract are subsequently changed.

3. Principal Accounting Policies (continued)

3.1 Impacts and changes in accounting policies of application on HKFRS 16 “Leases” (continued)

3.1.1 Key changes in accounting policies resulting from application of HKFRS 16 (continued)

As a lessee

Allocation of consideration to components of a contract

For a contract that contains a lease component and one or more additional lease or non-lease components, the Group allocates the consideration in the contract to each lease component on the basis of the relative stand-alone price of the lease component and the aggregate stand-alone price of the non-lease components.

Non-lease components are separated from lease component on the basis of their relative stand-alone prices.

Short-term leases and leases of low-value assets

The Group applies the short-term lease recognition exemption to leases of billboards that have a lease term of 12 months or less from the commencement date and do not contain a purchase option. It also applies the recognition exemption for lease of low-value assets. Lease payments on short-term leases and leases of low-value assets are recognised as expense on a straight-line basis over the lease term.

Right-of-use assets

Except for short-term leases and leases of low value assets, the Group recognises right-of-use assets at the commencement date of the lease (i.e. the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities.

The cost of right-of-use asset includes:

- the amount of the initial measurement of the lease liability;
- any lease payments made at or before the commencement date, less any lease incentives received;
- any initial direct costs incurred by the Group; and
- an estimate of costs to be incurred by the Group in dismantling and removing the underlying assets, restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease.

3. Principal Accounting Policies (continued)

3.1 Impacts and changes in accounting policies of application on HKFRS 16 “Leases” (continued)

3.1.1 Key changes in accounting policies resulting from application of HKFRS 16 (continued)

As a lessee (continued)

Right-of-use assets (continued)

Right-of-use assets in which the Group is reasonably certain to obtain ownership of the underlying leased assets at the end of the lease term is depreciated from commencement date to the end of the useful life. Otherwise, right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term.

The Group presents right-of-use assets in “property and equipment”, the same line item as that within which the corresponding underlying assets would be presented if they were owned.

Leasehold land and building

For payments of a property interest which includes both leasehold land and building elements, the entire property is presented as property and equipment of the Group when the payments cannot be allocated reliably between the leasehold land and building elements.

Refundable rental deposits

Refundable rental deposits paid are accounted under HKFRS 9 *Financial Instruments* (“HKFRS 9”) and initially measured at fair value. Adjustments to fair value at initial recognition are considered as additional lease payments and included in the cost of right-of-use assets.

Lease liabilities

At the commencement date of a lease, the Group recognises and measures the lease liability at the present value of lease payments that are unpaid at that date. In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable. The lease liabilities recognised are included in “Other payable, accruals, and other liabilities”.

3. Principal Accounting Policies (continued)

3.1 Impacts and changes in accounting policies of application on HKFRS 16 “Leases” (continued)

3.1.1 Key changes in accounting policies resulting from application of HKFRS 16 (continued)

As a lessee (continued)

Lease liabilities (continued)

The lease payments relevant to the Group include:

- fixed payments (including in-substance fixed payments) less any lease incentives receivable; and
- payments of penalties for terminating a lease, if the lease term reflects the Group exercising the option to terminate.

After the commencement date, lease liabilities are adjusted by interest accretion and lease payments.

Lease modifications

The Group accounts for a lease modification as a separate lease if:

- the modification increases the scope of the lease by adding the right to use one or more underlying assets; and
- the consideration for the leases increases by an amount commensurate with the stand-alone price for the increase in scope and any appropriate adjustments to that stand-alone price to reflect the circumstances of the particular contract.

For a lease modification that is not accounted for as a separate lease, the Group remeasures the lease liability based on the lease term of the modified lease by discounting the revised lease payments using a revised discount rate at the effective date of the modification.

3. Principal Accounting Policies (continued)

3.1 Impacts and changes in accounting policies of application on HKFRS 16 “Leases” (continued)

3.1.2 Transition and summary of effects arising from initial application of HKFRS 16

Definition of a lease

The Group has elected 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. Therefore, the Group has not reassessed contracts which already existed prior to the date of initial application.

For contracts entered into or modified on or after 1 January 2019, the Group applies the definition of a lease in accordance with the requirements set out in HKFRS 16 in assessing whether a contract contains a lease.

As a lessee

The Group has applied HKFRS 16 retrospectively with the cumulative effect recognised at the date of initial application, 1 January 2019. Any difference at the date of initial application is recognised in the opening retained profits and comparative information has not been restated.

When applying the modified retrospective approach under HKFRS 16 at transition, the Group applied the following practical expedients to leases previously classified as operating leases under HKAS 17, on lease-by-lease basis, to the extent relevant to the respective lease contracts:

- i. elected not to recognise right-of-use assets and lease liabilities for leases with lease term ends within 12 months of the date of initial application;
- ii. excluded initial direct costs from measuring the right-of-use assets at the date of initial application; and
- iii. applied a single discount rate to a portfolio of leases with a similar remaining terms for similar class of underlying assets in similar economic environment. Specifically, discount rate for certain leases of properties in Hong Kong/PRC and Singapore was determined on a portfolio basis.

On transition, the Group has made the following adjustments upon application of HKFRS 16:

As at 1 January 2019, the Group recognised additional lease liabilities and measured right-of-use assets at the carrying amounts as if HKFRS 16 had been applied since commencement dates, but discounted using the incremental borrowing rates of the relevant group entities at the date of initial application by applying applicable transition guidance under HKFRS 16.

3. Principal Accounting Policies (continued)

3.1 Impacts and changes in accounting policies of application on HKFRS 16 “Leases” (continued)

3.1.2 Transition and summary of effects arising from initial application of HKFRS 16 (continued)

As a lessee (continued)

When recognising the lease liabilities for leases previously classified as operating leases, the Group has applied incremental borrowing rates of the relevant group entities at the date of initial application. The weighted average lessee’s incremental borrowing rate applied is 4%.

	At 1.1.2019 HK\$'000
Operating lease commitments disclosed as at 31 December 2018	215,112
Lease liabilities discounted at relevant incremental borrowing rates	202,210
Add: Lease liabilities resulting from lease modifications of existing leases [#]	15,367
Less: Recognition exemption – short-term leases	(6,628)
Lease liabilities as at 1 January 2019	210,949
Analysed as	
Current	88,490
Non-current	122,459
	210,949

[#] The Group renewed the leases of commercial properties by entering into new lease contracts which commence after date of initial application, these new contracts are accounted as lease modifications of the existing contracts upon application of HKFRS 16.

3. Principal Accounting Policies (continued)

3.1 Impacts and changes in accounting policies of application on HKFRS 16 “Leases” (continued)

3.1.2 Transition and summary of effects arising from initial application of HKFRS 16 (continued)

As a lessee (continued)

The carrying amount of right-of-use assets as at 1 January 2019 comprises the following:

	Right-of- use assets HK\$'000
Right-of-use assets recognised upon application of HKFRS 16	203,234
By class:	
Leasehold land and buildings	203,234

Note: Before the application of HKFRS 16, the Group considered refundable rental deposits paid as rights and obligations under leases to which HKAS 17 applied. Based on the definition of lease payments under HKFRS 16, such deposits are not payments relating to the right to use of the underlying assets and were adjusted to reflect the discounting effect at transition. The application of the discounting effect on 1 January 2019 has no material impact on the Group's financial position and performance at the initial application of HKFRS 16. Accordingly, there is no adjustment on the opening condensed consolidated statement of financial position and condensed consolidated statement of changes in equity.

The following table summarises the impact of transition to HKFRS 16 on retained profits at 1 January 2019.

	Impact of adopting HKFRS 16 at 1 January 2019 HK\$'000
Impact at 1 January 2019	7,715

3. Principal Accounting Policies (continued)

3.1 Impacts and changes in accounting policies of application on HKFRS 16 “Leases” (continued)

3.1.2 Transition and summary of effects arising from initial application of HKFRS 16 (continued)

As a lessee (continued)

The following adjustments were made to the amounts recognised in the condensed consolidated statement of financial position at 1 January 2019. Line items that were not affected by the changes have not been included.

	Carrying amounts reported at 31 December 2018 HK\$'000	Adjustments HK\$'000	Carrying amounts previously under HKFRS 16 at 1 January 2019 HK\$'000
Non-current Assets			
Property and equipment	420,968	203,234	624,202
Capital and Reserves			
Reserves	25,150,306	(7,715)	25,142,591
Current Liabilities			
Other payable, accruals and other liabilities	1,259,472	88,490	1,347,962
Non-current liabilities			
Other payable, accruals and other liabilities	586,189	122,459	708,648

Note: For the purpose of reporting cash flows from operating activities under indirect method for the six months ended 30 June 2019, movements in working capital have been computed based on opening statement of financial position as at 1 January 2019 as disclosed above.

4. Critical Accounting Judgements and Key Sources of Estimation Uncertainty

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

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

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

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

In preparing the unaudited condensed consolidated interim financial statements, the significant judgments made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the audited consolidated financial statements for the year ended 31 December 2018.

As at 30 June 2019 and 31 December 2018, included in the advances to customers in margin financing of gross amount HK\$15,201,619,000 (2018: 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 and financial 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 and financial restructuring can be subsequently effected.

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. The directors considered that underwriting and placing services provided to corporate customers is solely handled by this segment, and, therefore, decided that all commission on underwriting and placing shall be recognized in this segment. Comparative information has been reclassified to conform the current period's presentation;

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For the six months ended 30 June 2019

5. Segment Information (continued)

- (c) the asset management segment engages in provision of investment management services on diversified and comprehensive investment products including 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.

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

For the six months ended 30 June 2019

	Wealth management HK\$'000	Corporate finance HK\$'000	Asset management HK\$'000	Institutional clients HK\$'000	Investment HK\$'000	Consolidated HK\$'000
Segment revenue:						
Commission and fee income	271,108	412,656	106,947	104,599	-	895,310
Interest income	744,769	230,479	-	420,803	8,845	1,404,896
Net investment gains	56,596	27,826	-	1,110,097	613,903	1,808,422
Segment revenue	1,072,473	670,961	106,947	1,635,499	622,748	4,108,628
Other income and gains or (losses)	3,792	1,278	-	399	(20,892)	(15,423)
Segment expenses	1,076,265 (786,963)	672,239 (327,666)	106,947 (63,902)	1,635,898 (1,265,274)	601,856 (409,638)	4,093,205 (2,853,443)
Segment results/profit before tax	289,302	344,573	43,045	370,624	192,218	1,239,762
Income tax expense						(200,877)
Profit for the period						1,038,885
Amortisation and depreciation	(30,028)	(5,770)	(2,028)	(63,492)	(1,336)	(102,654)
Impairment losses, net of reversal	(209,372)	(374)	-	1,489	2,354	(205,903)
Finance costs	(238,292)	(106,658)	-	(780,703)	(329,604)	(1,455,257)

5. Segment Information (continued)

For the six months ended 30 June 2018

	Wealth management HK\$'000	Corporate finance HK\$'000 (Restated)	Asset management HK\$'000	Institutional clients HK\$'000 (Restated)	Investment HK\$'000	Consolidated HK\$'000
Commission and fee income	401,323	588,488	138,464	106,976	–	1,235,251
Interest income	615,305	214,683	–	373,538	7,813	1,211,339
Net investment gains	66,360	45,456	–	514,037	484,714	1,110,567
Segment revenue	1,082,988	848,627	138,464	994,551	492,527	3,557,157
Other income and gains or (losses)	17,750	2,067	–	22,523	(13,306)	29,034
Segment expenses	1,100,738 (682,820)	850,694 (230,034)	138,464 (90,236)	1,017,074 (982,726)	479,221 (382,354)	3,586,191 (2,368,170)
Segment results	417,918	620,660	48,228	34,348	96,867	1,218,021
Share of results of investments accounted for using the equity method	–	–	–	–	(196,240)	(196,240)
Profit (loss) before tax	417,918	620,660	48,228	34,348	(99,373)	1,021,781
Income tax expense						(162,640)
Profit for the period						859,141
Amortisation and depreciation	(10,929)	(2,208)	(1,091)	(31,658)	(151)	(46,037)
Impairment losses, net of reversal	(102,199)	68,647	–	(5,000)	–	(38,552)
Finance costs	(256,506)	(137,596)	–	(469,014)	(229,096)	(1,092,212)

6. Revenue and Other Income and Gains or Losses

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

	Six months ended	
	30.6.2019	30.6.2018
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
Revenue		
Commission and fee income (note (i)):		
Commission on securities dealing and broking	187,749	270,750
Commission on futures and options dealing and broking	45,133	69,239
Commission on underwriting and placing	334,131	496,336
Financial advisory and consultancy fee income	162,598	216,051
Asset management fee and performance fee income	106,947	138,464
Handling, custodian and other service fee income	58,752	44,411
	895,310	1,235,251
Interest income:		
Interest income from advances to customers in margin financing	592,797	523,259
Interest income from investment securities at amortised cost	317,826	172,699
Interest income from advances to customers for merger and acquisition activities	165,436	108,596
Interest income from asset-backed financing to customers	142,851	270,619
Interest income from bank deposits and others	185,986	136,166
	1,404,896	1,211,339
Net investment gains (note (ii)):		
Net gain from distribution of over-the-counter products	56,596	66,360
Net gain from financial product issuance	380,961	149,956
Net gain from trading and market making of fixed income securities and equity derivatives	729,136	364,081
Net gain from financial assets/liabilities at fair value	641,729	530,170
	1,808,422	1,110,567
	4,108,628	3,557,157
Other income and gains or losses		
Others (note (iii))	(15,423)	29,034

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) As detailed in the Group's audited consolidated financial statements for the year ended 31 December 2018, 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 period's presentation.

Of HK\$84 million recognised and presented in "Dividend income" during the prior period, HK\$42 million and HK\$42 million were included in "Net gain from financial assets/liabilities at fair value" and "Net gain from trading and market making of fixed income securities and equity derivatives".

During the current period, HK\$34 million and HK\$32 million of dividend income has been classified as "Net gain from financial assets/liabilities at fair value" 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\$26 million (six months ended 2018: net loss of HK\$17 million). Details of the Group's interest in consolidated investment funds are disclosed in note 26 to the unaudited condensed consolidated financial statements.

7. Employee Benefit Costs

	Six months ended	
	30.6.2019	30.6.2018
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
Salaries, bonuses and allowances	662,678	586,503
Pension scheme contributions (net)	14,870	13,301
	677,548	599,804
Commission to accounts executives (note)	77,030	131,181
	754,578	730,985

Note: Included in commission expenses of HK\$90,925,000 (2018: HK\$145,354,000) is commission to accounts executives of HK\$77,030,000 (2018: HK\$131,181,000).

8. Impairment Losses, Net of Reversal

	Six months ended	
	30.6.2019	30.6.2018
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
Impairment losses (reversal of impairment losses) on:		
— advances to customers in margin financing	199,675	102,199
— advances to customers for merger and acquisition activities	(43)	(68,647)
— asset-backed financing to customers	7,955	5,000
— others	(1,684)	–
	205,903	38,552

9. Finance Costs

	Six months ended	
	30.6.2019	30.6.2018
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
Bank loans and overdrafts	610,524	489,613
Debt securities in issue:		
Convertible bonds	34,841	31,662
Non-convertible bonds	227,205	226,146
Non-convertible notes	203,883	123,218
Repurchase agreements	349,922	218,906
Other payables, accruals and other liabilities:		
Lease liabilities	3,756	–
Others	25,126	2,667
	1,455,257	1,092,212

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

10. Income Tax Expense

	Six months ended	
	30.6.2019	30.6.2018
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
Current taxation		
— Hong Kong	191,507	127,029
— Other jurisdictions	9,876	26,385
	201,383	153,414
Deferred tax		
— Current period	(506)	9,226
	200,877	162,640

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

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

11. Earnings Per Share

Basic earnings per share

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

	Six months ended	
	30.6.2019	30.6.2018
	(unaudited)	(unaudited)
Earnings		
Profit for the period attributable to owners of the Company (HK\$'000)	1,038,885	859,141
Number of shares		
Weighted average number of ordinary shares in issue less shares held for the share award scheme (in thousands) (note (a))	5,759,506	5,530,498
Basic earnings per share (HK cents per share)	18.04	15.53

11. Earnings Per Share (continued)

Diluted earnings per share

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

	Six months ended	
	30.6.2019	30.6.2018
	(unaudited)	(unaudited)
Earnings		
Profit for the period attributable to owners of the Company (HK\$'000)	1,038,885	859,141
Effect of dilutive potential ordinary shares		
— Interest on convertible bonds (net of tax) (note (b)) (HK\$'000)	29,093	26,438
Earnings for the purpose of diluted earnings per share (HK\$'000)	1,067,978	885,579
Number of shares		
Weighted average number of ordinary shares in issue less shares held for the share award scheme (in thousands) (note (a))	5,759,506	5,530,498
Effect of dilutive potential ordinary shares:		
— Convertible bonds (in thousands) (note (b))	668,823	455,824
— Share options (in thousands) (note (c))	211	2,347
— Share awards (in thousands)	1,443	3,135
Weighted average number of ordinary shares for the purpose of diluted earnings per share (in thousands)	6,429,983	5,991,804
Diluted earnings per share (HK cents per share)	16.61	14.78

11. Earnings Per Share (continued)

Diluted earnings per share (continued)

Notes:

- (a) As at 30 June 2019, the trustee of the share award scheme held 42,405,142 ordinary shares of the Company (30 June 2018: 21,870,909 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\$163 million (30 June 2018: HK\$151 million).

During the current period, 6,757,440 awarded shares (30 June 2018: 7,010,493 awarded shares) were granted by the Company. There were 37,744 awarded shares lapsed in respect of such grant, while 239,159 awarded shares (30 June 2018: Nil) in respect of the grant by the Company on 28 May 2018, 41,237 awarded shares (30 June 2018: 21,556 awarded shares) in respect of the grant by the Company on 28 April 2017, and 29,820 awarded shares (30 June 2018: 105,150 awarded shares) in respect of the grant by the Company on 11 March 2016 were lapsed during the six months ended 30 June 2019. In addition, 134,000 awarded shares (30 June 2018: Nil) were vested during the current six-month period in relation to the grant made by the Company on 11 January 2019, 2,199,883 awarded shares (30 June 2018: Nil) were vested during the current six-month period in relation to the grant made by the Company on 28 May 2018, 1,259,541 awarded shares (30 June 2018: 1,318,237 awarded shares) were vested during the current six-month period in relation to the grant made by the Company on 28 April 2017 and 2,133,343 awarded shares (30 June 2018: 2,252,593 awarded shares) were vested during the current six-month period 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 34 and should be read in conjunction with the relevant announcements of the share award scheme made by the Company.

- (b) On 18 July 2013 and 10 October 2013, the Company issued convertible bonds of HK\$776 million and HK\$232 million respectively, which had been combined legally and constitute a single series. On 4 November 2014, the Company issued convertible bonds of HK\$1,164 million. On 25 October 2016, the Company further issued convertible bonds of HK\$3,880 million. Details of the convertible bonds issued by the Company are set out in note 32.

Convertible bonds issued in 2013 that were outstanding and convertible into ordinary shares of the Company at a conversion price of HK\$2.76 as at 31 December 2017 had been converted in full into shares during 2018. As at 30 June 2019, 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 2018: HK\$4.32) and HK\$6.09 (31 December 2018: HK\$6.09) respectively, at the option of the holders of the convertible bonds, which created a potential dilutive effect to the earnings per share. In the calculation of the diluted earnings per share, the convertible bonds are assumed to have been converted into ordinary shares. The weighted average number of ordinary shares outstanding is increased by the weighted average number of additional ordinary shares that would have been outstanding assuming the conversion of all dilutive potential ordinary shares was made from the date of the first issue with the adjustment if there is any conversion of the convertible bonds into ordinary shares during the period. The net profit is adjusted to eliminate the relevant interest expense less the tax effect.

- (c) The computation of diluted earnings per share assumed the exercise of the Company's outstanding share options with the exercise price lower than the average market price during the six months ended 30 June 2019 and with the adjustment for the share options lapsed or exercised during the period.

12. Dividends

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 was paid on 25 April 2019, with a total of HK\$81,092,000 cash dividend paid to the shareholders.

At the meeting of the Board on 23 August 2019, the Board declared an interim dividend of HK9 cents per share in cash for the six months ended 30 June 2019 to shareholders whose names appear on the register of members of the Company on 11 September 2019. The shareholders are given the option to receive the interim dividend in new shares in lieu of cash. The interim dividend is expected to be paid on or about 25 October 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.

13. Cash Held on Behalf of Customers

The Group maintains segregated accounts with authorized institutions to hold clients' monies arising from its normal course of business. The Group has classified the clients' monies as cash held on behalf of customers under the current assets section of the unaudited condensed consolidated statement of financial position and recognised the corresponding accounts payable (note 31) to respective clients on the grounds that it is liable for any loss or misappropriation of clients' monies. The cash held on behalf of customers is restricted and governed by the Securities and Futures (Client Money) Rules under the Securities and Futures Ordinance ("HKSF").

14. Financial Assets/Liabilities Held for Trading and Market Making Activities

	30.6.2019	31.12.2018
	HK\$'000	HK\$'000
	(unaudited)	(audited)
Financial assets held for trading and market making activities – at fair value		
Listed equity investments	962,866	612,530
Exchange traded funds	129,408	94,506
Listed preference shares	7,312	146,846
Listed debt investments	30,827,178	31,103,699
Unlisted debt investments	1,207,835	2,356,986
	33,134,599	34,314,567
Financial liabilities held for trading and market making activities – at fair value		
Listed equity investments (note)	157,950	452,041
Exchange traded funds (note)	95,403	–
Listed debt investments (note)	1,438,574	2,736,382
Listed preference shares (note)	15,976	29,519
Unlisted debt investments (note)	8,576	1,187,924
	1,716,479	4,405,866

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

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

15. Investment Securities

	30.6.2019	31.12.2018
	HK\$'000	HK\$'000
	(unaudited)	(audited)
Investment securities at fair value through profit or loss (note (i))		
Listed equity investments	2,020,322	1,486,008
Exchange traded funds	94,183	138,481
Listed debt investments	1,505,467	2,291,763
Unlisted partnership investments (note (iv))	1,173,162	1,096,755
Unlisted equity investments	1,473,882	1,506,239
Unlisted debt investments	1,612,555	5,166,580
Unlisted investment funds (note (ii))	19,228,042	8,107,041
Unlisted financial products	1,112,889	993,937
	28,220,502	20,786,804
Less: Non-current portion (note (iii))	(19,706,380)	(13,490,761)
Current portion	8,514,122	7,296,043
Investment securities at amortised cost		
Unlisted debt investments	8,117,155	5,371,706
Less: Impairment allowance	(10,120)	(12,645)
	8,107,035	5,359,061
Less: Non-current portion (note (iii))	(688,726)	(2,359,841)
Current portion	7,418,309	2,999,220
Financial investment measured at fair value through other comprehensive income		
Listed debt investments	833,734	–
Unlisted equity investments	1,184	–
	834,918	–
Less: Non-current portion (note (iii))	(248,253)	–
Current portion	586,665	–
Total investment securities	37,162,455	26,145,865
Less: Non-current portion (note (iii))	(20,643,359)	(15,850,602)
Current portion	16,519,096	10,295,263

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

15. Investment Securities (continued)

Notes:

- (i) Investment securities at fair value through profit or loss includes certain investment funds that are consolidated into the unaudited condensed consolidated financial statements of the Group (note 26). Classification of investments as detailed above is based on the investments held by these investment 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\$19,228 million (31 December 2018: HK\$8,107 million) in the unaudited condensed consolidated statement of financial position represents the Group's maximum exposure.

- (iii) As at 30 June 2019 and 31 December 2018, included in the non-current portion are listed debt investments, 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 30 June 2019, the unfilled capital commitment to the partnerships were HK\$519 million (31 December 2018: HK\$640 million).

Included in investment securities at amortised cost are HK\$8,061 million (31 December 2018: HK\$5,372 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 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.

16. Assets Acquired for Financial Products Issued/Financial Products Issued at Fair Value

	30.6.2019	31.12.2018
	HK\$'000	HK\$'000
	(unaudited)	(audited)
Assets – acquired for financial products issued		
Listed equity investments, at fair value (note (ii))	1,656,110	1,729,650
Listed debt investments, at fair value (note (ii))	14,149,482	15,848,326
Unlisted equity investments, at fair value (notes (i) & (ii))	417,989	550,806
Unlisted partnership investments, at fair value (notes (i) & (ii))	207,649	208,319
Unlisted investment funds, at fair value (notes (i) & (ii))	2,047,482	6,335,630
Unlisted financial products, at fair value (note (ii))	4,330,871	3,080,119
	22,809,583	27,752,850
Less: Non-current portion	(5,442,069)	(2,268,434)
Current portion	17,367,514	25,484,416
Liabilities – Financial products issued at fair value/ short position for financial products issued		
Unlisted issued financial products, at fair value (note (iii))	15,369,306	13,683,694
Listed equity investments, at fair value	191,980	271,074
	15,561,286	13,954,768
Less: Non-current portion	(1,923,895)	(638,846)
Current portion	13,637,391	13,315,922

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

16. Assets Acquired for Financial Products Issued/Financial Products Issued at Fair Value (continued)

Notes:

- (i) As at 30 June 2019 and 31 December 2018, included in assets acquired for financial products issued are the unlisted equity investments, unlisted partnership investments and unlisted investment funds.

There is no unfilled capital commitment to these unlisted equity investments, unlisted partnership investments and unlisted investment funds. Their total current carrying amount of HK\$2,673 million (31 December 2018: HK\$7,095 million) in the unaudited condensed consolidated statement of financial position represents the Group's maximum exposure.

- (ii) These financial assets are primarily acquired by the Group which were driven by the financial products issued 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 30 June 2019 and 31 December 2018, 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/unlisted equity investments, listed debt investments, unlisted investment funds, unlisted financial products and unlisted partnership investments.

The risk of economic exposure on these financial products is primarily hedged using financial assets as detailed in note (ii) above.

17. Derivative Financial Instruments

	30.6.2019	31.12.2018
	HK\$'000	HK\$'000
	(unaudited)	(audited)
Assets		
Swaps — held-for-trading	17,628	80,978
Forward foreign currency exchange contracts — held-for-trading	21,292	53,529
Listed futures/options/warrants — held-for-trading	57,542	185,035
Callable bull/bear contracts — held-for-trading	2,160	480
Unlisted options — held-for-trading	59,535	220,541
	158,157	540,563
Liabilities		
Swaps — held-for-trading	120,600	41,795
Forward foreign currency exchange contracts — held-for-trading	17,930	124,052
Foreign currency option contracts — held-for-trading	—	10,317
Listed futures/options/warrants — held-for-trading	126,459	251,514
Callable bull/bear contracts — held-for-trading	210,679	28,358
Unlisted options — held-for-trading	32,891	49,460
	508,559	505,496

18. Advances to Customers in Margin Financing

	30.6.2019	31.12.2018
	HK\$'000	HK\$'000
	(unaudited)	(audited)
Loans to margin clients	15,201,619	16,567,822
Less: Impairment allowance	(815,037)	(615,362)
	14,386,582	15,952,460

18. Advances to Customers in Margin Financing (continued)

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 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. As at 30 June 2019, advances to customers in margin financing of HK\$14,387 million (31 December 2018: HK\$15,952 million) were secured by securities pledged by the customers to the Group as collateral with undiscounted market value of HK\$59,673 million (31 December 2018: HK\$71,407 million). In determining the allowances for credit impaired loans to margin clients for the current period, the management of the Group also takes into account shortfall by comparing the fair value of securities pledged as collateral and the outstanding balance of loan to margin clients individually taking into account of subsequent settlement or executable settlement plan and restructuring arrangements in assessing the expected credit loss. In the opinion of the directors of the Company, the impairment provision for the current period is sufficient.

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.

19. Advances to Customers for Merger and Acquisition Activities

	30.6.2019 HK\$'000 (unaudited)	31.12.2018 HK\$'000 (audited)
Advances to customers for merger and acquisition activities	4,459,007	3,580,966
Less: Impairment allowance	(8,790)	(8,833)
	4,450,217	3,572,133
Less: Non-current portion	(193,969)	(1,094,666)
Current portion	4,256,248	2,477,467

Included in advances to customers for merger and acquisition activities are HK\$4,376 million (31 December 2018: HK\$3,379 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 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 also 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.

19. Advances to Customers for Merger and Acquisition Activities (continued)

As at 30 June 2019 and 31 December 2018, there was no past due advances to customers for merger and acquisition activities, except for a loan amounted to HK\$200 million that was advanced to an external party for its property development project in the PRC and was past due for more than 360 days in 2017. During the year ended 31 December 2017, 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 2018, 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 was 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 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 2018, therefore, the relevant impairment provision has been reversed.

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.

20. Asset-Backed Financing to Customers

	30.6.2019	31.12.2018
	HK\$'000	HK\$'000
	(unaudited)	(audited)
Asset-backed financing to customers	2,272,845	5,447,616
Less: Impairment allowance	(15,446)	(108,999)
	2,257,399	5,338,617
Less: Non-current portion	(117,419)	(224,744)
Current portion	2,139,980	5,113,873

Included in asset-backed financing to customers are HK\$2,273 million (31 December 2018: HK\$5,448 million) that are secured.

20. Asset-Backed Financing to Customers (continued)

These asset-backed financing to customers are secured and/or guaranteed and credit limits are set for borrowers. The majority of these asset-backed financing to customers are having contractual maturity within 1 year from the reporting date. Regular reviews on these asset-backed financing to customers are conducted by 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 30 June 2019 and 31 December 2018, there was no past due asset-backed financing to customers, except for 2 advances.

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. The loan was written off during the current period as the borrower was declared bankrupt during the current period.

An impairment loss of HK\$11 million was recognised for a loan with outstanding balance of HK\$27 million given a number of factors including delay in repayment and recoverable amount of collateral.

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.

21. Reverse Repurchase Agreements

	30.6.2019 HK\$'000 (unaudited)	31.12.2018 HK\$'000 (audited)
Analysed by collateral type:		
Equities	135,300	27,300
Bonds and preference shares	2,772,636	4,316,261
Analysed by market:		
Inter-bank market	2,907,936	4,343,561
Analysed for reporting purposes:		
Current	2,907,936	4,343,561

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For the six months ended 30 June 2019

21. Reverse Repurchase Agreements (continued)

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 unaudited condensed consolidated financial statements but regarded as "collateral" because the external investors retain substantially all the risks and rewards of these securities.

As at 30 June 2019, the fair value of the collateral was HK\$3,282 million (31 December 2018: HK\$4,440 million).

22. Accounts Receivable

	30.6.2019 HK\$'000 (unaudited)	31.12.2018 HK\$'000 (audited)
Accounts receivable from:		
— Clients	461,793	696,902
— Brokers, dealers and clearing houses	10,820,795	5,179,109
— Collateral paid under stock borrowing agreements	563,452	688,739
— Clients for subscription of new shares in IPO	7,669	2,273
— Others (note)	296,377	401,453
	12,150,086	6,968,476

Note:

The amount represents the fees receivable from corporate finance, wealth management and assets management businesses.

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

	30.6.2019 HK\$'000 (unaudited)	31.12.2018 HK\$'000 (audited)
Between 0 and 3 months	12,127,380	6,939,488
Between 4 and 6 months	6,638	13,634
Between 7 and 12 months	11,960	8,687
Over 1 year	4,108	6,667
	12,150,086	6,968,476

22. Accounts Receivable (continued)

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 30 June 2019, the settlement dates are in the range of 2 to 7 days.

Normal settlement terms of accounts receivable from wealth management, corporate finance and asset management businesses 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.

23. Prepayments, Deposits and Other Receivables

	30.6.2019	31.12.2018
	HK\$'000	HK\$'000
	(unaudited)	(audited)
Prepayments, deposits and other receivables (note)	1,902,004	1,582,311
Less: Non-current portion	(125,074)	(53,050)
Current portion	1,776,930	1,529,261

Note: Included in the amount of prepayments, deposits and other receivables are the interest receivable of HK\$1,372 million (31 December 2018: HK\$1,278 million) from bank deposits, brokerage customers, and bond investments which are receivable within one year.

24. Investments Accounted for Using the Equity Method

	30.6.2019 HK\$'000 (unaudited)	31.12.2018 HK\$'000 (audited)
Joint venture:		
Cost of unlisted investments in joint venture	–	155,084
Share of post-acquisition losses and other comprehensive expense, net of dividend received	–	(644)
	–	154,440
	–	154,440

Details of the joint venture is disclosed as follows:

Name of entity	Country of incorporation	Interests held by the Group		Principal activities
		As at 30 June 2019	As at 31 December 2018	
Haitong High Yield Bond Multi-Tranche Fund S.P. (note)	The Cayman Islands	N/A	78.05%	Investment holding

The joint venture is an unlisted entity without quoted market price available.

The joint venture of the Group is accounted for using the equity method in these unaudited condensed consolidated financial statements for the six-month period ended 30 June 2019 and audited financial statement for the year ended 31 December 2018. The directors consider the joint venture is not significant to the Group's unaudited condensed consolidated statement of financial position.

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

Note:

As at 31 December 2018, 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, 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 were classified as a joint venture as at 31 December 2018. The carrying amount of the interest held by the Group amounted to HK\$154 million as at 31 December 2018 represented the Group's maximum exposure in the Fund.

On 31 January 2019, 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 fair value through profit or loss in "investment securities". The carrying amount of the interest in the Fund approximated the fair value on that date. The result of the Fund from 1 January 2019 up to date of cessation of such joint control is not material to the Group.

25. Interests in Unconsolidated Investments

The Group invested in certain investment funds, partnership and private equity investments (collectively referred to as the "Investments" for the purpose of notes 25 and 26) with primary objectives for capital appreciation, investment income and selling in the near future for profit. Pursuant to subscription agreements or equivalent documents, the beneficial interests held by the Group in these Investments are in the form of participating shares or interests which primarily provide the Group with the share of returns from the Investments but not any decision making power nor any voting right to involve in and control the daily operation.

These Investments are set up and managed by respective investment manager or general partner who has the power and authority to manage and make decisions for the Investments, or through participation in decision making process of the underlying investee companies.

Among those Investments held by the Group where the Group directly or indirectly is also involved as investment manager, the Group regularly assesses and determines whether:

- the Group is acting as an agent or a principal in these Investments;
- there are substantive removal rights held by other parties who may remove the Group as a fund manager; and
- the investment interests held together with its remuneration from servicing and managing these Investment Funds create significant exposure to variability of returns in these Investments.

In the opinion of the directors of the Company, the variable returns that the Group is exposed to with respect to these Investments are not significant and/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.

26. Interest in Consolidated Investments

The Group had consolidated certain Investments in accordance with the criteria set out in note 25. 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 30 June 2019, 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\$9,556 million and HK\$98 million (31 December 2018: HK\$11,216 million and HK\$100 million respectively).

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 period ended 30 June 2019, investment returns related to interests held by third-party unit/shareholders of loss of HK\$26 million (six months ended 2018: loss of HK\$17 million) in consolidated Investments are included in other income and gains or losses in the unaudited condensed consolidated statement of profit or loss and the interests held by third-party unit holders/shareholders amounted to HK\$424 million (31 December 2018: HK\$484 million) as at 30 June 2019. Such amount is recognised as "other liabilities arising from consolidation of investment funds" in the unaudited condensed consolidated statement of financial position.

27. Goodwill and Other Intangible Assets

	30.6.2019	31.12.2018
	HK\$'000	HK\$'000
	(unaudited)	(audited)
Goodwill	380,099	380,099
Other intangible assets	117,820	93,292
	497,919	473,391

28. Investment Property

	HK\$'000
Fair value	
At 1 January 2019	231,539
Net increase in fair value recognised in profit or loss	–
Transfer to property and equipment	(39,068)
At 30 June 2019	192,471
At 1 January 2018	–
Acquired on an acquisition of a subsidiary (note)	285,399
Net increase in fair value recognised in profit or loss	–
At 30 June 2018	285,399

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

The fair value of the Group's investment properties as at 30 June 2019 and 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 property interests located in the surrounding area.

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 possession 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.

28. Investment Property (continued)

Investment properties held by the Group	Fair value hierarchy as defined in note 38	Valuation techniques and key inputs	Significant unobservable inputs	Relationship of unobservable inputs to fair value
At 30 June 2019 and 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.	Level adjustment on individual floors of the property of 0.5%	The higher level, the higher the fair value
		The key input is level adjustment.		

Note: Commercial property units are acquired and subsequently partially classified as investment properties and the rest property and equipment during the prior 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.

29. Property and Equipment

	Leasehold land and buildings HK\$'000	Leasehold improvements HK\$'000	Furniture fixtures and equipment HK\$'000	Computer hardware and equipment HK\$'000	Total HK\$'000
30 June 2019 (unaudited)					
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
At 31 December 2018, net of accumulated depreciation	264,897	32,863	19,311	103,897	420,968
Effect arising from application of HKFRS 16	203,234	-	-	-	203,234
At 1 January 2019, net of accumulated depreciation	468,131	32,863	19,311	103,897	624,202
Transfer from investment property	39,068	-	-	-	39,068
Additions – Right-of-use assets under HKFRS 16	103,697	-	-	-	103,697
Additions – Others	1,016	8,041	1,725	3,911	14,693
Disposal	-	(455)	(440)	(12,794)	(13,689)
Depreciation	(51,002)	(11,156)	(2,517)	(36,512)	(101,187)
At 30 June 2019, net of accumulated depreciation	560,910	29,293	18,079	58,502	666,784
At 30 June 2019					
Cost	619,926	105,421	76,005	569,327	1,370,679
Accumulated depreciation	(59,016)	(76,128)	(57,926)	(510,825)	(703,895)
Net carrying values	560,910	29,293	18,079	58,502	666,784
30 June 2018 (unaudited)					
At 1 January 2018					
Cost	3,092	83,408	63,245	550,986	700,731
Accumulated depreciation	(1,602)	(57,578)	(48,818)	(414,490)	(522,488)
Net carrying values	1,490	25,830	14,427	136,496	178,243
At 1 January 2018, net of accumulated depreciation	1,490	25,830	14,427	136,496	178,243
Arising from acquisition of subsidiaries (note)	215,959	2,948	6,611	6,015	231,533
Additions	-	7,627	3,914	862	12,403
Disposal	-	-	-	(106)	(106)
Depreciation	(2,153)	(5,454)	(2,773)	(27,571)	(37,951)
At 30 June 2018, net of accumulated depreciation	215,296	30,951	22,179	115,696	384,122
At 30 June 2018					
Cost	219,051	93,983	73,770	557,757	944,561
Accumulated depreciation	(3,755)	(63,032)	(51,591)	(442,061)	(560,439)
Net carrying values	215,296	30,951	22,179	115,696	384,122

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

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For the six months ended 30 June 2019

30. Repurchase Agreements

	30.6.2019 HK\$'000 (unaudited)	31.12.2018 HK\$'000 (audited)
Analysed by collateral type:		
Equities	1,550,000	2,130,000
Bonds and preference shares	23,524,689	21,959,043
Analysed by market:		
Inter-bank market	25,074,689	24,089,043
Analysed for reporting purposes:		
Current	25,074,689	24,089,043

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

As at 30 June 2019, the Group entered into repurchase agreements with financial institutions to sell equities, bonds and preferences shares recognised as financial assets at fair value through profit or loss with carrying amount of HK\$32,009 million (31 December 2018: HK\$30,915 million), which are subject to the simultaneous agreements to repurchase these investments at the agreed date and price.

31. Accounts Payable

	30.6.2019	31.12.2018
	HK\$'000	HK\$'000
	(unaudited)	(audited)
Accounts payable to:		
— Clients	19,583,874	17,710,600
— Brokers, dealers and clearing houses	1,301,273	1,153,352
— Collaterals received under stock lending agreements	1,040,381	1,708,575
— Others	457,735	402,025
	22,383,263	20,974,552

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

Collateral received under stock lending agreement are repayable upon expiry of relevant stock lending agreements and the relevant stocks lent are returned by the borrower.

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

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

Except for the accounts payable to clients which bear interest at 0.001% as at 30 June 2019 (31 December 2018: 0.001%), all the accounts payable are non-interest bearing.

Accounts payable to clients include those payables placed in segregated accounts with authorized institutions of HK\$15,796,480,000 (31 December 2018: HK\$15,998,360,000), HKFE Clearing Corporation Limited, the SEHK and other futures dealers totalling HK\$967,177,000 (31 December 2018: HK\$1,060,245,000).

32. Loans and Borrowings

	30.6.2019	31.12.2018
	HK\$'000	HK\$'000
	(unaudited)	(audited)
Debt securities in issue		
Non-current		
Convertible bonds (note (a))	–	3,792,050
Non-convertible bonds (note (b))	5,443,442	5,451,585
Total non-current debt securities in issue	5,443,442	9,243,635
Current		
Convertible bonds (note (a))	3,967,335	141,300
Non-convertible bonds (note (b))	4,680,449	4,687,020
Non-convertible notes (note (c))	8,858,472	10,975,672
Total current debt securities in issue	17,506,256	15,803,992
Total debt securities in issue	22,949,698	25,047,627
Bank loans and other borrowings		
Secured borrowing		
— Bank loans (notes (d), (e) and (f))	–	489,536
Unsecured borrowing		
— Bank loans (notes (e), (f) and (g))	39,167,394	33,286,603
Total bank loans and other borrowings	39,167,394	33,776,139
Total borrowings	62,117,092	58,823,766

Notes:

- (a) The Company has issued convertible bonds in principal amount of HK\$1,164 million and HK\$3,880 million in 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 4 November 2014, 12 October 2016 and 25 October 2016 for details of the bonds.

As at 30 June 2019, the conversion prices of convertible bonds issued by the Company in 2014 and 2016 are HK\$4.32 per share (31 December 2018: HK\$4.32 per share) and HK\$6.09 per share (31 December 2018: HK\$6.09 per share) respectively. No convertible bonds issued by the Company in 2014 and 2016 were converted during current period and prior period.

32. Loans and Borrowings (continued)

Notes: (continued)

(a) (continued)

As at 30 June 2019, the number of outstanding shares convertible under the convertible bonds issued in 2014 and 2016 are 31,712,962 (31 December 2018: 31,712,962) and 637,110,016 (31 December 2018: 637,110,016) respectively.

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

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

(c) During the current period ended 30 June 2019, the Company has issued medium term notes under the Company's Medium Term Note Programme (the "MTN Programme") in principal amount totalling HK\$7,345 million with a maturity period of 1 year and repaid several medium term notes of principal amount totalling HK\$9,558 million. As at 30 June 2019, the outstanding balances of HK\$8,858 million (31 December 2018: HK\$10,976 million) represent the unsecured and unguaranteed non-convertible notes.

(d) As at 31 December 2018, bank loans of HK\$357 million are secured by the listed shares of HK\$4,027 million and debt investment of HK\$339 million.

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

(f) Bank loans are repayable on demand or within 1 year. As at 30 June 2019 and 31 December 2018, there is no current portion of unsecured bank loans which are not repayable within one year from the end of the reporting period but contain a repayment on demand clause.

(g) Bank loans are classified as current liabilities for the purpose of presentation in these unaudited condensed consolidated financial statements as the bank loans are drawn under revolving credit facilities (including syndicated loan facilities) with repayment dates being less than 12 months from 30 June 2019, but subject to the roll-over at the discretion of the Group as stipulated in the respective facilities agreements. Majority of the revolving credit facilities have tenor of more than 12 months from the date of respective facility agreements, in particular the Group has syndicated loan facilities with total amount of HK\$34,480 million, and these facilities have tenors of 36 months.

As at 30 June 2019, HK\$29,374 million (31 December 2018: HK\$25,814 million) bank loans are drawn under revolving credit facilities with respective remaining tenor of more than 12 months, while they are classified current liabilities for the purpose of disclosure in these unaudited condensed consolidated financial statements.

33. Share Capital

	30.6.2019 HK\$'000 (unaudited)	31.12.2018 HK\$'000 (audited)
Authorised: 20,000,000,000 (31 December 2018: 20,000,000,000) ordinary shares of HK\$0.10 each	2,000,000	2,000,000
Issued and fully paid: 5,792,329,147 (31 December 2018: 5,789,746,388) ordinary shares of HK\$0.10 each	579,233	578,975

The movements in issued share capital were as follows:

	Number of shares in issue	Issued share capital HK\$'000
As at 1 January 2018	5,500,858,791	550,086
New shares issued under exercise of share option	3,747,206	375
New shares issued under exercise of convertible bonds	724,637	72
Scrip dividend issued – 2017 second interim dividend (note 12)	161,693,823	16,169
As at 30 June 2018	5,667,024,457	566,702
Scrip dividend issued – 2018 interim dividend (note 12)	122,721,931	12,273
As at 31 December 2018 and 1 January 2019	5,789,746,388	578,975
New shares issued under exercise of share option	2,582,759	258
As at 30 June 2019	5,792,329,147	579,233

34. Share Option/Award Scheme

2002 Share Option Scheme

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

Details of the share option scheme of the Company has been disclosed in the Group's annual financial statements for the year ended 31 December 2018 and should be read in conjunction with the relevant announcements of the share options made by the Company.

34. Share Option/Award Scheme (continued)

2002 Share Option Scheme (continued)

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

	2019		2018	
	Weighted average exercise price HK\$ per share	Number of options '000	Weighted average exercise price HK\$ per share	Number of options '000
At 1 January	2.76	2,583	2.76	5,812
Adjusted during the period/year (note)	-	-	2.76	17
Exercised during the period/ year	2.76	2,583	2.76	(3,246)
At 30 June 2019/31 December 2018	-	-	2.76	2,583

All the outstanding share options were exercised during the current period. The exercise prices and exercise periods of the share options outstanding as at 31 December 2018 is as follows:

31 December 2018 Number of options '000	Exercise price HK\$ per share (note)	Exercise period
2,583	2.751	3 March 2011 – 2 March 2019

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

No new share options were granted for the six months ended 30 June 2019 and year ended 31 December 2018.

As at 30 June 2019, 2,582,759 (31 December 2018: 3,246,326) share options were exercised resulting in issuance of 2,582,759 (31 December 2018: 3,246,326) ordinary shares of the Company with new share capital of HK\$258,000 (31 December 2018: HK\$325,000) and share premium of HK\$6,847,000 (31 December 2018: HK\$8,636,000) (before issuing expenses).

All the outstanding share options under 2002 Share Option Scheme were exercised before the exercise period ended on 2 March 2019. Thus, there were no outstanding share options as at 30 June 2019.

34. Share Option/Award Scheme (continued)

2015 Share Option Scheme

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

Details of the share option scheme of the Company has been disclosed in the Group's annual financial statements for the year ended 31 December 2018 and should be read in conjunction with the relevant announcements of the share options made by the Company.

On 1 November 2018, the Company granted 19,160,000 share options at exercise price of HK\$2.904 per share to its directors and employees under the 2015 Share Option Scheme. Please refer to audited financial statements for the year ended 31 December 2018 for details.

On 31 May 2019, the Company granted 10,645,000 share options at the exercise price of HK\$2.56 per share to its directors and employees under the 2015 Share Option Scheme with a total of 10,645,000 share options being accepted. The option period of the share options is from 27 December 2019 to 30 May 2024. 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\$2.33 per share. The estimated fair values of the options granted under 2015 Share Option Scheme on the grant date on 31 May 2019 is approximately HK\$5.6 million, which was calculated using the Binomial Option Pricing model with the key inputs into the model as disclosed below.

	2019
Weighted average share price at the date of grant	HK\$2.33
Initial exercise price	HK\$2.56
Expected volatility	49.574%
Expected option life	5 years
Risk-free rate	1.463%
Expected dividend yield	7.82%
Early exercise multiples — directors	1.69
— employees	1.94

34. Share Option/Award Scheme (continued)

2015 Share Option Scheme (continued)

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 six months ended 30 June 2019, the Group has recognised an equity-settled share-based payment of HK\$9,724,000 (six months ended 2018: HK\$14,547,000) for the share options under the 2015 Share Option Scheme in unaudited condensed consolidated statement of profit or loss.

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

	2019		2018	
	Weighted average exercise price HK\$ per share	Number of options '000	Weighted average exercise price HK\$ per share	Number of options '000
At 1 January	4.031	46,717	4.674	29,228
Granted and accepted during the period/year	2.56	10,645	2.904	19,160
Adjusted during the period/year (note)	-	-	4.820	133
Exercised during the period/year	-	-	4.667	(501)
Forfeited during the period/year	4.274	(1,978)	4.862	(1,303)
At 30 June 2019/31 December 2018	3.74	55,384	4.031	46,717

34. Share Option/Award Scheme (continued)

2015 Share Option Scheme (continued)

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

30 June 2019	Exercise price	Exercise period
Number of options	HK\$ per share	
'000	(note)	
14,142	4.645	8 December 2016 – 11 May 2021
12,007	5.014	7 June 2018 – 9 November 2022
18,590	2.904	28 May 2019 – 31 October 2023
10,645	2.56	27 December 2019 – 30 May 2024
55,384		

31 December 2018	Exercise price	Exercise period
Number of options	HK\$ per share	
'000	(note)	
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		

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.

As at 30 June 2019, the Company had 55,384,502 (2018: 46,717,444) share options outstanding under the 2015 Share Option Scheme, which represented approximately 0.96% (2018: 0.81%) 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 55,384,502 (2018: 46,717,444) additional ordinary shares of the Company and additional share capital of HK\$5,538,000 (2018: HK\$4,672,000) and share premium of HK\$201,593,000 (2018: HK\$183,663,000) (before issue expenses).

Share award scheme

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

34. Share Option/Award Scheme (continued)

Share award scheme (continued)

Details of the awarded shares granted and unvested as at 30 June 2019 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 (f))	Number of awarded shares unvested	Vesting dates	Fair value as at grant date
11 March 2016	7,865,506	6,843,197	1,022,309	-	note (a)	31,383,000
28 April 2017	4,246,234	2,577,778	419,769	1,248,687	note (b)	19,320,000
28 May 2018	7,010,493	2,199,883	410,772	4,399,838	note (c)	32,108,000
11 January 2019	134,000	134,000	-	-	note (d)	351,080
4 April 2019	6,623,440	-	37,744	6,585,696	note (e)	20,333,961

For the shares granted, the fair value of the shares were measured at the market price of the Company's shares. For the six months ended 30 June 2019, the Group has recognised an equity-settled share-based payment of HK\$15,071,000 (six months ended 30 June 2018: HK\$6,641,000) for the Scheme in unaudited condensed consolidated statement of profit or loss.

As at 30 June 2019, the Company did not have any awarded shares granted on 11 March 2016 which were outstanding under the Scheme (31 December 2018: 2,163,163 awarded shares). During the current six-month period, 29,820 (six months ended 2018: 105,150) and 2,133,343 (six months ended 2018: 2,252,593) award shares granted on 11 March 2016 were lapsed and vested respectively.

As at 30 June 2019, the Company had 1,248,687 (31 December 2018: 2,549,465) awarded shares granted on 28 April 2017 which were outstanding under the Scheme. During the current six-month period, 41,237 (six months ended 2018: 21,556) and 1,259,541 (six months ended 2018: 1,318,237) awarded shares granted on 28 April 2017 were lapsed and vested respectively.

As at 30 June 2019, the Company had 4,399,838 (31 December 2018: 6,838,880) awarded shares granted on 28 May 2018 which were outstanding under the Scheme. During the current six-month period, 239,159 and 2,199,883 awarded shares granted on 28 May 2018 were lapsed and vested.

As at 30 June 2019, the Company had no awarded shares granted on 11 January 2019 which were outstanding under the Scheme. During the current six-month period, all 134,000 awarded shares granted on 11 January 2019 were vested.

As at 30 June 2019, the Company had 6,585,696 awarded shares granted on 4 April 2019 which were outstanding under the Scheme. During the current six-month period, 37,744 awarded shares granted on 4 April 2019 were lapsed.

34. Share Option/Award Scheme (continued)

Share award scheme (continued)

Notes:

- (a) Pursuant to the agreed terms, the vesting date of one-third of the award shares granted on 11 March 2016 is on 15 March 2017 while the vesting date of another one-third of award 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 award shares granted on 28 April 2017 is on 19 March 2018 while the vesting date of another one-third of award shares granted on 28 April 2017 would be on 19 March 2019 and the vesting date for the remaining would be on 19 March 2020.
- (c) Pursuant to the agreed terms, the vesting date of one-third of the award shares granted on 28 May 2018 is on 13 May 2019 while the vesting date of another one-third of award 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) Pursuant to the agreed terms, the vesting date of all the award shares granted on 11 January 2019 is on 18 January 2019.
- (e) Pursuant to the agreed terms, the vesting date of one-third of the award shares granted on 4 April 2019 is on 23 March 2020 while the vesting date of another one-third of award shares granted on 4 April 2019 would be on 23 March 2021 and the vesting date for the remaining would be on 23 March 2022.
- (f) Awarded Shares would lapse prior to their vesting date as a result of staff separations. Pursuant to the agreement, the lapsed shares would be held by the trustee which is subject to the approval from Administration Committee for re-selection of any Selected Participant. The lapsed Awarded Shares were transferred out from share award reserve to share premium as disclosed in the unaudited condensed consolidated statement of changes in equity.

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

	2019		2018	
	HK\$'000	Number of shares	HK\$'000	Number of shares
At 1 January	155,372	33,370,909	113,539	19,266,739
Purchased during the period/ year	35,165	14,761,000	62,462	17,675,000
Vested and transferred out during the period/year	(27,120)	(5,726,767)	(20,629)	(3,570,830)
At 30 June 2019/31 December 2018	163,417	42,405,142	155,372	33,370,909

35. 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. As at 31 December 2018, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	31.12.2018 HK\$'000 (audited)
Within one year	88,914
In the second to tenth years, inclusive	126,198
	<u>215,112</u>

(b) Capital commitments

The Group had the following commitments as at period/year end.

	30.6.2019 HK\$'000 (unaudited)	31.12.2018 HK\$'000 (audited)
Contracted, but not provided for:		
Computer equipment	9,246	9,028
Others	12,019	2,572
	21,265	<u>11,600</u>

36. Related Party Transactions

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

- (a) On 14 March 2016, the Company entered into a master services agreement with Haitong Securities Co., Ltd., the ultimate holding company of the Company which took effect from 1 January 2016. Pursuant to the master service agreement, the Company and Haitong Securities Co., Limited have each agreed to provide services to companies of the Group or Haitong Securities Co., Limited and its subsidiaries. Such master services agreement was expired on 31 December 2018. On 15 February 2019, the Company entered into a new master services agreement with Haitong Securities Co., Limited, for a term of 2 years and 6 months from 1 January 2019 to 30 June 2021. 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; business and/or operational support, referral, global research and/or other miscellaneous services transactions; corporate finance transactions; fund investment, financial assistance and securities lending transactions; principal-to-principal transactions; and underwriting services.
- (i) Income and expenses from brokerage and related services amounted to HK\$279,000 and HK\$251,000 (six months ended 30 June 2018: expense of HK\$377,000) respectively for the current interim period in accordance with terms of the master services agreement.
- (ii) Income from investment management and advisory services amounted to HK\$7,533,000 (six months ended 30 June 2018: HK\$1,275,000) and HK\$993,000 (six months ended 30 June 2018: Nil) for provision of investment management service and investment advisory service to Haitong International Holdings Limited (the immediate holding company of the Company) and Haitong Securities Co., Ltd. (the ultimate holding company of the Company) respectively. The fee is charged in accordance with the relevant investment management agreement or investment advisory agreement.
- (iii) During the year ended 31 December 2013, the Company obtained a revolving unsecured loan from Haitong International Holdings Limited, the immediate holding company of the Company.

As at 30 June 2019 and 31 December 2018, the Company had no outstanding balance (30 June 2018: HK\$10 million, the unsecured loan was chargeable at an interest rate of HIBOR+1.275% per annum with interest expense of HK\$213,000 was paid).

36. Related Party Transactions (continued)

(a) (continued)

- (iv) During the current period, Haitong Bank, S.A. ("Haitong Bank", a subsidiary of Haitong International Holdings Limited, the immediate holding company of the Company), provided financial advisory and placement work for the Group's financing activities. During the current period, the Group paid financial advisory fee of US\$2.5 million (equivalent to HK\$19.62 million) and placement fee of US\$25,400 (equivalent to HK\$199,000) (six months ended 30 June 2018: financial advisory fee of US\$2.5 million (equivalent to HK\$19.62 million)) to Haitong Bank where such amount constitutes part of the effective interest expense of the Group under the applicable accounting standard. During the current period, amortisation of the financial advisory fee paid amounted to HK\$5,457,000 (six months ended 30 June 2018: HK\$2,511,000), which was recognised in the unaudited condensed consolidated statement of profit or loss as part of the interest expense.
- (v) During the current period, Haitong Securities Co., Ltd. (the ultimate holding company of the Company) acquired a note issued by the Company under the Company's structured product programme. The face value of the note is US\$12,700,000, during the current period, an interest expense of US\$59,000 (equivalent to HK\$458,000) was paid by the Company, and was recognised within "net gain arising from financial product issuance" in note 6. The note was terminated in April 2019.
- (vi) During the current period, Haitong Securities Co., Ltd. (the ultimate holding company of the Company) acquired a note issued by the Company under the Company's structured product programme. The face value of the note is US\$40,000,000, during the current period, an interest expense of US\$103,000 (equivalent to HK\$808,000) was paid by the Company, and was recognised within "net gain arising from financial product issuance" in note 6. The note was terminated in May 2019.
- (vii) 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 expiry date of the swap contract was on 24 June 2019. The face value of the reference obligation portfolio is US\$40,000,000 and the reference obligation portfolio consists of two debt securities issued by independent third parties. Under the swap contract, the Group is entitled to receive an interest based on LIBOR + 2.25% on 65% of the portfolio notional amount while the Group is obliged to pay interest or related distribution related to the reference obligation. During the current period, a loss of US\$50,068 (equivalent to HK\$392,000) was recognised on this swap contract, and was recognised within "net gain arising from financial product issuance" in note 6. Relevant contract was early terminated on 22 January 2019.

36. Related Party Transactions (continued)

(a) (continued)

- (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). The outstanding principal amount as at 30 June 2019 amounted to US\$115 million (equivalent to approximately HK\$898 million) (31 December 2018: US\$115 million; equivalent to approximately HK\$901 million).
- (ix) During the current period, Haitong UniTrust International Leasing Co., Ltd. ("Haitong UniTrust", a subsidiary of Haitong International Holdings Limited, the immediate holding company of the Company) listed its H shares in the Main Board of The Stock Exchange of Hong Kong Limited. The Group acted as one of the joint bookrunners, joint global coordinators, joint lead managers and joint sponsors in this initial public offering. The relevant underwriting commission will be recognised in the second half of 2019 upon confirmation of the commission and related income amount by the Group with Haitong UniTrust.

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

	Six months ended	
	30.6.2019	30.6.2018
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
Short term employee benefits	15,864	14,567
Post-employment benefits	559	520
Total compensation paid to key management personnel	16,423	15,087

37. Acquisition of Subsidiaries

Acquisition in 2018

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

37. Acquisition of Subsidiaries (continued)

Acquisition in 2018 (continued)

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

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

Consideration transferred

	2018 HK\$'000
Cash	229,505

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

Assets acquired and liabilities recognised at the date of acquisition

	Haitong UK HK\$'000	Haitong USA HK\$'000
Property and equipment	828	14,716
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

37. Acquisition of Subsidiaries (continued)

Acquisition in 2018 (continued)

Assets acquired and liabilities recognised at the date of acquisition (continued)

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.

As detailed in the audited financial statements for the year ended 31 December 2018, the goodwill is allocated to UK and US operation cash generating unit. As at 30 June 2019, there are no triggering events which would indicate an impairment of goodwill as at 30 June 2019.

37. Acquisition of Subsidiaries (continued)

Acquisition in 2018 (continued)

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 six months ended 30 June 2018 was loss of HK\$27 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 six months ended 30 June 2018 included HK\$22 million generated by Haitong UK and Haitong USA.

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

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

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

38. Financial Risk Management

Financial risk factors

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

The unaudited condensed consolidated interim financial statements do not include all financial risk management information and disclosures related to the unaudited condensed consolidated financial statements, and should be read in conjunction with the consolidated financial statements for the year ended 31 December 2018.

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

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

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

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

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

38. Financial Risk Management (continued)

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

An analysis of the fair value of financial assets/liabilities held for trading and market making activities, investment securities at fair value, investment securities at fair value through other comprehensive income and derivative positions, as at the end of the reporting periods are as follows:

	Fair value as at 30 June 2019 HK\$'000 (unaudited)	Fair value as at 31 December 2018 HK\$'000 (audited)	Fair value hierarchy	Basis of fair value measurement/ valuation techniques and key inputs
Recurring fair value measurements:				
Financial assets held for trading and market making activities/ investment securities at fair value				
– Listed equity investments	2,891,786	2,008,645	Level 1	Note (c)
– Listed equity investment	91,402	89,893	Level 2	Note (d)
– Exchange traded funds	223,591	232,987	Level 1	Note (c)
– Listed preference shares	7,312	146,846	Level 2	Note (e)
– Listed debt investments	32,107,181	32,355,110	Level 2	Note (e)
– Listed debt investment	–	780,000	Level 2	Note (d)
– Listed debt investment	225,464	260,352	2019: Level 2 2018: Level 3	2019: Note (e) 2018: Note (i)
– Unlisted partnership investments	248,293	284,820	Level 2	Note (d)
– Unlisted partnership investments	924,869	811,935	Level 3	Note (i)
– Unlisted equity investments	790,635	645,343	Level 2	Note (d)
– Unlisted equity investments	–	72,375	Level 2	Note (g)
– Unlisted equity investment	129,978	136,338	Level 3	Note (k)
– Unlisted equity investments	6,825	103,974	Level 2	Note (b)
– Unlisted equity investment	546,444	548,209	Level 2	Note (f)
– Unlisted debt investments	456,775	4,397,376	Level 2	Note (e)
– Unlisted debt investments	1,053,857	1,115,996	Level 2	Note (d)
– Unlisted debt investments	1,256,737	1,586,489	Level 2	Note (f)
– Unlisted debt investment	12,147	381,810	Level 3	Note (i)
– Unlisted debt investment	40,874	41,895	Level 2	Note (h)
– Unlisted investment funds	19,128,587	7,869,012	Level 2	Note (a)
– Unlisted investment fund	99,455	81,398	Level 3	Note (j)
– Unlisted investment fund	–	156,631	Level 2	Note (d)
– Unlisted financial products	1,112,889	993,937	Level 2	Note (f)
	61,355,101	55,101,371		

38. Financial Risk Management (continued)

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

	Fair value as at 30 June 2019 HK\$'000 (unaudited)	Fair value as at 31 December 2018 HK\$'000 (audited)	Fair value hierarchy	Basis of fair value measurement/ valuation techniques and key inputs
Derivatives financial instruments				
– Swap contracts	17,628	80,978	Level 2	Note (f)
– Forward foreign currency exchange contracts	21,292	53,529	Level 2	Note (f)
– Forward foreign currency option contracts	–	6,915	Level 2	Note (f)
– Listed options/warrants	57,542	169,507	Level 2	Note (h)
– Callable bull/bear contracts	2,160	480	Level 2	Note (h)
– Listed futures	–	15,528	Level 1	Note (c)
– Unlisted options (related to listed equity)	59,535	213,626	Level 2	Note (h)
	158,157	540,563		
Investment securities at fair value through other comprehensive income				
– Listed debt investments	833,734	–	Level 2	Note (e)
– Unlisted equity investment	1,184	–	Level 2	Note (d)
	834,918	–		
	62,348,176	55,641,934		

38. Financial Risk Management (continued)

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

	Fair value as at 30 June 2019 HK\$'000 (unaudited)	Fair value as at 31 December 2018 HK\$'000 (audited)	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	157,950	452,041	Level 1	Note (c)
– Exchange traded funds	95,403	–	Level 1	Note (c)
– Listed debt investments	1,438,574	2,736,382	Level 2	Note (e)
– Listed preference shares	15,976	29,519	Level 2	Note (e)
– Unlisted debt investments	8,576	1,187,924	Level 2	Note (e)
	1,716,479	4,405,866		
Derivative financial instruments				
– Swap contracts	120,600	41,795	Level 2	Note (f)
– Forward currency option contracts	–	10,317	Level 2	Note (f)
– Forward foreign currency exchange contracts	17,930	124,052	Level 2	Note (f)
– Listed options/warrants	126,459	208,159	Level 2	Note (h)
– Callable bull/bear contracts	210,679	28,358	Level 2	Note (h)
– Listed futures	–	43,355	Level 1	Note (c)
– Unlisted option	32,891	49,460	Level 2	Note (h)
	508,559	505,496		
	2,225,038	4,911,362		

38. Financial Risk Management (continued)

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

Notes:

- (a) Dealing price of the investment funds derived from the net asset values of the investment funds with reference to observable quoted prices of underlying investment portfolio in active markets.
- (b) Fair values for unlisted equity investments have been determined based on the market value of related listed equities issued by the same listed companies.
- (c) Quoted price in active markets.
- (d) The fair value 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 its underlying investment if applicable, based on discounted cash flow model applying various market observable financial parameters, including interest rates, forward exchange rate, credit spread, yield spread, etc.
- (g) 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 fair value 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 equity investment are not significant to the amount of overall investment and net asset value of such unlisted equity investment 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 such 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.

- (h) 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.
- (i) 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 such that the higher the discount rate, the lower the fair value.

- (j) 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.

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.

- (k) The fair value was derived from the equity value of the unlisted equity investment based on market approach with the Price to Sales multiple of the comparable companies, liquidation or redemption values, expected volatility, expected life and the risk free-rate as key parameters.

The significant unobservable input is the discount rate for lack of marketability to the estimated equity value of the unlisted equity investment. 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.

38. Financial Risk Management (continued)

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

Apart from above-mentioned financial assets and financial liabilities, the Group allows its customers to get access to various asset classes or markets, including private equity, listed equity in restricted markets and debt or fund investments by issuing structured notes of the Group or entering into International Swaps and Derivatives Association, Inc. ("ISDA") master netting agreements or similar agreements with clients to cater their investment needs and to provide tailored financing solution, collectively "client and relevant hedging positions".

The outstanding balance of HK\$15,369 million (2018: HK\$13,684 million) represented unlisted financial products issued to clients with underlying investments linked to various equity investments, debt investments and fund investments. The Group hedges by acquiring equivalent underlying or entering similar transactions with counterparties. The outstanding balance of the long hedging position is HK\$22,810 million (2018: HK\$27,753 million) and short hedging position is HK\$192 million (2018: HK\$271 million).

The variable return of these groups of financial assets and liabilities in net basis is not significant. Management is in the view that aggregate market risk of the exposures is insignificant as the carrying value of the issued notes/products makes reference to the valuation of the hedging instruments. As such disclosure of detailed basis of valuation and methodology may not be relevant.

A detailed analysis of fair value of client and relevant hedging positions as at the end of the reporting periods is as follows:

As at 30 June 2019

	Level 1 HK\$'000 (note 1)	Level 2 HK\$'000 (note 2)	Level 3 HK\$'000 (note 3)	Total HK\$'000
Assets acquired for financial products issued at fair value				
– Listed equity investments	1,489,341	–	166,769	1,656,110
– Listed debt investments	–	14,149,482	–	14,149,482
– Unlisted equity investments	–	50,817	367,172	417,989
– Unlisted partnership investments	–	207,649	–	207,649
– Unlisted investment funds	–	2,047,482	–	2,047,482
– Unlisted financial products	–	4,330,871	–	4,330,871
	1,489,341	20,786,301	533,941	22,809,583
Financial products issued at fair value				
– Unlisted issued financial products	–	14,926,927	442,379	15,369,306
– Listed equity investments	191,980	–	–	191,980
	191,980	14,926,927	442,379	15,561,286
Net position as of 30 June 2019	1,297,361	5,859,374	91,562	7,248,297

38. Financial Risk Management (continued)

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

As at 31 December 2018

	Level 1 HK\$'000 (note 1)	Level 2 HK\$'000 (note 2)	Level 3 HK\$'000 (note 3)	Total HK\$'000
Assets acquired for financial products issued at fair value				
– Listed equity investments	1,729,650	–	–	1,729,650
– Listed debt investments	–	15,848,326	–	15,848,326
– Unlisted equity investments	–	188,240	362,566	550,806
– Unlisted partnership investments	–	208,319	–	208,319
– Unlisted investment funds	–	6,335,630	–	6,335,630
– Unlisted financial products	–	3,080,119	–	3,080,119
	<u>1,729,650</u>	<u>25,660,634</u>	<u>362,566</u>	<u>27,752,850</u>
Financial products issued at fair value				
– Unlisted issued financial products	–	13,342,006	341,688	13,683,694
– Listed equity investments	271,074	–	–	271,074
	<u>271,074</u>	<u>13,342,006</u>	<u>341,688</u>	<u>13,954,768</u>
Net position as of 31 December 2018	<u>1,458,576</u>	<u>12,318,628</u>	<u>20,878</u>	<u>13,798,082</u>

Notes:

- (1) The fair values of financial instruments traded in active markets are based on quoted market prices at the end of the reporting period.
- (2) The fair values of financial instruments that are mainly traded in over-the-counter are determined by using market observable broker quotes or valuation techniques with observable market data as key parameter inputs without management judgment.
- (3) The fair values are determined by using valuation techniques with one or more of the significant inputs are not based on observable market data.

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.

38. Financial Risk Management (continued)

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

	30.6.2019		31.12.2018	
	Carrying amount HK\$'000 (unaudited)	Fair value HK\$'000 (unaudited)	Carrying amount HK\$'000 (audited)	Fair value HK\$'000 (audited)
Convertible bonds (note ii)	3,967,335	4,035,910	3,933,350	4,935,826
Non-convertible bonds (note ii)	10,123,891	10,223,984	10,138,605	10,207,298
Non-convertible notes (note i)	8,858,472	8,785,899	10,975,672	10,980,656

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

Reconciliation of Level 3 fair value measurements

As at 30 June 2019

	Financial assets measured at FVTPL		Financial liabilities measured at FVTPL
	Financial assets held for trading and market making activities/ investment securities at FVTPL HK\$'000 (unaudited)	Assets acquired for financial products issued HK\$'000 (unaudited)	Financial products issued at fair value HK\$'000 (unaudited)
Opening balance	1,671,833	362,566	(341,688)
Total (losses) gain in profit or loss (note iv)	(150,358)	4,606	(4,623)
Addition (note vi)	99,179	-	-
Transfer			
– into Level 3 (note iii)	-	166,769	(96,068)
– into Level 2 (note vii)	(260,352)	-	-
Derecognition due to deconsolidation of an investment fund (note v)	(193,853)	-	-
Closing balance	1,166,449	533,941	(442,379)

38. Financial Risk Management (continued)

Reconciliation of Level 3 fair value measurements (continued)

As at 31 December 2018

	Financial assets measured at FVTPL			Financial liabilities measured at FVTPL
	Investment securities classified as available-for-sale investments HK\$'000 (audited)	Financial assets held for trading and market making activities/ investment securities at FVTPL HK\$'000 (audited)	Assets acquired for financial products issued HK\$'000 (audited)	Financial products issued at fair value HK\$'000 (audited)
Opening balance	437,969	111,053	464,097	(328,570)
Reclassification as financial assets at FVTPL (note viii)	(437,969)	437,969	–	–
Total gains (losses) in profit or loss (note iv)	–	120,047	44,890	(44,141)
Addition (note vi)	–	222,635	–	–
Transfer				
– into Level 3 (note iii)	–	891,182	86,147	(86,147)
– 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)

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.

38. Financial Risk Management (continued)

Reconciliation of Level 3 fair value measurements (continued)

Notes: (continued)

- (iii) The fair value of financial assets measured at FVTPL of HK\$167 million as at 30 June 2019 was determined with reference to the quoted price in active markets and therefore classified as Level 1 investments for the year ended 31 December 2018. During the current period, the quote price is not available so the fair value of these investments are determined based on significant unobservable inputs and involved significant judgment made by the management concerning the issuer's credit risks. Thus, the instruments were transferred from Level 1 to Level 3 category.

The fair value of financial liabilities measured at FVTPL of HK\$96 million was determined with reference to quoted price provided by brokers/financial institutions and therefore classified as Level 2 investments for the year ended 31 December 2018. During the current period, the quoted price is not available so 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\$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 year ended 31 December 2018, the fair value of these 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. The fair value of financial assets measured at FVTPL of HK\$382 million acquired during the year ended 31 December 2018 were 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 year ended 31 December 2018, the fair value of these 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 period ended 30 June 2019, of the total gains or losses for the period included in profit or loss, loss of HK\$146 million and loss of HK\$5 million relate to unrealised gains or loss for the period included in profit or loss for financial assets measured at FVTPL and financial liabilities measured at FVTPL held at period 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 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.

38. Financial Risk Management (continued)

Reconciliation of Level 3 fair value measurements (continued)

Notes: (continued)

- (v) An unlisted debt security amounted to HK\$194 million classified as Level 3 investments as at 31 December 2018 was held by a consolidated investment fund.

During the current period, 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.

- (vi) During the current period and prior year, the Group has made further capital contribution into private equity fund.
- (vii) A listed debt security amounted to HK\$260 million classified as Level 3 investment as at 31 December 2018.

During the period ended 30 June 2019, the fair value of the Investment was determined with reference to the recent transaction price and therefore classified as Level 2 investment for the period ended 30 June 2019.

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 year ended 31 December 2018, the fair value of the Investments were determined with reference to observable 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 year ended 31 December 2017, 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.

- (viii) 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.

39. Transfer of Financial Assets

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

Financial assets sold under repurchase agreements

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

Details of carrying amount and fair value of transferred assets, and the assessment performed by the Group in respect of whether bonds and preference shares sold under repurchase agreements shall be derecognised are disclosed in note 30 of the unaudited condensed consolidated financial statements.

Transfer of 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 30 June 2019 and 31 December 2018, 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, accruals and other liabilities in the unaudited condensed consolidated statement of financial position.

On 3 July 2019, the Group purchased the securities previously issued by above-mentioned independent party and consequently the above-mentioned other payable, accruals and other liabilities of HK\$586 million derecognised as a liability on the date of purchase.

40. Events After The Reporting Period

On 19 July 2019, the Company issued bonds in principal amount of US\$700 million at a discount of 99.808% which is listed on The Stock Exchange of Hong Kong Limited. The bond carries a fixed annual interest rate of 3.375% with a maturity period of 5 years. The principal will be full repayable on the maturity date at 19 July 2024.

Please refer to the Company's announcement on 9 July 2019, 10 July 2019 and 19 July 2019 for details of the issuance of bonds.

41. Approval of the Interim Financial Statements

These unaudited condensed consolidated interim financial statements were approved and authorised for issue by the Board of Directors on 23 August 2019.



TO THE BOARD OF DIRECTORS OF

HAITONG INTERNATIONAL SECURITIES GROUP LIMITED

Introduction

We have reviewed the condensed consolidated financial statements of Haitong International Securities Group Limited (the “Company”) and its subsidiaries (collectively referred to as the “Group”) set out on pages 19 to 92, which comprise the condensed consolidated statement of financial position as of 30 June 2019 and the related condensed consolidated statement of profit or loss, statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the six-month period then ended, and certain explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard 34 “Interim Financial Reporting” (“HKAS 34”) issued by the Hong Kong Institute of Certified Public Accountants. The directors of the Company are responsible for the preparation and presentation of these condensed consolidated financial statements in accordance with HKAS 34. Our responsibility is to express a conclusion on these condensed consolidated financial statements based on our review, and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Scope of Review

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

Conclusion

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

Deloitte Touche Tohmatsu
Certified Public Accountants

Hong Kong
23 August 2019

DIVIDEND AND CLOSURE OF REGISTER OF MEMBERS

The board of directors of the Company (the "Board") has declared an interim dividend of HK9 cents (2018: HK7.6 cents) per share in cash, payable on or about Friday, 25 October 2019 to shareholders whose names appear on the register of members of the Company on Wednesday, 11 September 2019. Shareholders will be given the option to receive the interim dividend in new shares in lieu of cash.

The register of members of the Company will be closed from Monday, 9 September 2019 to Wednesday, 11 September 2019, both dates inclusive, during which period no transfer of shares will be registered. In order to qualify for the interim dividend, all completed transfer forms accompanied by the relevant share certificates must be lodged with the Company's branch share registrar and transfer office in Hong Kong, Tricor Investor Services Limited, at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong, for registration not later than 4:30 p.m. on Friday, 6 September 2019. Shares of the Company will be traded ex-dividend as from Thursday, 5 September 2019.

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

As at 30 June 2019, the interests and short positions of the directors of the Company in the shares, underlying shares and debentures of the Company and any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")), as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code"), were as follows:

The Company

Name of directors	Class of shares	Number of shares held			Number of underlying shares held under equity derivatives	Total	Approximate percentage of the Company's total issued share capital*
		Personal interests	Family interests	Corporate interests			
QU Qiuping	Share options	-	-	-	1,000,000	1,000,000	0.02%
LIN Yong	Ordinary shares/share options	6,991,067 (Note 1)	-	-	4,309,098	11,300,165	0.20%
LI Jianguo	Ordinary shares/share options	2,247,372 (Note 2)	-	-	1,355,385	3,602,757	0.06%
POON Mo Yiu	Ordinary shares/share options	2,653,346 (Note 3)	-	-	2,056,044	4,709,390	0.08%
SUN Jianfeng	Ordinary shares/share options	1,915,025 (Note 4)	-	-	2,805,685	4,720,710	0.08%
SUN Tong	Ordinary shares/share options	1,665,156 (Note 5)	-	-	2,505,685	4,170,841	0.07%
CHENG Chi Ming Brian	Ordinary shares/share options	880,946 (Note 6)	-	-	1,053,409	1,934,355	0.03%
WANG Meijuan	Share options	-	-	-	751,973	751,973	0.01%
ZHANG Xinjun	Ordinary shares/share options	827,762 (Note 7)	-	-	2,305,685	3,133,447	0.05%
William CHAN	Share options	-	-	-	1,053,409	1,053,409	0.02%
TSUI Hing Chuen William	Ordinary shares/share options	346,712 (Note 8)	-	-	1,053,409	1,400,121	0.02%
LAU Wai Piu	Ordinary shares/share options	428,160 (Note 9)	-	-	1,053,409	1,481,569	0.03%
WEI Kuo-chiang	Share options	-	-	-	1,053,409	1,053,409	0.02%
WAN Kam To	Share options	-	-	-	450,000	450,000	0.01%
LIU Yan	Share options	-	-	-	450,000	450,000	0.01%

* The total number of issued shares of the Company was 5,792,329,147 as at 30 June 2019.

Other Information

Notes:

1. Those shares are held by Mr. LIN Yong as beneficial owner, included 1,237,749 unvested awarded shares granted by the Company pursuant to the share award scheme as at 30 June 2019 and a total of 483,612 awarded shares which were vest in tranches on 15 March 2019, 19 March 2019 and 13 May 2019 pursuant to the award schemes during the 6 months ended 30 June 2019.
2. Those shares are held by Mr. LI Jianguo as beneficial owner.
3. Those shares are held by Mr. POON Mo Yiu as beneficial owner, included 236,902 unvested awarded shares granted by the Company pursuant to the share award scheme as at 30 June 2019 and a total of 106,509 awarded shares which were vested in tranches on 15 March 2019 and 19 March 2019 pursuant to the award scheme during the 6 months ended 30 June 2019.
4. Those shares are held by Mr. SUN Jianfeng as beneficial owner, included 472,247 unvested awarded shares granted by the Company pursuant to the share award scheme as at 30 June 2019 and a total of 192,778 awarded shares which were vest in tranches on 15 March 2019, 19 March 2019 and 13 May 2019 pursuant to the award schemes during the 6 months ended 30 June 2019.
5. Those shares are held by Mr. SUN Tong as beneficial owner, included 440,240 unvested awarded shares granted by the Company pursuant to the share award scheme as at 30 June 2019 and a total of 206,637 awarded shares which were vest in tranches on 15 March 2019, 19 March 2019 and 13 May 2019 pursuant to the award schemes during the 6 months ended 30 June 2019.
6. Those shares are held by Mr. CHENG Chi Ming Brian as beneficial owner.
7. Those shares are held by Mr. ZHANG Xinjun as beneficial owner, included 172,646 unvested awarded shares granted by the Company pursuant to the share award scheme as at 30 June 2019 and a total of 178,767 awarded shares which were vest in tranches on 15 March 2019, 19 March 2019 and 13 May 2019 pursuant to the award schemes during the 6 months ended 30 June 2019.
8. Those shares are held by Mr. TSUI Hing Chuen William as beneficial owner.
9. Those shares are held by Mr. LAU Wai Piu as beneficial owner.

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

Save as disclosed above, as at 30 June 2019, none of the directors of the Company or their associates had registered any other interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) that was required to be recorded in the register kept by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed under the sections headed "Directors' Interests and Short Positions in Shares, Underlying Shares and Debentures" above and "Share Option Scheme" below, at no time during the 6 months ended 30 June 2019 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; nor was the Company or any of its subsidiaries a party to any arrangement to enable the directors to acquire such rights in any other body corporate.

SHARED-BASED COMPENSATION SCHEMES

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

Share Option Schemes

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

Movement of share options under the 2002 Share Option Scheme during the 6 months ended 30 June 2019 are listed below:

Name or category of participants	Number of share options					At 30 June 2019	Date of grant of share options*	Exercise period of share options	Price of Company's shares***		
	At 1 January 2019	Granted during the period	Adjusted during the period	Exercised during the period	Lapsed during the period				Exercise price of share options**	At immediately preceding the grant date of share options	At immediately preceding the exercise date of share options
									HK\$ per share	HK\$ per share	HK\$ per share
Directors											
CHENG Chi Ming Brian	880,946	-	-	(880,946)	-	-	3 September 2010	3 March 2011 – 2 March 2019	2.751	4.79	3.55
TSUI Hing Chuen William	146,712	-	-	(146,712)	-	-	3 September 2010	3 March 2011 – 2 March 2019	2.751	4.79	3.55
LAU Wai Piu	428,160	-	-	(428,160)	-	-	3 September 2010	3 March 2011 – 2 March 2019	2.751	4.79	3.55
In aggregate	1,455,818	-	-	(1,455,818)	-	-					
Continuous contract employees											
In aggregate	1,126,941	-	-	(1,126,941)	-	-	3 September 2010	3 March 2011 – 2 March 2019	2.751	4.79	3.21
	2,582,759	-	-	(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.

Other Information

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

Movements of the share options under the 2015 Share Option Scheme during the 6 months ended 30 June 2019 are listed below:

Name or category of participants	Number of share options						Price of Company's shares***				
	At 1 January 2019	Granted during the period	Adjusted during the period	Exercised during the period	Lapsed during the period	At 30 June 2019	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	500,000	-	-	-	-	500,000	1 November 2018	28 May 2019 – 31 October 2023	2.904	2.56	N/A
	-	500,000	-	-	-	500,000	31 May 2019	27 December 2019 – 30 May 2024	2.56	2.39	N/A
LIN Yong	805,269	-	-	-	-	805,269	12 May 2016	8 December 2016 – 11 May 2021	4.645	4.25	N/A
	803,829	-	-	-	-	803,829	10 November 2017	7 June 2018 – 9 November 2022	5.014	4.58	N/A
	1,800,000	-	-	-	-	1,800,000	1 November 2018	28 May 2019 – 31 October 2023	2.904	2.56	N/A
	-	900,000	-	-	-	900,000	31 May 2019	27 December 2019 – 30 May 2024	2.56	2.39	N/A
LI Jianguo	603,949	-	-	-	-	603,949	12 May 2016	8 December 2016 – 11 May 2021	4.645	4.25	N/A
	301,436	-	-	-	-	301,436	10 November 2017	7 June 2018 – 9 November 2022	5.014	4.58	N/A
	300,000	-	-	-	-	300,000	1 November 2018	28 May 2019 – 31 October 2023	2.904	2.56	N/A
	-	150,000	-	-	-	150,000	31 May 2019	27 December 2019 – 30 May 2024	2.56	2.39	N/A
POON Mo Yiu	704,608	-	-	-	-	704,608	12 May 2016	8 December 2016 – 11 May 2021	4.645	4.25	N/A
	301,436	-	-	-	-	301,436	10 November 2017	7 June 2018 – 9 November 2022	5.014	4.58	N/A
	700,000	-	-	-	-	700,000	1 November 2018	28 May 2019 – 31 October 2023	2.904	2.56	N/A
	-	350,000	-	-	-	350,000	31 May 2019	27 December 2019 – 30 May 2024	2.56	2.39	N/A

Name or category of participants	Number of share options						Price of Company's shares***					
	At 1 January 2019	Granted during the period	Adjusted during the period	Exercised during the period	Lapsed during the period	At 30 June 2019	Date of grant of share options*	Exercise period of share options	Exercise price of share options**	At immediately preceding the grant date of share options	At immediately preceding the exercise date of share options	
									HK\$ per share	HK\$ per share	HK\$ per share	
Directors												
SUN Jianfeng	503,292	-	-	-	-	503,292	12 May 2016	8 December 2016 – 11 May 2021	4.645	4.25	N/A	
	502,393	-	-	-	-	502,393	10 November 2017	7 June 2018 – 9 November 2022	5.014	4.58	N/A	
	1,200,000	-	-	-	-	1,200,000	1 November 2018	28 May 2019 – 31 October 2023	2.904	2.56	N/A	
	-	600,000	-	-	-	600,000	31 May 2019	27 December 2019 – 30 May 2024	2.56	2.39	N/A	
SUN Tong	503,292	-	-	-	-	503,292	12 May 2016	8 December 2016 – 11 May 2021	4.645	4.25	N/A	
	502,393	-	-	-	-	502,393	10 November 2017	7 June 2018 – 9 November 2022	5.014	4.58	N/A	
	1,000,000	-	-	-	-	1,000,000	1 November 2018	28 May 2019 – 31 October 2023	2.904	2.56	N/A	
	-	500,000	-	-	-	500,000	31 May 2019	27 December 2019 – 30 May 2024	2.56	2.39	N/A	
CHENG Chi Ming Brian	301,973	-	-	-	-	301,973	12 May 2016	8 December 2016 – 11 May 2021	4.645	4.25	N/A	
	301,436	-	-	-	-	301,436	10 November 2017	7 June 2018 – 9 November 2022	5.014	4.58	N/A	
	300,000	-	-	-	-	300,000	1 November 2018	28 May 2019 – 31 October 2023	2.904	2.56	N/A	
	-	150,000	-	-	-	150,000	31 May 2019	27 December 2019 – 30 May 2024	2.56	2.39	N/A	
WANG Meijuan	301,973	-	-	-	-	301,973	12 May 2016	8 December 2016 – 11 May 2021	4.645	4.25	N/A	
	300,000	-	-	-	-	300,000	1 November 2018	28 May 2019 – 31 October 2023	2.904	2.56	N/A	
	-	150,000	-	-	-	150,000	31 May 2019	27 December 2019 – 30 May 2024	2.56	2.39	N/A	
ZHANG Xinjun	503,292	-	-	-	-	503,292	12 May 2016	8 December 2016 – 11 May 2021	4.645	4.25	N/A	
	502,393	-	-	-	-	502,393	10 November 2017	7 June 2018 – 9 November 2022	5.014	4.58	N/A	
	1,000,000	-	-	-	-	1,000,000	1 November 2018	28 May 2019 – 31 October 2023	2.904	2.56	N/A	
	-	300,000	-	-	-	300,000	31 May 2019	27 December 2019 – 30 May 2024	2.56	2.39	N/A	

Other Information

Name or category of participants	Number of share options					At 30 June 2019	Date of grant of share options*	Exercise period of share options	Price of Company's shares***		
	At 1 January 2019	Granted during the period	Adjusted during the period	Exercised during the period	Lapsed during the period				Exercise price of share options**	At immediately preceding the grant date of share options	At immediately preceding the exercise date of share options
									HK\$ per share	HK\$ per share	HK\$ per share
Directors											
William CHAN	301,973	-	-	-	-	301,973	12 May 2016	8 December 2016 – 11 May 2021	4.645	4.25	N/A
	301,436	-	-	-	-	301,436	10 November 2017	7 June 2018 – 9 November 2022	5.014	4.58	N/A
	300,000	-	-	-	-	300,000	1 November 2018	28 May 2019 – 31 October 2023	2.904	2.56	N/A
	-	150,000	-	-	-	150,000	31 May 2019	27 December 2019 – 30 May 2024	2.56	2.39	N/A
TSUI Hing Chuen William	301,973	-	-	-	-	301,973	12 May 2016	8 December 2016 – 11 May 2021	4.645	4.25	N/A
	301,436	-	-	-	-	301,436	10 November 2017	7 June 2018 – 9 November 2022	5.014	4.58	N/A
	300,000	-	-	-	-	300,000	1 November 2018	28 May 2019 – 31 October 2023	2.904	2.56	N/A
	-	150,000	-	-	-	150,000	31 May 2019	27 December 2019 – 30 May 2024	2.56	2.39	N/A
LAU Wai Piu	301,973	-	-	-	-	301,973	12 May 2016	8 December 2016 – 11 May 2021	4.645	4.25	N/A
	301,436	-	-	-	-	301,436	10 November 2017	7 June 2018 – 9 November 2022	5.014	4.58	N/A
	300,000	-	-	-	-	300,000	1 November 2018	28 May 2019 – 31 October 2023	2.904	2.56	N/A
	-	150,000	-	-	-	150,000	31 May 2019	27 December 2019 – 30 May 2024	2.56	2.39	N/A
WEI Kuo-chiang	301,973	-	-	-	-	301,973	12 May 2016	8 December 2016 – 11 May 2021	4.645	4.25	N/A
	301,436	-	-	-	-	301,436	10 November 2017	7 June 2018 – 9 November 2022	5.014	4.58	N/A
	300,000	-	-	-	-	300,000	1 November 2018	28 May 2019 – 31 October 2023	2.904	2.56	N/A
	-	150,000	-	-	-	150,000	31 May 2019	27 December 2019 – 30 May 2024	2.56	2.39	N/A
WAN Kam To	300,000	-	-	-	-	300,000	1 November 2018	28 May 2019 – 31 October 2023	2.904	2.56	N/A
	-	150,000	-	-	-	150,000	31 May 2019	27 December 2019 – 30 May 2024	2.56	2.39	N/A
LIU Yan	300,000	-	-	-	-	300,000	1 November 2018	28 May 2019 – 31 October 2023	2.904	2.56	N/A
	-	150,000	-	-	-	150,000	31 May 2019	27 December 2019 – 30 May 2024	2.56	2.39	N/A
In aggregate	18,756,600	4,500,000	-	-	-	23,256,600					

Name or category of participants	Number of share options						Price of Company's shares***				
	At 1 January 2019	Granted during the period	Adjusted during the period	Exercised during the period	Lapsed during the period	At 30 June 2019	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
	Continuous contract employees										
	9,411,352	-	-	-	(704,591) (Note)	8,706,761	12 May 2016	8 December 2016 – 11 May 2021	4.645	4.25	N/A
	8,289,492	-	-	-	(703,351) (Note)	7,586,141	10 November 2017	7 June 2018 – 9 November 2022	5.014	4.58	N/A
	10,260,000	-	-	-	(570,000) (Note)	9,690,000	1 November 2018	28 May 2019 – 31 October 2023	2.904	2.56	N/A
	-	6,145,000	-	-	-	6,145,000	31 May 2019	27 December 2019 – 30 May 2024	2.56	2.39	N/A
In aggregate	27,960,844	6,145,000	-	-	(1,977,942)	32,127,902					
	46,717,444	10,645,000	-	-	(1,977,942)	55,384,502					

* 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.

Note: These share options were lapsed during the 6 months ended 30 June 2019 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.

Details of the shares awarded, vested, lapsed and unvested during the 6 months ended 30 June 2019 are set out below:

Date of awards	Number of Awarded Shares unvested as at 31 December 2018	Number of Awarded Shares granted during the period	Awarded Shares vested during the period		Number of Awarded Shares lapsed during the period	Awarded Shares unvested as at 30 June 2019	
			Number	Vesting date		Number	Vesting date
			11 March 2016	2,163,163		–	2,133,343
28 April 2017	2,549,465	–	1,259,541	19/03/2019	41,237	1,248,687	19/03/2020
28 May 2018	6,838,880	–	2,199,883	13/05/2019	239,159	4,399,838	Note 1
11 January 2019*	–	134,000	134,000	18/01/2019	–	–	–
4 April 2019	–	6,848,366	–	–	37,744	6,810,622	Note 2

* Special grant of Awarded Shares granted and vested during the 6 months ended 30 June 2019.

Notes:

1. The unvested Awarded Shares outstanding as at 30 June 2019 are due vested in two batches on 13 May 2020 and 13 May 2021 respectively.
2. The unvested Awarded Shares outstanding as at 30 June 2019 are due vested in three batches on 23 March 2020, 23 March 2021 and 23 March 2022 respectively.

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

As at 30 June 2019, 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	63.56
Haitong International Holdings Limited ("HTIH")	3,681,633,864	–	–	3,681,633,864	63.56

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

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

Save as disclosed above, as at 30 June 2019, no person, other than the directors of the Company, whose interests are set out in the section headed "Directors' Interests and Short Positions in Shares, Underlying Shares and Debentures" above, had registered an interest or short position in the shares or underlying shares of the Company that was required to be recorded pursuant to Section 336 of the SFO.

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

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities during the six months ended 30 June 2019 other than as an agent for clients of the Company or its subsidiaries.

COMPLIANCE WITH CORPORATE GOVERNANCE CODE

The Board is committed to maintaining a high standard of corporate governance practices within the Group. Throughout the six months ended 30 June 2019, the Company has fully complied with the code provisions set out in the Corporate Governance Code as contained in Appendix 14 of the Listing Rules.

COMPLIANCE WITH MODEL CODE

The Company has adopted the Model Code set out in Appendix 10 of the Listing Rules as its code of conduct for securities transactions by the directors of the Company. Having made specific enquiry of all directors of the Company, all directors confirmed that they have complied with the required standard set out in the Model Code throughout the six months ended 30 June 2019.

AUDIT COMMITTEE

The Audit Committee of the Company (the "Audit Committee") has met with the external auditor of the Group, Messrs. Deloitte Touche Tohmatsu, to review the accounting principles and practices adopted by the Group and the unaudited consolidated results for the six months ended 30 June 2019 of the Group. The Audit Committee currently comprises 5 non-executive directors of the Company and 3 of whom, including the Chairman of the Audit Committee (the "Chairman"), are independent non-executive directors. The Chairman has the appropriate professional qualification and experience in financial matters.

DISCLOSURE PURSUANT TO RULE 13.21 OF THE LISTING RULES

On 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.

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

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

Mr. LIN Yong

Mr. LIN Yong was appointed as a member of Mainland Opportunities Committee of Financial Services Development Council since 1 April 2019.

Mr. CHENG Chi Ming Brian

Mr. CHENG Chi Ming Brian resigned as a non-executive director of Leyou Technologies Holdings Limited with effect from 5 June 2019.

Mr. WAN Kam To

Mr. WAN Kam To resigned as an independent non-executive director of Kerry Logistics Network Limited, Shanghai Pharmaceuticals Holding Co., Ltd. and Huaneng Renewables Corporation Limited with effect from 31 May 2019, 27 June 2019 and 28 June 2019 respectively.

Corporate Information

GENERAL INFORMATION

Board of Directors

Executive Directors

LIN Yong	<i>Deputy Chairman and Chief Executive Officer</i>
LI Jianguo	<i>Deputy Chairman</i>
POON Mo Yiu	
SUN Jianfeng	
SUN Tong	

Non-executive Directors

QU Qiuping	<i>Chairman</i>
CHENG Chi Ming Brian	
WANG Meijuan	
ZHANG Xinjun	
William CHAN	

Independent Non-executive Directors

TSUI Hing Chuen William
LAU Wai Piu
WEI Kuo-chiang
WAN Kam To
LIU Yan

Company Secretary

LO Wai Ho

External Auditor

Deloitte Touche Tohmatsu

Place of Incorporation

Bermuda

Registered Office

Clarendon House
2 Church Street
Hamilton HM 11
Bermuda

Principal Place of Business

22nd Floor, Li Po Chun Chambers
189 Des Voeux Road Central
Hong Kong

Principal Share Registrar and Transfer Office

Codan Services Limited
Clarendon House
2 Church Street
Hamilton HM 11
Bermuda

Hong Kong Branch Share Registrar and Transfer Office

Tricor Investor Services Limited
Level 54, Hopewell Centre
183 Queen's Road East
Hong Kong

Website

www.htisec.com