海通國際
HAITONG

Stock Code：665.HK

ANNUAL REPORT 2019

SUSTAIN *to* Success

SUSTAIN *to* Success

"Sustain to success" underscores Haitong International's commitment to its social responsibilities – we adopt long-term prudent business strategy, care about the sustainability of corporate and social development, and advocate a low-carbon economy and sustainable finance.

As seen on the cover, the blue silhouette of the globe is interwoven Haitong International's iconic wave pattern. This signifies Haitong International's role as a world citizen who cares about the environmental and community development. Keeping "Sustainability" and "Commitments" in mind, Haitong International strives to become a leading global IB focusing on sustainable finance.

"Sustain to success, serve with sincerity"

CONTENTS

Financial Highlights

Results

	For the year ended 31 December 2019	2018	Percentage change Increase
Revenue *(HK$'000)*	8,243,974	6,328,782	*30*
– Commission and fee income	2,291,922	2,164,616	*6*
– Interest income	2,941,593	2,575,717	*14*
– Net trading and investment income	3,010,459	1,588,449	*90*
Net Profit Attributable to Shareholders *(HK$'000)*	1,550,858	1,022,838	*52*
Per share			
Basic Earnings Per Share *(HK Cents)*	26.85	18.25	*47*
Diluted Earnings Per Share *(HK Cents)*	26.45	17.27	*53*

Financial Position

	31 December 2019	31 December 2018	Percentage change Increase
Shareholders' Funds *(HK$'000)*	27,030,581	25,810,337	*5*
Total Assets *(HK$'000)*	156,274,502	151,181,085	*3*
Number of Shares in Issue *(Note)*	5,940,583,872	5,789,746,388	*3*
NAV Per Share *(HK$)*	4.55	4.46	*2*

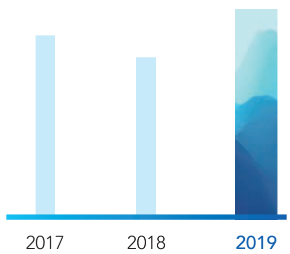
Note:

Certain equity rights conferred on share option holders were exercised during the year. Certain shareholders also elected for scrip dividend. Hence, the total number of shares of the company was increased to 5,940,583,872 as at 31 December 2019.

Revenue

(HK$'000)

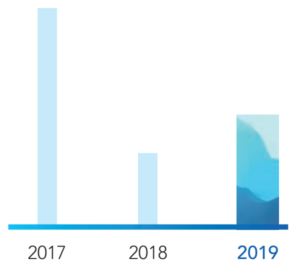
7,195,021 6,328,782 **8,243,974**



Net Profit Attributable to Shareholders

(HK$'000)

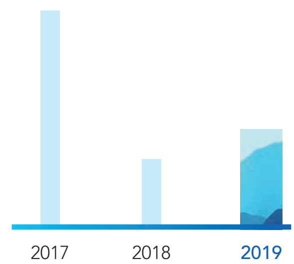
3,028,688 1,022,838 **1,550,858**



Return on Shareholders' Funds

(%)

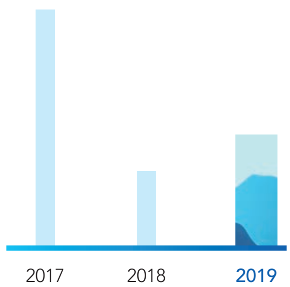
12.82 3.98 **5.85**



Basic Earnings per Share

(HK Cents)

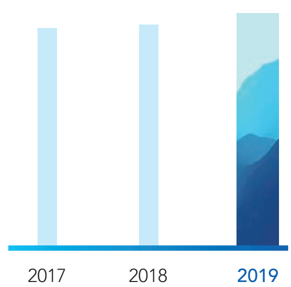
56.53 18.25 **26.85**



Shareholders' Funds

(HK$'000)

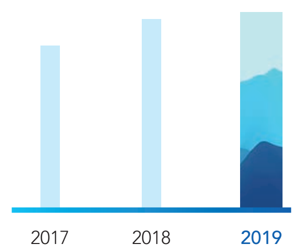
25,367,879 25,810,337 **27,030,581**



Total Assets

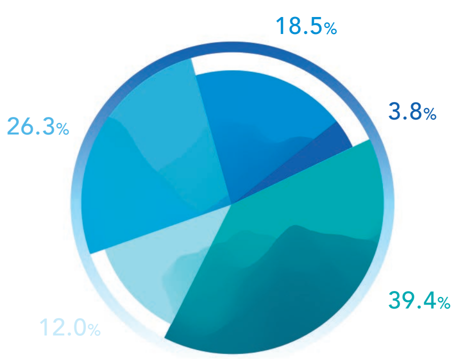
(HK$'000)

130,223,838 151,181,085 **156,274,502**



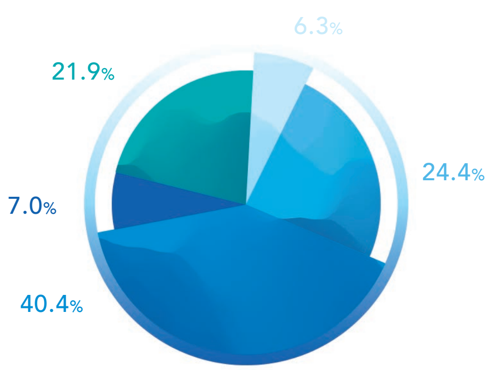
Analysis of 2019 Revenue

(For the year ended 31 December 2019)



Analysis of 2019 Profit

(For the year ended 31 December 2019)



Wealth Management Corporate Finance Asset Management Institutional Clients Investment

Business Highlights

OVERSEAS FOOTPRINT

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

UK – London

Primarily engaged in a range of financial services activities in the equity and fixed income markets.

- Haitong International (UK) Limited is a London Stock Exchange member firm and a 'designated broker' for the Shanghai-London Stock Connect.

US – New York

Mainly engaged in corporate finance, securities brokerage business, Nasdaq stock market making, and bond market making.

- In 2019, completed 5 US IPOs and acted as local placement agent for the first time on an US IPO;
- In 2019, completed 3 US stock refinancing projects, namely the USD 100 million refinancing for Qutoutiao, the USD 100 million refinancing for 360 Finance and the USD 280 million refinancing for GDS.

India – Mumbai

Mainly engaged in cash equities and diverse investment banking business.

- In April 2019, assisted the issuance of a USD500 million 3.5-year bond for Shriram Transport Finance Company Limited (SHTF.IN) under 144A/RegS, this is the first accomplishment of Haitong International to issue Corporate USD Bond for a local Indian entity;
- In May 2019, assisted in the issuance of a USD 350 million 3-year senior notes for Indiabulls Housing Finance Limited;
- In November 2019, completed (acting as the sole financial advisor) a private equity financing amounting to around USD 42 million for Aavishkaar Venture Management Services.

Singapore

Mainly engaged in corporate finance, asset management, fixed income sales and trading, private wealth management, and equity sales and trading.

- In February 2019, led and completed the inaugural SGD bond issue for Chongqing Banan Economic Park, a Chongqing LGFV, under the China-Singapore (Chongqing) Demonstration Initiative on Strategic Connectivity as Joint Global Coordinator, raising S$170m including a subsequent re-tap;
- In March 2019, participated as Joint Lead Manager in the S$100m medium-term notes for Chip Eng Seng, a leading construction and property developer in Singapore;
- In June 2019, assisted Sapphire Corporation Limited, a Chinese company listed on SGX-Mainboard, to complete its rights issue;
- In August 2019, granted a Capital Market Service License (CMS) by the Monetary Authority of Singapore (MAS) to carry out asset management business in Singapore, becoming one of the Chinese financial institutions with the most comprehensive business coverage in Singapore;
- In September 2019, participated as Joint Book Runner in the S$68.8m placement for Dasin Retail Trust.

Business Segments

Wealth management

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

Corporate finance

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

Asset management

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

Institutional clients

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

Investment

Aims to enhance and intensify the synergies among various business segments of the Group through investing in 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.

Japan – Tokyo

Engaged in investment advisory business.

- In Asiamoney Brokers Poll 2019, the analyst of Japanese research team was awarded Best Analyst for Industrials No.1 in the Small/Mid-Caps, Real Estate, Internet Services and Telecommunications sectors;
- In StarMine Analyst Awards by Refinitive, the analyst of Japanese research team was awarded the Top Stock Picker of industrial stocks in Japan for the second year in a row.

Australia – Sydney

Primarily engaged in equity trading by using algorithmic trading.

- Becoming the first Chinese securities firm to obtain an Australian Financial Services Licence (AFSL) from the Australian Securities and Investments Commission (ASIC) through direct application;
- Full access to all Australian exchanges including dark pool trading via Direct Market Access (DMA) and Direct Strategy Access (DSA).

Striving to THE UTMOST

Capitalizing on its unique capital intermediary role in investment, financing, consultancy, research and brokerage, Haitong International is capable of bringing "Impact Investment" into play.

Highlights of the Year

2019 Jan

- Haitong International's asset management team was awarded the "Asian Rising Star WINNER" and "Most Innovative Product WINNER" in the "Best of the Best 2019 Awards" hosted by Asia Asset Management.

2019 Feb

- Haitong International launched the "Management Trainee Home Starter Loan Scheme" to grant a loan of up to HKD2 million to each eligible management trainee applicant for their first-time purchase of self-occupied property in Hong Kong to alleviate their economic pressures.

2019 Mar

- Haitong International's MPF product "Haitong MPF Retirement Fd – Global Diversification – A" was awarded "Best Fund over 3 Years – Equity Global" in "Lipper Fund Awards" from Refinitiv.

2019 May

- Haitong International was awarded "Best Company to work for in Asia 2019" by HR Asia for the second consecutive year.

- Haitong International was awarded "Bonds – Excellence", "Derivative Provider of the Year – Excellence" in the "Bloomberg Businessweek – Financial Institution Awards 2019".

2019 Jun

- Haitong International was awarded "Best Broker in Hong Kong (Chinese Financial Institutions)" in the "FinanceAsia Country Awards".

2019 Jul

- Haitong International was approved by the Stock Exchange of Hong Kong ("HKEx") to issue inline warrants, being among the first batch of issuers for this new product.

2019 Aug

- The Singapore office was granted a Capital Market Service License ("CMS") by the Monetary Authority of Singapore ("MAS") to carry out asset management business in Singapore, becoming one of the Chinese financial institutions with most comprehensive business coverage in Singapore.

2019 Sep

- Haitong International was named as "Best Wealth Manager" and "Best ETF Market Maker" by The Asset.

- Haitong International was again named as the "Securities House of the Year" in Asia Risk Award 2019.

- Haitong International was named as the "Best Securities House of the Year – Hong Kong" in Asiamoney Best Securities Houses Awards 2019 for the third consecutive year.

- Haitong International relocated part of its business units to A-grade offices in One IFC, Central to facilitate business expansion. It represents another progress of the company as an international financial institution.

2019 Nov

- HKEJ presented the "Hong Kong Listed Company Award 2019" to Haitong International the second year consecutively.

Bridging THE WORLD

In 2019, Haitong International continues to strengthen the power of its global reach with a broadened network centering on New York, London, Singapore and Hong Kong and spanning to major Asia-Pacific capital markets like Tokyo, Sydney and Mumbai, serving as a bridge between the Chinese and overseas capital markets.

Chairman's Statement

QU Qiuping
Chairman

Economic, Market and Business Review

The globe met with an economic slowdown in 2019 due to a chain of incidents like simmering tensions of the Sino-U.S trade friction, twists and turns of Brexit and inversion of U.S. treasury yield. All these dampened the confidence of entrepreneurs and consumers alike and added uncertainties to the economic prospect. The Fed, acting in hopes of saving for rainy days, took a swift move to adjust the monetary policy by bringing 3 consecutive rate cuts into play notwithstanding in the context of a record low unemployment rate within 50 years, which was soon followed suit by 50 of its counterparts in different countries. By the end of 2019, buoyed by the much-expected phase one trade deal between China and the U.S. and rate cut adopted by central banks in some major economies, the global economy and financial markets have shown a sign of recovery.

China, as the second biggest economy in the world populated by 1.4 billion people, was able to attain the achievement of over USD10,000 per capita in terms of GDP in 2019. Notwithstanding the GDP growth dipped to the level of 6.1%, household consumption and disposable income per capita maintained a steady growth. Against the headwind like facing the smothering Sino-China trade dispute, China managed to maintain a stable import and export trade with an increasing favorable balance of current account, and the balance of international payment remained on a healthy track. The cause of economic slowdown in fact comes from the lackluster investment activities (primarily for the investment in manufacturing and infrastructure) and part of which is attributable to China's efforts to "deleverage and mitigate risks" these years. However, the economic slowdown does not mean to become a drag to China's economic transformation and opening-up. The financial sector was even on a faster track to embrace the international arena, presenting new opportunities and challenges to Chinese financial institutions.

Looking back at Hong Kong, its economy was dealt a blow by the first-ever recession since 2009. In the 2nd half of 2019, the social unrest has put a dent on its performance – the number of visitors dropped by over 50% where its service industry including retailing, hospitality, catering and tourism sustained a hard hit rarely seen over many years. However, Hong Kong's financial market was still navigating forward on a stable track, evidenced by the active turnovers seen in the Shanghai-Hong Kong Stock Connect, Shenzhen-Hong Kong Stock Connect and Bond Connect. The money and bond markets are as booming as usual where the number of IPOs chalked up a record. Although seesaw movements were often seen for the Heng Sang index, it eventually wrapped up the year by a 9% increase. The currency rate of Hong Kong dollar remained stable and no capital flight was identified at the moment.

In 2019, the market was treacherous, but Haitong International was able to keep a cool head to grasp opportunities and redefine its business development strategy. And it eventually paid off with brilliant performance achieved in different areas. The Company maintained its leadership in terms of global investment banking services and trading execution capabilities – it ranked top among the investment banks in Hong Kong in terms of underwriting number of IPOs and equity financing projects; it topped the list of Asia USD High Yield Bond (ex-Japan) among the financial institutions in the world (commercial firms and investment banks) in terms of underwriting amount and number; it also ranked top and second in the Chinese USD bond market among the global financial institutions in terms of underwriting number and underwriting amount respectively; it also maintained its leadership in Hong Kong derivatives market and issued almost 3,000 warrants and CBBCs, ranking second in the Hong Kong market in terms of turnover. Moreover, Haitong International is the first Chinese financial institutions with approval to issue inline warrants on the Hong Kong Stock Exchange, providing diversified listed structured products for investors.

Serving as a strategic base of Haitong Securities to achieve internationalization, Haitong International always exerts all-out efforts on developing overseas markets in the areas of investment banking, investment and trading businesses. As the first Chinese market maker with a full set of licenses in the U.S., Haitong International has been able to close 5 IPO deals and 3 refinancing projects in the U.S. this year; it also completed 2 refinancing projects in Singapore; For bond issuance, it completed 4 bond issuance projects in Singapore and 2 bond issuance projects for the local enterprise in India. The Shanghai-London Stock Connect was launched in June, and Haitong International (UK) Limited has been designated as one of 5 UK cross-border GDR conversion institutions. In 2019, Haitong International's Singaporean subsidiary was granted the Capital Market Services License by the Monetary Authority of Singapore to carry out asset management business in Singapore, making it to become one of the local institutions with most comprehensive offering coverage. This marks another milestone for the Company on its path of internationalization.

Future Prospect

In 2020, the globe is filled with much more uncertainties. Economic and political events like the U.S. presidential election, the Brexit negotiation and Sino-U.S relationship aside, the abrupt outbreak of novel coronavirus has stirred up the global economy to a more unpredictable state. As the economies around the world are highly interdependent on each other, the development of the disease is most likely to be a determining factor for the global economic growth in 2020. Although the U.S is shored up by strong employment and consumption, the momentum-losing private investment, presidential election and the spread of virus might affect investors' confidence, and it matters to the sustainability of this economic expansion. On the other side, there is not much room for Japan to exercise its fiscal and monetary policies and they are not as effective as before. Therefore, the European and Japanese economy were so susceptible to the change of China and U.S economies.

2020 is the very year of completing the building of a moderately well-off society in all aspects. Despite the grip of the disease and the complications brought along by the external environment, the positive structural factors of China's economic development, in mid-to-long term, remain intact.

Opportunities from transformation and upgrade, the benefits provided by the reform and opening-up and more room to deploy the macro-economic policy are the drivers for China's stable economic development. The menace of the novel virus will doubtlessly exert more challenges to the HKSAR, but the government's financial aids and poverty relief measures, as well as a trove of social and economic policies, will serve as a shot in the arm for the local economy. With the support of the Central Government and relying on the deepening progression of Guangdong-Hong Kong-Macao Greater Bay Area and the Belt and Road Initiative, Hong Kong will play its role as an international financial hub and asset management center as entrenched as ever.

Looking ahead, Haitong International will remain composed in the capricious global financial markets by sticking to the general development strategy of the Group. Keeping risk control in mind and built on the resources in Hong Kong, the Company will continue to put effort to grow its businesses and expand international presence. It will identify more growth drivers, optimize its global operational and risk monitoring systems, perfect its business model and corporate governance, adhere to the sustainable finance and sharpen up its core competitiveness. In this way, Haitong International will become a top-tier financial services provider with international competitiveness, systemic importance and brand influence.

QU Qiuping
Chairman

Hong Kong, 24 March 2020

Riding THE WAVES

In the past year, Haitong International has braved through challenges in the market. With its businesses staying ahead, it has devised the Haitong International Plan 3.0 to empower the profitability of its fee-based business, to scale up its global talent pool, and to reinforce its core competitiveness of global corporate finance, asset management, trading and global operations.

CEO's Review

LIN Yong

Deputy Chairman and CEO

2019 was a year glutted with opportunities and challenges. Though China's GDP growth dipped to 6.1%, its GDP per capita reached over USD10,000 whereas the disposal income further shot up; in 2019, the U.S. treasury yield inverted where the unemployment rate reached a record low in 50 years and the US stock market stayed at the record high; the recession laid its grip upon Hong Kong for the first time since 2009, blasting its consumption industry and tourism, but the Stock Connects were proved ever-strengthening with the bond and IPO markets at the zenith. There was a light at the end of the tunnel for the year-long Sino-U.S trade confrontation and a partial consensus was eventually reached. As a Hong Kong-based Chinese financial institution with global presence, Haitong International has predicted the global changes.

In 2019, Haitong International kicked off the Haitong International Plan 3.0 ("Plan 3.0") and carried out strategic transformation. With the plan, the Company was capable to maintain a stable growth of its businesses by enhancing the fee-based businesses and scaling up its teams to hone its core competitiveness in the areas of investment banking, asset management, trading and global operations in the world. Focusing on New York, London, Singapore and Hong Kong markets, the Company is expanding its presence to other major Asia-Pacific capital markets including Tokyo, Sydney and Bombay, to render revenue synergies and risk diversification as well as building financial services connections. With transformation, Haitong International is able to buffer the impacts of fluctuation presented by external markets on its earnings with improving stability and sustainability.

Business Review and Analysis

In 2019, Haitong International proactively braved the challenges from the external environment and tapped into the major financial markets over the world in a bid to fully participate into the investment banking, asset management and trading businesses. The revenue for the year reached around HK$8.24 billion with a net profit of around HK$1.55 billion, representing a year-on-year increase of 52%. At the same time, a rational debt structure was maintained with sufficient liquidity at hand. During the first year of executing the "Plan 3.0", the Company achieved a sharp boost of results over the previous year with stronger risk resilience, showcasing that the strategic transformation has been proven effective.

Commission and fees income is the major contributor to Haitong International's operating results and is the linchpin of the fee-based income. In 2019, the Company's commission and fees income reached HK$2.29 billion, entrenching its leadership in the Hong Kong capital market.

As the "Plan 3.0" is driving forward, the Company has changed from an interest-earning focus to a proactive asset allocation attitude for more earnings. With a better-allocated assets portfolio, the Company achieved a startling growth of results and return on shareholders' funds when compared with 2018 with the gearing ratio maintained at a stable level. During the reporting period, the return on shareholders' funds stood at 5.85%, up 1.87 percentage points over 2018; and the gearing ratio stood at 5.17, remaining flat when compared with 2018.

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

Investment banking business is the core and mainstay in the Haitong International's Plan 3.0. In 2019, the Company achieved a brilliant investment banking performance. With less than 150 members, Haitong International's investment banking team was able to achieve an income of more than HK$782 million, representing an income per headcount of more than HK$5 million.

For global ECM business, Haitong International completed 49 IPOs and 58 ECM projects in total globally, representing an increase of 23% and 32% over 2018 respectively; among which, the Company completed 44 IPOs and 48 ECM projects in Hong Kong, representing a year-on-year increase of 19% and 17% respectively, ranking No. 1 in these aspects among its local peers; 2 refinancing projects were completed in Singapore; 5 IPOs and 3 US stocks refinancing projects were completed in the U.S. during the year thanks to the Company's full set of licenses and its capability to become the first Chinese market maker in the U.S.

For global DCM business, Haitong International completed a total of 247 bond issuance projects, 1.4 times as that in 2018. The Company topped the list of Asia USD High Yield Bond (ex-Japan) Leagues Table among the financial institutions in the world (commercial firms and investment banks) in terms of underwriting amount and number, maintaining its leadership in the HY bond market. The Company also completed 4 bond issuance projects in Singapore and completed 2 bond issuance projects for local clients in India.

In line with China's Belt and Road Initiative, Haitong International has expanded its mergers and acquisitions ("M&A") footprints to Central Asia, Middle East, Europe, Northern America and Southern America, enlarging its brand influence in the global M&A markets.

2. Eye-catching investment and asset management competencies in the global market

In the primary market, Haitong International's PE team focused on the "new economy" industries and secured more than 20 direct investment projects in 2 years. In the secondary market, the assets under management (AUM) of Haitong International reached HK$53.5 billion as at the end of 2019, representing a year-on-year increase of 15%. In 7 years, the AUM achieved an almost eightfold growth. As a typical business of fee-based business, the Company's asset management achieved an income of HK$309 million during the year, representing a record high year-on-year increase of 11%, or over a ninefold growth in 7 years.

During the reporting period, the Company's Singaporean subsidiary was granted a Capital Market Service License by the Monetary Authority of Singapore to carry out asset management business in Singapore. As such, the Company has become one of the financial services institutions with comprehensive offering coverage in Singapore, marking another milestone for the Company on the path of its internationalization and implementation of Plan 3.0.

3. A surge of global transaction execution capability

Trading has always been Haitong International's core fee-based business. In 2019, Haitong International further expanded its trading coverage. For market making business, Haitong International, as the first Chinese market maker in Nasdaq, set up a cross-country, cross-market and cross-department trading settlement system with 32 underlying US stocks covered. With the launch of our prime brokerage and bond swap businesses, the Company is able to provide clients with cross-asset investment solutions. The Company covered 78 underlying stocks in its market making services for exchange-traded options, ranking No.5 in the market. Taking advantage of its ever-improving e-trading execution capability, Haitong International won nearly 100 institutional clients to use its algo-trading for transaction execution.

For Fixed Income, Currency and Commodities, the Company's interest rate and credit product trading business provided quotes in bilateral liquidity for almost 1,000 institutional clients around the world daily. Our New York and London trading desks achieved a steady growth in business income, which are expected to be the new profit drivers outside the Asia-Pacific region.

For derivatives, Haitong International firmly maintained its leadership in the Hong Kong market. During the year, a total of 2,975 warrants and CBBCs were issued with the turnover reaching HK$345.2 billion, representing a 5 times increase over 2018, ranking No. 2 in the Hong Kong market. Haitong International is the first Chinese financial services provider qualified for the issuance of inline warrants on the Hong Kong Stock Exchange, providing more diversified listed structured products for investors. During the year, the Company issued 146 listed structured products, ranking No. 1 in terms of cash flow. The Company also sets up a proprietary exotics pricing database, with which regular quotes can be provided for more than 60 structured products covering notes, OTC swaps and options across the world.

In 2019, Haitong International further performed an internal integration to augment synergies among its business lines and strived to provide diversified one stop global financial services for clients to become the prime broker for institutional investors and private wealth manager for entrepreneurs.

4. Enhanced global comprehensive operation capabilities

Haitong International has been conscientiously sharpening up its global operating capability, promoting the upgrade of systems and accelerating the construction of automatic operations in full swing. Based in Hong Kong, Haitong International is able to build a global business operations centre and set up a central database to achieve global data management. The global comprehensive operation capability lays a solid foundation for Haitong International on its path to become an international investment bank.

Capitalizing on "Big Data", the Company doubled down its efforts to carry forward the construction of its IT infrastructure, build a global institutional trading platform, equip itself with a new generation of market-making trading system, introduce advanced remote office systems to achieve cloud office to enhance sustainable operations, exploring the possibility to apply the use of A.I. and robotic operations, push forward the transformation to a digital working environment and create a brand new fintech ecosystem.

To seek higher profitability, a more stable profit-earning model and stronger resilience against risk, Haitong International has started to benchmark the regulatory standards applicable to international financial institutions in four dimensions: risk appetite, risk control, risk classifications and implementation of risk management. With the quantitative model-based risk monitoring measures, the Company successfully set up a multi-tiered risk management structure, for which the Company was granted a BBB rating with a stable outlook by Standards and Poor's in 2019 during despite the challenging political and economic environment.

5. Environment, Social and Governance (ESG)

The Plan 3.0 further expands on the Company's social responsibilities. Since 2016, the ESG has been set as one of fundamental requirements of Haitong International's operations. The Company always holds that it is the duty and commitment to its customers, shareholders, employees, the community and our natural environment.

In 2019, we kept on applying our ESG risk management into every corner of our operations and strived to become an industry leader in the sustainable finance sphere. During the year, the Company spared no efforts to improve energy saving and emission reduction, employee welfare, contribution to society and corporate governance. On the other hand, boasting its unique role as a financial intermediary and broker for investment, financing, advisory and research, Haitong International put "Impact Investment" into practice and actively advocate low-carbon economy (LCE) and sustainable finance in different facets.

In 2019, Haitong International was granted a "BBB" ESG rating by MSCI for the third year in a row, and was within the top 28% among the "Investment banking and brokerage firms" in the world. For particulars of our ESG performance, please read the electronic version of our "Environmental, Social and Governance Report 2019" which is issued on the same date as this Annual Report.

Prospects

Earlier this year, the outbreak of novel coronavirus caught the globe unprepared, slamming the weakening economies and outlook. A spate of geopolitical events is likely to exacerbate the fluctuation in real economies and financial markets. It is expected that central banks will throw out rate cuts and liquidity policies to address economic and market changes, but we can also see that abuse use of low-rate and liquidity policies over years, there is not much rooms for more loose policies. Against the context of complications in this economic and financial world, Haitong International will save for the rain days and brace itself to give a push to the Plan 3.0, which will serve as its strategic transformation by optimizing the opportunities/risk trade-off and resource allocation.

Taking a global perspective, engaging in fee-based businesses such as investment banking, trading and asset management and putting all-out endeavors for global development is a hot trend for top-tier global investment banks. In the future, Haitong International will stably scale up its team and focus on the businesses which can generate synergies to all business lines and stable cash flows so as to enhance asset yields and performance stability. Moreover, the Company will keep the risks at bay while rendering efficient and quality assets allocation.

In the future, Haitong International will adhere to its core values – "Sincere, Courageous and Innovative" with operations in Hong Kong and presence in the world by relying on intelligence technologies, sticking to risk management and compliance, capturing market opportunities and practicing sustainable finance. Haitong International is brave and determined to set sail with the Plan 3.0 without fear of difficulties and challenges ahead.

Financial Review

Overview of Financial Performance

In 2019, the overall operating environment was packed with opportunities and challenges. The enduring Sino-US trade confrontation and a strain of global events such as Brexit added uncertainties to the financial markets, while the US stock market stayed at the record high. On local level, the Hong Kong stock market disoriented and Hong Kong slumped into economic contraction in the third quarter of 2019. US and China major stock indices rose by more than 20% during 2019 while HK stock indices rose by a lesser magnitude, with Hang Seng index and H-share index increasing by 9% and 10% respectively.

However, thanks to the Group's capability to redefine its business strategies in time and diversify its income sources by leveraging its strong capital management and risk management framework, and proactive asset allocation strategy, the Company and its subsidiaries (collectively referred as the "Group") achieved a profit of HK$1,551 million, representing an increase of 52% over 2018, mainly attributable to the growth of all income streams and a lower cost-to-income ratio. Total income (including revenue, other income and gains or losses, and share of results of investments accounted for using the equity method) amounted to HK$8,205 million, representing a year-on-year increase of 34%. All three major income streams of the Group, namely, commission and fee income, interest income, and net trading and investment income recorded an increase.

Commission and fee income amounted to HK$2,292 million. Brokerage commission increased from HK$609 million to HK$659 million in contrast to a drop of turnover in Hong Kong securities market. In addition, commission on underwriting and placing recorded an increase, with the Group ranked top in the league tables. Interest income rose by HK$366 million, or 14%, to HK$2,942 million. As part of the Group's balance sheet management, average interest earning assets in 2019 remained stable at the level as 2018 while a yield enhancement was achieved.

Net trading and investment income (including share of results of investment accounted for using the equity method) increased by 121% from HK$1,362 million to HK$3,010 million, with substantial improvement in net trading income on fixed income securities, currency and commodities, and equity derivatives (2019: HK$1,270 million; 2018: HK$827 million) and net investment gain from financial assets/liabilities (2019: gain of HK$972 million; 2018: loss of HK$128 million, which includes share of results of investment amounted for using equity method).

The Group's total costs (including salaries and allowances, bonus and pension, commission expenses, finance costs and operating expenses) for the year was HK$5,792 million, compared with HK$4,897 million for 2018. Finance costs amounted to HK$3,130 million, representing an increase of 27%. Increase in finance costs was due to year-on-year increase in average interest bearing liabilities and average funding cost. Operating costs to total income ratio stood at 30%, improving from 35% for 2018, and total costs to total income ratio stood at 71%, improving from 80% for 2018.

Net impairment charges was HK$634 million for 2019, compared with HK$239 million for 2018. An increase in net impairment charges reflects the Group's prudent credit risk management on the Group's interest earning assets, and the impact of one-off reversal of HK$106 million during 2018.

Total assets as at 31 December 2019 amounted to HK$156.3 billion, increasing by HK$5.1 billion or 3% from HK$151.2 billion as at 31 December 2018. Net assets (which are also shareholders' equity) amounted to HK$27.0 billion as at 31 December 2019 (31 December 2018: HK$25.8 billion). Net assets per share as at 31 December 2019 was HK$4.55, representing an increase of 2% from HK$4.46 as at 31 December 2018. Annualised return on shareholders' funds (calculated by net profit divided by weighted average shareholders' equity) was 5.85% for the year ended 31 December 2019, improving from 3.98% for the year ended 31 December 2018.

Revenue

Revenue of the Group for the year ended 31 December 2019 was HK$8,244 million (2018: HK$6,329 million). Details of the major revenue streams and its proportion to total revenue are set out below:

	2019 HK$'000	%	2018 HK$'000	%
Commission and fee income	2,291,922	27.8	2,164,616	34.2
Interest income	2,941,593	35.7	2,575,717	40.7
Net trading and investment income	3,010,459	36.5	1,588,449	25.1
	8,243,974	100.0	6,328,782	100.0

Commission and fee income amounted to HK$2,292 million, with the increase in major revenue streams under commission and fee income, namely, commission on brokerage, underwriting and placing fee income, and asset management fee and performance fee income. Commission on brokerage was increased by 8% (2019: HK$659 million; 2018: HK$609 million), which was mainly attributable to the increase in fee income from brokerage of different types of products. In addition, the Group has maintained its leadership in Hong Kong capital markets and is developing capital market execution capability in other major financial centres such as Singapore and New York. Proportion of fee income to the total revenue increased from 22% for the first half of 2019 to 28% for the whole year of 2019, manifesting the progress made by the Group to expand its fee-based business by diversifying fee income streams and expanding product offerings to cover different types of customers.

Interest income rose by HK$366 million, or 14%, to HK$2,942 million. As part of the Group's asset allocation management, in 2019, the average interest earning 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) remained stable at the level same as 2018 while a yield enhancement was achieved, which is in line with the increase in market interest rate.

Net trading and investment income (including share of results of investment accounted for using the equity method) increased by 121% from HK$1,362 million to HK$3,010 million. Net trading income on fixed income, currency and commodities, and equity derivatives increased by HK$443 million, or 53% to HK$1,270 million, which was mainly attributable to an increase in turnover, rebound of bond and stock indices and increased number of derivative warrants and callable bull/bear contracts issued. Investment returns on financial investments held by the Group (including mainly investment funds, listed equities and private equities) recorded a gain of HK$972 million as compared with a loss of HK$128 million (including share of results of investment accounted for using the equity method) for 2018, reflecting favourable movements in equities and bond markets as compared with 2018 and the Group's successful investment strategy, which brought synergies across business units.

Total Costs

An analysis of total costs is as below:

	2019 HK$'000	2018 HK$'000	+/-%
Salaries and allowances, bonuses and pension	1,380,918	1,154,662	+19.6
Commission expenses	179,351	254,517	-29.5
Finance costs	3,129,773	2,473,278	+26.5
Operating expenses:			
– Amortisation and depreciation	225,566	98,144	+129.8
– Information technology related expenses	224,249	201,444	+11.3
– Other operating expenses	651,784	715,449	-8.9
Total costs	5,791,641	4,897,494	+18.3
Impairment charges, net of reversal	634,489	238,771	+165.7
Foreign exchange difference, net	(71,594)	(185,068)	-61.3
	6,354,536	4,951,197	+28.3

Increase in total costs was mainly attributable to increase in finance costs.

In 2019, salaries and allowances, bonuses and pension increased by 20% over 2018. Basic salaries increased mildly was mainly attributable to the general salary increment effective from January 2019 and increase in number of staff from 1,126 as at 31 December 2018 to 1,228 as at 31 December 2019. Provision for bonuses and incentives increased as a result of an increase of the Group's net profit.

In 2019, commission expenses saw a decrease of 30% over last year due to decrease in securities market turnover, and also restructuring of the remuneration scheme to salespersons, with a shift from commission expenses to fixed salary and incentives, in order to bring the remuneration scheme in line with foreign private banks.

Finance costs increased by 27% year-on-year was due to the increase in average interest bearing liabilities in 2019 (including increase in debt securities in issue, bank borrowings and repurchase agreements) over 2018. Increase in market interest rate was also a contributor to the increase in finance costs. The Group's funding cost was 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. However, the Group actively managed the finance cost by reducing the spread charged. In a new syndicated loan facility entered by the Group in March 2019, the spread charged was lower than that in all previous syndicated loan facilities entered by the Group; the Group issued a new US dollar bond in July 2019 at an interest rate of 3.375% as the US dollar bond issued in 2014 became matured, and the rate of the latter was 3.99%. To manage the net interest spread, the interest rate charged to customer was also increased. Consequently, net interest spread of the Group remained stable during the year.

Net impairment charges was HK$634 million, compared with HK$239 million for 2018. An increase in net impairment charges in 2019 over 2018 was mainly attributable to the increase in impairment provision on advances to customers in margin financing and net impairment charges for 2018 including an one-off reversal of HK$106 million in relation to a loan to a corporate client. The Group has been maintaining a prudent impairment charge policy on impaired credit exposures.

In 2019, depreciation and amortisation increased substantially as compared with 2018. Depreciation charges for 2019 included the depreciation of right-of-use assets amounting to HK$111 million following the adoption of Hong Kong Financial Reporting Standard 16 "Leases", which came into effect on 1 January 2019. As opposed, rental expenses had a similar corresponding decrease. In addition, depreciation on trading platforms and back office systems also drove the increase in depreciation and amortisation.

Information technology ("IT") related expenses increased was due to additional expenses (that were not qualified for capitalisation under accounting standard) incurred in system developments.

Other operating expenses decreased was due to strict cost control exercised by the Group. As compared between 2019 and 2018, operating expenses such as legal and professional fee and business travelling expenses decreased. In addition, rental expense which had previously been recognized under other operating expenses was 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

	2019 HK$'000	%	2018 HK$'000	%
Wealth management	2,167,919	26.3	2,026,521	32.0
Corporate finance	1,528,058	18.5	1,439,239	22.7
Asset management	309,115	3.8	278,475	4.4
Institutional clients	3,249,468	39.4	2,467,028	39.0
Investment	989,414	12.0	117,519	1.9
	8,243,974	100.0	6,328,782	100.0

Segment profit before tax

	2019 HK$'000	%	Segment margin	2018 HK$'000	%	Segment margin
Wealth management	451,869	24.4	21%	571,163	29.0	28%
Corporate finance	748,337	40.4	49%	898,406	45.6	62%
Asset management	127,420	7.0	41%	106,616	5.4	38%
Institutional clients	405,715	21.9	12%	393,280	20.0	16%
Investment	117,288	6.3	12%	(789,881)	N/A	N/A
	1,850,629	100.0	23%	1,179,584	100.0	19%

Details of review of financial performance in each of the business segments are set out 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, 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

	2019 HK$'000	2018 HK$'000	+/-%
Commission and fee income	694,542	695,366	-0.1
Interest income	1,473,377	1,331,155	+10.7
Segment revenue	2,167,919	2,026,521	+7.0
Other income and gains or losses	(8,526)	17,056	N/A
	2,159,393	2,043,577	+5.7
Segment expenses	(1,707,524)	(1,472,414)	+16.0
Segment profit before tax	451,869	571,163	-20.9
Segment margin (%)	21	28	-7

Segment revenue

Commission and fee income remained flat as 2018 but outperformed the market turnover, as the market turnover in the Hong Kong securities market decreased by 19%. The stable commission and fee income demonstrates the progress made by the Group to develop its fee-based business and diversify its fee income sources by offering a wide range of products as well as the standardisation and optimisation of its product distribution process.

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 attributable to yield enhancement, which was due to the increase in market interest rate. Average margin loan size remained stable during the year.

Segment profit before tax and segment margin

Increase in segment expenses was mainly due to increase in impairment charges on advances to customers in margin financing. As set out in "Total Costs" above, the Group has adopted a prudent approach on its impairment provisioning policy. It is considered that the prudent approach to recognise impairment charges in 2019 will help reduce the pressure on further impairment charges for the coming year.

As a result, segment profit before tax decreased by 21% year-on-year and the segment margin decreased from 28% to 21%.

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

	2019 HK$'000	2018 HK$'000	+/-%
Commission and fee income	974,561	995,939	-2.1
Interest income	553,497	443,300	+24.9
Segment revenue	1,528,058	1,439,239	+6.2
Other income and gains or losses	3,554	2,988	+18.9
	1,531,612	1,442,227	+6.2
Segment expenses	(783,275)	(543,821)	+44.0
Segment profit before tax	748,337	898,406	-16.7
Segment margin (%)	49	62	-13.0

Segment revenue

In 2019, commission and fee income remained at the same level as 2018. The Group's underwriting and placing commission increased from HK$768 million for 2018 to HK$782 million for 2019, while the increase was offset by the decrease in financial advisory and consultancy fee income recognized in this segment.

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

Segment profit before tax and segment margin

Segment expenses increased was due to impairment charges of HK$44 million were recognized during the current year while an one-off reversal of HK$106 million was recognized during 2018. Employee benefit costs and related expenses increased was due to the increase in number of employees and expansion of workforce as the Group was developing its capability in executing capital markets projects in other major financial centres.

Segment profit before tax for 2019 amounted to HK$748 million and segment margin stood at 49%.

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

	2019 HK$'000	2018 HK$'000	+/-%
Segment revenue – Commission and fee income	309,115	278,475	+11.0
Segment expenses	(181,695)	(171,859)	+5.7
Segment profit before tax	127,420	106,616	+19.5
Segment margin (%)	41	38	+3.0

Segment revenue

Increase in segment revenue was mainly attributable to the improvement in performance fee income while management fee income remained stable (2019: HK$243 million; 2018: HK$248 million).

Segment profit before tax and segment margin

The percentage of increase in segment revenue was higher than the percentage of increase in segment expenses, which includes segment direct expenses and operating costs of supporting units allocated to this segment. As a result, segment margin increased from 38% to 41%, and the segment profit before tax amounted to HK$127 million.

Institutional Clients Segment

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.

Analysis of results

	Fee and commission income 2019 HK$'000	Fee and commission income 2018 HK$'000	Interest income 2019 HK$'000	Interest income 2018 HK$'000	Net trading income 2019 HK$'000	Net trading income 2018 HK$'000	Total 2019 HK$'000	Total 2018 HK$'000	+/-%
Fixed income, currency and commodities	–	–	50,450	53,602	1,215,779	802,339	1,266,229	855,941	+47.9
Institutional equities	313,704	194,836	846,703	729,390	822,832	686,861	1,983,239	1,611,087	+23.1
Segment revenue	313,704	194,836	897,153	782,992	2,038,611	1,489,200	3,249,468	2,467,028	+31.7
Other income and gains or losses							1,145	2,342	-51.1
							3,250,613	2,469,370	+31.6
Segment expenses							(2,844,898)	(2,076,090)	+37.0
							405,715	393,280	+3.2
Share of results of investments accounted for using the equity method							–	–	N/A
Segment profit before tax							405,715	393,280	+3.2
Segment margin (%)							12	16	-4.0

Segment revenue

For fixed income, currency and commodities ("FICC") business, revenue increased by 48% year-on-year. With diversification of FICC product offerings ranging from credit and currencies, macro and synthetic products, and institutional client solutions, turnover of FICC business noted an increase during the year. In addition, the round-the-clock services provided by the FICC teams in Hong Kong, Singapore, London and New York and the Group's leading position in trading and market-making in the Chinese US Dollar high yield bonds were the contributors to the growth of revenue.

For institutional equities business, all revenue streams recorded an increase. Increase in fee and commission income was attributable to the increase in turnover as a result of extensive coverage by the institutional equities business in major financial centres. Commission rate charged to institutional clients remained stable during the year. Increase in interest income was attributable to increasing demands from institutional clients for risk management and financing solutions.

Increase in net trading income of institutional equities business was attributable to the increase in financial product issuance to meet clients' increasing demands for tailored-made financial products (and therefore resulted in an increase in spread income from financial product issuance) and increased number of equity derivative products issued (such as warrants and callable bull/bear contracts).

Segment profit before tax and segment margin

Finance costs borne by this segment increased by 43% (2019: HK$1,708 million; 2018: HK$1,192 million). The increase in finance costs was attributable to the increase in both average interest bearing liabilities and market interest rates. Financing obtained from repurchase agreements increased from HK$24.1 billion as at 31 December 2018 to HK$26.4 billion as at 31 December 2019. Segment direct expenses remained stable while operating costs of supporting units allocated to this segment recorded an increase.

Segment profit before tax for the year amounted to HK$406 million and the segment margin stood at 12%.

Investment Segment

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

	2019 HK$'000	2018 HK$'000	+/-%
Interest income	17,566	18,270	-3.9
Net investment gain	971,848	99,249	+879.2
Segment revenue	989,414	117,519	+741.9
Other income and gains or losses (note)	(34,982)	6,482	N/A
	954,432	124,001	+669.7
Segment expenses	(837,144)	(687,013)	+21.9
	117,288	(563,012)	N/A
Share of results of investments accounted for using the equity method	–	(226,869)	N/A
Segment profit (loss) before tax	117,288	(789,881)	N/A
Segment margin (%)	12	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 29 of the consolidated financial statements.

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

The segment revenue includes net investment gain or loss generated by the Group's in bond/equity fund, fund-of-fund, private equity and listed equity investments.

Due to the rebound of bond and stock indices and optimisation of the Group's investment strategy, a net investment gain of HK$972 million in 2019 was recorded as compared with a loss (including share of results of investments accounted for using the equity method) of HK$128 million for 2018. In particular, investment gain from the Group's fund investments (including bond fund, equity fund and fund-of-funds) amounted to HK$686 million this year as compared with an investment loss of HK$363 million for 2018. In addition, net investment gains from listed equity investments and private equity investments also contributed to the net investment gains for the year, leading to substantial improvement of revenue of this segment.

Segment loss/profit before tax and segment margin

Segment profit before tax for the year amounted to HK$117 million while segment margin for the current year was 12%.

Increase in segment expense was due to the increase in finance cost and operating costs of supporting units allocated to this segment.

Assets and Liabilities

	31 December 2019 HK$'000	31 December 2018 HK$'000	+/-%
Total Assets	156,274,502	151,181,085	+3.4
Total Liabilities	129,243,921	125,370,748	+3.1
Net Assets	27,030,581	25,810,337	+4.7

Assets

Total assets increased by HK$5.1 billion, or 3 %, to HK$156.3 billion as compared with that as at the end of 2018.

Increase in total assets was mainly driven by the increase in investment securities at fair value through profit or loss ("FVPL") (31 December 2019: HK$26,099 million; 31 December 2018: HK$20,787 million), investment securities at amortised cost (31 December 2019: HK$10,561 million; 31 December 2018: HK$5,359 million) and assets acquired for financial products issued (31 December 2019: HK$32,386 million; 31 December 2018: HK$27,753 million) but partially offset by the decrease in advances to customers in margin financing (31 December 2019: HK$12,630 million; 31 December 2018: HK$15,952 million).

Increase in investment securities at fair value through profit or loss was mainly due to the increase in investment in bond funds riding on the rebound of bond indices during 2019. Investment securities at amortized cost saw an increase was due to the increase in debt investments that were not held for trading purpose as the Group considered that these investments could provide a stable return to the Group and create synergies with other business activities.

Increase in assets acquired for financial product issuance represents the Group's continuing effort in strengthening financial product issuance and execution capability and expanding the underlying asset classes, with an aim to grow the fee-based business by enriching wealth management product or risk management solution product offerings.

Details of investment securities and assets acquired for financial products issued are disclosed in notes 18 and 19 of the consolidated financial statements respectively.

Decrease in margin loan was due to repayment made by a number of customers during the second half of 2019, while average margin loan balances remained stable as compared between current year and prior year. Details of advances to customers in margin financing are disclosed in note 21 of the consolidated financial statements.

Liabilities

Total liabilities increased by HK$3.9 billion, or 3%, to HK$129.2 billion as compared with that as at the end of last year.

Assets of the Group is mainly funded by bank loans and debt securities issued. In March 2019, the Group entered into a HK$16 billion 3-year revolving syndicated loan facilities. The interest rate of the new syndicated loan was lower than that of all previous syndicated loan facilities entered. The new syndicated loan facility provides a stable funding source to the Group and helps reduce the funding cost. In addition, the Group issued 2 batches of USD bonds in July 2019 and November 2019 as the USD bond issued in 2014 became matured in September 2019, and the convertible bonds issued in 2016 were substantially redeemed in October 2019.

Gearing Ratio

The Group's gearing ratio (calculated by total assets excluding accounts payable to clients divided by shareholders' equity) remains unchanged at 5.17 times as at 31 December 2018 and 31 December 2019.

Income Tax Expense

	2019 HK$'000	2018 HK$'000	+/-%
Income tax expense	299,771	156,746	+91.2
Effective tax rate (%)	16.2	13.3	+2.9

Income tax expense increased was due to the increase in profit before tax and effective tax rate. As the Group operates its businesses in a number of jurisdictions, the Group adopted a cross border transfer pricing policy as well as local transfer pricing policies to minimize tax exposure and properly comply with the transfer pricing regulations promulgated by different jurisdictions in recent years.

Capital Structure and Regulatory Capital

	31 December 2019 HK$'000	31 December 2018 HK$'000	+/-%
Issued share capital	594,058	578,975	+2.6
Number of issued shares	5,940,583,872	5,789,746,388	+2.6

As at 31 December 2019, the total issued share capital of the Group stood at HK$594.058 million (31 December 2018: HK$578.975 million), comprising 5,940,583,872 shares of HK$0.10 each (31 December 2018: 5,789,746,388 shares at HK$0.10 each).

Issued share capital increased during the current year was due to new shares issued as a result of exercise of share options by option holders and issuance of scrip dividends in relation to 2019 interim dividend. Details of movement of share capital during the current year are disclosed in note 38 of the consolidated financial statements.

The Group has a number of regulated entities that are subject to regulatory capital requirements set by respective regulatory bodies in different countries or regions, including the Hong Kong Securities and Futures Commission, the Monetary Authority of Singapore, the United Kingdom Financial Conduct Authority and the United States Financial Industry Regulatory Authority. During the year ended 31 December 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 at a certain level 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. 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 recognising as rental expenses). Consequently, the depreciation increased while rental expenses decreased.

Details of impact on adoption of HKFRS 16 to the Group and accounting policy on leases entered by the Group are disclosed in note 2 and note 3 of the consolidated financial statements respectively.

Dividend Policy

Objective

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

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

Principles

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

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

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

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

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

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

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

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

Ways of Declaring and Distributing Dividend

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

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

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

Review on the Policy

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

Treasury Policies

The Group generally finances its business operations with internally generated cash flow, bank borrowings and funding from capital markets. On 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$16,000 million for a term of up to 3 years. Other than the syndicate loan facilities, the Group's banking facilities are mainly renewable on a yearly basis and are subject to floating interest rates.

It has also been the Group's practice to support long term funding requirements via accessing to funding from capital markets, subject to market conditions. Moreover, within 2019, drawdown of HK$3,030 million, US$735 million and CNH150 million have been made out from the US$5 billion Medium Term Note Programme respectively. In 2019, the Group has issued two USD denominated bonds with US$700 million 5-year bond maturing in 2024 and US$ 400 million 5.5-year bond maturing in 2025. Among the capital market funding sources, 98% of the funding are fixed rate. 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. Moreover, the Group manages the currency exposure actively by borrowing the respective currencies.

Liquidity and Financial Resources

The financial position of the Group remained sound and healthy during the current year. As at 31 December 2019, the Group' s cash and bank balance amounted to HK$4,270 million, compared with HK$7,089 million as at beginning of the year. Decrease in the Group's total cash and bank balance was due to the Group's effort in actively managing idle cash to reduce funding cost and achieve a higher return while ensuring the Group's ability to meet liquidity requirements imposed by regulatory authorities on licensed subsidiaries.

The Group has unutilised banking facilities of HK$27,327 million (including syndicate loan and bilateral loan facilities) to ensure the Group's ability to meet funding needs when they arise.

Human Resources Policy

As at 31 December 2019, the Group employed a total of 1,228 (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/or 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 compliance training courses. The Group's International Management Trainee Development Program is instrumental to fuel the talent needs of the sustainable growth of businesses not only locally but globally.

Growing with CARE

Over the years, Haitong International has been fulfilling its social responsibility as a fundamental requirement for its corporate development. It serves its customers, employees and society with sincerity and spreads care to every corner of the community.

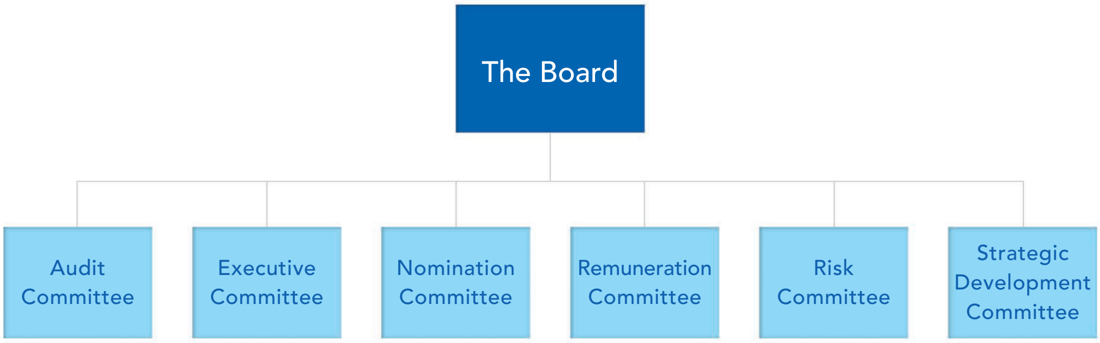
Corporate Governance Practices

The board of directors of the Company (the "Board") is committed to maintaining a high standard of corporate governance practices within the Group. Throughout the year ended 31 December 2019, the Company has fully complied with the code provisions set out in the Corporate Governance Code (the "CG Code") as contained in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

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

Corporate Governance Structure

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



The following table shows the attendance of each director of the Company (the "Director(s)") and members of the respective Board Committees at the Board and the respective Board Committee meetings and general meetings held during the year ended 31 December 2019:

Name of members of the Board/ the respective Board Committees	Attendance/number of meetings held							
	Board meeting	Audit Committee meeting	Executive Committee meeting	Nomination Committee meeting	Remuneration Committee meeting	Risk Committee meeting	Strategic Development Committee meeting	General meeting
The Board								
Chairman and Non-executive Director								
QU Qiuping	2/4	n/a	n/a	0/1	0/1	n/a	0/1	0/2
Deputy Chairman, Chief Executive Officer and Executive Director								
LIN Yong	4/4	n/a	14/16	n/a	n/a	n/a	1/1	2/2
Deputy Chairman and Executive Director								
LI Jianguo	4/4	n/a	n/a	n/a	n/a	n/a	1/1	2/2
Executive Director								
POON Mo Yiu	4/4	n/a	16/16	n/a	n/a	n/a	n/a	2/2
SUN Jianfeng	4/4	n/a	16/16	n/a	n/a	n/a	n/a	2/2
SUN Tong	4/4	n/a	16/16	n/a	n/a	n/a	n/a	2/2
Non-executive Directors								
CHENG Chi Ming Brian	3/4	n/a	n/a	n/a	0/1	n/a	0/1	0/2
WANG Meijuan	4/4	2/2	n/a	n/a	n/a	2/2	n/a	2/2
ZHANG Xinjun	4/4	2/2	n/a	n/a	n/a	n/a	1/1	2/2
William CHAN	4/4	n/a	n/a	n/a	n/a	2/2	1/1	2/2
Independent Non-executive Directors								
TSUI Hing Chuen William	3/4	2/2	n/a	1/1	1/1	n/a	n/a	2/2
LAU Wai Piu	4/4	2/2	n/a	1/1	1/1	2/2	n/a	2/2
WEI Kuo-chiang	4/4	n/a	n/a	n/a	1/1	2/2	n/a	2/2
WAN Kam To	4/4	2/2	n/a	n/a	n/a	n/a	n/a	2/2
LIU Yan	3/4	n/a	n/a	1/1	n/a	n/a	n/a	2/2
Other Executive Committee Members								
ZHANG Yibin	n/a	n/a	13/16	n/a	n/a	n/a	n/a	n/a
SHI Ping	n/a	n/a	14/16	n/a	n/a	n/a	n/a	n/a
KONG Weipeng	n/a	n/a	16/16	n/a	n/a	n/a	n/a	n/a
JI Qingyu	n/a	n/a	14/16	n/a	n/a	n/a	n/a	n/a
DU Jinsong	n/a	n/a	15/16	n/a	n/a	n/a	n/a	n/a
CHEN Xuan	n/a	n/a	13/16	n/a	n/a	n/a	n/a	n/a
Average attendance:	93%	100%	92%	75%	60%	100%	67%	87%

The Board

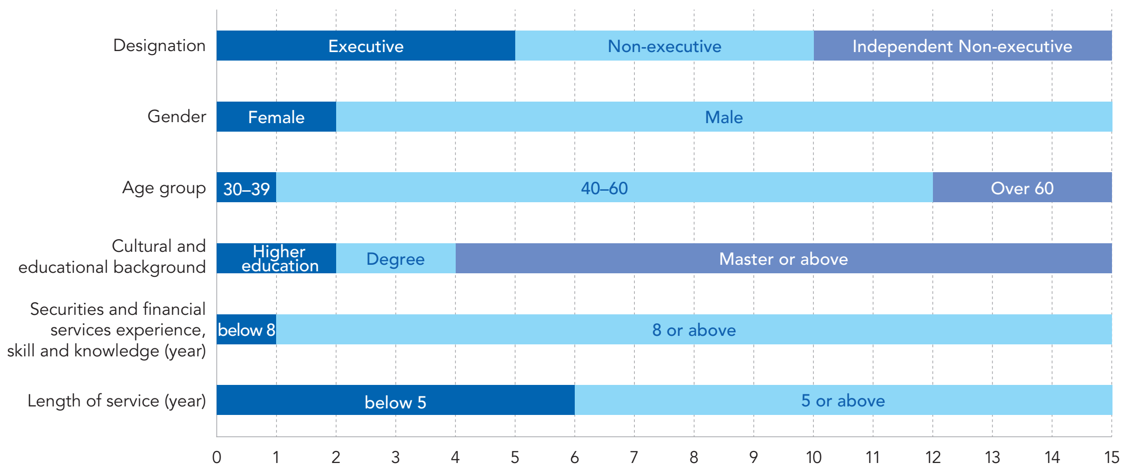
Composition

The Board currently comprises a total of 15 Directors, with 5 executive Directors, namely Mr. LIN Yong (Deputy Chairman and Chief Executive Officer), Mr. LI Jianguo (Deputy Chairman), Mr. POON Mo Yiu, Mr. SUN Jianfeng and Mr. SUN Tong; 5 non-executive Directors, namely Mr. QU Qiuping (Chairman), Mr. CHENG Chi Ming Brian, Ms. WANG Meijuan, Mr. ZHANG Xinjun and Mr. William CHAN; and 5 independent non-executive Directors, namely Mr. TSUI Hing Chuen William, Mr. LAU Wai Piu, Mr. WEI Kuo-chiang, Mr. WAN Kam To and Ms. LIU Yan. Biographical details of the Directors as of the date of this report are set out in the "Board of Directors" section in pages 54 to 58 of this Annual Report.

Board Diversity Policy

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

Selection of candidates will be based on a range of aforesaid Major Diversity Perspectives. The ultimate decision will be based on merit and contribution that the selected candidates will bring to the Board. The Nomination Committee reviews annually the Board's composition under Major Diversity Perspectives and monitors the implementation of the Board Diversity Policy. During the year, the Nomination Committee has reviewed its practice on Board diversity based on the Major Diversity Perspectives set forth and has come to the conclusion that it is a balanced Board. For the year ended 31 December 2019, the Board's composition under Major Diversity Perspectives was summarised as follows:



Meetings

The Board meets regularly at least 4 times a year at quarterly intervals and will meet at other times when the Board thinks appropriate. In general, notice of at least 14 days is given for a regular Board meeting so as to give all Directors an opportunity to attend. Agenda and meeting materials for each meeting are normally circulated to all Directors 7 days in advance of the date of the meeting. Senior management may, from time to time, be invited to attend the Board meetings for making presentation and/or answering any queries that may be raised by the Board. During the year, 4 Board meetings were held with an average turnout of 93%.

Proceedings of the Board and the Respective Board Committee Meetings

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

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

Chairman and Chief Executive Officer

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

Non-executive Directors

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

Throughout the year ended 31 December 2019, the Company complied with the requirements of the Listing Rules relating to the appointment of at least one-third independent non-executive Directors and at least one of which have appropriate professional qualifications or accounting or related financial management expertise.

Pursuant to the requirement of the Listing Rules, the Company has received from each of the independent non-executive Directors a written confirmation of his independence to the Company. The Company considers that all the independent non-executive Directors were independent in accordance with the Listing Rules throughout the year ended 31 December 2019.

Appointment and Re-election

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

Induction and Continuous Professional Development

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

Directors are encouraged to participate in continuing professional development to develop and refresh their knowledge and skills. They are required to submit to the Company annually details of training sessions undertaken by them in each financial year for the Company to maintain a training record for its Directors. According to the training records maintained by the Company, the training received by each of the Directors during the year ended 31 December 2019 is summarised as follows:

	Regulatory updates or corporate governance related materials	Other trainings relevant to directors' profession or other relevant topics
Chairman and Non-executive Director		
QU Qiuping	✔	✔
Deputy Chairman, Chief Executive Officer and Executive Director		
LIN Yong	✔	✔
Deputy Chairman and Executive Director		
LI Jianguo	✔	✔
Executive Directors		
POON Mo Yiu	✔	✔
SUN Jianfeng	✔	✔
SUN Tong	✔	✔
Non-executive Directors		
CHENG Chi Ming Brian	✔	✔
WANG Meijuan	✔	✔
ZHANG Xinjun	✔	✔
William CHAN	✔	✔
Independent Non-executive Directors		
TSUI Hing Chuen William	✔	✔
LAU Wai Piu	✔	✔
WEI Kuo-chiang	✔	✔
WAN Kam To	✔	✔
LIU Yan	✔	✔

Corporate Governance Function

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

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

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

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

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

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

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

Directors' Securities Transactions

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

Having made specific enquiry of all Directors, all Directors confirmed that they have complied with the required standard set out in the Model Code throughout the year ended 31 December 2019. Securities interests in the Company and its associated corporations held by each of the Directors are set out in the "Report of the Board of Directors" section in pages 59 to 80 of this Annual Report.

Board Committees

Audit Committee

The Audit Committee is currently composed of 3 independent non-executive Directors, namely Messrs. WAN Kam To (Chairman of the Audit Committee), TSUI Hing Chuen William and LAU Wai Piu and 2 non-executive Directors, namely Ms. WANG Meijuan and Mr. ZHANG Xinjun. The Chairman of the Audit Committee has the appropriate financial-related professional qualification and experience. The Audit Committee will meet no less than twice a year to review all business affairs managed by the executive Directors, in particular those related to connected transactions and continuing connected transactions, if any, and to review the interim and annual financial statements of the Group before their submission to the Board for approval. It will also review the effectiveness of the internal control and risk management system of the Group. The Audit Committee has reviewed the accounting principles and practices adopted by the Group and the consolidated results for the year ended 31 December 2019 of the Group. The terms of reference of the Audit Committee are aligned with the requirements of the Listing Rules and the recommendations set out in "A Guide for Effective Audit Committees" published by the Hong Kong Institute of Certified Public Accountants and any updates thereof. A copy of the terms of reference of the Audit Committee has been posted on the Company's website and the website of the Hong Kong Exchanges and Clearing Limited ("HKEx") at www.hkexnews.hk.

During the year ended 31 December 2019, the Audit Committee met on 2 occasions with the presence of the external auditor and discharged its responsibilities to review the interim and annual results and the effectiveness of the internal control and risk management system of the Group. The work performed by the Audit Committee for the year ended 31 December 2019 included reviews of the following:

- the directors' report and the consolidated financial statements for the year ended 31 December 2018 of the Group, with a recommendation to the Board for approval;
- the consolidated financial statements for the 6 months ended 30 June 2019 of the Group, with a recommendation to the Board for approval;
- the audit fees for the year ended 31 December 2019 proposed by the external auditor, with a recommendation to the Board for approval;
- the new accounting policies and practices adopted by the Group;
- the continuing connected transactions undertaken by the Group;
- the internal control and risk management system of the Group;
- the findings and recommendations of the Group's internal auditor on the Group's operations and of the regulatory review carried out by the regulators;
- compliance status of the Group with the applicable regulatory and other legal requirements;
- the Group's investment policy and the adequacy of provision made for diminution in value for the Group's investments;
- the litigation cases of the Group;
- the adequacy of the provision for bad debts; and
- the error trades occurred during the 6 months ended 30 June 2019.

Executive Committee

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

Nomination Committee

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

During the year ended 31 December 2019, the work performed by the Nomination Committee included reviews of the followings:

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

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

Nomination Policy

Objective

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

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

Selection criteria

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

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

Nomination procedure

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

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

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

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

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

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

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

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

Proposal by shareholders

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

Succession plan

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

Review on the policy

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

Remuneration Committee

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

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

During the year ended 31 December 2019, the work performed by the Remuneration Committee included reviews of the following:

- the proposal for 2019 remuneration adjustment;
- the proposal for 2018 bonus distribution;
- the proposal of granting awarded shares pursuant to the share award scheme; and
- the proposal of granting share options.

Risk Committee

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

During the year ended 31 December 2019, the work performed by the Risk Committee included reviews of the followings:

- the aggregate risk assessment report for the year ended 31 December 2018 of the Group;
- the risk assessment report for each quarter of the Group;
- the 2019 value at risk; and
- the 2019 risk policy.

Strategic Development Committee

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

Company Secretary

The Company Secretary, namely Mr. LO Wai Ho, is a full time employee of the Company and has day-to-day knowledge of the Company's affairs. The Company Secretary is responsible for advising the Board on corporate governance matters. During the year ended 31 December 2019, the Company Secretary has confirmed that he has taken no less than 15 hours of relevant professional training.

Internal Control Framework

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

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

The Three Line of Defense Model

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

Risk Management

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

Risk Appetite, Risk Management Framework and Culture

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

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

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

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

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

Liquidity Risk

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

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

Credit Risk

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

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

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

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

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

Market Risk

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

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

Operational Risk

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

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

Legal and Compliance Risk

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

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

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

Technology Risk

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

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

Reputational Risk

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

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

Responsibilities of Directors for the financial statements

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

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

Internal Auditor

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

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

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

In addition to the annual audit plan, ad hoc reviews will be conducted on specific areas of concern identified by the Audit Committee and senior management.

External Auditor

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

Type of Services	Fee charged For the year ended 31 December 2019 HK$'000	2018 HK$'000
Statutory audit service fee	5,450	5,000
Non-statutory audit service fee	2,401	1,228

Communication with Shareholders

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

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

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

Shareholders' Rights

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

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

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

The requisition must be signed by the requisitionists and deposited at the registered office of the Company (the "Registered Office") for the attention of the Company Secretary.

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

2. The procedures for sending enquiries to the Board

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

3. The procedures for making proposals at shareholders' meetings

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

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

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

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

Constitutional Documents

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

Board of Directors

Executive Directors

LIN Yong, aged 50, was appointed as an Executive Director of the Company on 23 December 2009. He has been a Deputy Chairman of the Board of Directors and the Managing Director of the Company as well as the Chief Executive Officer of the Group since 29 April 2011. He is also the Chairman of the Executive Committee as well as a member of the Strategic Development Committee of the Company. In addition, Mr. Lin is a director of subsidiary of the Company and a board member of Haitong Bank, S.A. ("Haitong Bank") and Haitong Banco de Investimento do Brasil S.A., wholly-owned subsidiaries of Haitong International Holdings Limited (formerly known as "Hai Tong (HK) Financial Holdings Limited") ("HTIH"). He also acts as the chairman of Haitong Bank since 30 October 2017. Mr. Lin holds a Doctorate Degree in Economics from Xi'an Jiaotong University and has over 20 years of experience in the investment banking industry. Mr. Lin joined Haitong Securities Co., Ltd. ("HSCL", whose shares are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") and on the Shanghai Stock Exchange (the "SSE")) in 1996 and was a general manager of the Investment Banking Department of HSCL from 2001 to 2007. He has been appointed as an assistant to general manager of HSCL with effect from 30 December 2014 and a director and general manager of HTIH since 2007. He is responsible for the overall operation of HTIH and the business development of the Group. In 2006, Mr. Lin was named "2006 Top Ten Outstanding Young Person in Financial Sector in Shanghai" (2006年上海首屆十大金融傑出青年) and was honoured as the "2014 Shanghai Financial Industry Leader" (2014滬上金融行業領袖) in 2014. He acts as an adjunct professor in Management College of Xiamen University since 12 May 2010 and acts as chairman of Chinese Securities Association of Hong Kong since 25 February 2019. Mr. Lin was appointed as a member of the Mainland Opportunities Committee of the Financial Services Development Council since 1 April 2019. He was appointed as a non-executive director of Financial Reporting Council for a two-year term from 1 October 2019 to 30 September 2021. He was also appointed to the board of directors of Financial Services Development Council for a term commencing from 2 January 2020 to 16 January 2021. On 16 October 2019, Mr. Lin resigned as an independent non-executive director of Zhongsheng Group Holdings Limited, whose shares are listed on the Stock Exchange.

LI Jianguo, aged 56, was appointed as an Executive Director of the Company on 13 January 2010 and a Deputy Chairman of the Board of Directors of the Company on 10 March 2010. He is also a member of the Strategic Development Committee of the Company. Mr. Li holds a Doctorate Degree in Economics from Xi'an Jiaotong University. He has 28 years of experience in the securities industry. Mr. Li was a general manager of Henan Securities Co., Ltd. from 1992 to 1998. He joined HSCL in 1998 and served as the deputy general manager of HSCL from 1998 to 1999. Mr. Li was the vice president and the general manager of Fullgoal Fund Management Co., Ltd. from 1999 to 2008. Mr. Li has been the assistant to the general manager of HSCL and the chairman of the board of directors of HTIH since 2008 and the vice chairman of HTIH since 9 August 2010.

POON Mo Yiu, aged 55, joined the Group in August 2008. He was appointed as an Executive Director of the Company on 1 July 2009 and was the Chief Operating Officer of the Group as well as a member of the Executive Committee of the Company prior to his re-designation as a Non-executive Director on 16 February 2016. Mr. Poon was re-designated as an Executive Director of the Company and was appointed as a member of the Executive Committee of the Company on 8 February 2018. He was also appointed as the Chief Operating Officer of the Group on 15 August 2018. Mr. Poon is also a director of various subsidiaries of the Company. He is a board member of Haitong Bank. Mr. Poon holds a Master of Business Administration Degree from The Chinese University of Hong Kong. He is a fellow of the Association of Chartered Certified Accountants, the Hong Kong Institute of Certified Public Accountants and the Institute of Chartered Accountants in England & Wales. Mr. Poon has extensive experience in financial management, management of information systems, accounting projects as well as various aspects of mergers and acquisitions. Prior to joining the Group, Mr. Poon worked for Sun Hung Kai & Co. Limited as the Group Chief Operating Officer and the Group Chief Financial Officer. He was also previously the Vice President in Finance of JPMorgan Chase Bank and the Group Financial Controller of Jardine Fleming Group in Asia before its merger with JPMorgan Chase Bank.

SUN Jianfeng, aged 43, joined the Group in 2010 and was appointed as an Executive Director of the Company with effect from 1 June 2017. He is the Chairman of Corporate Finance and is leading the Corporate Finance Function to provide a wide range of corporate finance services. He is also responsible for the development and management of the Leveraged and Acquisition Finance business. He is also a member of the Executive Committee of the Company. Mr. Sun is also a director of various subsidiaries of the Company as well as a responsible officer of Haitong International Capital Limited under the Securities and Futures Ordinance. Mr. Sun holds a Master of Applied Economics from Xi'an Jiaotong University. He possesses extensive experience in the corporate finance industry. He participated and completed a number of IPOs in Hong Kong and China.

SUN Tong, aged 43, joined the Group in May 2010 and was appointed as an Executive Director of the Company with effect from 27 March 2018. He has been appointed as the Chief Investment Officer of the Group since September 2017 and is a member of Executive Committee of the Company. He is also a director of numerous subsidiaries of the Company, and serves as a responsible officer of Haitong International Securities Company Limited under the Securities and Futures Ordinance. Mr. Sun graduated with a Bachelor Degree in Computer Science from Nanjing Normal University and obtained a MBA Degree from the Chinese University of Hong Kong. Mr. Sun joined HSCL in 2000 and he is now a deputy general manager of HTIH. He was appointed a director of Chinese Asset Management Association of Hong Kong Limited on 20 March 2020.

Non-executive Directors

QU Qiuping, aged 58, was appointed as a Non-executive Director of the Company on 8 February 2018. He has been the Chairman of the Board, and the Chairman of the Nomination Committee and the Strategic Development Committee as well as a member of the Remuneration Committee of the Company. Mr. Qu is a member of the Chinese Communist Party and holds a Master degree in Economics from Fudan University. He is a senior accountant in the People's Republic of China (the "PRC") and was the accountant, deputy section chief, Youth League secretary of Nanshi District Office of the People's Bank of China Shanghai (中國人民銀行上海市南市區辦事處) from September 1980 to December 1983; the deputy section chief and section chief of Nanshi District Office of the Industrial and Commercial Bank of China Shanghai (中國工商銀行上海市南市區辦事處) from January 1984 to September 1992; the vice president of Nanshi Sub-branch of the Industrial and Commercial Bank of China Shanghai Branch (中國工商銀行上海市分行南市支行) from September 1992 to November 1995; the deputy head of the accounting and cashier department of the Industrial and Commercial Bank of China Shanghai Branch (中國工商銀行上海市分行) from November 1995 to December 1996 (He was in charge of the party and political work of Shanghai Jiading Sub-branch of the Industrial and Commercial Bank of China (中國工商銀行上海市嘉定支行) from December 1995 to December 1996); the president and deputy secretary of CPC party committee of Shanghai Baoshan Sub-branch of the Industrial and Commercial Bank of China (中國工商銀行上海市寶山支行) from December 1996 to March 1999; the head of the accounting and clearing department of the Industrial and Commercial Bank of China Shanghai Branch from March 1999 to December 1999; the assistant to the president of the Industrial and Commercial Bank of China Shanghai Branch from December 1999 to June 2000; the vice president of the Industrial and Commercial Bank of China Shanghai Branch from June 2000 to February 2005 (he was a visiting scholar at University of Pennsylvania from September 2002 to September 2003); the vice president of the Industrial and Commercial Bank of China Jiangsu Branch (中國工商銀行江蘇省分行) from February 2005 to September 2008; the deputy secretary of CPC party committee and the vice chairman of the board of directors of Bank of Shanghai (上海銀行) from September 2008 to November 2008; the president, deputy secretary of CPC party committee and the vice chairman of the board of directors of Bank of Shanghai from November 2008 to December 2010; the head of the Investor Education Office of the Work Coordination Department of the Dispatched Offices of the CSRC (中國證監會派出機構工作協調部) from December 2010 to August 2012; and the head of the Department of Unlisted Public Company Supervision of the CSRC (中國證監會非上市公眾公司監管部) from August 2012 to April 2014. Mr. Qu has been the director of Self-discipline and Supervision Committee of the Securities Association of China (中國證券業協會自律監察專業委員會) since October 2015, and the member of Expert Committee of the Finance Research Centre of Counselors' Office of the State Council (國務院參事室金融研究中心) since October 2016. He has been the Council member of the Shenzhen Stock Exchange since April 2017; Vice Chairman of Securities Association of China since June 2017; a member of the Chinese People's Political Consultative Conference Shanghai Committee since December 2017; Chief Supervisor of Shanghai Association of Listed Companies since June 2018; and Chairman of Mergers and Acquisition Financing Professional Committee of the China Association for Public Companies (中國上市公司協會併購融資專業委員會) since October 2018. Mr. Qu has served as an executive Director, the general manager and the deputy secretary of CPC party committee of HSCL (whose shares are listed on the Stock Exchange and Shanghai Stock Exchange) since 25 June 2014, and the chairman of the board of directors of HTIH since February 2018.

CHENG Chi Ming Brian, aged 37, joined the Group in June 2009 and was appointed as an Executive Director of the Company on 1 July 2009. He was re-designated as a Non-executive Director of the Company on 13 January 2010. Mr. Cheng is also a member of the Remuneration Committee and the Strategic Development Committee of the Company. Mr. Cheng holds a Bachelor of Science degree from Babson College in Massachusetts, U.S.A. Mr. Cheng is currently an executive director of NWS Holdings Limited and is mainly responsible for overseeing the infrastructure business and the merger and acquisition affairs of NWS Holdings Limited and its subsidiaries. He is also the chairman and non-executive director of Integrated Waste Solutions Group Holdings Limited and non-executive director of Wai Kee Holdings Limited. Mr. Cheng was a non-executive director of Beijing Capital International Airport Company Limited (resigned on 2 February 2018) and Leyou Technologies Holdings Limited (resigned on 5 June 2019). The shares of all these companies are listed on the Stock Exchange. In addition, Mr. Cheng is also the chairman of Goshawk Aviation Limited, and a director of SUEZ NWS Limited and PBA International Pte. Ltd. Mr. Cheng is currently a member of the Thirteenth Shanghai Municipal Committee of the Chinese People's Political Consultative Conference of the People's Republic of China. Mr. Cheng has previously worked as a research analyst in the Infrastructure and Conglomerates sector for CLSA Asia-Pacific Markets.

WANG Meijuan, aged 55, was appointed as a Non-executive Director of the Company on 1 September 2012 and is a member of the Audit Committee and the Risk Committee of the Company. She holds a Bachelor Degree and a Master Degree from Shanghai University of Finance and Economics. Ms. Wang is a senior accountant in the PRC and possesses the qualification of securities practitioner in the PRC. She has worked as a lecturer for the department of management engineering of Shanghai Institute of Building Materials and the senior manager of Da Hua Certified Public Accountants Co. Ltd. Ms. Wang has over 18 years of experience in the securities industry. She served in various positions in HSCL (formerly known as Haitong Securities Company before it was renamed in 2002), including manager of audit department from May 2001 to August 2001, assistant to general manager of audit department from August 2001 to March 2002, deputy general manager of audit department from March 2002 to May 2006, deputy general manager of risk control headquarters from May 2006 to September 2006, and chief auditor and deputy general manager of risk control headquarters from September 2006 to March 2011. Prior to 2020, Ms. Wang served as an employee supervisor and the general manager of the audit department of HSCL and director or chairman of the supervisory committee of various affiliates of HSCL. She was a director of Haitong Capital Investment Co., Ltd. (海通開元投資有限公司) and Xi'an Aerospace and New Energy Industry Fund (西安航天新能源產業基金投資有限公司), a chairman of the supervisory committee of Haitong Futures Co., Ltd. (海通期貨股份有限公司) and Haitong UniTrust International Leasing Co., Ltd. (海通恒信國際租賃股份有限公司) and also a member of the Brokerage Business Committee of HSCL.

ZHANG Xinjun, aged 44, was appointed as a Non-executive Director of the Company on 27 March 2018 and is a member of Audit Committee and the Strategic Development Committee. Mr. Zhang holds a postgraduate Master degree in Management from the Department of Accounting of Nankai University. He is a Chinese Middle Grade Accountant and has extensive experience in financial accounting, finance management and merger and acquisition. Mr. Zhang joined the Company in April 2010 and was appointed as the Chief Financial Officer of the Company and was also a member of the Executive Committee of the Company. Prior to joining the Company, Mr. Zhang worked at the Planning and Finance Department of HSCL and had been the Chief Financial Officer of HTIH since January 2008. He has been appointed as the Chief Financial Officer of HSCL and ceased to act as the Chief Financial Officer of the Company with effect from 27 March 2018. Mr. Zhang is currently a board member of Haitong Bank.

William CHAN, aged 53, was appointed as a Non-executive Director on 2 January 2015 and is the Chairman of the Risk Committee and a member of the Strategic Development Committee of the Company. Mr. Chan was awarded a Master of Business Administration Degree from National University of Singapore and a Bachelor Degree in Shipbuilding from Dalian University of Technology in China. Mr. Chan has extensive experience in equity and bond analysis, trading and portfolio construction, currency trading, distress investment, quantitative research and derivative trading. Mr. Chan is currently a director of Harveston Asset Management Pte. Ltd. and MM River Fund Pte. Ltd. He previously worked for China Aviation Oil (Singapore) Pte Ltd as Head of Strategic Investment and the Credit and Finance Manager of treasury department and financial risk unit for Asia Pacific of Dow Chemical Singapore.

Independent Non-executive Directors

TSUI Hing Chuen William JP, aged 68, was appointed as an Independent Non-executive Director of the Company on 1 July 2004 and is the Chairman of the Remuneration Committee, a member of the Audit Committee and the Nomination Committee of the Company. Mr. Tsui is the founder partner of Messrs. Lo, Wong & Tsui, Solicitors & Notaries since 1980. He has been a solicitor of the High Court of Hong Kong since 1977, a solicitor of the Supreme Court of England & Wales since 1981 as well as a barrister and solicitor of the Supreme Court of Victoria, Australia since 1983. He has also been an advocate and solicitor of the Supreme Court of Republic of Singapore since 1985 and a notary public appointed by the Archbishop of Canterbury, England since 1988. Mr. Tsui was appointed as a Justice of the Peace by the Government of Hong Kong in 1997. He was admitted to the Roll of Honour of The Law Society of Hong Kong in 2013. Mr. Tsui is currently an independent non-executive director of Mongolia Energy Corporation Limited and Vision Values Holdings Limited and he was an independent non-executive director of International Entertainment Corporation till June 2017. The shares of all these companies are listed on the Stock Exchange.

LAU Wai Piu, aged 56, was appointed as an Independent Non-executive Director of the Company on 1 December 2006 and is a member of the Audit Committee, the Nomination Committee, the Remuneration Committee and the Risk Committee of the Company. Mr. Lau is a member of the HKICPA and a fellow of the Association of Chartered Certified Accountants. He possesses over 20 years of extensive experience in accounting and financial management. Mr. Lau is currently an independent non-executive director of Mongolia Energy Corporation Limited and Vision Values Holdings Limited and he was an independent non-executive director of International Entertainment Corporation till June 2017. The shares of all these companies are listed on the Stock Exchange.

WEI Kuo-chiang, aged 69, was appointed as an Independent Non-executive Director of the Company on 31 December 2012 and is a member of the Remuneration Committee and the Risk Committee of the Company. He was awarded a Doctor of Philosophy Degree in Finance from the University of Illinois at Urbana-Champaign in the United States, a Master of Business Administration Degree in Finance from the National Chengchi University in Taiwan, and a Bachelor of Engineering Degree in Industrial Management from the National Taiwan University of Science and Technology. Mr. Wei is currently the Chair Professor of Financial Economics in the School of Accounting and Finance at The Hong Kong Polytechnic University. He previously acted as chair professor, professor, associate professor and assistant professor of finance at a number of prestigious universities, including the University of Mississippi, the University of Miami and the Indiana University at Bloomington/Indianapolis in the United States as well as The Hong Kong University of Science and Technology ("HKUST"), and also served as Director of Value Partners Center for Investment, Director of the Center for Asian Financial Markets and Director of Master of Science (Financial Analysis)/(Investment Management) Programs at the HKUST for many years. Mr. Wei has written a number of research papers on issues such as the United States and Global Capital Markets and Pricing of Assets and he was also a column writer on Hong Kong stock market and warrant trading for Hong Kong Economic Journal for many years. Moreover, he assisted to develop wealth management and investment models for, among others, Hang Seng Bank Limited and The Hongkong and Shanghai Banking Corporation Limited and also organized and conducted a consultancy project for the Government of Hong Kong and Asia-Pacific Economic Cooperation. Mr. Wei has been a council member of the Chinese Finance Annual Meeting and the Global Chinese Real Estate Congress since 2004 and 2008 respectively.

WAN Kam To, aged 67, was appointed as an Independent Non-executive Director of the Company on 19 June 2018 and is the chairman of the Audit Committee of the Company. Mr. Wan graduated from the accountancy department of Hong Kong Polytechnic (now known as The Hong Kong Polytechnic University) with a higher diploma in 1975. He was a partner of PricewaterhouseCoopers where he worked for over 30 years and accumulated extensive experience in auditing, finance advisory and management. Mr. Wan is currently a council member of The Open University of Hong Kong, a fellow member of Hong Kong Institute of Certified Public Accountants and the Association of Chartered Certified Accountants. He has been appointed as the non-executive director of Financial Reporting Council with effect from 1 October 2019. Mr. Wan is also currently an independent non-executive director of various listed companies, namely A-Living Services Co., Ltd, China Resources Land Limited, Fairwood Holdings Limited, KFM Kingdom Holdings Limited, and Target Insurance (Holdings) Limited. The shares of all these companies are listed on the Stock Exchange. He also serves as an independent director of China World Trade Center Co., Ltd. (listed on the SSE). Mr. Wan was previously an independent non-executive director of Dalian Port (PDA) Company Limited (listed on the Stock Exchange and the SSE) from June 2011 to June 2017, an independent non-executive director of S. Culture International Holdings Limited (listed on the Stock Exchange) from May 2013 to July 2017, an independent non-executive director of Kerry Logistics Network Limited (listed on the Stock Exchange) from November 2013 to May 2019, an independent non-executive director of Shanghai Pharmaceuticals Holding Co., Ltd. (listed on the Stock Exchange and the SSE) from June 2013 to June 2019, an independent non-executive director of Huaneng Renewable Corporation Limited (listed on the Stock Exchange) from August 2010 to June 2019 and an independent non-executive director of Harbin Bank Co., Ltd. (listed on the Stock Exchange) from October 2013 to October 2019.

LIU Yan, aged 49, was appointed as an Independent Non-executive Director of the Company on 19 June 2018 and is a member of the Nomination Committee. She holds a Bachelor Degree in economics from Central University of Finance and Economics and a Master Degree in Business Administration from the University of Rochester. She is a member of Chinese Institute of Certified Public Accountants (CICPA) and passed all tests for Chartered Financial Analyst (CFA) Program. Ms. Liu has over 20 years of experience in auditing, financial management, taxation and fund management. From 1992 to 1994, Ms. Liu worked at Brilliance Group Holdings Limited. From 1994 to 2001, Ms. Liu worked at PricewaterhouseCoopers. In 2005, Ms. Liu joined Barclays Bank (New York) Global Financial Risk Management Department. She worked at Angelo Gordon Asia Limited from 2007 to 2010. From 2010 to 2015, Ms. Liu worked at Fund Management Department and Investment Management Department in China Everbright Limited (Hong Kong). Ms. Liu is currently an independent non-executive director of Tai United Holdings Limited and Great Wall Pan Asia Holdings Limited. She was an independent non-executive director of U Banquet Group Holding Ltd from November 2016 to September 2018. The shares of all these companies are listed on the Stock Exchange.

The board of directors of the Company (the "Board") is pleased to present its report and the audited financial statements of the Company and the Group for the year ended 31 December 2019.

Principal Activities

The principal activity of the Company is investment holding. The Company's subsidiaries are principally engaged in wealth management, corporate finance, asset management, institutional clients and investment. There were no significant changes in the nature of the Group's principal activities during the year ended 31 December 2019.

Business Review

The business review of the Company for the year ended 31 December 2019 is set out in the sections headed, "Financial Highlights", "Chairman's Statements", "Chief Executive Officer's Review", "Financial Review", "Corporate Governance Report" on pages 2 to 3, pages 12 to 13, pages 16 to 19, pages 20 to 33 and pages 36 to 53 respectively on this Annual Report and the standalone Environmental, Social and Governance Report 2019.

Results and Dividends

The Group's profit for the year ended 31 December 2019 and the state of affairs of the Company and the Group on date are set out in the financial statements on pages 89 to 234.

The Board has declared a second interim dividend of HK4.3 cents per share in cash for the year ended 31 December 2019, payable on Tuesday, 2 June 2020 to shareholders whose names appear on the register of members of the Company on Wednesday, 15 April 2020. Shareholders will be given the option to receive the second interim dividend in new shares in lieu of cash. Together with the interim dividend of HK9 cents per share paid on 25 October 2019, the total dividend payout for 2019 would be HK13.3 cents per share.

Closure of Register of Members for Entitlement to the Second Interim Dividend

The register of members of the Company will be closed from Thursday, 9 April 2020 to Wednesday, 15 April 2020, both dates inclusive, during which period no transfer of shares will be registered. In order to qualify for the second interim dividend, unregistered holders of the shares of the Company should ensure that all completed transfer forms accompanied by the relevant share certificates must be lodged with the Company's Branch Share Registrar and Transfer Office in Hong Kong, Tricor Investor Services Limited, at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong, for registration not later than 4:30 p.m. on Wednesday, 8 April 2020. Shares of the Company will be traded ex-dividend as from Tuesday, 7 April 2020.

Closure of Register of Members for Entitlement to Attend and Vote at Annual General Meeting

The register of members of the Company will be closed from Tuesday, 26 May 2020 to Friday, 29 May 2020, both dates inclusive, during which period no transfer of shares will be registered. In order to qualify for attending and voting at the annual general meeting, unregistered holders of the shares of the Company should ensure that all completed transfer forms accompanied by the relevant share certificates must be lodged with the Company's Branch Share Registrar and Transfer Office in Hong Kong, Tricor Investor Services Limited, at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong, for registration not later than 4:30 p.m. on Monday, 25 May 2020.

Summary of Financial Information

A summary of the published results, assets, liabilities and non-controlling interests of the Group for the year ended 31 December 2019 and the previous 5 financial periods/years, as extracted from the audited financial statements and reclassified as appropriate, is set out on page 235 of this Annual Report. This summary does not form part of the audited financial statements.

Charitable Contributions

During the year ended 31 December 2019, the Group made charitable and other contributions totalling HK$1,695,255.

Reserves

Details of movements in the reserves of the Company and the Group during the year ended 31 December 2019 are set out in note 42 to the financial statements and in the consolidated statement of changes in equity, respectively.

Distributable Reserves

As at 31 December 2019, the Company's reserves available for distribution, calculated in accordance with the provisions of the Companies Act 1981 of Bermuda (as amended), amounted to HK$644,036,000, of which HK$255,445,000 has been proposed as a second interim dividend for the year ended 31 December 2019. In addition, the Company's share premium account, in the amount of HK$19,152,370,000, may be distributed in the form of fully paid bonus shares.

Fixed Assets

Details of movements in the fixed assets of the Company and the Group during the year ended 31 December 2019 are set out in note 33 to the financial statements.

Share Capital

Details of movements in the Company's share capital during the year ended 31 December 2019, together with the reasons thereof, are set out in note 38 to the financial statements.

Debentures Issued

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

Equity-Linked Agreements

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

Pre-emptive Rights

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

Purchase, Sale or Redemption of Listed Securities of the Company

Neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities during the year ended 31 December 2019 other than as an agent for clients of the Company or its subsidiaries and by the trustee of the share award scheme of the Company.

Major Customers and Suppliers

In the year ended 31 December 2019, the revenue attributable to the 5 largest customers of the Group accounted for less than 30% of the Group's total revenue for the year ended 31 December 2019.

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

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

Directors

The directors of the Company during the year ended 31 December 2019 and up to the date of this report are:

Executive Directors:

LIN Yong
LI Jianguo
POON Mo Yiu
SUN Jianfeng
SUN Tong

Non-executive Directors:

QU Qiuping
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

Pursuant to the Company's New Bye-laws 87(1) and (2), Mr. LI Jianguo, Mr. POON Mo Yiu, Ms. WANG Meijuan, Mr. ZHANG Xinjun and Mr. William CHAN shall retire from office by rotation at the forthcoming annual general meeting. Except Ms. WANG Meijuan who has decided not to offer herself for re-election and will retire as a non-executive director upon conclusion of the annual general meeting, the aforesaid directors, namely Mr. LI Jianguo, Mr. POON Mo Yiu, Mr. ZHANG Xinjun and Mr. William CHAN are being eligible and offer themselves for re-election.

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

Directors' Biographical Details

Biographical details of the directors of the Company are set out on pages 54 to 58 of this Annual Report.

Directors' Service Contracts

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

Directors' Interests in Transactions, Arrangements or Contracts

No director had a material interest, either directly or indirectly, in any transaction, arrangement or contract of significance to the business of the Group to which the Company or any of its subsidiaries was a party during the year ended 31 December 2019.

Permitted Indemnity Provision

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

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

As at 31 December 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") set out in Appendix 10 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"), were as follows:

The Company

Name of directors	Class of shares	Personal interests	Family interests	Corporate interests	Number of underlying shares held under equity derivatives	Total	Approximate percentage of the Company's total issued share capital*
QU Qiuping	Share options	–	–	–	1,000,502 (Note 1)	1,000,502	0.02
LIN Yong	Ordinary shares/ share options	7,215,932 (Note 2)	–	–	4,311,260 (Note 1)	11,527,192	0.19
LI Jianguo	Ordinary shares/ share options	2,335,209 (Note 3)	–	–	1,356,065 (Note 1)	3,691,274	0.06
POON Mo Yiu	Ordinary shares/ share options	2,653,346 (Note 4)	–	–	2,057,075 (Note 1)	4,710,421	0.08
SUN Jianfeng	Ordinary shares/ share options	1,971,415 (Note 5)	–	–	2,807,092 (Note 1)	4,778,507	0.08
SUN Tong	Ordinary shares/ share options	1,665,156 (Note 6)	–	–	2,506,942 (Note 1)	4,172,098	0.07
CHENG Chi Ming Brian	Ordinary shares/ share options	880,946 (Note 7)	–	–	1,053,937 (Note 1)	1,934,883	0.03
WANG Meijuan	Share options	–	–	–	752,350 (Note 1)	752,350	0.01
ZHANG Xinjun	Ordinary shares/ share options	853,366 (Note 8)	–	–	2,306,842 (Note 1)	3,160,208	0.05
William CHAN	Share options	–	–	–	1,053,937 (Note 1)	1,053,937	0.02
TSUI Hing Chuen William	Ordinary shares/ share options	346,712 (Note 9)	–	–	1,053,937 (Note 1)	1,400,649	0.02
LAU Wai Piu	Ordinary shares/ share options	428,160 (Note 10)	–	–	1,053,937 (Note 1)	1,482,097	0.02
WEI Kuo-chiang	Share options	–	–	–	1,053,937 (Note 1)	1,053,937	0.02
WAN Kam To	Share options	–	–	–	450,226 (Note 1)	450,226	0.01
LIU Yan	Share options	–	–	–	450,226 (Note 1)	450,226	0.01

* the total number of shares of the Company was 5,940,583,872 as at 31 December 2019.

Notes:

1. On 25 October 2019, the number of outstanding share options and the exercise price were adjusted in the following manner consequent to the allotment of ordinary shares on the same day under interim dividend for the 6 months ended 30 June 2019 in form of scrip dividend:

Name or category of participants	Date of grant of share options	Number of outstanding option before the allotment of scrip dividend	Exercise price per share option before the allotment of scrip dividend	Adjusted number of outstanding option after the allotment of scrip dividend	Adjusted exercise price per share option after the allotment of scrip dividend
QU Qiuping	1 November 2018	500,000	2.904	500,251	2.903
	31 May 2019	500,000	2.56	500,251	2.559
LIN Yong	12 May 2016	805,269	4.645	805,673	4.643
	10 November 2017	803,829	5.014	804,232	5.011
	1 November 2018	1,800,000	2.904	1,800,903	2.903
	31 May 2019	900,000	2.56	900,452	2.559
LI Jianguo	12 May 2016	603,949	4.645	604,252	4.643
	10 November 2017	301,436	5.014	301,587	5.011
	1 November 2018	300,000	2.904	300,151	2.903
	31 May 2019	150,000	2.56	150,075	2.559
POON Mo Yiu	12 May 2016	704,608	4.645	704,961	4.643
	10 November 2017	301,436	5.014	301,587	5.011
	1 November 2018	700,000	2.904	700,351	2.903
	31 May 2019	350,000	2.56	350,176	2.559
SUN Jianfeng	12 May 2016	503,292	4.645	503,544	4.643
	10 November 2017	502,393	5.014	502,645	5.011
	1 November 2018	1,200,000	2.904	1,200,602	2.903
	31 May 2019	600,000	2.56	600,301	2.559
SUN Tong	12 May 2016	503,292	4.645	503,544	4.643
	10 November 2017	502,393	5.014	502,645	5.011
	1 November 2018	1,000,000	2.904	1,000,502	2.903
	31 May 2019	500,000	2.56	500,251	2.559
CHENG Chi Ming Brian	12 May 2016	301,973	4.645	302,124	4.643
	10 November 2017	301,436	5.014	301,587	5.011
	1 November 2018	300,000	2.904	300,151	2.903
	31 May 2019	150,000	2.56	150,075	2.559
WANG Meijuan	12 May 2016	301,973	4.645	302,124	4.643
	1 November 2018	300,000	2.904	300,151	2.903
	31 May 2019	150,000	2.56	150,075	2.559
ZHANG Xinjun	12 May 2016	503,292	4.645	503,544	4.643
	10 November 2017	502,393	5.014	502,645	5.011
	1 November 2018	1,000,000	2.904	1,000,502	2.903
	31 May 2019	300,000	2.56	300,151	2.559
William CHAN	12 May 2016	301,973	4.645	302,124	4.643
	10 November 2017	301,436	5.014	301,587	5.011
	1 November 2018	300,000	2.904	300,151	2.903
	31 May 2019	150,000	2.56	150,075	2.559
TSUI Hing Chuen William	12 May 2016	301,973	4.645	302,124	4.643
	10 November 2017	301,436	5.014	301,587	5.011
	1 November 2018	300,000	2.904	300,151	2.903
	31 May 2019	150,000	2.56	150,075	2.559
LAU Wai Piu	12 May 2016	301,973	4.645	302,124	4.643
	10 November 2017	301,436	5.014	301,587	5.011
	1 November 2018	300,000	2.904	300,151	2.903
	31 May 2019	150,000	2.56	150,075	2.559
WEI Kuo-chiang	12 May 2016	301,973	4.645	302,124	4.643
	10 November 2017	301,436	5.014	301,587	5.011
	1 November 2018	300,000	2.904	300,151	2.903
	31 May 2019	150,000	2.56	150,075	2.559
WAN Kam To	1 November 2018	300,000	2.904	300,151	2.903
	31 May 2019	150,000	2.56	150,075	2.559
LIU Yan	1 November 2018	300,000	2.904	300,151	2.903
	31 May 2019	150,000	2.56	150,075	2.559

2. 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 31 December 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 year ended 31 December 2019.

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

4. Those shares are held by Mr. POON Mo Yiu as beneficial owner, included 236,902 unvested awarded shares granted by the Company pursuant to the share award scheme as at 31 December 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 year ended 31 December 2019.

5. 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 31 December 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 year ended 31 December 2019.

6. 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 31 December 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 year ended 31 December 2019.

7. Those shares are held by Mr. CHENG Chi Ming Brian as beneficial owner.

8. 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 31 December 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 year ended 31 December 2019.

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

10. 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 31 December 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 Schemes" below, at no time during the year ended 31 December 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; or was the Company or any of its subsidiaries a party to any arrangement to enable the directors to acquire such rights in any other body corporate.

Shared-based Compensation Scheme

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

Share Option Schemes

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

Purpose of the 2002 Share Option Scheme:

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

Participants of the 2002 Share Option Scheme:

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

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

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

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

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

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

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

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

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

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

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

The basis of determining the exercise price:

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

The remaining life of the 2002 Share Option Scheme:

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

Details of movement of share options under the 2002 Share Option Scheme during the year ended 31 December 2019 were as follows:

	Number of share options									Price of Company's shares***	
Name or category of participants	At 1 January 2019	Granted during the year	Adjusted during the year	Exercised during the year	Lapsed during the year	At 31 December 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											
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
	1,126,941	–	–	(1,126,941)	–	–					
	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.

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

Purpose of the 2015 Share Option Scheme:

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

Participants of the 2015 Share Option Scheme:

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

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

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

As at the date of this report, the total number of shares available for issue under the 2015 Share Option Scheme was 158,317,297 shares, which represented approximately 2.67% of the issued share capital of the Company at that day.

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

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

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

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

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

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

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

The basis of determining the exercise price:

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

The remaining life of the 2015 Share Option Scheme:

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

Movements of the share options under the 2015 Share Option Scheme during the year ended 31 December 2019 are listed below:

	Number of share options									Price of Company's shares***	
Name or category of participants	At 1 January 2019	Granted during the year	Adjusted during the year	Exercised during the year	Lapsed during the year	At 31 December 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	–	251 (Note 1)	–	–	500,251	1 November 2018	28 May 2019 – 31 October 2023	2.903 (Note 1)	2.56	N/A
	–	500,000	251 (Note 1)	–	–	500,251	31 May 2019	27 December 2019 – 30 May 2024	2.559 (Note 1)	2.39	N/A
LIN Yong	805,269	–	404 (Note 1)	–	–	805,673	12 May 2016	8 December 2016 – 11 May 2021	4.643 (Note 1)	4.25	N/A
	803,829	–	403 (Note 1)	–	–	804,232	10 November 2017	7 June 2018 – 9 November 2022	5.011 (Note 1)	4.58	N/A
	1,800,000	–	903 (Note 1)	–	–	1,800,903	1 November 2018	28 May 2019 – 31 October 2023	2.903 (Note 1)	2.56	N/A
	–	900,000	452 (Note 1)	–	–	900,452	31 May 2019	27 December 2019 – 30 May 2024	2.559 (Note 1)	2.39	N/A
LI Jianguo	603,949	–	303 (Note 1)	–	–	604,252	12 May 2016	8 December 2016 – 11 May 2021	4.643 (Note 1)	4.25	N/A
	301,436	–	151 (Note 1)	–	–	301,587	10 November 2017	7 June 2018 – 9 November 2022	5.011 (Note 1)	4.58	N/A
	300,000	–	151 (Note 1)	–	–	300,151	1 November 2018	28 May 2019 – 31 October 2023	2.903 (Note 1)	2.56	N/A
	–	150,000	75 (Note 1)	–	–	150,075	31 May 2019	27 December 2019 – 30 May 2024	2.559 (Note 1)	2.39	N/A
POON Mo Yiu	704,608	–	353 (Note 1)	–	–	704,961	12 May 2016	8 December 2016 – 11 May 2021	4.643 (Note 1)	4.25	N/A
	301,436	–	151 (Note 1)	–	–	301,587	10 November 2017	7 June 2018 – 9 November 2022	5.011 (Note 1)	4.58	N/A
	700,000	–	351 (Note 1))	–	–	700,351	1 November 2018	28 May 2019 – 31 October 2023	2.903 (Note 1)	2.56	N/A
	–	350,000	176 (Note 1)	–	–	350,176	31 May 2019	27 December 2019 – 30 May 2024	2.559 (Note 1)	2.39	N/A
SUN Jianfeng	503,292	–	252 (Note 1)	–	–	503,544	12 May 2016	8 December 2016 – 11 May 2021	4.643 (Note 1)	4.25	N/A
	502,393	–	252 (Note 1)	–	–	502,645	10 November 2017	7 June 2018 – 9 November 2022	5.011 (Note 1)	4.58	N/A
	1,200,000	–	602 (Note 1)	–	–	1,200,602	1 November 2018	28 May 2019 – 31 October 2023	2.903 (Note 1)	2.56	N/A
	–	600,000	301 (Note 1)	–	–	600,301	31 May 2019	27 December 2019 – 30 May 2024	2.559 (Note 1)	2.39	N/A
SUN Tong	503,292	–	252 (Note 1)	–	–	503,544	12 May 2016	8 December 2016 – 11 May 2021	4.643 (Note 1)	4.25	N/A
	502,393	–	252 (Note 1)	–	–	502,645	10 November 2017	7 June 2018 – 9 November 2022	5.011 (Note 1)	4.58	N/A
	1,000,000	–	502 (Note 1)	–	–	1,000,502	1 November 2018	28 May 2019 – 31 October 2023	2.903 (Note 1)	2.56	N/A
	–	500,000	251 (Note 1)	–	–	500,251	31 May 2019	27 December 2019 – 30 May 2024	2.559 (Note 1)	2.39	N/A

Name or category of participants	Number of share options						Date of grant of share options*	Exercise period of share options	Exercise price of share options** HK$ per share	Price of Company's shares***	
	At 1 January 2019	Granted during the year	Adjusted during the year	Exercised during the year	Lapsed during the year	At 31 December 2019				At immediately preceding the grant date of share options HK$ per share	At immediately preceding the exercise date of share options HK$ per share
CHENG Chi Ming Brian	301,973	–	151 (Note 1)	–	–	302,124	12 May 2016	8 December 2016 – 11 May 2021	4.643 (Note 1)	4.25	N/A
	301,436	–	151 (Note 1)	–	–	301,587	10 November 2017	7 June 2018 – 9 November 2022	5.011 (Note 1)	4.58	N/A
	300,000	–	151 (Note 1)	–	–	300,151	1 November 2018	28 May 2019 – 31 October 2023	2.903 (Note 1)	2.56	N/A
	–	150,000	75 (Note 1)	–	–	150,075	31 May 2019	27 December 2019 – 30 May 2024	2.559 (Note 1)	2.39	N/A
WANG Meijuan	301,973	–	151 (Note 1)	–	–	302,124	12 May 2016	8 December 2016 – 11 May 2021	4.643 (Note 1)	4.25	N/A
	300,000	–	151 (Note 1)	–	–	300,151	1 November 2018	28 May 2019 – 31 October 2023	2.903 (Note 1)	2.56	N/A
	–	150,000	75 (Note 1)	–	–	150,075	31 May 2019	27 December 2019 – 30 May 2024	2.559 (Note 1)	2.39	N/A
ZHANG Xinjun	503,292	–	252 (Note 1)	–	–	503,544	12 May 2016	8 December 2016 – 11 May 2021	4.643 (Note 1)	4.25	N/A
	502,393	–	252 (Note 1)	–	–	502,645	10 November 2017	7 June 2018 – 9 November 2022	5.011 (Note 1)	4.58	N/A
	1,000,000	–	502 (Note 1)	–	–	1,000,502	1 November 2018	28 May 2019 – 31 October 2023	2.903 (Note 1)	2.56	N/A
	–	300,000	151 (Note 1)	–	–	300,151	31 May 2019	27 December 2019 – 30 May 2024	2.559 (Note 1)	2.39	N/A
William CHAN	301,973	–	151 (Note 1)	–	–	302,124	12 May 2016	8 December 2016 – 11 May 2021	4.643 (Note 1)	4.25	N/A
	301,436	–	151 (Note 1)	–	–	301,587	10 November 2017	7 June 2018 – 9 November 2022	5.011 (Note 1)	4.58	N/A
	300,000	–	151 (Note 1)	–	–	300,151	1 November 2018	28 May 2019 – 31 October 2023	2.903 (Note 1)	2.56	N/A
	–	150,000	75 (Note 1)	–	–	150,075	31 May 2019	27 December 2019 – 30 May 2024	2.559 (Note 1)	2.39	N/A
TSUI Hing Chuen William	301,973	–	151 (Note 1)	–	–	302,124	12 May 2016	8 December 2016 – 11 May 2021	4.643 (Note 1)	4.25	N/A
	301,436	–	151 (Note 1)	–	–	301,587	10 November 2017	7 June 2018 – 9 November 2022	5.011 (Note 1)	4.58	N/A
	300,000	–	151 (Note 1)	–	–	300,151	1 November 2018	28 May 2019 – 31 October 2023	2.903 (Note 1)	2.56	N/A
	–	150,000	75 (Note 1)	–	–	150,075	31 May 2019	27 December 2019 – 30 May 2024	2.559 (Note 1)	2.39	N/A
LAU Wai Piu	301,973	–	151 (Note 1)	–	–	302,124	12 May 2016	8 December 2016 – 11 May 2021	4.643 (Note 1)	4.25	N/A
	301,436	–	151 (Note 1)	–	–	301,587	10 November 2017	7 June 2018 – 9 November 2022	5.011 (Note 1)	4.58	N/A
	300,000	–	151 (Note 1)	–	–	300,151	1 November 2018	28 May 2019 – 31 October 2023	2.903 (Note 1)	2.56	N/A
	–	150,000	75 (Note 1)	–	–	150,075	31 May 2019	27 December 2019 – 30 May 2024	2.559 (Note 1)	2.39	N/A

	Number of share options									Price of Company's shares***	
Name or category of participants	At 1 January 2019	Granted during the year	Adjusted during the year	Exercised during the year	Lapsed during the year	At 31 December 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
WEI Kuo-chiang	301,973	–	151 (Note 1)	–	–	302,124	12 May 2016	8 December 2016 – 11 May 2021	4.643 (Note 1)	4.25	N/A
	301,436	–	151 (Note 1)	–	–	301,587	10 November 2017	7 June 2018 – 9 November 2022	5.011 (Note 1)	4.58	N/A
	300,000	–	151 (Note 1)	–	–	300,151	1 November 2018	28 May 2019 – 31 October 2023	2.903 (Note 1)	2.56	N/A
	–	150,000	75 (Note 1)	–	–	150,075	31 May 2019	27 December 2019 – 30 May 2024	2.559 (Note 1)	2.39	N/A
WAN Kam To	300,000	–	151 (Note 1)	–	–	300,151	1 November 2018	28 May 2019 – 31 October 2023	2.903 (Note 1)	2.56	N/A
	–	150,000	75 (Note 1)	–	–	150,075	31 May 2019	27 December 2019 – 30 May 2024	2.559 (Note 1)	2.39	N/A
LIU Yan	300,000	–	151 (Note 1)	–	–	300,151	1 November 2018	28 May 2019 – 31 October 2023	2.903 (Note 1)	2.56	N/A
	–	150,000	75 (Note 1)	–	–	150,075	31 May 2019	27 December 2019 – 30 May 2024	2.559 (Note 1)	2.39	N/A
In aggregate	18,756,600	4,500,000	11,665	–	–	23,268,265					
Continuous contract employees	9,411,352	–	4,272 (Note 1)	–	(1,308,729) (Note 2)	8,106,895	12 May 2016	8 December 2016 – 11 May 2021	4.643 (Note 1)	4.25	N/A
	8,289,492	–	3,758 (Note 1)	–	(1,004,888) (Note 2)	7,288,362	10 November 2017	7 June 2018 – 9 November 2022	5.011 (Note 1)	4.58	N/A
	10,260,000	–	4,741 (Note 1)	–	(920,060) (Note 2)	9,344,681	1 November 2018	28 May 2019 – 31 October 2023	2.903 (Note 1)	2.56	N/A
	–	6,145,000	3,059 (Note 1)	–	(50,000) (Note 2)	6,098,059	31 May 2019	27 December 2019 – 30 May 2024	2.559 (Note 1)	2.39	N/A
In aggregate	27,960,844	6,145,000	15,830	–	(3,283,677)	30,837,997					
	46,717,444	10,645,000	27,495	–	(3,283,677)	54,106,262					

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

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

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

Notes:

1. The exercise price and the number of share options were adjusted with effect from 25 October 2019 consequent to the allotment of ordinary shares on the same day under interim dividend for the 6 months ended 30 June 2019 in form of scrip dividend.

2. These share options were cancelled or lapsed during the year ended 31 December 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.

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

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

Details of the Awarded Shares granted, lapsed and unvested during the year ended 31 December 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 year	Awarded Shares vested during the year		Number of Awarded Shares lapsed during the period	Awarded Shares unvested as at 31 December 2019	
			Number	Vesting date		Number	Vesting date
11 March 2016	2,163,163	–	2,133,343	15/3/2019	29,820	–	–
28 April 2017	2,549,465	–	1,259,541	19/03/2019	134,573	1,155,351	19/03/2020
28 May 2018	6,838,880	–	2,199,883	13/5/2019	585,522	4,053,475	Note 1
11 January 2019*	–	134,000	134,000	18/01/2019	–	–	–
4 April 2019	–	6,848,366	–	–	477,151	6,371,215	Note 2
4 November 2019	–	8,175,000	–	–	330,000	7,845,000	Note 3

* Special grant of Awarded Shares granted and vested during the year ended 31 December 2019.

Notes:

1. The unvested Awarded Shares outstanding as at 31 December 2019 are due vested in two batches on 13 May 2020 and 13 May 2021 respectively.
2. The unvested Awarded Shares outstanding as at 31 December 2019 are due vested in three batches on 23 March 2020, 23 March 2021 and 23 March 2022 respectively.
3. The unvested Awarded Shares outstanding as at 31 December 2019 are due vested in three batches on 2 January 2020, 2 January 2021 and 2 January 2022 respectively.

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

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

As at 31 December 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")	–	3,825,528,876	–	3,825,528,876	64.40
Haitong International Holdings Limited ("HTIH")	3,825,528,876	–		3,825,528,876	64.40

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

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

Save as disclosed above, as at 31 December 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.

Directors' Interests in Competing Businesses

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

The Board considers that, having considered the facts that:

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

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

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

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

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

the Group's interest is adequately safeguarded.

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

Based on the above, as at 31 December 2019, none of the directors of the Company and their associates was considered to have interests in the businesses which compete or are likely to compete, either directly or indirectly, with the businesses of the Group.

Continuing Connected Transactions

On 15 February 2019, the Company has entered into a master agreement ("Master Agreement") with HSCL pursuant to which, among others, the Group agreed to engage in various services, investment and financial transactions with the HSCL Group for a term from 1 January 2019 to 30 June 2021. The services covered under the Master Agreement include, among others, brokerage transactions, investment management and advisory services transactions, corporate finance advisory and services, other services transactions fund investment, financial assistance and securities lending, and principal-to-principal transactions underwriting services ("Transactions").

HSCL is the holding company of HTIH, a controlling shareholder of the Company, and therefore HSCL is a connected person of the Company and the Transactions constitute continuing connected transactions under Chapter 14A of the Listing Rules. Details of the Transactions were disclosed by the Company in the announcement of the Company dated 17 February 2019 ("2019 Announcement") and the circular of the Company dated 24 April 2019.

The annual caps in respect of the continuing connected transactions contemplated under the Master Agreement for the financial year ending 31 December 2019 and 31 December 2020 and the financial period ending 30 June 2021 and respective actual transaction amount received/paid by the Group for the year ended 31 December 2019 are shown below:-

	Annual caps			Actual transaction amount received/ paid by the Group for the financial year ended 31 December 2019 (HK$ million)
Transactions	For the financial year ended 31 December 2019 (HK$ million)	For the financial year ending 31 December 2020 (HK$ million)	For the six months ending 30 June 2021 (HK$ million)	
(1) Service transactions (Category 1 Transactions)				
(a) Income received and/or to be received from service transactions provided to member(s) of the HSCL Group (including fees and commissions received and/or to be received from the HSCL Group in respect of the underwriting by the Group)	630	665	380	37.06
(b) Expenses incurred and/or to be incurred for service transactions provided by member(s) of the HSCL Group (including fees and commissions paid and/or to be paid by the Group in respect of the underwriting by the HSCL Group)	300	330	190	69.70

Transactions	Annual caps: For the financial year ended 31 December 2019 (HK$ million)	Annual caps: For the financial year ending 31 December 2020 (HK$ million)	Annual caps: For the six months ending 30 June 2021 (HK$ million)	Actual transaction amount received/paid by the Group for the financial year ended 31 December 2019 (HK$ million)
(2) Investment and financial transactions (Category 2 Transactions, but excluding underwriting commitments which are set out in (3) below)				
(a) Sum received and/or to be received from HSCL Group attributable to the fund investment, financial assistance and securities lending transaction	33,000	36,000	22,000	–
(b) Sum paid and/or to be paid to HSCL Group attributable to the fund investment, financial assistance and securities lending transactions	33,000	36,000	22,000	–
(c) Transaction amount attributable to principal-to-principal transactions between the Group and the HSCL Group	57,000	60,000	31,500	1,358.03
(3) Underwriting commitments				
(a) Amount of underwriting commitments to be provided by the Group	11,400	12,000	11,310	348.36
(b) Amount of underwriting commitments to be provided by the HSCL Group	5,000	6,000	4,000	–

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

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

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

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

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

(iv) the Transactions have exceeded the annual cap disclosed in the 2019 Announcement in report of each of the Transaction.

A summary of all related party transactions undertaken by the Group during the year ended 31 December 2019 is contained in note 41 to the consolidated financial statements. All the related parties transactions described in this note, other than the Transactions, do not fall under the definition of "connected transaction" or "continuing connected transaction" under the Listing Rules.

The Company has complied with the disclosure requirements prescribed in Chapter 14A of the Listing Rules with respect to the continuing connected transactions entered into by the Group during the year ended 31 December 2019.

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.

On 6 March 2020, the Company (as borrower) entered into a facility agreement (the "Facility Agreement IV") with certain financial institutions (as lenders) in respect of a revolving loan facility in an aggregate amount of HK$12,000,000,000 for a term of up to 36 months.

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

(1) HSCL ceases to directly or indirectly own 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, Facility Agreement III and Facility Agreement IV); or

(2) HSCL does not or ceases to have management control of the Company which means, as between HSCL and the Company, that (i) a majority of incumbent directors of the Company are nominees of HSCL and (ii) HSCL has control over the management strategies and policies of the Company.

Announcements regarding the entering into of Facility Agreement I, Facility Agreement II, Facility Agreement III and Facility Agreement IV were made on 16 March 2017, 15 March 2018, 6 March 2019 and 6 March 2020 respectively.

Sufficiency of Public Float

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

Corporate Governance

The Company's corporate governance principles and practices are set out in the Corporate Governance Report on pages 36 to 53 of this Annual Report.

Compliance with Relevant Laws and Regulations

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

Auditors

The financial statements for the year ended 31 December 2019 of the Company have been audited by Deloitte Touche Tohmatsu who will retire and, being eligible, offer themselves for reappointment.

On behalf of the Board

QU Qiuping
Chairman

Hong Kong, 24 March 2020

Deloitte. 德勤

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

Opinion

We have audited the consolidated financial statements of Haitong International Securities Group Limited (the "Company") and its subsidiaries (collectively referred to as "the Group") set out on pages 89 to 234 which comprise the consolidated statement of financial position as at 31 December 2019, and the consolidated statement of profit or loss, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2019, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

Basis for Opinion

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

Key Audit Matters

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

Key audit matter	How our audit addressed the key audit matter

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

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

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

Management further assesses whether there has been a significant increase in credit risk ("SICR") for exposures since initial recognition. If there has been a SICR, the Group will measure the loss allowance based on lifetime ECL rather than 12-month ECL. In assessing whether the credit risk of an asset has significantly increased, the Group takes into account qualitative and quantitative reasonable and supportable forward-looking information available without undue cost and effort with significant judgments involved.

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

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

- Understanding the key controls over ongoing monitoring processes, including:

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

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

Key audit matter	How our audit addressed the key audit matter
The total gross amount of (i) advances to customers in margin financing, (ii) advances to customers for merger and acquisition activities, (iii) asset-backed financing to customers and (iv) debt investments classified as investment securities at amortised cost, under stages 1 and 2 as at 31 December 2019, are HK$11,644 million, HK$2,674 million, HK$5,074 million and HK$10,575 million less impairment charges of HK$64.5 million, HK$4.4 million, HK$12.3 million and HK$13.7 million respectively. Please see notes 18, 21, 22, 23 and 45 to the consolidated financial statements.	• Assessing the reasonableness and appropriateness of the management's judgement on staging criteria for determining if SICR has occurred (stage 1 or 2) or the financial asset is credit-impaired (stage 3) and the basis for classification of exposures into the 3 stages as required by HKFRS 9 and examining supporting information on a sample basis to assess the appropriateness of the classification of loan exposures as at the end of the reporting period; • Evaluating, together with our internal valuation specialists, the reasonableness and appropriateness of the ECL models and assumptions, information and parameters used in the model in establishing the forward looking factors, and the relationship between the forward looking factors and the key inputs, including PD and LGD, in the ECL model to determine the impairment charges of Advances to Customers and Debt Investment Securities in stage 1 or 2; and • Testing the accuracy and completeness of key data sources applied in the ECL computation on a sample basis by checking to the Group's supporting information, the relevant loan files and external data sources, as applicable.

Key audit matter	How our audit addressed the key audit matter

Impairment of advances to customers in Stage 3

We identified the impairment of Advances to Customers in Stage 3 as a key audit matter due to the involvement of significant management judgement and estimation uncertainty in determining the ECL amount.

As set out in notes 21, 22, 23 and 45 to the consolidated financial statements, the total gross amount as at 31 December 2019 of (i) advances to customers in margin financing, (ii) advances to customers for merger and acquisition activities and (iii) asset-backed financing to customers at amortised cost amounted to HK$13,505 million, HK$2,872 million and HK$5,149 million respectively, of which HK$1,861 million, HK$197 million and HK$74 million respectively are classified as Stage 3.

An ECL of HK$811 million, HK$39 million and HK$11 million has been recognised in relation to (i) advances to customers in margin financing, (ii) advances to customers for merger and acquisition activities and (iii) asset-backed financing to customers at amortised cost under stage 3, respectively, as disclosed in notes 21, 22, 23 and 45 to the consolidated financial statements.

As detailed in note 4 to the consolidated financial statements, the advances to customers in margin financing classified as stage 3 include a margin loan to a customer with a gross amount of HK$603 million and an impairment charges of HK$427 million (the "Margin Loan"). The primary source of repayment for this margin loan is from the pledged securities and one of the major pledged security is suspended for trading and under a debt restructuring process. The management assessed the impairment by determining the fair value of the collateral on the basis of an accepted valuation method, which includes assumptions regarding the status and progress of the debt restructuring and estimates of unobservable inputs which require significant judgment.

Our procedures in relation to the impairment of Advances to Customers in Stage 3 included those covered in the above key audit matter related to ECL model on Advances to Customers and Debt Investment Securities and the following additional procedures:

- For impairment of the Margin Loan, our procedures included:
  - – corroborating and challenging management's assessment and expectation of reasonably possible outcomes on the recoverability of the loan to the borrower and the estimated fair value and future cash flows from the pledged security against our understanding of the situation and the industry of the pledged security from reading public announcements and other externally available information; and
  - – discussing with the management the valuation of the pledged security and together with our own internal valuation specialists:
    - (i) assessing whether the selection of the valuation methodology is appropriate for the collateral;
    - (ii) assessing the reasonableness of the assumptions and judgements used by management in determining the status and progress of the restructuring against public information and other available information from relevant external parties; and

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

Key audit matter	How our audit addressed the key audit matter
Valuation of Level 3 financial instruments	
We identified the valuation of Level 3 financial instruments as a key audit matter due to the significance of the judgement and estimates made by management and the subjectivity in determination of Level 3 fair value given the lack of availability of market-based data. Please see note 46 to the consolidated financial statements. The total fair value of financial assets held for trading and market making activities, investment securities at FVTPL, asset acquired for financial products issued and financial products issued at fair value classified as Level 3, amounted to HK$339 million, HK$2,317 million, HK$396 million and HK$396 million respectively as at 31 December 2019 as disclosed in note 46 to the consolidated financial statements.	Our procedures in relation to the valuation of Level 3 financial instruments included: • Understanding the Group's valuation models for Level 3 financial instruments and the key controls over selection of valuation methods and determining the valuation of such instruments; • Discussing with management, together with our own internal valuation specialists, where necessary, on the valuation of the Level 3 financial instruments, and: (i) evaluating the appropriateness of the valuation methodologies and assumptions based on industry knowledge; or (ii) evaluating the appropriateness of the key inputs by independently checking to the external data; or by evaluating the rationale of management's judgement on the key inputs; or by performing sensitivity analysis with reference to available market information to evaluate the reasonableness of the valuation, where appropriate.

Other Information

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Deloitte Touche Tohmatsu
Certified Public Accountants

Hong Kong
24 March 2020

Consolidated Statement of Profit or Loss

For the year ended 31 December 2019

	NOTES	2019 HK$'000	2018 HK$'000
Revenue			
Commission and fee income	6	2,291,922	2,164,616
Interest income	6	2,941,593	2,575,717
Net trading and investment income	6	3,010,459	1,588,449
		8,243,974	6,328,782
Other income and gains or losses	6	(38,809)	28,868
		8,205,165	6,357,650
Salaries and allowances, bonuses and pension	7	(1,380,918)	(1,154,662)
Commission expenses	7	(179,351)	(254,517)
Amortisation and depreciation	30 & 33	(225,566)	(98,144)
Impairment charges, net of reversal	8	(634,489)	(238,771)
Operating expenses		(804,439)	(731,825)
		(3,224,763)	(2,477,919)
Finance costs	9	(3,129,773)	(2,473,278)
Share of results of investments accounted for using the equity method		–	(226,869)
Profit before tax	10	1,850,629	1,179,584
Income tax expense	13	(299,771)	(156,746)
Profit for the year attributable to owners of the Company		1,550,858	1,022,838
Earnings per share attributable to owners of the Company	14		
– Basic (HK cents per share)		26.85	18.25
– Diluted (HK cents per share)		26.45	17.27

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31 December 2019

	2019 HK$'000	2018 HK$'000
Profit for the year attributable to owners of the Company	1,550,858	1,022,838
Other comprehensive (expense) income:		
Item that will not be reclassified subsequently to profit or loss:		
Fair value changes on investments in equity instruments at fair value through other comprehensive income	(11,077)	–
Items that may be reclassified subsequently to profit or loss:		
Fair value changes on investments in debt instruments at fair value through other comprehensive income	(847)	–
Changes in fair value of derivatives designated as cash flow hedge	–	7,169
Exchange differences on translating foreign operations	(27,100)	(122,578)
Other comprehensive expense for the year	(39,024)	(115,409)
Total comprehensive income for the year attributable to owners of the Company	1,511,834	907,429

Consolidated Statement of Financial Position

At 31 December 2019

		2019			2018		
	NOTES	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		4,269,608	–	4,269,608	7,088,829	–	7,088,829
Cash held on behalf of customers	16	15,134,126	–	15,134,126	15,998,360	–	15,998,360
Financial assets held for trading and market making activities	17	28,459,878	–	28,459,878	34,314,567	–	34,314,567
Investment securities	18	19,191,146	18,389,524	37,580,670	10,295,263	15,850,602	26,145,865
Assets acquired for financial products issued	19	29,756,276	2,629,569	32,385,845	25,484,416	2,268,434	27,752,850
Derivative financial instruments	20	340,153	–	340,153	540,563	–	540,563
Advances to customers in margin financing	21	12,629,847	–	12,629,847	15,952,460	–	15,952,460
Advances to customers for merger and acquisition activities	22	2,670,051	157,907	2,827,958	2,477,467	1,094,666	3,572,133
Asset-backed financing to customers	23	4,169,154	956,180	5,125,334	5,113,873	224,744	5,338,617
Reverse repurchase agreements	24	4,986,910	–	4,986,910	4,343,561	–	4,343,561
Accounts receivable	25	9,020,754	–	9,020,754	6,968,476	–	6,968,476
Tax recoverable		230,117	–	230,117	213,656	–	213,656
Prepayments, deposits and other receivables	26	1,687,520	75,261	1,762,781	1,529,261	53,050	1,582,311
Investments accounted for using the equity method	27	–	–	–	–	154,440	154,440
Goodwill and other intangible assets	30	–	485,916	485,916	–	473,391	473,391
Other assets	31	–	103,128	103,128	–	76,296	76,296
Investment property	32	–	192,471	192,471	–	231,539	231,539
Property and equipment	33	–	706,275	706,275	–	420,968	420,968
Deferred tax assets		–	32,731	32,731	–	12,203	12,203
Total assets		132,545,540	23,728,962	156,274,502	130,320,752	20,860,333	151,181,085

At 31 December 2019

	NOTES	2019 Current HK$'000	2019 Non-current HK$'000	2019 Total HK$'000	2018 Current HK$'000	2018 Non-current HK$'000	2018 Total HK$'000
LIABILITIES AND EQUITY							
Liabilities							
Financial liabilities held for trading and market making activities	17	1,945,382	–	1,945,382	4,405,866	–	4,405,866
Financial products issued at fair value	19	17,103,333	1,926,905	19,030,238	13,315,922	638,846	13,954,768
Derivative financial instruments	20	545,139	–	545,139	505,496	–	505,496
Repurchase agreements	34	26,377,566	–	26,377,566	24,089,043	–	24,089,043
Accounts payable	35	20,184,659	–	20,184,659	20,974,552	–	20,974,552
Bank borrowings	36	36,872,917	–	36,872,917	33,776,139	–	33,776,139
Debt securities in issue	36	12,791,450	8,626,979	21,418,429	15,803,992	9,243,635	25,047,627
Other liabilities arising from consolidation of investment funds	29	421,238	–	421,238	483,781	–	483,781
Tax payable		559,082	–	559,082	260,633	–	260,633
Other payables, accruals and other liabilities	37	1,660,778	199,498	1,860,276	1,259,472	586,189	1,845,661
Deferred tax liabilities		–	28,995	28,995	–	27,182	27,182
Total liabilities		118,461,544	10,782,377	129,243,921	114,874,896	10,495,852	125,370,748
Equity							
Share capital	38			594,058			578,975
Reserves				26,181,078			25,150,306
Proposed dividends	15			255,445			81,056
Total shareholders' equity				27,030,581			25,810,337
Total liabilities and shareholders' equity				156,274,502			151,181,085
Net current assets				14,083,996			15,445,856

The associated financial statements on pages 89 to 234 were approved and authorised for issue by the board of directors on 24 March 2020 and are signed on its behalf by:

LIN Yong
DIRECTOR

POON Mo Yiu
DIRECTOR

Consolidated Statement of Changes in Equity

For the year ended 31 December 2019

	Attributable to owners of the Company														
	Share capital HK$'000	Share premium account[1 & 2] HK$'000	Share option reserve[1] HK$'000	Share award reserve[1] HK$'000	Shares held for employee share award scheme[1] HK$'000	Capital redemption reserve[1] HK$'000	Contributed surplus[1] HK$'000	Capital reserve[1] HK$'000	Investments revaluation reserve[1] HK$'000	Exchange reserve[1] HK$'000	Hedging reserve[1] HK$'000	Convertible bond reserve[1] HK$'000	Proposed cash/scrip dividends HK$'000	Retained profits[1] HK$'000	Total HK$'000
At 1 January 2018	550,086	17,812,492	24,000	21,037	(113,539)	5,102	21	40,383	–	44,310	(7,169)	200,538	990,155	5,744,614	25,312,030
Profit for the year	–	–	–	–	–	–	–	–	–	–	–	–	–	1,022,838	1,022,838
Other comprehensive (expense) income for the year	–	–	–	–	–	–	–	–	–	(122,578)	7,169	–	–	–	(115,409)
Total comprehensive (expense) income	–	–	–	–	–	–	–	–	–	(122,578)	7,169	–	–	1,022,838	907,429
Recognition of equity-settled share-based payment (note 39)	–	–	16,492	20,049	–	–	–	–	–	–	–	–	–	–	36,541
Vesting of shares for the share award scheme	–	(6,216)	–	(14,986)	20,629	–	–	–	–	–	–	–	–	–	(573)
Purchases of shares held under the share award scheme	–	–	–	–	(62,462)	–	–	–	–	–	–	–	–	–	(62,462)
Share issued upon conversion of convertible bond	73	2,234	–	–	–	–	–	–	–	–	–	(67)	–	–	2,240
Shares issued under share option scheme (notes 38 & 39)	375	12,233	(1,310)	–	–	–	–	–	–	–	–	–	–	–	11,298
Share awards lapsed	–	174	–	(174)	–	–	–	–	–	–	–	–	–	–	–
Share options lapsed	–	869	(869)	–	–	–	–	–	–	–	–	–	–	–	–
2017 second interim dividend declared and settled in cash and scrip	16,169	701,217	–	–	–	–	–	–	–	–	–	–	(990,155)	(293)	(273,062)
2018 interim dividend declared and settled in cash and scrip (note 15)	12,272	295,318	–	–	–	–	–	–	–	–	–	–	–	(430,694)	(123,104)
2018 second interim dividend declared and settled in cash (note 15)	–	–	–	–	–	–	–	–	–	–	–	–	81,056	(81,056)	–
At 31 December 2018	578,975	18,818,321	38,313	25,926	(155,372)	5,102	21	40,383	–	(78,268)	–	200,471	81,056	6,255,409	25,810,337
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 year	–	–	–	–	–	–	–	–	–	–	–	–	–	1,550,858	1,550,858
Other comprehensive expense for the year	–	–	–	–	–	–	–	–	(11,924)	(27,100)	–	–	–	–	(39,024)
Total comprehensive (expense) income	–	–	–	–	–	–	–	–	(11,924)	(27,100)	–	–	–	1,550,858	1,511,834
Recognition of equity-settled share-based payment (note 39)	–	–	15,449	33,544	–	–	–	–	–	–	–	–	–	–	48,993
Vesting of shares for the share award scheme	–	(2,802)	–	(24,318)	27,120	–	–	–	–	–	–	–	–	–	–
Purchases of shares held under the share award scheme	–	–	–	–	(78,958)	–	–	–	–	–	–	–	–	–	(78,958)
Redemption of convertible bond	–	–	–	–	–	–	–	–	–	–	–	(194,060)	–	194,060	–
Shares issued under share option scheme (notes 38 & 39)	258	7,130	(283)	–	–	–	–	–	–	–	–	–	–	–	7,105
2018 second interim dividend declared and settled in cash (note 15)	–	–	–	–	–	–	–	–	–	–	–	–	(81,056)	(36)	(81,092)
2019 interim dividend declared and settled in cash and scrip (note 15)	14,825	326,562	–	–	–	–	–	–	–	–	–	–	–	(521,310)	(179,923)
Share awards lapsed	–	767	–	(767)	–	–	–	–	–	–	–	–	–	–	–
Share options lapsed	–	3,592	(3,592)	–	–	–	–	–	–	–	–	–	–	–	–
Proposed 2019 second interim dividend (note 15)	–	–	–	–	–	–	–	–	–	–	–	–	255,445	(255,445)	–
At 31 December 2019	594,058	19,153,570	49,887	34,385	(207,210)	5,102	21	40,383	(11,924)	(105,368)	–	6,411	255,445	7,215,821	27,030,581

1 These reserve accounts represent the consolidated reserves other than share capital and proposed cash/scrip dividends of approximately HK$26,181 million (31 December 2018: approximately HK$25,150 million) in the consolidated statement of financial position.

2 As at 31 December 2019, the trustee of the share award scheme held 62,273,142 ordinary shares of the Company (31 December 2018: 33,370,909 shares) for the share award scheme, which was adopted by the Board of directors of the Company (the "Board") on 19 December 2014, through purchases in the open market. The trustee purchased 21,724,000, 17,675,000 and 34,629,000 ordinary shares during the year ended 31 December 2015, 31 December 2018 and 31 December 2019 with total costs (including related transaction costs) of approximately HK$128 million, HK$62 million and HK$79 million respectively. Amount transferred from "Shares held for employee share award scheme" to "Share premium account" represents shares vested during the current year, and amount transferred from "Share award reserve" to "Share premium account" represents cumulative equity settled share-based payment amount recognised on awarded shares vested/lapsed during the current year. Details of the share award scheme of the Company has been disclosed in note 39 to the consolidated financial statements and should be read in conjunction with the relevant announcements of the share award scheme made by the Company.

Consolidated Statement of Cash Flows

For the year ended 31 December 2019

	2019 HK$'000	2018 HK$'000
OPERATING ACTIVITIES		
Profit before tax	1,850,629	1,179,584
Adjustments for:		
Interest income	(2,941,593)	(2,575,717)
Finance costs	3,129,773	2,473,278
Share of results of investments accounted for using the equity method	–	226,869
Dividend income	(121,622)	(177,112)
Loss on disposal of property and equipment	12,153	1,378
Depreciation and amortisation	225,566	98,144
Impairment charges, net of reversal	634,489	238,771
Vesting of shares for the share award scheme	–	(573)
Equity-settled share-based payment	48,993	36,541
Operating cash flows before movements in working capital	2,838,388	1,501,163
(Increase) decrease in other assets	(26,832)	56,063
Decrease in advances to customers in margin financing	2,790,336	33,190
Decrease in advances to customer for merger and acquisition activities	709,138	861,899
Decrease in asset-backed financing to customers	163,085	270,756
Increase in accounts receivable	(2,068,120)	(997,503)
(Increase) decrease in prepayments, deposits and other receivables	(268,645)	27,679
Decrease (increase) in financial assets held for trading and market making activities	5,854,689	(8,168,069)
Increase in investment securities	(11,447,808)	(1,978,689)
Increase in assets acquired for financial products issued	(4,632,995)	(15,473,198)
Decrease in cash held on behalf of customers	864,165	3,769,373
Decrease in accounts payable	(789,893)	(5,495,390)
Increase in repurchase agreements	2,288,523	12,781,929
Increase in reverse repurchase agreements	(643,339)	(1,421,719)
Decrease in financial liabilities held for trading and market making activities	(2,460,484)	(198,822)
Increase in financial products issued at fair value	5,075,470	1,817,933
Increase (decrease) in derivative financial liabilities (net)	240,053	(657,338)
Decrease in other payables, accruals and other liabilities	(359,637)	(251,552)
(Decrease) increase in other liabilities	(62,543)	212,180
Cash used in operations	(1,936,449)	(13,310,115)
Interest received	3,029,768	1,897,780
Dividend received	121,622	177,112
Interest paid	(3,001,002)	(2,425,260)
Tax paid	(36,498)	(498,757)
NET CASH USED IN OPERATING ACTIVITIES	(1,822,559)	(14,159,240)

For the year ended 31 December 2019

	NOTE	2019 HK$'000	2018 HK$'000
INVESTING ACTIVITIES			
Proceeds from disposal of property and equipment		1,514	258
Purchases of intangible assets		(33,140)	(60,969)
Purchases of property and equipment		(53,764)	(44,725)
Disposal of investments accounted for using the equity method		154,440	5,491,557
Net cash outflow on acquisition of leasehold, land and building and investment properties (Note 2)		–	(498,668)
Net cash outflow on acquisition of subsidiaries	43	–	(142,624)
NET CASH FROM INVESTING ACTIVITIES		69,050	4,747,829
FINANCING ACTIVITIES			
Proceeds from issuance of non-convertible notes		8,950,400	15,921,593
Proceeds from issuance of non-convertible bonds		8,599,465	–
Issuance cost of non-convertible bonds paid		(62,117)	–
Redemption of convertible bonds		(3,866,392)	–
Repayment of non-convertible bonds		(4,706,160)	–
Proceeds from shares issued upon exercise of share options		7,105	11,298
Repayment of non-convertible notes		(12,636,856)	(6,473,878)
Repayment of lease liabilities		(107,962)	–
Net proceeds for bank borrowings raised		3,096,778	2,966,039
Dividends paid to shareholders		(261,015)	(396,166)
Purchase of shares held under share award scheme		(78,958)	(62,462)
NET CASH (USED IN) FROM FINANCING ACTIVITIES		(1,065,712)	11,966,424
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS		(2,819,221)	2,552,013
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR		7,088,829	4,536,816
CASH AND CASH EQUIVALENTS AT END OF YEAR		4,269,608	7,088,829
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and cash equivalents (Note 1)		4,269,608	7,088,829

Notes:

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

2. Leasehold land and building and investment properties were acquired during the year ended 31 December 2018 were 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 investment property and leasehold land and building are detailed in note 32 and note 33 of the consolidated financial statements.

Disclosure in relation to the changes in liabilities arising from financing activities are detailed in note 36 to the consolidated financial statements.

1. General Information

Haitong International Securities Group Limited (the "Company") is a limited liability company incorporated in Bermuda and its shares were listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The principal place of business of the Company is located at 22nd Floor, Li Po Chun Chambers, 189 Des Voeux Road Central, Hong Kong. The Company is an investment holding company and its subsidiaries are principally engaged in wealth management, corporate finance, asset management, institutional clients and investment. Details of the business segments of the Company and its subsidiaries (collectively referred as the "Group") are disclosed in note 5 to the consolidated financial statements.

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

The consolidated financial statements are presented in Hong Kong dollars ("HK$") which is the same as the functional currency of the Company, unless otherwise stated, and were approved for issue by the Board on 24 March 2020.

Certain comparatives figures have been reclassified or restated to conform with current year presentation.

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

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

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

HKFRS 16	Leases
HK(IFRIC) - Int 23	Uncertainty over Income Tax Treatments
Amendments to HKFRS 9	Prepayment Features with Negative Compensation
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 year has had no material impact on the Group's financial performance and positions for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

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

2.1 HKFRS 16 "Leases"

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

Accounting policies resulting from application of HKFRS 16 are disclosed in note 3.

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.

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%.

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

2.1 HKFRS 16 "Leases" (continued)

As a lessee (continued)

	At 1 January 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.

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 consolidated statement of financial position and consolidated statement of changes in equity.

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

2.1 HKFRS 16 "Leases" (continued)

As a lessee (continued)

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

The following adjustments were made to the amounts recognised in the 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 payables, accruals and other liabilities	1,259,472	88,490	1,347,962
Non-current Liabilities			
Other payables, 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 year ended 31 December 2019, movements in working capital have been computed based on opening consolidated statement of financial position as at 1 January 2019 as disclosed above.

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

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

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

HKFRS 17	Insurance Contracts[1]
Amendments to HKFRS 3	Definition of a Business[2]
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[3]
Amendments to HKAS 1 and HKAS 8	Definition of Material[4]
Amendments to HKFRS 9, HKAS 39 and HKFRS 7	Interest Rate Benchmark Reform[4]

[1] Effective for annual periods beginning on or after 1 January 2021

[2] Effective for business combinations and asset acquisitions for which the acquisition date is on or after the beginning of the first annual period beginning on or after 1 January 2020

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

[4] Effective for annual periods beginning on or after 1 January 2020

In addition to the above new and amendments to HKFRSs, a revised Conceptual Framework for Financial Reporting was issued in 2018. Its consequential amendments, *the Amendments to References to the Conceptual Framework in HKFRS Standards*, will be effective for annual periods beginning on or after 1 January 2020.

The directors of the Company anticipate that the application of all new and amendments to HKFRSs and Interpretations will have no material impact on the consolidated financial statements in the foreseeable future.

3. Basis of Preparation and Significant Accounting Policies

Significant accounting policies

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

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

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

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

Fair value

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of HKFRS 2 "Share-based Payment", leasing transactions that are accounted for in accordance with HKFRS 16 (since 1 January 2019) or HKAS 17 (before application of HKFRS 16), and measurements that have some similarities to fair value but are not fair value, such as value in use in HKAS 36 "Impairment of Assets".

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

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

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

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;

- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and

- Level 3 inputs are unobservable inputs for the asset or liability.

The principal accounting policies are set out below.

Basis of consolidation

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

- has power over the investee;

- is exposed, or has rights, to variable returns from its involvement with the investee; and

- has the ability to use its power to affect its returns.

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

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

Basis of consolidation (continued)

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

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

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

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

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

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

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

Loss of control of a subsidiary

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

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

Business combinations

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

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognised at their fair value. Goodwill is measured as the excess of the sum of the consideration transferred over the net amount of the identifiable assets acquired and the liabilities assumed as at acquisition date.

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

Acquisition of a subsidiary not constituting a business

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

Goodwill

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

A cash-generating unit (or group of cash-generating units) to which goodwill has been allocated is tested for impairment annually or more frequently when there is indication that the unit may be impaired. For goodwill arising on an acquisition in a reporting period, the cash-generating unit (or group of cash-generating units) to which goodwill has been allocated is tested for impairment before the end of that reporting period. If the recoverable amount is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill and then to the other assets on a pro-rata basis based on the carrying amount of each asset in the unit (or group of cash-generating units).

On disposal of the relevant cash-generating unit or any of the cash-generating unit within the group of cash-generating units, the attributable amount of goodwill is included in the determination of the amount of profit or loss on disposal. When the Group disposes of an operation within the cash-generating unit (or a cash-generating unit within a group of cash-generating units), the amount of goodwill disposed of is measured on the basis of the relative values of the operation (or the cash-generating unit) disposed of and the portion of the cash-generating unit (or the group of cash-generating units) retained.

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

Investments in associates and joint ventures

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

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

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

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

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

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

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

Investments in associates and joint ventures (continued)

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

When an investment in an associate or a joint venture is held by a group entity that is a venture capital organisation and similar entities, the Group may elect to measure investments in those associates and joint ventures at fair value through profit or loss in accordance with HKFRS 9 "Financial instruments".

Revenue from contracts with customers

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

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

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

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

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

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

Revenue from contracts with customers (continued)

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

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

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

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

(1) Brokerage

The Group provides broking and dealing services for securities, futures and options contracts, and also distribution of financial products such as over-the-counter products and investment funds. Commission income is recognised at a point in time on the execution date of the trades at a certain percentage of the transaction value of the trades executed. The Group provides custodian and handling services for securities, futures, options and other types of financial products. Fee income is recognised when the transaction is executed and service is completed, except for custodian service fee which is recognised over time.

(2) Corporate finance

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

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

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

Revenue from contracts with customers (continued)

(3) Asset management

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

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

Variable consideration

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

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

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

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

Leases

Definition of a lease (upon application of HKFRS 16 on 1 January 2019)

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 or arising from business combinations 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, modification date or acquisition date, as appropriate. Such contract will not be reassessed unless the terms and conditions of the contract are subsequently changed.

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

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. Basis of Preparation and Significant Accounting Policies (continued)

Leases (continued)

The Group as a lessee (upon application of HKFRS 16 on 1 January 2019) (continued)

Right-of-use assets (continued)

Except for those that are classified as investment properties and measured under fair value model, right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities.

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 that do not meet the definition of investment property in "property and equipment", the same line item within which the corresponding underlying assets would be presented if they were owned.

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. Accounting policies for financial instruments are detailed below.

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".

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.

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

Leases (continued)

The Group as a lessee (upon application of HKFRS 16 on 1 January 2019) (continued)

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.

The Group accounts for the remeasurement of lease liabilities by making corresponding adjustments to the relevant right-of-use asset. When the modified contract contains a lease component and one or more additional lease or non-lease components, the Group allocates the consideration in the modified 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.

The Group as a lessee (prior to 1 January 2019)

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

The Group as a lessor under operating lease

When the Group acts as the lessor under operating lease, rental income from operating leases is recognised in profit or loss on a straight-line basis over the term of the relevant lease. Rental income is presented as "other income and gain or loss" in the consolidated statement of profit or loss.

Refundable rental deposits

Refundable rental deposits received are accounted for under HKFRS 9 and initially measured at fair value. Adjustments to fair value at initial recognition are considered as additional lease payments from lessees.

Property and equipment (including leasehold land and building)

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

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

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

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

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

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

Ownership interests in leasehold land and building

When the Group makes payments for ownership interests of properties which includes both leasehold land and building elements, the entire consideration is allocated between the leasehold land and the building elements in proportion to the relative fair values at initial recognition.

To the extent the allocation of the relevant payments can be made reliably, interest in leasehold land that is accounted for as an operating lease is presented as "right-of-use assets" (upon application of HKFRS 16) or "prepaid lease payments" (before application of HKFRS 16) in the consolidated statement of financial position except for those that are classified and accounted for as investment properties under the fair value model. When the consideration cannot be allocated reliably between non-lease building element and undivided interest in the underlying leasehold land, the entire properties are classified as property and equipment.

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

Investment properties

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

Investment properties are initially measured at cost, including any directly attributable expenditure. Subsequent to initial recognition, investment properties are measured at their fair values, adjusted to exclude any prepaid or accrued operating lease income. Gains or losses arising from changes in the fair value of investment properties are included in profit or loss for the period in which they arise.

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

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

Intangible assets

Intangible assets acquired separately

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

Internally-generated intangible assets – research and development expenditure

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

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

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

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

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

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

Intangible assets (continued)

Intangible assets acquired in a business combination

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

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

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

Derecognition of intangible assets

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

Foreign currency translation

- *Functional and presentation currency*

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

- *Transactions and balances*

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

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

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

Foreign currency translation (continued)

- *Group companies*

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

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

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

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

Employee benefits

Pension scheme

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

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

Paid leave carried forward

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

Bonus plans

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

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

Employee benefits (continued)

Share-based payment transactions

Share options granted to employees

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

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

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

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

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

Share award scheme to employees

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

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

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

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

Taxation

Income tax expense comprises current and deferred tax.

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

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

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

For the purposes of measuring deferred tax for investment properties that are measured using the fair value model, the carrying amounts of such properties are presumed to be recovered entirely through sale, unless the presumption is rebutted. The presumption is rebutted when the investment property is depreciable and is held within a business model whose objective is to consume substantially all of the economic benefits embodied in the investment property over time, rather than through sale.

For the purposes of measuring deferred tax for leasing transactions in which the Group recognises the right-of-use assets and the related lease liabilities, the Group first determines whether the tax deductions are attributable to the right-of-use assets or the lease liabilities.

For leasing transactions in which the tax deductions are attributable to the lease liabilities, the Group applies HKAS 12 Income Taxes requirements to right-of-use assets and lease liabilities separately. Temporary differences on initial recognition of the relevant right-of-use assets and lease liabilities are not recognised due to application of the initial recognition exemption. Temporary differences arising from subsequent revision to the carrying amounts of right-of-use assets and lease liabilities, resulting from remeasurement of lease liabilities and lease modifications, that are not subject to initial recognition exemption are recognised on the date of remeasurement or modification.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied to the same taxable entity by the same taxation authority.

Current and deferred tax are recognised in profit or loss, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognised in other comprehensive income or directly in equity respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

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

Taxation (Continued)

In assessing any uncertainty over income tax treatments, the Group considers whether it is probable that the relevant tax authority will accept the uncertain tax treatment used, or proposed to be use by individual group entities in their income tax filings. If it is probable, the current and deferred taxes are determined consistently with the tax treatment in the income tax filings. If it is not probable that the relevant taxation authority will accept an uncertain tax treatment, the effect of each uncertainty is reflected by using either the most likely amount or the expected value.

Impairment on non-financial assets

At the end of the reporting period, the Group reviews the carrying amounts of its property and equipment, right-of-use assets, intangible assets with finite useful lives to determine whether there is any indication that these assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the relevant asset is estimated in order to determine the extent of the impairment loss (if any). Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment at least annually, and whenever there is an indication that they may be impaired.

An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount (i.e., the higher of an asset's fair value less costs of disposal and value-in-use). The recoverable amount of tangible and intangible assets are estimated individually, when it is not possible to estimate the recoverable amount individually, the Group estimates the recoverable amount of the cash generating unit to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified. For the purpose of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows which are largely independent of the cash inflows from assets or group of assets (cash generating units). Such impairment losses are recognised in the consolidated statement of profit or loss. An impairment loss other than in relation to goodwill is reversed if the circumstances and events leading to the impairment cease to exist. A reversal of an impairment loss is recognised immediately in profit or loss.

Financial instruments

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

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

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

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

Financial instruments (continued)

Financial assets

Classification and subsequent measurement of financial assets

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

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

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

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

All other financial assets are subsequently measured at FVTPL, except that the derivative is designated as a hedging instrument in a cash flow hedge or at the date of initial application of HKFRS 9, or upon initial recognition of an equity instrument that the Group may irrevocably elect to present subsequent changes in fair value in other comprehensive income ("OCI").

A financial asset is held for trading if:

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

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

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

Financial instruments (continued)

Financial assets (continued)

Classification and subsequent measurement of financial assets (continued)

(i) Amortised cost and interest income

Interest income is recognised using the effective interest method for financial assets measured subsequently at amortised cost. Effective interest method is used for those financial assets measured at amortised cost and debt instruments measured at FVTOCI. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial asset or, where appropriate, a shorter period, to the net carrying amount of the financial asset. When calculating the effective interest rate, the Group estimates cash flows considering all contractual terms of the financial asset but excluding future credit losses. The calculation includes all amounts paid or received by the Group that are an integral part of the effective interest rate of a financial instrument, including transaction costs and all other premiums or discounts.

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

(ii) Debt instruments as at FVTOCI

Subsequent changes in the carrying amounts for debt instruments classified as at FVTOCI as a result of interest income calculated using the effective interest method, and foreign exchange gains and losses are recognised in profit or loss. All other changes in the carrying amount of these debt instruments are recognised in other comprehensive income and accumulated under the heading of investments revaluation reserve. Impairment allowances are recognised in profit or loss with corresponding adjustment to other comprehensive income without reducing the carrying amounts of these debt instruments. When these debt instruments are derecognised, the cumulative gains or losses previously recognised in other comprehensive income are reclassified to profit or loss.

(iii) Equity instruments designated as at FVTOCI

Investments in equity instruments at FVTOCI are subsequently measured at fair value with gains and losses arising from changes in fair value recognised in other comprehensive income and accumulated in the investments revaluation reserve; and are not subject to impairment assessment. The cumulative gain or loss will not be reclassified to profit or loss on disposal of the equity investments, and will be transferred to retained profits.

Dividends from these investments in equity instruments are recognised in profit or loss when the Group's right to receive the dividends is established, unless the dividends clearly represent a recovery of part of the cost of the investment. Dividends are included in the "Net trading and investment income" line item in profit or loss.

(iv) Financial assets at FVTPL

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

Financial assets at FVTPL are measured at fair value at the end of each reporting period, with any fair value gains or losses recognised in profit or loss. The net gain or loss recognised in profit or loss include any dividend and interest income on the financial assets.

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

Financial instruments (continued)

Financial assets (continued)

Impairment of financial assets and other items subject to impairment assessment under HKFRS 9

The Group performs impairment assessment under expected credit loss ("ECL") model on financial assets (including advances to customers in margin financing, advances to customers for merger and acquisition activities and asset-backed financing to customers, investment securities at amortised cost, debt instruments measured at FVTOCI, reverse repurchase agreements, accounts receivable, deposits and other receivables, cash and cash equivalents, cash held on behalf of customers), which are subject to impairment under HKFRS 9. The amount of ECL is updated at each reporting date to reflect changes in credit risk since initial recognition.

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

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

For all other instruments, the Group applies the general approach to measure ECL for all financial assets and loan commitments which are subject to impairment under HKFRS 9. On this basis, the Group measures the loss allowance equal to 12m ECL, unless there has been a significant increase in credit risk since initial recognition, in which case the Group recognises lifetime ECL.

(i) Significant increase in credit risk

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

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

Financial instruments (continued)

Financial assets (continued)

Impairment of financial assets and other items subject to impairment assessment under HKFRS 9 (continued)

(i) Significant increase in credit risk (continued)

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

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

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

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

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

(ii) Definition of default

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

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

Financial instruments (continued)

Financial assets (continued)

Impairment of financial assets and other items subject to impairment assessment under HKFRS 9 (continued)

(iii) Credit-impaired financial assets

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

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

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

(c) substantial shortfall of the loan balance versus the collateral held by the Group while there is no concrete repayment plan to reduce the shortfall;

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

(e) probable event that the borrower will enter bankruptcy or other financial reorganisation; or

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

(iv) Write-off policy

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

(v) Measurement and recognition of ECL

The measurement of ECL is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data adjusted by forward-looking information. Estimation of ECL reflects an unbiased and probability-weighted amount that is determined with the respective risks of default occurring as the weights.

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

Financial instruments (continued)

Financial assets (continued)

Impairment of financial assets and other items subject to impairment assessment under HKFRS 9 (continued)

(v) Measurement and recognition of ECL (continued)

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

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

For ECL on loan commitments for which the effective interest rate cannot be determined, the Group will apply a discount rate that reflects the current market assessment of the time value of money and the risks that are specific to the cash flows but only if, and to the extent that, the risks are taken into account by adjusting the discount rate instead of adjusting the cash shortfalls being discounted.

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

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

- Past-due status; and

- External credit ratings where available.

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

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

Except for investments in debt instruments that are measured at FVTOCI and loan commitments, the Group recognises an impairment charges, net of reversal in profit or loss for all financial instruments by adjusting their carrying amount, with the exception of advances to customers in margin financing, advances to customers for merger and acquisition activities and asset-backed financing to customers and investment securities at amortised cost, where the corresponding adjustment is recognised through a loss allowance account.

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

Financial instruments (continued)

Financial assets (continued)

Derecognition of financial assets

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

On derecognition of a financial asset measured at amortised cost, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognised in profit or loss.

On derecognition of an investment in a debt instrument classified as at FVTOCI, the cumulative gain or loss previously accumulated in the FVTOCI reserve is reclassified to profit or loss.

On derecognition of an investment in equity instrument which the Group has elected on initial recognition to measure at FVTOCI, the cumulative gain or loss previously accumulated in the investments revaluation reserve is not reclassified to profit or loss, but is transferred to retained profits.

Financial liabilities and equity

Classification as debt or equity

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

Equity instruments

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

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

Financial liabilities

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

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

Financial instruments (continued)

Financial liabilities and equity (continued)

Financial liabilities at FVTPL

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

Conditions for classifying financial liabilities as held for trading are largely similar as the conditions for classifying financial assets as held for trading.

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

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial liability forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and HKFRS 9 permits the entire combined contract to be designated as at FVTPL.

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

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

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

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

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

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

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

Financial instruments (continued)

Financial liabilities and equity (continued)

Financial liabilities at amortised cost

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

Effective interest method

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

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

Derecognition of financial liabilities

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

Compound financial instruments

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

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

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

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

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

Financial instruments (continued)

Derivative financial instruments

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

Offsetting a financial asset and a financial liability

A financial asset and a financial liability are offset and the net amount presented in the consolidated statement of financial position when, and only when, the Group currently has a legally enforceable right to set off the recognised amounts; and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Repurchase agreements

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

Reverse repurchase agreements

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

Hedge accounting

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

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

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

Financial instruments (continued)

Hedge accounting (continued)

Assessment of hedging relationship and effectiveness

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

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

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

Cash flow hedges

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

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

Discontinuation of hedge accounting

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

For cash flow hedge, any gain or loss recognised in other comprehensive income and accumulated in equity at that time remains in equity and is recognised when the forecast transactions is ultimately recognised in profit or loss. When a forecast transaction is no longer expected to occur, the gain or loss accumulated in equity is recognised immediately in profit or loss.

4. Critical Accounting Judgements and Key Sources of Estimation Uncertainty

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

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

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

Key sources of estimation uncertainty

Impairment charges of financial assets at amortised cost

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

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

Incorporation of forward-looking information

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

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

Key sources of estimation uncertainty (continued)

Impairment charges of financial assets at amortised cost (continued)

Measurement of ECL

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

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

In assessing the lifetime ECL on credit-impaired financial assets classified as stage 3, the Group performs the assessment based on the Group's historical credit loss experience, adjusted for factors that specific to the debtors or borrowers (such as whether there is any guarantor and the financial strength of the guarantor), general economic conditions and both the current conditions at the reporting date as well as the forecast of future conditions with significant judgments involved. Moreover, the Group also reviews the value of the collateral received from the customers in determining the impairment. Generally, the Group reviews the value of collaterals depending on the particular type of the collateral received. The Group engages in business activities such as wealth management, financing for corporate customers for their merger and acquisition activities, and also financing solutions to institutional customers, and during the course of business, the Group will receive different types of collaterals for financing provided, such as listed shares, shares of unlisted companies or assets such as property, and the Group has developed valuation techniques and policies in valuing different types of collaterals. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce material differences between loss estimates and actual loss experience. As at 31 December 2019, included in the advances to customers in margin financing of gross amount HK$13,504,901,000 (2018: HK$16,567,822,000) is a margin loan to an independent customer of gross amount HK$602,810,000 (2018: HK$829,787,000) with the associated pledged stock suspended for trading and under a debt restructuring process. The Group makes significant judgments in assessing the status and progress of the restructuring and estimates of unobservable inputs. The valuation is dependent on whether the debt restructuring can be subsequently effected.

Relevant information with regard to the exposure to credit risk and expected credit losses are set out in note 45 to the consolidated financial statements.

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

Key sources of estimation uncertainty (continued)

Fair value of derivatives and financial instruments

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

Estimated impairment of goodwill

For goodwill arising from acquisitions in prior years, assessment performed to determine whether goodwill is impaired. This assessment requires an estimation of the value-in-use of the cash generating units to which goodwill has been allocated. The value-in-use calculation requires the Group to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate the present value. Where the actual future cash flows are less than expected, a material impairment loss may arise. As at 31 December 2019, the carrying value of goodwill amounted to HK$380,099,000 (2018: HK$380,099,000). Details of the recoverable amount calculation are disclosed in note 30 to the consolidated financial statements.

Critical judgements in applying accounting policies

Determination of consolidation scope of certain investments

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

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

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

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

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

Critical judgements in applying accounting policies (continued)

Determination of consolidation scope of certain investments (continued)

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

- the Group is acting as an agent or a principal in these Investments;
- substantive removal rights held by other parties 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.

Detailed accounting policy on assessment of control are set out in "basis of consolidation" in note 3.

Determination of consolidation scope of securities pledged to the Group

The Group entered into secured loan arrangements with customers that contains several covenants such that the Group may have the voting rights on relevant activities of the pledged company if a covenant is breached. When these protective rights become exercisable, there is a change in facts and circumstances and the control assessment is reassessed.

All facts and circumstances must be taken into consideration in the assessment of whether these rights are substantive and whether the Group, as lender, have practical ability to exercise these rights as power to direct the relevant activities of the pledged company. The principle of control sets out the following three elements of control: (a) power over the pledged company; (b) exposure, or rights, to variable returns from involvement with the pledged company; and (c) the ability to use power over the pledged company to affect the amount of the lender's returns.

In conducting the assessment to determine this consolidated scope, the directors of the Company consider whether the rights held by the Group are substantive and are there any barriers (economic or otherwise) that prevent or deter the Group from exercising its rights based on all facts and circumstances.

Significant increase in credit risk in measurement of ECL

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

5. Segment Information

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker. The chief operating decision maker is the person or group that allocates resources to and assesses the performance of the operating segments of an entity. The Group has determined the Executive Committee as its chief operating decision maker.

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

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

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

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

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

During the year ended 31 December 2019, the Group reclassified the net currency trading income from wealth management segment to institutional clients segment, and net investment gain of corporate finance segment from corporate finance segment to investment segment to better reflect the revenue nature of each business segment in accordance with relevant products and services provided by each segment. Comparative information on segment revenue and segment expenses (as a result of reclassification of segment revenue) has been restated to conform the current year's presentation.

5. Segment Information (continued)

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

For the year ended 31 December 2019

	Wealth management HK$'000	Corporate finance HK$'000	Asset management HK$'000	Institutional clients HK$'000	Investment HK$'000	Consolidated HK$'000
Commission and fee income	694,542	974,561	309,115	313,704	–	2,291,922
Interest income	1,473,377	553,497	–	897,153	17,566	2,941,593
Net trading and investment income	–	–	–	2,038,611	971,848	3,010,459
Segment revenue	2,167,919	1,528,058	309,115	3,249,468	989,414	8,243,974
Other income and (losses) gains	(8,526)	3,554	–	1,145	(34,982) [1]	(38,809)
	2,159,393	1,531,612	309,115	3,250,613	954,432	8,205,165
Segment expenses	(1,707,524)	(783,275)	(181,695)	(2,844,898)	(837,144)	(6,354,536)
Segment results/profit before tax	451,869	748,337	127,420	405,715	117,288	1,850,629
Income tax expense						(299,771)
Profit for the year						1,550,858
Amortisation and depreciation	(68,534)	(13,864)	(4,883)	(135,163)	(3,122)	(225,566)
Impairment charges, net of reversal	(557,784)	(43,828)	–	(35,150)	2,273	(634,489)
Finance costs	(491,964)	(229,387)	–	(1,708,203)	(700,219)	(3,129,773)

5. Segment Information (continued)

For the year ended 31 December 2018 (restated)

	Wealth management HK$'000	Corporate finance HK$'000	Asset management HK$'000	Institutional clients HK$'000	Investment HK$'000	Consolidated HK$'000
Commission and fee income	695,366	995,939	278,475	194,836	–	2,164,616
Interest income	1,331,155	443,300	–	782,992	18,270	2,575,717
Net trading and investment income	–	–	–	1,489,200	99,249	1,588,449
Segment revenue	2,026,521	1,439,239	278,475	2,467,028	117,519	6,328,782
Other income and gains	17,056	2,988	–	2,342	6,482[1]	28,868
	2,043,577	1,442,227	278,475	2,469,370	124,001	6,357,650
Segment expenses	(1,472,414)	(543,821)	(171,859)	(2,076,090)	(687,013)	(4,951,197)
Segment results	571,163	898,406	106,616	393,280	(563,012)	1,406,453
Share of results of investments accounted for using the equity method	–	–	–	–	(226,869)	(226,869)
Profit (loss) before tax	571,163	898,406	106,616	393,280	(789,881)	1,179,584
Income tax expense						(156,746)
Profit for the year						1,022,838
Amortisation and depreciation	(22,548)	(5,046)	(2,181)	(67,813)	(556)	(98,144)
Impairment charges, net of reversal	(347,227)	108,569	–	(2,832)	2,719	(238,771)
Finance costs	(434,210)	(262,647)	–	(1,191,972)	(584,449)	(2,473,278)

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

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

6. Revenue and Other Income and Gains or Losses

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

	2019 HK$'000	2018 HK$'000
Revenue		
Commission and fee income (note (i)):		
Commission on brokerage (note (ii))	659,296	608,700
Underwriting and placing fee income	781,741	767,557
Financial advisory and consultancy fee income (note (ii))	327,929	382,245
Asset management fee and performance fee income	309,115	278,475
Handling, custodian and other service fee income	213,841	127,639
	2,291,922	2,164,616
Interest income:		
Interest income from advances to customers in margin financing	1,176,251	1,099,998
Interest income from investment securities at amortised cost	765,595	282,867
Interest income from advances to customers for merger and acquisition activities	320,660	244,447
Interest income from asset-backed financing to customers	269,505	638,618
Interest income from reverse repurchase agreements	64,793	53,602
Interest income from bank deposits and others	344,789	256,185
	2,941,593	2,575,717
Net trading and investment income:		
Net trading income on fixed income, currency and commodities, and equity derivatives	1,269,930	827,386
Net trading income on financial products	768,681	661,814
Net investment gain on financial assets/liabilities at FVTPL	971,848	99,249
	3,010,459	1,588,449
	8,243,974	6,328,782
Other income and gains or losses		
Others (note (iii))	(38,809)	28,868

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 trading and investment income are under the scope of HKFRS 9. Included in revenue, revenue arising from contract with customers recognised at a point in time and over time were HK$1,867,490,000 (2018: HK$1,716,027,000) and HK$424,432,000 (2018: HK$448,589,000) respectively.

(ii) Amounts of commission on brokerage of HK$161,945,000 (2018: HK$129,507,000) and handling, custodian and other service fee income of HK$115,296,000 (2018: HK$17,872,000) have been included in institutional clients segment and each of the remaining amounts have included in wealth management segment.

Amounts of financial advisory and consultancy fee income of HK$98,646,000, HK$192,820,000 and HK$36,463,000 (2018: HK$106,406,000, HK$228,382,000 and HK$47,457,000) have been included in wealth management segment, corporate finance segment and institutional clients segment respectively.

(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 loss of HK$40 million (2018: gain of HK$6 million).

Details of the Group's interest in consolidated investment funds are disclosed in note 29 to the consolidated financial statements.

7. Employee Benefit Costs

	2019 HK$'000	2018 HK$'000
Salaries, bonuses and allowances	1,348,349	1,123,823
Pension scheme contributions (net)	32,569	30,839
	1,380,918	1,154,662
Commission to accounts executives (note)	149,418	219,461
	1,530,336	1,374,123

Note: Included in commission expenses of HK$179,351,000 (2018: HK$254,517,000) is commission to accounts executives of HK$149,418,000 (2018: HK$219,461,000).

8. Impairment Charges, Net of Reversal

	2019 HK$'000	2018 HK$'000
Impairment charges (reversal of impairment charges) on:		
– advances to customers in margin financing	532,277	353,714
– advances to customers for merger and acquisition activities	35,037	(106,487)
– asset-backed financing to customers	50,198	(5,340)
– investment securities at amortised cost	1,079	(2,300)
– accounts receivable and others	15,898	(816)
	634,489	238,771

9. Finance Costs

	2019 HK$'000	2018 HK$'000
Bank loans and overdrafts	1,355,303	1,033,114
Debt securities in issue:		
Convertible bonds	142,162	66,202
Non-convertible bonds	489,784	452,787
Non-convertible notes	351,370	363,974
Repurchase agreements	758,678	547,750
Interest on lease liabilities	9,241	–
Others	23,235	9,451
	3,129,773	2,473,278

Details of the Group's loans and borrowings and debt securities in issue are disclosed in note 36.

10. Profit Before Tax

Profit before tax has been arrived at after charging:

	2019 HK$'000	2018 HK$'000
Auditor's remuneration:		
Statutory audit fee	5,450	5,000
Non-statutory audit service fee	2,401	1,228
Loss on disposal of property and equipment	12,153	1,378
Depreciation and amortisation:		
Depreciation on property and equipment (other than right-of-use assets)	93,645	80,220
Depreciation of right-of-use assets	111,306	–
Amortisation of intangible assets	20,615	17,924

11. Directors' and Chief Executive's Emoluments

Directors' remuneration for the year is as follows:

	2019 HK$'000	2018 HK$'000
Fees:		
Executive directors	300	300
Non-executive directors	400	421
Independent non-executive directors	1,100	950
	1,800	1,671
Other emoluments:		
Executive directors:		
Salaries and allowances	12,372	11,146
Bonuses (note (a))	36,900	30,691
Pension scheme contributions	528	487
	49,800	42,324
	51,600	43,995

Note:

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

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

Independent non-executive directors

For the year ended 31 December 2019

	Fees HK$'000	Salaries and allowances HK$'000	Bonuses HK$'000	Pension Scheme contributions HK$'000	Total remuneration HK$'000
Tsui Hing Chuen, William	250	–	–	–	250
Lau Wai Piu	200	–	–	–	200
Wei Kuo-chiang	200	–	–	–	200
Wan Kam To (Note (b))	250	–	–	–	250
Liu Yan (Note (c))	200	–	–	–	200
	1,100	–	–	–	1,100

For the year ended 31 December 2018

	Fees HK$'000	Salaries and allowances HK$'000	Bonuses HK$'000	Pension Scheme contributions HK$'000	Total remuneration HK$'000
Tsui Hing Chuen, William	250	–	–	–	250
Lau Wai Piu	200	–	–	–	200
Wei Kuo-chiang	200	–	–	–	200
Wan Kam To (Note (b))	133	–	–	–	133
Liu Yan (Note (c))	107	–	–	–	107
Lin Ching Yee, Daniel (Note (a))	60	–	–	–	60
	950	–	–	–	950

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

Notes:

(a) Resigned on 19 April 2018.

(b) Appointed on 19 June 2018.

(c) Appointed on 19 June 2018.

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

Executive directors and non-executive directors

For the year ended 31 December 2019

	Fees HK$'000	Salaries and allowances HK$'000	Bonuses HK$'000	Pension Scheme contributions HK$'000	Total remuneration HK$'000
Executive directors:					
Lin Yong (notes a & b)	–	4,320	16,000	216	20,536
Li Jianguo (note a)	300	–	–	15	315
Poon Mo Yiu (note a)	–	3,096	6,300	155	9,551
Sun Jianfeng (note a)	–	2,478	7,300	124	9,902
Sun Tong (note a)	–	2,478	7,300	18	9,796
	300	12,372	36,900	528	50,100
Non-executive directors:					
Qu Qiuping (note c)	–	–	–	–	–
Cheng Chi Ming, Brian (note c)	200	–	–	–	200
Wang Meijuan (note c)	–	–	–	–	–
Chan William (note c)	200	–	–	–	200
Zhang Xinjun (note c)	–	–	–	–	–
	400	–	–	–	400
	700	12,372	36,900	528	50,500

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

Executive directors and non-executive directors (continued)

For the year ended 31 December 2018

	Fees HK$'000	Salaries and allowances HK$'000	Bonuses HK$'000	Pension Scheme contributions HK$'000	Total remuneration HK$'000
Executive directors:					
Lin Yong (notes a & b)	–	4,212	15,345	211	19,768
Li Jianguo (note a)	300	–	–	15	315
Poon Mo Yiu (notes a & d)	–	2,693	4,604	127	7,424
Sun Jianfeng (note a)	–	2,405	6,138	120	8,663
Sun Tong (notes a & e)	–	1,836	4,604	14	6,454
	300	11,146	30,691	487	42,624
Non-executive directors:					
Ji Yuguang (notes c & f)	–	–	–	–	–
Qu Qiuping (notes c & g)	–	–	–	–	–
Cheng Chi Ming, Brian (note c)	200	–	–	–	200
Wang Meijuan (note c)	–	–	–	–	–
Chan William (note c)	200	–	–	–	200
Zhang Xinjun (notes c & h)	–	–	–	–	–
Poon Mo Yiu (notes c & d)	21	–	–	–	21
	421	–	–	–	421
	721	11,146	30,691	487	43,045

Notes:

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

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

(c) The non-executive directors' emoluments shown above were for their services as directors of the Company or its subsidiaries. Except for the director fees waived by Mr. Qu Qiuping, Ms. Wang Meijuan and Mr. Zhang Xinjun during the year ended 31 December 2019 (2018: Mr. Ji Yuguang, Mr. Qu Qiuping, Ms. Wang Meijuan and Mr. Zhang Xinjun), there was no arrangement under which a director waived or agreed to waive any remuneration during the current year.

(d) Mr. Poon Mo Yiu was re-designated from non-executive director to executive director on 8 February 2018. The salaries and allowances received by Mr. Poon Mo Yiu represent remuneration for his service as an executive director, and the fees received by Mr. Poon Mo Yiu represent remuneration for his service as a non-executive director.

(e) Mr. Sun Tong was appointed as an executive director with effect on 27 March 2018.

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

Executive directors and non-executive directors (continued)

Notes: (continued)

(f) Mr. Ji Yuguang retired as an non-executive director with effect on 8 February 2018.

(g) Mr. Qu Qiuping was appointed as an non-executive director with effect on 8 February 2018.

(h) Mr. Zhang Xinjun was appointed as an non-executive director with effect on 27 March 2018.

During the years ended 31 December 2019 and 31 December 2018, certain directors of the Company were granted share options for their services to the Group. Details of the share option scheme are disclosed in note 39 of the consolidated financial statements. The fair value of such options was determined on the date of grant and recognised in the consolidated statement of profit or loss as an expense over the vesting period while there was no actual cash payment made to the directors. The amount of amortisation of fair value of share option as recognised in the consolidated statement of profit or loss is as below:

	2019 HK$'000	2018 HK$'000
Executive Directors:		
Lin Yong	1,394	1,051
Li Jianguo	232	356
Poon Mo Yiu (Note (b))	542	71
Sun Jianfeng	930	665
Sun Tong	775	–
Non-executive directors:		
Qu Qiuping	521	51
Cheng Chi Ming, Brian	232	356
Wang Meijuan	232	30
Chan William	232	356
Zhang Xinjun	668	–
Poon Mo Yiu (Note (b))	–	326
Independent non-executive directors:		
Tsui Hing Chuen, William	232	356
Lau Wai Piu	232	356
Wei Kuo-chiang	232	356
Wan Kam To	232	30
Liu Yan	232	30
Lin Ching Yee, Daniel (Note (a))	–	326

Notes:

(a) Resigned on 19 April 2018.

(b) Re-designated from non-executive director to executive director on 8 February 2018.

12. Five Highest Paid Employees

The five highest paid employees during the current year and prior year included two (2018: three) director(s), details of each director's remuneration are set out in note 11 above.

The total remuneration of three non-directors for the year ended 31 December 2019 and two non-directors for the year ended 31 December 2018 was as follows.

	2019 HK$'000	2018 HK$'000
Salaries, bonuses and allowances	51,962	24,724
Pension scheme contributions	445	269
Employee share option benefits	1,022	332
	53,429	25,325

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

	2019 Number of individuals	2018 Number of individuals
HK$9,000,001 to HK$9,500,000	–	–
HK$9,500,001 to HK$10,000,000	–	–
HK$10,000,001 to HK$10,500,000	–	1
HK$13,000,001 to HK$13,500,000	–	–
HK$13,500,001 to HK$14,000,000	1	–
HK$15,000,001 to HK$15,500,000	–	1
HK$15,500,001 to HK$16,000,000	–	–
HK$17,000,001 to HK$17,500,000	1	–
HK$22,000,001 to HK$22,500,000	1	–
	3	2

Note: Details of the remuneration disclosed above do not include amounts paid or payable by way of commissions generated by employees of the Group. No amounts is paid or payable by the Group as inducement for directors to join the Group or compensation for the loss of office as a director in connection with the management of the affairs of any members of the Group during the year.

13. Income Tax Expense

	2019 HK$'000	2018 HK$'000
Current taxation:		
– Hong Kong	311,464	174,882
– Other jurisdictions	2,254	35,483
	313,718	210,365
Under/(over) provision in prior years:		
– Hong Kong	4,768	(52,053)
Deferred tax:		
– Current year and prior year	(18,715)	(1,566)
	299,771	156,746

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

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

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

	2019 HK$'000	2018 HK$'000
Profit before tax	1,850,629	1,179,584
Taxation at income tax rate of 16.5%	305,354	194,631
Under/(over) provision in respect of prior years	4,768	(52,053)
Tax effect of expenses not deductible for tax purpose	205,560	54,462
Tax effect of income not taxable for tax purpose	(177,854)	(127,970)
Tax effect of utilisation of estimated tax losses previously not recognised	(64,525)	(12,508)
Tax effect of estimated tax losses not recognised	36,310	98,826
Tax effect of recognition of deferred tax previously not recognised	(10,608)	–
Effect of different tax rates of subsidiaries operating in other jurisdictions	766	1,358
Income tax expense	299,771	156,746

13. Income Tax Expense (continued)

The Group has estimated tax losses of approximately HK$2,414 million as at 31 December 2019 (31 December 2018: HK$2,570 million), out of which HK$2,270 million (31 December 2018: HK$2,466 million) can be carried forward indefinitely for offsetting against future taxable profits of the respective companies in which the losses arose. These estimated tax losses have no expiry date but are subject to the approval of tax authorities. The remaining portion of HK$144 million will expire in 2024 to 2037 (31 December 2018: HK$104 million which will be expired in 2026 to 2037). Meanwhile, tax losses of HK$15 million have been recognised as deferred tax assets as at 31 December 2019 (31 December 2018: Nil).

Deferred tax assets of HK$421 million (31 December 2018: HK$443 million) have not been recognised in respect of the remaining tax losses as it is not probable that sufficient future taxable profits will be available in the subsidiaries in which the losses arose against which the unused tax losses can be utilised in the near future.

14. Earnings Per Share

Basic earnings per share

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

	2019	2018
Earnings		
Profit for the year attributable to owners of the Company (HK$'000)	1,550,858	1,022,838
Number of shares		
Weighted average number of ordinary shares in issue less shares held for the share award scheme (in thousands) (note (a))	5,776,737	5,605,813
Basic earnings per share (HK cents per share)	26.85	18.25

14. Earnings Per Share (continued)

Diluted earnings per share

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

	2019	2018
Earnings		
Profit for the year attributable to owners of the Company (HK$'000)	1,550,858	1,022,838
Effect of dilutive potential ordinary shares		
– Interest on convertible bonds (net of tax) (HK$'000) (note (b))	123,644	57,450
Earnings for the purpose of diluted earnings per share (HK$'000)	1,674,502	1,080,288
Number of shares		
Weighted average number of ordinary shares in issue less shares held for the share award scheme (in thousands) (note (a))	5,776,737	5,605,813
Effect of dilutive potential ordinary shares:		
– Convertible bonds (in thousands) (note (b))	550,874	644,341
– Share options (in thousands) (note (c))	10	1,246
– Share awards (in thousands)	3,334	3,620
Weighted average number of ordinary shares for the purpose of diluted earnings per share (in thousands)	6,330,955	6,255,020
Diluted earnings per share (HK cents per share)	26.45	17.27

Notes:

(a) As at 31 December 2019, the trustee of the share award scheme held 62,273,142 ordinary shares of the Company (31 December 2018: 33,370,909 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$207 million (31 December 2018: HK$155 million).

During the current year, 15,157,366 awarded shares (31 December 2018: 7,010,493 awarded shares) were granted by the Company. There were 807,151 awarded shares lapsed in respect of such grant in the current year, while 585,522 awarded shares (31 December 2018: 171,613 awarded shares) in respect of the grant by the Company on 11 May 2018, 134,573 awarded shares (31 December 2018: 108,611 awarded shares) in respect of the grant by the Company on 10 March 2017, and 29,820 awarded shares (31 December 2018: 149,898 awarded shares) in respect of the grant by the Company on 11 March 2016 were lapsed during the year ended 31 December 2019. In addition, 134,000 awarded shares (31 December 2018: Nil) were vested during the current year in relation to the grant made by the Company on 11 January 2019, 2,199,883 awarded shares (31 December 2018: Nil) were vested during the current year in relation to the grant made by the Company on 11 May 2018, 1,259,541 awarded shares (31 December 2018: 1,318,237 awarded shares) were vested during the current year in relation to the grant made by the Company on 10 March 2017 and 2,133,343 awarded shares (31 December 2018: 2,252,593 awarded shares) were vested during the current year in relation to the grant made by the Company on 11 March 2016. Details of the share award scheme of the Company have been disclosed in note 39 and should be read in conjunction with the relevant announcements of the share award scheme made by the Company.

14. Earnings Per Share (continued)

Notes: (continued)

(b) On 18 July 2013 and 10 October 2013, the Company issued convertible bonds of HK$776 million and HK$232 million respectively, which had been combined and constitute a single series. On 4 November 2014, the Company issued convertible bonds of HK$1,164 million. On 25 October 2016, the Company further issued convertible bonds of HK$3,880 million. Details of the convertible bonds issued by the Company are set out in note 36.

Convertible bonds issued in 2013 that were outstanding and convertible into ordinary shares of the Company at a conversion price of HK$2.76 as at 31 December 2017 had been converted in full into shares during 2018. The convertible bond issued in 2014 that were outstanding and convertible into ordinary shares of the Company at a conversion price of HK$4.14 immediate before redemption (31 December 2018: HK$4.32) had been redeemed in full during the current year. As at 31 December 2019, the convertible bonds issued in 2016 that remain outstanding are convertible into ordinary shares of the Company at a conversion price of HK$5.81 (31 December 2018: HK$6.09), at the option of the holders of the convertible bonds, which created a potential dilutive effect to the earnings per share. In the calculation of the diluted earnings per share, the convertible bonds are assumed to have been converted into ordinary shares. The weighted average number of ordinary shares outstanding is increased by the weighted average number of additional ordinary shares that would have been outstanding assuming the conversion of all dilutive potential ordinary shares was made from the date of the first issue with the adjustment if there is any conversion of the convertible bonds into ordinary shares during the year. The net profit is adjusted to eliminate the relevant interest expense less the tax effect.

(c) The computation of diluted earnings per share assumed the exercise of the Company's outstanding share options with the exercise price lower than the average market price during the years ended 31 December 2019 and 2018 and with the adjustment for the share options lapsed or exercised during the years.

15. Dividends

	2019 HK$'000	2018 HK$'000
Interim dividend paid		
– HK9 cents (2018: HK7.6 cents) per ordinary share	521,310	430,694
Proposed second interim dividend		
– HK4.3 cents (2018: HK1.4 cents) per ordinary share	255,445	81,056
	776,755	511,750

At a meeting of the Board held 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 an approximate total of HK$123,104,000 cash dividend paid to shareholders and 122,721,931 shares were issued in scrip form with an approximate 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 an approximate total of HK$81,092,000 cash dividend paid to the shareholders.

At a meeting of the Board held 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. The shareholders are given the option to receive the interim dividend in new shares in lieu of cash. The interim dividend was paid on 25 October 2019, with an approximate total of HK$179,923,000 cash dividend paid to shareholders and 148,254,725 shares were issued in scrip form with an approximate amount of HK$341,387,000.

At a meeting of the Board held on 24 March 2020, the Board declared a second interim dividend of HK4.3 cents per share in cash for the year ended 31 December 2019 to shareholders whose names appear on the register of members of the Company on 15 April 2020. The shareholders are given the option to receive the second interim dividend in new shares in lieu of cash. The second interim dividend is expected to be paid on or about 2 June 2020. The overall amount of cash dividends under distribution will be calculated according to such actual number of shares of the Company in issue on the record date for the cash dividend distribution.

16. Cash Held on Behalf of Customers

The Group maintains segregated accounts with 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 consolidated statement of financial position and recognised the corresponding accounts payable (note 35) to respective clients on the grounds that it is liable for any loss or misappropriation of clients' monies. The cash held on behalf of customers is restricted and governed by the Securities and Futures (Client Money) Rules under the Hong Kong Securities and Futures Ordinance ("HKSFO").

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

	2019 HK$'000	2018 HK$'000
Financial assets held for trading and market making activities – at fair value		
Listed equity investments	1,748,246	612,530
Exchange traded funds	151,404	94,506
Listed preference shares	3,280	146,846
Listed debt investments	25,956,217	31,103,699
Unlisted debt investments	600,731	2,356,986
	28,459,878	34,314,567
Financial liabilities held for trading and market making activities – at fair value		
Listed equity investments (note (i))	191,272	452,041
Exchange traded funds (note (i))	22,922	–
Listed debt investments (note (i))	1,654,878	2,736,382
Listed preference shares (note (i))	55,127	29,519
Unlisted debt investments (note (i))	21,183	1,187,924
	1,945,382	4,405,866

Details of disclosure for fair value measurement are set out in note 46.

Note:

(i) Balance represents the fair value of equity and debt securities from short selling activities.

18. Investment Securities

	2019 HK$'000	2018 HK$'000
Investment securities at fair value through profit or loss (note (i))		
Listed equity investments	3,551,055	1,486,008
Exchange traded funds	406,867	138,481
Listed debt investments	1,779,507	2,291,763
Unlisted partnership investments (note (iv))	1,347,393	1,096,755
Unlisted equity investments	853,093	1,506,239
Unlisted debt investments	2,901,645	6,160,517
Unlisted investment funds (note (ii))	15,259,781	8,107,041
	26,099,341	20,786,804
Less: Non-current portion (note (iii))	(17,032,056)	(13,490,761)
	9,067,285	7,296,043
Investment securities at amortised cost		
Unlisted debt investments	10,574,807	5,371,706
Less: Impairment allowance	(13,724)	(12,645)
	10,561,083	5,359,061
Less: Non-current portion (note (iii))	(1,144,299)	(2,359,841)
	9,416,784	2,999,220
Financial investment measured at fair value through other comprehensive income		
Listed debt investments	768,570	–
Listed equity investments	151,676	–
	920,246	–
Less: Non-current portion (note (iii))	(213,169)	–
	707,077	–
Investment securities	37,580,670	26,145,865
Less: Non-current portion (note (iii))	(18,389,524)	(15,850,602)
Current portion	19,191,146	10,295,263

18. Investment Securities (continued)

Notes:

(i) Investment securities at fair value through profit or loss includes certain investment funds that are consolidated into the consolidated financial statements of the Group (note 29). Classification of investments as detailed above is based on the investments held by these investments funds.

(ii) The Group invested in investment funds. These investment funds invest in mainly stocks, bonds, funds and currencies, with the primary objectives to provide the investors with capital appreciation, investment gains 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$15,260 million (31 December 2018: HK$8,107 million) in the consolidated statement of financial position represents the Group's maximum exposure.

(iii) As at 31 December 2019 and 2018, included in the non-current portion are listed debt investments, unlisted debt investments, listed equity investments, unlisted investment funds and unlisted partnership investments that management expect not to realise within twelve months after each reporting period.

(iv) As at 31 December 2019, the unfilled capital commitment to the partnerships were HK$450 million (31 December 2018: HK$640 million).

Included in investment securities at amortised cost are HK$10,519 million (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 Credit Approval Committee of the Group based on the latest status of these securities, and the latest announced or available information about the issuers and the underlying collateral held.

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

	2019 HK$'000	2018 HK$'000
Assets – acquired for financial products issued		
Listed equity investments, at fair value (note (ii))	1,438,796	1,729,650
Listed debt investments, at fair value (note (ii))	18,905,357	15,848,326
Unlisted equity investments, at fair value (notes (i) & (ii))	560,048	550,806
Unlisted partnership investments, at fair value (notes (i) & (ii))	207,049	208,319
Unlisted debt investments, at fair value (note (ii))	1,556,038	–
Unlisted investment funds, at fair value (notes (i) & (ii))	3,272,753	6,335,630
Unlisted financial products, at fair value (notes (ii) & (iv))	6,445,804	3,080,119
	32,385,845	27,752,850
Less: Non-current portion	(2,629,569)	(2,268,434)
Current portion	29,756,276	25,484,416
Liabilities – Financial products issued at fair value		
Unlisted issued financial products, at fair value (note (iii))	18,998,315	13,683,694
Listed equity investments, at fair value	31,923	271,074
	19,030,238	13,954,768
Less: Non-current portion	(1,926,905)	(638,846)
Current portion	17,103,333	13,315,922

Details of disclosure for fair value measurements are set out in note 46.

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

Notes:

(i) As at 31 December 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$4,040 million (31 December 2018: HK$7,095 million) in the consolidated statement of financial position represents the Group's maximum exposure.

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

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

(iii) As at 31 December 2019 and 31 December 2018, included in financial products issued at fair value are the issued structured products which arise from selling financial products generally in the form of notes or swaps of which payouts are linked to the values/returns of certain underlying investments related to listed equity investments, listed/unlisted debt investments, unlisted investment funds, unlisted financial products and listed/unlisted equity or partnership investments.

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

(iv) Majority of the unlisted financial products are financial instruments (such as swaps and accumulators/decumulators) to hedge the financial products issued, with reference assets being listed equity instruments, listed debt investments and unlisted debt investments.

20. Derivative Financial Instruments

	2019 HK$'000	2018 HK$'000
Assets		
Swaps	188,328	80,978
Forward foreign currency exchange contracts	71,959	53,529
Listed futures/options/warrants	52,990	185,035
Callable bull/bear contracts	8,133	480
Unlisted options	18,743	220,541
	340,153	540,563
Liabilities		
Swaps	68,162	41,795
Forward foreign currency exchange contracts	26,676	124,052
Foreign currency option contracts	–	10,317
Listed futures/options/warrants	197,195	251,514
Callable bull/bear contracts	208,343	28,358
Unlisted options	44,763	49,460
	545,139	505,496

21. Advances to Customers in Margin Financing

	2019 HK$'000	2018 HK$'000
Loans to margin clients	13,504,901	16,567,822
Less: Impairment allowance	(875,054)	(615,362)
	12,629,847	15,952,460

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 Credit Approval Committee are responsible to monitor credit risk and seek to maintain a strict control over the outstanding loan balance.

The loans to margin clients are interest bearing and secured by the underlying pledged securities. The Group maintains a list of approved stocks for margin lending at a specified loan to collateral ratio. As at 31 December 2019, advances to customers in margin financing of HK$12,630 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$51,549 million (31 December 2018: HK$71,407 million).

Details of credit risk profile disclosure are set out in "credit risk and impairment assessment" in note 45.

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

22. Advances to Customers for Merger and Acquisition Activities

	2019 HK$'000	2018 HK$'000
Advances to customers for merger and acquisition activities	2,871,828	3,580,966
Less: Impairment allowance	(43,870)	(8,833)
	2,827,958	3,572,133
Less: Non-current portion	(157,907)	(1,094,666)
Current portion	2,670,051	2,477,467

Included in advances to customers for merger and acquisition activities are HK$2,838 million (2018: HK$3,379 million) of advances that are secured. Collaterals held includes shares of the target company (or shares of the legal entity holding shares of target company) acquired by the borrower. In addition, majority of these advances are also guaranteed by other parties including holding companies or related companies of the borrower, beneficial owner of the borrower, etc.

Majority of these advances have contractual maturity within 1 year from the reporting date and credit limits are set for borrowers during the approval process established by the Group. Regular reviews on these advances to customers for merger and acquisition activities are conducted by the Risk Management Department and the Credit Approval Committee of the Group based on the latest status of these advances to customers for merger and acquisition activities, the latest announced or available information about the borrowers, the underlying collateral held and the latest status of the relevant merger and acquisition project. The Group seeks to maintain effective control over its advances to customers for merger and acquisition activities in order to minimise credit risk by reviewing the borrowers' and/or guarantors' financial positions.

Details of credit risk profile disclosure are set out in "credit risk and impairment assessment" in note 45.

23. Asset-Backed Financing to Customers

	2019 HK$'000	2018 HK$'000
Asset-backed financing to customers	5,148,506	5,447,616
Less: Impairment allowance	(23,172)	(108,999)
	5,125,334	5,338,617
Less: Non-current portion	(956,180)	(224,744)
Current portion	4,169,154	5,113,873

Included in asset-backed financing to customers are HK$5,149 million (2018: HK$5,448 million) that are secured.

The majority of these asset-backed financing to customers are secured and/or guaranteed with contractual maturity within 1 year from the reporting date and credit limits are set for borrowers. Collaterals held include equity instruments held by the corporate borrowers, investment portfolio held by institutional borrowers, etc. Regular reviews on these asset-backed financing to customers are conducted by the Risk Management Department and the Credit Approval Committee of the Group based on the latest status of these asset-backed financing to customers and the latest announced or available information about the borrowers and the underlying collateral held. Apart from collateral monitoring, the Group seeks to maintain effective control over its asset-backed financing to customers in order to minimise credit risk by reviewing the borrowers' and/or guarantors' financial positions.

As at 31 December 2019, there was one past due asset-backed financing to customers (31 December 2018: one).

During the year ended 31 December 2019, the management disposed collaterals of a loan due to a default of the borrower. After disposal of collaterals to repay part of the loan, the outstanding gross balance of the loan amounts to HK$10 million. In assessing the impairment, the management considered the creditworthiness and status of the borrower and the present value of estimated future cash flows, an impairment provision of HK$10 million was recognised and consequently the net carrying amount was reduced to zero during the year ended 31 December 2019.

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 and remained overdue as at 31 December 2018. The loan was written off during the current year as the borrower was declared bankrupt.

Details of credit risk profile disclosure are set out in "credit risk and impairment assessment" in note 45.

24. Reverse Repurchase Agreements

	2019 HK$'000	2018 HK$'000
Analysed by collateral type:		
Equities	237,300	27,300
Bonds	4,749,615	4,316,261
	4,986,915	4,343,561
Less: Impairment allowance	(5)	–
	4,986,910	4,343,561
Analysed by market:		
Inter-bank market	4,986,910	4,343,561
Analysed for reporting purposes:		
Current	4,986,910	4,343,561

Reverse repurchase agreements are transactions in which the external investors sell a security to the Group and simultaneously agree to repurchase it (or an asset that is substantially the same) at the agreed date and price. The repurchase prices are fixed and the Group is not exposed to substantially all the credit risks, market risks and rewards of those securities bought. These securities are not recognised in the consolidated financial statements but regarded as "collateral" because the external investors retain substantially all the risks and rewards of these securities.

As at 31 December 2019, the fair value of the collateral was HK$6,213 million (31 December 2018: HK$4,440 million).

25. Accounts Receivable

	2019 HK$'000	2018 HK$'000
Accounts receivable from:		
– Clients	924,685	696,902
– Brokers, dealers and clearing houses	6,347,099	5,179,109
– Collateral paid under stock borrowing agreements	337,640	688,739
– Clients for subscription of new shares in IPO	5,611	2,273
– Immediate holding company (note (1))	947,640	–
– Others (note (2))	458,079	401,453
	9,020,754	6,968,476

Notes:

(1) In December 2019, Haitong International Holdings Limited (immediate holding company of the Company) purchased a debt security issued by a third party with settlement date in January 2020 and was settled subsequently. Details are disclosed in note 41(a)(x) of these consolidated financial statements.

(2) The amount represents the fees receivable from corporate finance, wealth management and asset management business.

25. Accounts Receivable (continued)

Details of impairment assessment for current year are set out in "credit risk and impairment assessment" in note 45.

The following is an ageing analysis of the accounts receivable based on trade date/invoice date at the reporting date:

	2019 HK$'000	2018 HK$'000
Between 0 and 3 months	8,856,650	6,939,488
Between 4 and 6 months	148,472	13,634
Between 7 and 12 months	3,988	8,687
Over 1 year	11,644	6,667
	9,020,754	6,968,476

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

Accounts receivable from clients arising from financing of IPO subscriptions are required to settle their securities trading balances on the allotment date determined under the relevant market practices or exchange rules. As at 31 December 2019, the settlement dates are in the range of 2 to 7 days.

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

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

26. Prepayments, Deposits and Other Receivables

	2019 HK$'000	2018 HK$'000
Prepayments, deposits and other receivables (note)	1,762,781	1,582,311
Less: Non-current portion	(75,261)	(53,050)
Current portion	1,687,520	1,529,261

Note: Included in the amount of prepayments, deposits and other receivables are the interest receivable of HK$1,190 million (31 December 2018: HK$1,278 million) from bank deposits, financing to customers and debt securities held which are receivable within one year.

27. Investments Accounted for Using the Equity Method

	2019 HK$'000	2018 HK$'000
Joint ventures:		
Cost of unlisted investments in joint ventures	–	155,084
Share of post-acquisition losses and other comprehensive expense, net of dividend received	–	(644)
	–	154,440
	–	154,440

Notes:

(a) Joint venture held as at 31 December 2018 represents Haitong High Yield Bond Multi-Tranche Fund S.P. (referred as the "Fund" for the purpose of this note), which is an investment fund engaging investment holding activity, and is incorporated in the Cayman Islands. The joint venture is an unlisted entity without quoted market price. As at 31 December 2018, the Group held 78.05% interests of non-participating shares of the Fund.

As at 31 December 2018, the Group held the interests of non-participating shares of the Fund 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 are 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. The joint venture of the Group is accounted for using the equity method in these consolidated financial statements for the year ended 31 December 2018. The directors consider the joint venture is not significant to the Group's consolidated statement of financial position.

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 share of result of the Fund from 1 January 2019 up to date of cessation of such joint control is not material to the Group.

(b) The Group held the interests in unlisted fund investments, which are engaged in investment holding activity and incorporated in the Cayman Islands. The Group held the interests of non-participating shares in these investment funds (referred as the "Funds" for the purpose of this note), which provide the Group with the share of returns from the Funds but not any decision-making power nor any voting right in daily operation of the Funds.

The management shareholders of these fund investments are empowered to make all the key financing and operating decisions in the Funds and require unanimous consent of the parties sharing control. During the current year, the Group has entered into several co-operation agreements with the independent third party that the independent third party and the Group held 50% of the management shares in these fund investments respectively. The directors of the Company considered these fund investment were exempted from applying the equity method as the principal activity of the subsidiary is investment holding (and therefore qualified as "venture capital organization" as defined under the accounting standard) and these investments were recognised as "Investment Securities at fair value through profit or loss" in note 18 to the consolidated financial statements. As at 31 December 2019, the Group held in the range of 35% to 36% of non-participating shares in these investment funds with the total fair value of HK$7,250 million which also represents the Group's maximum exposures.

There is no unfilled capital commitment to the Fund as at 31 December 2019 and 31 December 2018.

28. Interests in Unconsolidated Investments

The Group invested in certain investment funds, partnerships and private equity investments (collectively referred to as the "Investments" for the purpose of notes 4, 28 and 29) with primary objectives for capital appreciation, investment gains 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 interests which primarily provide the Group with the share of returns from the Investments but not any decision making power nor any voting right to involve in and control the daily operation.

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

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

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

In the opinion of the directors of the Company, the variable returns that the Group is exposed to with respect to these Investments are not significant and the Group is primarily acting as an agent and subject to substantive removal rights held by other parties who may remove the Group as an investment manager. Therefore, the Group did not consolidate these Investments.

The Group classified its interests in Investments as investment securities and assets acquired for financial products issued in notes 18 and 19.

29. Interests in Consolidated Investment

The Group had consolidated certain Investments in accordance with the criteria set out in note 28. Especially for those investment funds where the Group involved as an investment manager and also as an investor, the Group assesses whether (i) the Group is acting as an agent/principal in these investment; (ii) there are any other external holders in these Investments which have power to remove or control over the party having the ability to direct the relevant activities of the Investments based on the facts and circumstances and (iii) the combination of investments it held together with its remuneration creates exposure to variability of returns from the activities of the asset management products that is of such significance that indicates the Group is a principal.

As at 31 December 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$8,183 million and HK$16 million (31 December 2018: HK$11,216 million and HK$100 million respectively).

29. Interests in Consolidated Investment (continued)

Third-party interests in consolidated Investments consist of third-party unit/shareholders' interests in consolidated Investments which are reflected as a liability since they can be put back to the Group for cash. The realisation of net assets attributable to third-party unit/shareholders' interests in consolidated Investments cannot be predicted with accuracy since these represent the interests of third-party unit holders in consolidated Investments that are subject to the actions of third-party unit holders.

For the year ended 31 December 2019, investment returns related to interests held by third-party unit/shareholders of loss of HK$40 million (year ended 2018: gain of HK$6 million) in consolidated Investments are included in other income and gains or losses in the consolidated statement of profit or loss and the interests held by third-party unit holders/shareholders amounted to HK$421 million (31 December 2018: HK$484 million) as at 31 December 2019. Such amount is recognised as "other liabilities arising from consolidation of investment funds" in the consolidated statement of financial position.

30. Goodwill and Other Intangible Assets

	2019 HK$'000	2018 HK$'000
Goodwill	380,099	380,099
Other intangible assets	105,817	93,292
	485,916	473,391

Goodwill

(a) Carrying value/movement

	2019 HK$'000	2018 HK$'000
Cost		
At the beginning of the year	380,099	223,985
Goodwill arising on acquisition (note 43)	–	156,114
	380,099	380,099

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

30. Goodwill and Other Intangible Assets (continued)

Goodwill (continued)

(b) Impairment testing on goodwill

For the purpose of impairment testing, goodwill set out in note (a) above is acquired through business combinations in prior years as follows:

- A listed company on the Tokyo Stock Exchange in 2015 ("Entity A");
- An India incorporated entity in 2016 ("Entity B");
- A US incorporated entity in 2018 ("Entity C") (see note 43);
- A UK incorporated entity in 2018 ("Entity D") (see note 43);
- Other immaterial acquisition of businesses in 2006 ("Entity E");
- Other immaterial acquisition of business in 2007 ("Entity F"); and
- Other immaterial acquisition of business in 2017 ("Entity G").

The carrying amount of goodwill arising from the business combination of Entity A to G has been allocated to each of the cash generating units ("CGUs") for impairment testing as follows:

	2019 HK$'000	2018 HK$'000
Wealth Management – Entity E	854	854
Asset Management – Entity F	9,000	9,000
Institutional Clients		
– Entity A	147,843	147,843
– Entity B	60,763	60,763
– Entity D	26,849	26,849
	235,455	235,455
Corporate Finance – Entity C	129,265	129,265
Singapore foreign exchange business – Entity G	5,525	5,525
	380,099	380,099

During the years ended 31 December 2019 and 31 December 2018, management of the Group determined that there are no impairments of any of its CGUs containing goodwill as the recoverable amounts exceed their respective carrying amounts.

30. Goodwill and Other Intangible Assets (continued)

Goodwill (continued)

(b) Impairment testing on goodwill (continued)

The directors of the Company consider the acquisition of Entity E, F and G and the goodwill allocated to the respective CGUs are not material to the consolidated financial statements. The basis of the recoverable amounts of the Institutional Clients CGU and Corporate Finance CGU that with material amount of goodwill allocated and their major underlying assumptions are summarised below:

(i) Institutional Clients – Entities A, B and D

Entity A

In 2015, the Group has acquired the entire issued share capital of the entity from independent third parties, which is engaged in providing pan-Asia equity research, analysis and sales advice for the benefit of institutional and investing clients, to enrich and support the business of institutional client of the Group. The directors of the Company determined that the institutional client segment is expected to benefit from the synergies of the combination. Goodwill acquired through this business combination has been allocated to the CGU of "Institutional Clients", which is a reportable segment, for impairment testing.

Entity B

In 2016, the Group has acquired the entire issued share capital of the entity from Haitong Bank, S.A. (a fellow subsidiary), which is engaged in institutional equities business and investment banking business, to enrich and support the business of institutional client of the Group. The directors of the Company determined that the institutional client segment is expected to benefit from the synergies of the combination. Goodwill acquired through this business combination has been allocated to the CGU of "Institutional Clients", which is a reportable segment, for impairment testing.

Entity D

In 2018, the Group has acquired entire issued share capital of the entity from Haitong Bank, S.A. that the entity was mainly supporting the equity sales, sales, trading and transacting in the fixed income markets of Haitong Bank, S.A. before the acquisition by the Group.

The Group believes that the acquisition will bring synergies to the Group by enriching its fixed income, commodities and currency products and serving global institutional clients with comprehensive financial products and services under Institutional Clients Segment as its integral component.

The directors of the Company determined that the Institutional Clients Segment is expected to benefit from the synergies of the combination of Entity A, B and D. Goodwill acquired through these business combinations has been allocated to the CGU of "Institutional Clients", which is a reportable segment, for impairment testing.

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

The discount rate applied to the cash flow projections is 15.5% (2018: 15%) which is determined based on past performance, the management's expectations for the market development and future business plan. The discount rate used reflects specific risk relating to Institutional Clients and taken into account of the risk of business uncertainties in foreseeable future.

30. Goodwill and Other Intangible Assets (continued)

Goodwill (continued)

(b) Impairment testing on goodwill (continued)

(ii) Corporate Finance – Entity C

Entity C

In 2018, the Group has acquired entire issued share capital of the entity from Haitong Bank, S.A that the entity was mainly supporting the corporate finance and capital market business of Haitong Bank, S.A. before the acquisition by the Group.

The Group believes that the acquisition will bring synergies to the Group by enriching its cross-border mergers and acquisitions as well as equity capital markets origination under Corporate Finance Segment as its integral component for better serving global clients with more comprehensive financial servicing network to cover the world's major capital markets and their needs of seeking global asset allocation and expansion. The directors of the Company determined that Corporate Finance Segment is expected to benefit from the synergies of the combination. Goodwill acquired through this business combinations has been allocated to the CGU of "Corporate Finance", which is a reportable segment, for impairment testing.

The recoverable amount of Entity C has been determined based on value-in-use calculation using cash flow projections covering a five-year period approved by senior management. The discount rate applied to the cash flow projections is 19.4% (2018: 17%) which is determined based on past performance, the management's expectations for the market development and future business plan. The discount rate used reflects specific risk relating to Entity C and taken into account of the risk of business uncertainties in foreseeable future.

The management believes that any reasonably possible changes in any of these assumptions would not cause the carrying amount of Wealth Management, Asset Management, Institutional Clients, Corporate Finance and Singapore foreign exchange business to exceed their recoverable amount respectively.

30. Goodwill and Other Intangible Assets (continued)

Other intangible assets

(a) Carrying value/movement

	Trading rights and licenses HK$'000	System and infrastructure HK$'000	Customer relationship HK$'000	Total HK$'000
Cost				
At 1 January 2018	11,133	4,551	45,584	61,268
Acquired on acquisition of a subsidiary (note 43)	–	5,537	–	5,537
Additions	–	60,969	–	60,969
At 31 December 2018 and 1 January 2019	11,133	71,057	45,584	127,774
Additions	–	33,140	–	33,140
At 31 December 2019	11,133	104,197	45,584	160,914
Amortisation				
At 1 January 2018 and 1 January 2019	3,522	–	13,036	16,558
Charge for the year	–	12,211	5,713	17,924
At 31 December 2018	3,522	12,211	18,749	34,482
Charge for the year	–	14,902	5,713	20,615
At 31 December 2019	3,522	27,113	24,462	55,097
Carrying values				
At 31 December 2019	7,611	77,084	21,122	105,817
At 31 December 2018	7,611	58,846	26,835	93,292

Other than the trading rights and licenses, and system and infrastructure, which have indefinite useful lives and useful life of 3 years respectively, the intangible asset of customer relationship is amortised over the expected useful life of 15 years.

31. Other Assets

	2019 HK$'000	2018 HK$'000
At cost:		
Deposits with the Stock Exchange:		
– Compensation fund	650	650
– Fidelity fund	350	350
– Mainland Securities and Settlement Deposit	36,747	26,367
Dealers' deposit with Hong Kong Securities and Futures Commission ("SFC")	200	350
Stamp duty deposits	500	500
Contributions to The Central Clearing and Settlement System Guarantee Fund	35,537	29,305
Admission fees paid to Hong Kong Securities Clearing Company Limited	300	300
Reserve fund with The SEHK Options Clearing House Limited	10,611	7,481
Deposits with HKFE Clearing Corporation Limited in contribution to the reserve fund	9,264	4,793
Cost of membership for a seat at The Chinese Gold and Silver Exchange Society	486	486
Settlement Risk Fund paid to The Shanghai Securities Central Clearing & Registration Corporation	–	387
Others	8,483	5,327
	103,128	76,296

32. Investment Property

	HK$'000
Fair value	
At 1 January 2018	–
Acquired on an acquisition of an entity	285,399
Transfer to property and equipment	(53,860)
At 31 December 2018 and 1 January 2019	231,539
Transfer to property and equipment	(39,068)
At 31 December 2019	192,471

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.

32. Investment Property (continued)

The fair value of the Group's investment properties as at 31 December 2019 and 31 December 2018 were arrived at on the basis of a valuation carried out on the respective dates by Colliers International (Hong Kong) Limited, independent qualified professional valuers not connected to the Group. The fair value is based on market approach, by comparing recent arms-length sales of similar interests located in the surrounding area.

In determining the fair value of the relevant properties, management determine appropriate valuation techniques and inputs for fair value measurements. The Group engages third party qualified valuers to perform the valuation. The management works closely with the qualified external valuers to establish the appropriate valuation techniques and inputs to the model.

In estimating the fair value of the properties, the highest and best use of the properties is their current use.

The fair value of properties, which are all classified as level 3 fair value hierarchy, was determined based on the direct comparison approach assuming sale of the property interest in its existing state with the benefit of vacant procession and by making reference to recent comparable sales evidence as available in the relevant market.

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

Investment properties held by the Group	Fair value hierarchy as defined in note 3	Valuation techniques and key inputs	Significant unobservable inputs	Relationship of unobservable inputs to fair value
At 31 December 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 The key input is level adjustment.	Level adjustment on individual floors of the property of 0.5%	The higher level, the higher the fair value

Note: Commercial property units are acquired during the prior year from acquisition of a legal entity, which does not constitute a business combination under HKFRS 3, and subsequently partially classified as investment properties and the rest as property and equipment. When the Group acquires a group of assets and liabilities that do not constitute a business, the Group identifies and recognises the individual identifiable assets acquired and liabilities assumed by allocating the purchase price first to investment properties which are subsequently measured under fair value model and financial assets/financial liabilities at the respective fair values, the remaining balance of the purchase price is then allocated to the other individual identifiable assets and liabilities on the basis of their relative fair values at the date of purchase. Such a transaction does not give rise to goodwill or bargain purchase gain.

33. Property and Equipment

	Leasehold land and buildings HK$'000	Leasehold improvements HK$'000	Furniture, fixtures and equipment HK$'000	Computer hardware and equipment HK$'000	Total HK$'000
31 December 2019					
At 1 January 2019					
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 1 January 2019, 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
Transfer from investment property	39,068	–	–	–	39,068
Additions – Right-of-use assets under HKFRS 16	207,859	–	–	–	207,859
Additions – Others	690	29,772	8,206	15,096	53,764
Disposals	–	(455)	(546)	(12,666)	(13,667)
Depreciation	(122,024)	(18,240)	(5,305)	(59,382)	(204,951)
At 31 December 2019, net of accumulated depreciation	593,724	43,940	21,666	46,945	706,275
At 31 December 2019					
Cost	698,498	140,396	84,870	534,931	1,458,695
Accumulated depreciation	(104,774)	(96,456)	(63,204)	(487,986)	(752,420)
Net carrying values	593,724	43,940	21,666	46,945	706,275

33. Property and Equipment (continued)

	Leasehold land and buildings HK$'000	Leasehold improvements HK$'000	Furniture, fixtures and equipment HK$'000	Computer hardware and equipment HK$'000	Total HK$'000
31 December 2018					
At 1 January 2018					
Cost	3,092	83,408	63,245	550,986	700,731
Accumulated depreciation	(1,602)	(57,578)	(48,818)	(414,490)	(522,488)
Net carrying values	1,490	25,830	14,427	136,496	178,243
At 1 January 2018, net of accumulated depreciation	1,490	25,830	14,427	136,496	178,243
Arising from asset acquisition (note 32(a))	215,959	27	3	–	215,989
Arising from acquisition of subsidiaries (note 43)	–	2,921	6,608	478	10,007
Transfer from investment property	53,860	–	–	–	53,860
Additions	–	12,350	5,155	27,220	44,725
Disposals	–	(871)	(291)	(474)	(1,636)
Depreciation	(6,412)	(7,394)	(6,591)	(59,823)	(80,220)
At 31 December 2018, net of accumulated depreciation	264,897	32,863	19,311	103,897	420,968
At 31 December 2018					
Cost	272,911	97,835	74,720	578,210	1,023,676
Accumulated depreciation	(8,014)	(64,972)	(55,409)	(474,313)	(602,708)
Net carrying values	264,897	32,863	19,311	103,897	420,968

Notes:

(i) As at 31 December 2019, included in the carrying amount of leasehold land and buildings is right-of-use assets of HK$299,787,000 (as at 1 January 2019: HK$203,234,000).

(ii) For the year ended 31 December 2019, the total cash outflow for leases amounts to HK$117,203,000.

For both years, the Group leases various offices for its operations. Lease contracts are entered into for fixed term of 2 years to 9 years, but may have extension options. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. In determining the lease term and assessing the length of the non-cancellable period, the Group applies the definition of a contract and determines the period for which the contract is enforceable. The Group reassessed the lease term at the transition date and concluded it is reasonably certain to exercise these extension options.

34. Repurchase Agreements

	2019 HK$'000	2018 HK$'000
Analysed by collateral type:		
Equities	1,581,894	2,130,000
Bonds	24,795,672	21,959,043
Analysed by market:		
Inter-bank market	26,377,566	24,089,043
Analysed for reporting purposes:		
Current	26,377,566	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 consolidated financial statements but regarded as "collateral" for the liabilities because the Group retains substantially all the risks and rewards of these securities.

As at 31 December 2019, the Group entered into repurchase agreements with financial institutions to sell equities and bonds recognised as financial assets at FVTPL with carrying amount of HK$34,528 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.

35. Accounts Payable

	2019 HK$'000	2018 HK$'000
Accounts payable to:		
– Clients	16,593,685	17,710,600
– Brokers, dealers and clearing houses	1,483,844	1,153,352
– Collateral received under stock lending agreements	1,077,440	1,708,575
– Others	1,029,690	402,025
	20,184,659	20,974,552

35. Accounts Payable (continued)

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

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

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

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

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

Accounts payable to clients also include those payables placed in segregated accounts with authorised institutions of HK$14,964,001,000 (31 December 2018: HK$15,998,360,000), HKFE Clearing Corporation Limited, the SEHK Options Clearing House Limited and other futures dealers totalling HK$1,170,453,000 (31 December 2018: HK$1,060,245,000).

36. Loans and Borrowings

	2019 HK$'000	2018 HK$'000
Debt securities in issue		
Non-current		
Convertible bonds (notes (a))	123,269	3,792,050
Non-convertible bonds (note (b))	8,503,710	5,451,585
Total non-current debt securities in issue	8,626,979	9,243,635
Current		
Convertible bonds (note (a))	–	141,300
Non-convertible bonds (note (b))	5,437,305	4,687,020
Non-convertible notes (note (c))	7,354,145	10,975,672
Total current debt securities in issue	12,791,450	15,803,992
Total debt securities in issue	21,418,429	25,047,627
Bank borrowings		
Secured borrowing		
– Bank loans (notes (d), (e) and (f))	–	489,536
Unsecured borrowing		
– Bank loans (notes (e), (f) and (g)	36,872,917	33,286,603
Total bank borrowings	36,872,917	33,776,139
Total borrowings	58,291,346	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.

During the year ended 31 December 2019, convertible bonds issued by the Company in 2014 with the principal amount of HK$137 million were redeemed.

On 25 October 2019, convertible bonds issued by the Company in 2016 with the principal amount of HK$3,756 million were redeemed at the redemption price of 101.51% by the Company upon exercise of the right by the bondholders to require the Company to redeem in accordance with the terms and conditions of the convertible bonds. As at 31 December 2019, the number of outstanding share convertible under the convertible bonds issued in 2016 is 21,342,512 (31 December 2018: 637,110,016) with principal amount of HK$124 million (31 December 2018: HK$3,880 million). Please refer to the Company's announcement on 25 October 2019 for details of the redemption.

As at 31 December 2019, the conversion prices of convertible bonds issued by the Company in 2016 is HK$5.81 per share (31 December 2018: HK$6.09 per share). As at 31 December 2018, the conversion prices of convertible bond issued by the Company in 2014 was HK$4.32 per share. No convertible bonds issued by the Company in 2014 and 2016 were converted during current year and prior year.

36. Loans and Borrowings (continued)

Notes: (continued)

(b) On 11 September 2014, the Group's wholly owned subsidiary Haitong International Finance 2014 Limited issued guaranteed bonds in principal amount of US$600 million which is guaranteed by the Company. Please refer to the Company's related announcements on 4 and 11 September 2014 as well as 2014 audited consolidated financial statements for details of the bonds. The guaranteed bonds issued in 2014 were redeemed and cancelled on 11 September 2019 at the principal amount in accordance with terms and conditions of the guaranteed bonds.

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

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 The Stock Exchange of Hong Kong Limited. The bond carries a fixed interest rate of 3.375% with a maturity period of 5 years. The principal will be fully repayable on the maturity date at 19 July 2024. Please refer to the Company's announcement on 10 July 2019 and 19 July 2019 for details of the bonds.

On 18 November 2019, the Company issued bonds in principal amount of US$400 million at a discount of 99.415% which is listed on the The Stock Exchange of Hong Kong Limited. The bond carries a fixed interest rate of 3.125% with a maturity period of 5.5 years. The principal will be fully repayable on the maturity date at 18 May 2025. Please refer to the Company's announcement on 7 November 2019 and 18 November 2019 for details of the bonds.

(c) During the year ended 31 December 2019, the Company has issued medium term notes under the Company's Medium Term Note Programme (the "MTN Programme") in principal amount totalling HK$8,824 million with a maturity period of 1 year and repaid several medium term notes of principal amount totalling HK$12,495 million. As at 31 December 2019, the outstanding loan balances of HK$7,354 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 were secured by the listed shares (held by the Group as security for advances to customers in margin financing with the customers' consent) of HK$4,027 million at fair value and the remaining amount was secured by debt investments of HK$339 million held by the Group, while these debt investments are presented in financial assets held for trading and market making activities to the consolidated statement of financial position.

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

(f) Bank loans are repayable on demand or within 1 year. As at 31 December 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 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 31 December 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 31 December 2019, HK$26,104 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 as current liabilities for the purpose of disclosure in these consolidated financial statements.

36. Loans and Borrowings (continued)

The table below details changes in the Group's loans and borrowings arising from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are those for which cash flows were, or future cash flows will be, classified in the Group's consolidated statement of cash flows from financing activities. Interest payments in relation to below liabilities are included in other payables, accruals and other liabilities and presented in operating cash flow.

	Dividend payable HK$'000	Convertible bonds HK$'000	Non-convertible bonds HK$'000	Non-convertible notes HK$'000	Bank loans and other borrowing HK$'000	Loan from the immediate holding company HK$'000	Total HK$'000
31 December 2019							
At 1 January 2019	–	3,933,350	10,138,605	10,975,672	33,776,139	–	58,823,766
Financing cash flows	(261,015)	(3,866,392)	3,831,188	(3,686,456)	3,096,778	–	(885,897)
Dividend declared	602,366	–	–	–	–	–	602,366
Settled in scrip dividend	(341,387)	–	–	–	–	–	(341,387)
Foreign exchange translation	–	–	(63,098)	23,884	–	–	(39,214)
Other changes	36	56,311	34,320	41,045	–	–	131,712
At 31 December 2019	–	123,269	13,941,015	7,354,145	36,872,917	–	58,291,346
31 December 2018							
At 1 January 2018	–	3,868,506	10,083,594	1,671,215	30,735,297	20,000	46,378,612
Financing cash flows	(396,166)	–	–	9,447,715	3,040,842	(20,000)	12,072,391
Dividend declared	1,420,849	–	–	–	–	–	1,420,849
Settled in scrip dividend	(1,024,976)	–	–	–	–	–	(1,024,976)
Foreign exchange translation	–	–	20,233	(242,038)	–	–	(221,805)
Other changes	293	64,844	34,778	98,780	–	–	198,695
At 31 December 2018	–	3,933,350	10,138,605	10,975,672	33,776,139	–	58,823,766

37. Other Payables, Accruals and Other Liabilities

	2019 HK$'000	2018 HK$'000
Other payables, accruals and other liabilities	1,860,276	1,845,661
Less: Non-current portion (note 48)	(199,498)	(586,189)
Current portion	1,660,778	1,259,472

Notes:

(i) Other payables are non-interest bearing.

(ii) As at 31 December 2019, included in other payables, accruals and other liabilities is lease liabilities of HK$310,846,000.

	31 December 2019 HK$'000
Lease liabilities payable:	
Within one year	111,348
Within a period of more than one year but not more than two years	131,608
Within a period of more than two years but not more than five years	55,799
Within a period of more than five years	12,091
	310,846

37. Other Payables, Accruals and Other Liabilities (continued)

The table below details changes in the Group's lease liabilities arising from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are those for which cash flows were, or future cash flows will be, classified in the Group's statement of cash flows as cash flows from financing activities. Interest payments in relation to lease liabilities are presented in operating cash flow.

	Lease liabilities HK$'000
At 1 January 2019	210,949
Financing cash flow	(107,962)
New leases entered/other changes	207,859
At 31 December 2019	310,846

38. Share Capital

	2019 HK$'000	2018 HK$'000
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:		
5,940,583,872 (31 December 2018: 5,789,746,388) ordinary shares of HK$0.10 each	594,058	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 options	3,747,206	375
New shares issued under exercise of convertible bonds	724,637	73
Scrip dividend issued – 2017 second interim dividend	161,693,823	16,169
Scrip dividend issued – 2018 interim dividend (note 15)	122,721,931	12,272
As at 31 December 2018 and 1 January 2019	5,789,746,388	578,975
New shares issued under exercise of share options	2,582,759	258
Scrip dividend issued – 2019 interim dividend (note 15)	148,254,725	14,825
As at 31 December 2019	5,940,583,872	594,058

39. Share Option/Award Scheme

2002 Share option scheme

On 23 August 2002, the shareholders of the Company approved the adoption of a share option scheme (the "2002 Share Option Scheme"), which expired on 22 August 2012. A summary of the principal terms of the 2002 Share Option Scheme, as disclosed in accordance with the Listing Rules, is set out as follows:

The 2002 Share Option Scheme was adopted for the purpose of attracting, retaining and motivating talented employees to strive towards long term performance targets set by the Company and its subsidiaries and at the same time allowing the participants to enjoy the results of the Company attained through their efforts and contributions. Under the 2002 Share Option Scheme, options were granted to any full time employees, executive and non-executive directors of the Company or any of its subsidiaries or associates.

The maximum number of shares which may be issued upon exercise of all options to be granted under the 2002 Share Option Scheme and any other share option schemes of the Company shall not in aggregate exceed 10% of the total number of shares in issue as at the date of adoption of the 2002 Share Option Scheme (the "Scheme Mandate Limit") but the Company may seek approval of its shareholders at general meetings to refresh the Scheme Mandate Limit, save that the maximum number of shares in respect of which options may be granted by directors of the Company under the 2002 Share Option Scheme and any other share option schemes of the Company shall not exceed 10% of the issued share capital of the Company as at the date of approval by the shareholders of the Company at the general meeting where such limit is refreshed.

If refreshed, options previously granted under the 2002 Share Option Scheme and any other share option schemes of the Company (including those outstanding, cancelled, lapsed or exercised options) will not be counted for the purpose of calculating such 10% limit.

Notwithstanding the aforesaid in previous paragraph, the maximum number of shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the 2002 Share Option Scheme and any other share option schemes of the Company shall not exceed 30% (or such higher percentage as may be allowed under the Listing Rules) of the total number of shares in issue from time to time. The maximum number of shares issued and to be issued upon exercise of the options granted to each participant under the 2002 Share Option Scheme and any other share option schemes of the Company (including both exercised and outstanding options) in any 12-month period shall not exceed 1% of the total number of the Company's shares in issue. Any further grant of share options in excess of this limit is subject to approval by the shareholders of the Company at a general meeting.

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

39. Share Option/Award Scheme (continued)

2002 Share option scheme (continued)

The offer of a grant of share options may be accepted within 30 days from the date of the offer upon payment of a consideration of HK$1 by the grantee. The exercise period of the share options granted is determinable by the Board, and such period shall commence not earlier than 6 months from the date of grant of the options and expire not later than 10 years after the date of grant of the options. The vesting period of the share options is from the date of the grant until the commencement of the exercise period. All share options under the 2002 Share Option Scheme are subject to a 6-month vesting period.

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

Share options do not confer rights on the holders to dividends or to vote at shareholders' meetings.

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

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

	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 beginning of the year	2.76	2,583	2.76	5,812
Adjusted during the year (note)	–	–	2.76	17
Exercised during the year	2.76	(2,583)	2.76	(3,246)
Forfeited during the year	–	–	–	–
At end of the year	–	–	2.76	2,583

39. Share Option/Award Scheme (continued)

2002 Share option scheme (continued)

All the outstanding share options were exercised during the current year. 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 to 2 March 2019

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

No new share options were granted for the years ended 31 December 2019 and 31 December 2018 under 2002 Share Option Scheme.

During the year ended 31 December 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 31 December 2019.

2015 Share option scheme

The shareholders of the Company approved the adoption of a new share option scheme (the "2015 Share Option Scheme") on 8 June 2015 (the "Adoption Date"). The 2015 Share Option Scheme was also approved by the shareholders of HSCL, the holding company of Haitong International Holdings Limited, the controlling shareholder of the Company, and Listing Committee of The Stock Exchange of Hong Kong Limited on 8 June 2015 and 12 June 2015 respectively. A summary of the principal terms of the 2015 Share Option Scheme, as disclosed in accordance with the Listing Rules, is set out as follows:

The 2015 Share Option Scheme was adopted to attract, retain and motivate talented employees to strive towards long term performance targets set by the Group and to provide them with an incentive to work better for the interest of the Group. Under the 2015 Share Option Scheme, share options could be granted to any full time or part-time employee, executive and non-executive (whether independent or not) directors of the Group, who, in the absolute opinion of the Board, have contributed to the Company or the Group.

The maximum number of shares of the Company (the "Shares") which may be issued upon exercise of all options to be granted under the 2015 Share Option Scheme and any other share option schemes shall not in aggregate exceed 212,924,439 shares, representing approximately 10% of the issued shares of the Company as at 30 November 2014, being the date of tentative approval of the 2015 Share Option Scheme by the management of the Company.

39. Share Option/Award Scheme (continued)

2015 Share option scheme (continued)

In respect of the period of 12 months from the Adoption Date and for each of the subsequent periods of 12 months from the previous anniversary of the Adoption Date (each of those 12-months periods is hereinafter referred to as a "Scheme Year"), the total number of shares of the Company which may be issued upon exercise of the options granted in each Scheme Year shall not exceed 21,292,444 shares (the "Annual Limit"). The Company may from time to time seek approval of its shareholders and the approval of the shareholders of HSCL (so long as the Company is a subsidiary of HSCL under the Listing Rules) in respective general meetings to renew the Scheme Limit and/or the Annual Limit such that the total number of shares of the Company in respect of which options may be granted by directors of the Company under the 2015 Share Option Scheme (i) in respect of the Scheme Limit, shall not exceed 10% of the issued share capital of the Company as at the date of approval of the refreshment; and (ii) in respect of the Annual Limit, shall not exceed 1% of the issued share capital of the Company as at the date of approval of the refreshment. Options previously granted under the 2015 Share Option Scheme and any other share option schemes of the Company (including those outstanding, cancelled, lapsed or exercised options) will not be counted for the purpose of calculating such limits as refreshed.

Notwithstanding the aforesaid in previous paragraph, the maximum number of shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the 2015 Share Option Scheme and any other share option schemes of the Company shall not exceed 30% (or such higher percentage as may be allowed under the Listing Rules) of the total number of shares in issue from time to time.

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

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

The offer of a grant of share options may be accepted within 28 days from the date of the offer upon payment of a consideration of HK$1 by the grantee. The exercise period of the share options granted is determinable by the directors of the Company and notified by the directors of the Company to each participant as being the period during which an option may be exercised, and in any event such period of time shall not exceed a period of 5 years, commencing on the Offer Date and expire on the last day of such period. The 2015 Share Option Scheme does not stipulate any performance target which needs to be achieved by the participant who accepts the offer of share options (the "Grantee") before the share options can be exercised. In order to sustain a long-term employment relationship between the Company and the Grantee(s), grantees must hold their share options for a holding period of not less than 6 months from the date of acceptance of the offer by the Grantee, before the share options can be exercised.

39. Share Option/Award Scheme (continued)

2015 Share option scheme (continued)

The exercise price of the share options is determinable by the directors, and shall be at least the highest of (i) the price equal to 110% of the closing price of the Company's shares as stated in the Stock Exchange's daily quotations sheet on the offer date; (ii) the average closing price of the Company's shares as stated in the Stock Exchange's daily quotations sheets for the 5 trading days immediately preceding the offer date; and (iii) the nominal value of the Company's shares. Share options do not confer rights on the holders to dividends or to vote at shareholders' meetings.

On 1 November 2018, the Company granted 19,160,000 share options at the exercise price of HK$2.904 per share to its directors and employees under the 2015 Share Option Scheme with a total of 19,160,000 share options being accepted. The option period of the share options is from 1 November 2018 to 31 October 2023. All the share options granted have a vesting period of 6 months from the date of acceptance. The closing price of the Company's shares on the date of grant was HK$2.64 per share. The estimated fair values of the options granted under 2015 Share Option Scheme on the grant date on 1 November 2018 is approximately HK$11.7 million, which was calculated using the Binomial Option Pricing model with the key inputs into the model as disclosed below.

	2018
Weighted average share price at the date of grant	HK$2.64
Initial exercise price	HK$2.904
Expected volatility	48.504%
Expected option life	5 years
Risk-free rate	2.304%
Expected dividend yield	7.63%
Early exercise multiples – directors	1.74
– employees	1.98

Expected volatility was determined using the historical volatility of the Company's share price over the previous 5 years at the grant date.

39. Share Option/Award Scheme (continued)

2015 Share option scheme (continued)

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

Expected volatility was determined using the historical volatility of the Company's share price over the previous 5 years at the grant date.

For the year ended 31 December 2019, the Group has recognised an equity-settled share-based payment of HK$15,449,000 (2018: HK$16,492,000) for the share options under the 2015 Share Option Scheme in the consolidated statement of profit or loss.

39. Share Option/Award Scheme (continued)

2015 Share option scheme (continued)

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

	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 beginning of the year	4.031	46,717	4.674	29,228
Granted and accepted during the year	2.56	10,645	2.904	19,160
Adjusted during the year (note)	3.737	28	4.820	133
Exercised during the year	–	–	4.667	(501)
Forfeited during the year	4.238	(3,284)	4.862	(1,303)
At end of the year	3.728	54,106	4.031	46,717

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

31 December 2019 Number of options '000	Exercise price HK$ per share (note)	Exercise period
13,545	4.643	8 December 2016 – 11 May 2021
11,712	5.011	7 June 2018 – 9 November 2022
18,249	2.903	28 May 2019 – 31 October 2023
10,600	2.559	27 December 2019 – 30 May 2024
54,106		

31 December 2018 Number of options '000	Exercise price HK$ per share (note)	Exercise period
14,847	4.645	8 December 2016 – 11 May 2021
12,710	5.014	7 June 2018 – 9 November 2022
19,160	2.904	28 May 2019 – 31 October 2023
46,717		

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

39. Share Option/Award Scheme (continued)

2015 Share option scheme (continued)

As at 31 December 2019, the Company had 54,106,262 (2018: 46,717,444) share options outstanding under the 2015 Share Option Scheme, which represented approximately 0.91% (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 54,106,262 (2018: 46,717,444) additional ordinary shares of the Company and additional share capital of HK$5,411,000 (2018: HK$4,672,000) and share premium of HK$196,270,000 (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 ("Selected Participants") for their contributions to the Group and to attract suitable personnel for further development of the Group.

Pursuant to the Scheme, the ordinary shares of HK$0.1 each in the capital of the Company will be acquired by the trustee at the cost of the Company and will be held in trust for the Selected Participants before vesting. The total number of shares granted under the Scheme shall be limited to 10% of the total issued share capital of the Company as at 19 December 2014 (the "Adoption Date") or such other percentage as determined by the Board from time to time.

No award of the shares shall be granted to any single Selected Participant which would result in the maximum number of awarded shares under the Scheme in the 12-month period up to and including the date of such grant representing in aggregate over 1% of the issued share capital of the Company as at the Adoption Date.

The Board has delegated the power and authority to the Administration Committee to handle operational matters of the Scheme but all major decisions in relation to the Scheme shall be made by the Board unless expressly provided for in the Scheme rules pursuant to the Scheme or the Board resolves to delegate such power to the Administration Committee.

Pursuant to the Scheme rules, the Board may, from time to time, at its absolute discretion and subject to such terms and conditions as it may think fit (including the basis of eligibility of each Participant determined by the Board and recommended by the Remuneration Committee from time to time) select any participant for participation in the Scheme as a Selected Participant and determine the number of awarded shares, upon the recommendation of the Remuneration Committee.

After the selection of the Selected Participant(s) and the determination of the number of awarded shares by the Board, the Administration Committee shall inform the trustee accordingly. The Administration Committee shall also inform the Selected Participant(s) by award notice. Provided that the respective Selected Participant(s) has (have) executed the relevant acceptance form(s) and returned the same together with a counterpart of the award notice(s) to the trustee through the Company within the period prescribed in the award notice(s), the Company shall during the award period pay or cause to be paid to the trustee for purchasing the awarded shares ("Reference Amount").

39. Share Option/Award Scheme (continued)

Share award scheme (continued)

After receiving the Reference Amount, the Trustee shall apply the same towards the purchase of awarded shares in the market through a broker at the prevailing market price on the Stock Exchange pursuant to the Scheme Rules and the Company would recognise as treasury shares in the consolidated statement of changes in equity.

The Administration Committee shall conduct a review of the performance conditions (if any) in relation to each Selected Participant at least once in each financial year during the award period if the award period is more than 12 months or once only during the award period if the award period is less than 12 months. The awarded shares will be vested if the Selected Participant is able to meet the relevant service conditions during the relevant period, or lapsed if the Selected Participant is unable to meet the relevant service conditions during the relevant period.

A Selected Participant shall not exercise or direct the trustee to exercise and the trustee shall not exercise the voting rights in respect of any awarded shares held under the trust.

Details of the awarded shares granted and unvested as at 31 December 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
10 March 2017	4,246,234	2,577,778	513,105	1,155,351	note (b)	19,320,000
11 May 2018	7,010,493	2,199,883	757,135	4,053,475	note (c)	32,108,000
11 January 2019	134,000	134,000	–	–	note (d)	351,080
25 March 2019	6,848,366	–	477,151	6,371,215	note (e)	21,024,484
29 October 2019	8,175,000	–	330,000	7,845,000	note (f)	18,557,250

For the shares granted, the fair value of the shares were measured at the market price of the Company's shares. For the year ended 31 December 2019, the Group has recognised an equity-settled share-based payment of HK$33,544,000 (31 December 2018: HK$20,049,000) for the Scheme in consolidated statement of profit or loss.

As at 31 December 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 year, 29,820 (2018: 149,898) and 2,133,343 (2018: 2,252,593) awarded shares granted on 11 March 2016 were lapsed and were vested respectively.

As at 31 December 2019, the Company had 1,155,351 (2018: 2,549,465) awarded shares granted on 10 March 2017 which were outstanding under the Scheme. During the current year, 134,573 (2018: 108,611) and 1,259,541 (2018: 1,318,237) awarded shares granted on 10 March 2017 lapsed and were vested respectively.

39. Share Option/Award Scheme (continued)

Share award scheme (continued)

As at 31 December 2019, the Company had 4,053,475 (2018: 6,838,880) awarded shares granted on 11 May 2018 which were outstanding under the Scheme. During the current year, 585,522 (2018: 171,613) and 2,199,883 awarded shares granted on 11 May 2018 were lapsed and vested.

As at 31 December 2019, the Company had no awarded shares granted on 11 January 2019 which were outstanding under the Scheme. During the current year, all 134,000 awarded shares granted on 11 January 2019 were vested.

As at 31 December 2019, the Company had 6,371,215 awarded shares granted on 25 March 2019 which were outstanding under the Scheme. During the current year, 477,151 awarded shares granted on 25 March 2019 were lapsed.

As at 31 December 2019, the Company had 7,845,000 awarded shares granted on 29 October 2019 which were outstanding under the Scheme. During the current year, 330,000 awarded shares granted on 29 October 2019 were lapsed.

Notes:

(a) Pursuant to the agreed terms, the vesting date of one-third of the awarded shares granted on 11 March 2016 is on 15 March 2017 while the vesting date of another one-third of awarded shares granted on 11 March 2016 would be on 15 March 2018 and the vesting date for the remaining would be on 15 March 2019.

(b) Pursuant to the agreed terms, the vesting date of one-third of the awarded shares granted on 10 March 2017 is on 19 March 2018 while the vesting date of another one-third of awarded shares granted on 10 March 2017 would be on 19 March 2019 and the vesting date for the remaining would be on 19 March 2020.

(c) Pursuant to the agreed terms, the vesting date of one-third of the awarded shares granted on 11 May 2018 is on 13 May 2019 while the vesting date of another one-third of awarded shares granted on 11 May 2018 would be on 13 May 2020 and the vesting date for the remaining would be on 13 May 2021.

(d) Pursuant to the agreed terms, the vesting date of all the awarded 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 awarded shares granted on 25 March 2019 is on 23 March 2020 while the vesting date of another one-third of awarded shares granted on 25 March 2019 would be on 23 March 2021 and the vesting date for the remaining would be on 23 March 2022.

(f) Pursuant to the agreed terms, the vesting date of one-third of the awarded shares granted on 29 October 2019 is on 2 January 2020 while the vesting date of another one-third of awarded shares granted on 29 October 2019 would be on 2 January 2021 and the vesting date for the remaining would be on 2 January 2022.

(g) 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 consolidated statement of changes in equity.

Movements of shares held under the Scheme during the 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 year	78,958	34,629,000	62,462	17,675,000
Vested and transferred out during the year	(27,120)	(5,726,767)	(20,629)	(3,570,830)
At 31 December	207,210	62,273,142	155,372	33,370,909

40. Commitments

(a) Operating lease arrangements

The Group leases certain of its office properties and data centre under operating lease arrangements. Leases for office properties are negotiated for terms ranging from one year to ten years, and those for data centre for terms of five years. At 31 December 2018, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	2018 HK$'000
Within one year	88,914
In the second to tenth years, inclusive	126,198
	215,112

(b) Capital commitments

In addition to the operating lease commitments detailed in note (a), the Group had the following commitments as at year end.

	2019 HK$'000	2018 HK$'000
Contracted, but not provided for:		
Computer equipment	11,613	9,028
Others	12,050	2,572
	23,663	11,600

41. Related Party Transactions

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

(a) On 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$666,000 (2018: HK$474,000) and HK$467,000 (2018: HK$669,000) respectively for the current year in accordance with terms of the master services agreements.

(ii) Income from investment management, advisory services and referral fee amounted to HK$19,057,000 (2018: HK$4,750,000) for provision of investment management service, investment advisory service and referral fee 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 or relevant agreement.

(iii) During the current year, a subsidiary of the Company has entered into a framework collaboration agreement with Haitong Bank, S.A. ("Haitong Bank", a subsidiary of Haitong International Holdings Limited, the immediate holding company of the Company), pursuant to which Haitong Bank and this subsidiary would provide equity trading service and research service to each other's external clients, depending the domicile of the clients within or outside the European Union. Income received from Haitong Bank in connection to such services amounted to EUR829,000 (equivalent to HK$7,227,000) and expenses paid by this subsidiary in connection to such services amounted to EUR6,531,000 (equivalent to HK$56,859,000). The relevant income and expense are based on the agreement entered by this subsidiary and Haitong Bank.

(iv) During the current year, Haitong Bank acted as one of the joint bookrunners and joint lead managers in issuance of debt securities by the Company. The Group paid underwriting commission to Haitong Bank amounted to US$384,000 (equivalent to HK$2,993,000), while such commission paid constitutes part of the effective interest expense of the Group under the applicable accounting standard. During the current year, amortisation of the underwriting commission paid amounted to HK$182,000, which was recognised in the consolidated statement of profit or loss as part of interest expense.

41. Related Party Transactions (continued)

(a) (continued)

(v) During the current year, Haitong Bank provided financial advisory and placement work for the Group's financing activities. During the current year, the Group paid financial advisory fee of US$2.5 million (equivalent to HK$19.62 million) and placement fee of US$25,400 (equivalent to HK$199,000) (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 year, amortisation of the financial advisory fee paid amounted to HK$11,987,000 (2018: HK$5,171,000), which was recognised in the consolidated statement of profit or loss as part of the interest expense.

(vi) During the current year, 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 year, an interest expense of US$59,000 (equivalent to HK$458,000) was paid by the Company, and was recognised within "net trading income on financial products" in note 6. The note was terminated in April 2019.

(vii) During the current year, 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, and an interest expense of US$103,000 (equivalent to HK$808,000) was paid by the Company. The interest expense was recognised within "net trading income on financial products" in note 6. The note was terminated in May 2019.

(viii) 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 year, a loss of US$50,068 (equivalent to HK$392,000) was recognised on this swap contract, and was recognised within "net trading income on financial products" in note 6. Relevant contract was early terminated on 22 January 2019.

(ix) During the year ended 31 December 2018, the Group purchased a security issued by Haitong Bank, with interest rate at 7.50% per annum and principal amount of US$130 million (equivalent to approximately HK$1,020 million). Part of the security was sold to during the year ended 31 December 2018 and the outstanding principal amount as at 31 December 2018 held by the Group amounted to US$115 million (equivalent to approximately HK$901 million). During the current year, the remaining security held was sold and the Group did not hold any security issued by Haitong Bank as at 31 December 2019.

41. Related Party Transactions (continued)

(a) (continued)

(x) During the year ended 31 December 2019, Haitong International Holdings Limited, the immediate holding company of the Company purchased a debt security from the Group with principal amount of US$115 million and such transaction was settled in January 2020. Such unsettled trade balance as at 31 December 2019 is also disclosed in note 25 of the consolidated financial statements.

(xi) During the current year, 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 income amounted to HK$9,472,000 and financial advisory fee income amounted to HK$467,000 received by the Group from Haitong UniTrust.

(xii) During the year of 2018, Haitong Securities Co., Ltd. ("HSCL") and subsidiary of HSCL issued unsecured bond respectively. A subsidiary of the Company acted as one of the joint bookrunners in the offering. The relevant underwriting commission income recognised during the year of 2019 amounted to HK$471,000 (2018: HK$469,000) in accordance with terms of relevant subscription agreements.

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

	2019 HK$'000	2018 HK$'000
Short term employee benefits	87,858	82,646
Post-employment benefits	1,124	1,106
Share-based payments	10,107	9,038
Total compensation paid to key management personnel	99,089	92,790

42. Statement of Financial Position and Reserves Movement of the Company

(a) Statement of financial position of the Company

	2019			2018		
	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	26,073	–	26,073	34,762	–	34,762
Tax recoverables	93,362	–	93,362	93,375	–	93,375
Prepayments, deposits and other receivables	278,412	75,261	353,673	148,651	–	148,651
Amount due from related company	30	–	30	2	–	2
Amounts due from subsidiaries	107,542,267	23,832,349	131,374,616	90,224,541	–	90,224,541
Property and equipment	–	166,266	166,266	–	29,742	29,742
Deferred tax assets	–	517	517	–	–	–
Other assets	–	–	–	–	1,095	1,095
Investment in subsidiaries	–	2,167,239	2,167,239	–	2,167,239	2,167,239
Total assets	107,940,144	26,241,632	134,181,776	90,501,331	2,198,076	92,699,407
LIABILITIES AND EQUITY						
Liabilities						
Bank borrowings	36,867,917	–	36,867,917	32,964,000	–	32,964,000
Debt securities in issue	7,354,145	8,626,979	15,981,124	14,909,022	–	14,909,022
Tax payable	9,460	–	9,460	102	–	102
Other payables, accruals and other liabilities	1,057,970	–	1,057,970	699,345	–	699,345
Amounts due to subsidiaries	59,986,266	–	59,986,266	23,949,408	–	23,949,408
Total liabilities	105,275,758	8,626,979	113,902,737	72,521,877	–	72,521,877
Equity						
Share capital (note 38)			594,058			578,975
Reserves (note 42(b))			19,429,536			19,517,499
Proposed dividends (note 15)			255,445			81,056
Total equity			20,279,039			20,177,530
Total liabilities and equity			134,181,776			92,699,407
Net current assets			2,664,386			17,979,454

42. Statement of Financial Position and Reserves Movement of the Company (continued)

(b) Reserves movement of the Company

The amounts of the Group's reserves and the movements therein for the current year and prior year are presented in the consolidated statement of changes in equity.

The amounts of the Company's reserves and its movements are as follows:

	Share premium account HK$'000	Share option reserve HK$'000	Share award reserve HK$'000	Shares held for employee share award scheme HK$'000	Capital redemption reserve HK$'000	Contributed surplus HK$'000	Convertible bond reserve HK$'000	Retained profits HK$'000	Total HK$'000
At 1 January 2018	17,811,292	24,000	21,037	(113,539)	5,102	2,697	200,538	710,602	18,661,729
Profit and total comprehensive income – for the year	–	–	–	–	–	–	–	384,250	384,250
Exchange reserve	–	–	–	–	–	–	–	432	432
Recognition of equity-settled share based payment	–	16,492	20,049	–	–	–	–	–	36,541
Vesting of shares for the share award scheme	(6,216)	–	(14,986)	20,629	–	–	–	–	(573)
Purchases of shares held under the share award Scheme	–	–	–	(62,462)	–	–	–	–	(62,462)
Share issued under convertible bond	2,234	–	–	–	–	–	(67)	–	2,167
Shares issued under share option scheme	12,233	(1,310)	–	–	–	–	–	–	10,923
Share awards lapsed	174	–	(174)	–	–	–	–	–	–
Share options lapsed	869	(869)	–	–	–	–	–	–	–
2017 second interim dividend declared and settled in cash and scrip	701,217	–	–	–	–	–	–	(293)	700,924
2018 interim dividend declared and settled in cash and scrip (note 15)	295,318	–	–	–	–	–	–	(430,694)	(135,376)
2018 second interim dividend declared and settled in cash (note 15)	–	–	–	–	–	–	–	(81,056)	(81,056)
At 31 December 2018	18,817,121	38,313	25,926	(155,372)	5,102	2,697	200,471	583,241	19,517,499
At 1 January 2019	18,817,121	38,313	25,926	(155,372)	5,102	2,697	200,471	583,241	19,517,499
HKFRS 16 adjustment	–	–	–	–	–	–	–	(2,483)	(2,483)
Profit and total comprehensive income – for the year	–	–	–	–	–	–	–	386,500	386,500
Exchange reserve	–	–	–	–	–	–	–	1,367	1,367
Recognition of equity-settled share based payment	–	15,449	33,544	–	–	–	–	–	48,993
Vesting of shares for the share award scheme	(2,802)	–	(24,318)	27,120	–	–	–	–	–
Purchases of shares held under the share award Scheme	–	–	–	(78,958)	–	–	–	–	(78,958)
Redemption under convertible bond	–	–	–	–	–	–	(194,060)	194,060	–
Shares issued under share option scheme	7,130	(283)	–	–	–	–	–	–	6,847
Share awards lapsed	767	–	(767)	–	–	–	–	–	–
Share options lapsed	3,592	(3,592)	–	–	–	–	–	–	–
2018 second interim dividend declared and settled in cash (note 15)	–	–	–	–	–	–	–	(36)	(36)
2019 interim dividend declared and settled in cash and scrip (note 15)	326,562	–	–	–	–	–	–	(521,310)	(194,748)
Proposed 2019 second interim dividend (note 15)	–	–	–	–	–	–	–	(255,445)	(255,445)
At 31 December 2019	19,152,370	49,887	34,385	(207,210)	5,102	2,697	6,411	385,894	19,429,536

42. Statement of Financial Position and Reserves Movement of the Company (continued)

(b) Reserves movement of the Company (continued)

The contributed surplus of the Group arose in 1996 as a result of the group reorganisation in preparation for the listing of the Company and represented the difference between the nominal value of the share capital issued by the Company and the aggregate net asset value of the subsidiaries acquired at the date of acquisition. Under the Companies Act 1981 of Bermuda (as amended), the Company may make distributions to its members out of the contributed surplus provided certain conditions are met.

The share option reserve of the Group comprises the fair value of share options granted which are yet to be exercised, as further explained in the accounting policy for share-based payment transactions in note 3 to the consolidated financial statements.

The consolidated profit and total comprehensive income attributable to equity holders of the Company for the year ended 31 December 2019 includes a profit and total comprehensive income of HK$386,500,000 (2018: profit and total comprehensive income of HK$384,250,000) which has been dealt with in the financial statements of the Company.

43. Investment in Subsidiaries

	2019 HK$'000	2018 HK$'000
Unlisted shares, at cost	105,377	105,377
Deemed contribution	2,061,862	2,061,862
	2,167,239	2,167,239

The deemed contribution represents the imputed interest on non-current interest free loan to subsidiaries calculated with reference to HKAS 39 "Financial instruments: Recognition and measurement" in the prior years.

43. Investment in Subsidiaries (continued)

The particulars of principal subsidiaries that are body corporates as at 31 December 2019 are as follows:

Name	Place of incorporation/ registration and operations	Paid-up register capital	Percentage of equity attributable capital to the Company Direct %	Indirect %	Principal activities
Haitong International (UK) Limited	England and Wales	GBP8,334,563	–	100 (2018: 100)	Brokerage, equity research and research sales
Haitong International Asset Management (HK) Limited	Hong Kong	HK$20,000,000	–	100 (2018: 100)	Provision of asset management services
Haitong International Asset Management Limited	Hong Kong	HK$13,000,000	–	100 (2018: 100)	Provision of asset management services
Haitong International Capital (HK) Limited	Hong Kong	HK$10,000,000	–	100 (2018: 100)	Corporate finance
Haitong International Capital Limited	Hong Kong	HK$20,000,000	–	100 (2018: 100)	Provision of corporate financial advisory services
Haitong International Futures Limited	Hong Kong	HK$400,000,000	–	100 (2018: 100)	Futures and options brokerage and trading
Haitong International Financial Products Limited	Hong Kong	HK$50,000,000	–	100 (2018: 100)	Market-making in financial instruments
Haitong International Financial Solutions Limited	Hong Kong	HK$1,000,000	–	100 (2018: 100)	Provision of financial solutions
Haitong International Investment Managers Limited	Hong Kong	HK$47,000,000	–	100 (2018: 100)	Provision of asset management services
Haitong International Japaninvest K.K.	Japan	Yen10,000,000	–	100 (2018: 100)	Asian equity research and research sales
Haitong International Research Limited	Hong Kong	HK$1,000,000	–	100 (2018: 100)	Provision of research services

43. Investment in Subsidiaries (continued)

Name	Place of incorporation/ registration and operations	Paid-up register capital	Percentage of equity attributable capital to the Company Direct %	Indirect %	Principal activities
Haitong International Securities (Australia) Pty Ltd	Australia	AU$1,380,435	–	100 (2018: 100)	Brokerage services
Haitong International Securities (USA) Inc.	United States	US$12,654,319	–	100 (2018: 100)	Equity research, sales & trading and fixed income sales & trading
Haitong International Securities Company Limited	Hong Kong	HK$11,500,000,000	–	100 (2018: 100)	Securities brokerage and margin financing
Haitong International Securities Group (Singapore) Pte. Ltd.	Singapore	SG$730,550,721	–	100 (2018: 100)	Investment holding of Singapore operations
Haitong International Securities Nominees Limited	Hong Kong	HK$2	–	100 (2018: 100)	Provision of nominee and custodian services
Haitong Securities India Private Limited	India	INR260,732,520	–	100 (2018: 100)	Institutional stock broking and investment banking

43. Investment in Subsidiaries (continued)

In addition, the following consolidated investment funds are also "subsidiaries" for the purpose of Appendix 16 of the Listing Rules. These consolidated investment funds are not body corporates and therefore do not have any paid-up register capital.

Name	Place of incorporation/ registration and operations	Percentage of equity attributable to the Company Direct %	Indirect %	Principal Activities
Haitong Smart Portfolio Fund S.P.	Cayman Islands	–	100 (2018: 100)	Fund investment
Haitong International Innovation Fund SPC (consists of SP I to SP V & SP VII)	Cayman Islands	–	100 (2018: 100)	Private equity investment

The table above lists out the subsidiaries (within the definition as defined under the Listing Rules) of the Group which, in the opinion of the directors of the Company, principally affected the results or assets of the Group. At the end of the reporting period, the Company has other subsidiaries that are not material to the Group. To give details of other subsidiaries would, in the opinion of the directors of the Company, result in particulars of excessive length.

Acquisition in 2018

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

43. Investment in Subsidiaries (continued)

Acquisition in 2018 (continued)

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 were 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	9,179
Other intangible assets	–	5,537
Accounts receivable	26,958	–
Prepayments and other receivables	13,400	9,301
Investment securities	2,549	–
Other assets	–	3,914
Cash and cash equivalents	39,661	47,220
Bank loans and other borrowings	–	(54,803)
Accounts payable	(259)	–
Tax liabilities	(4,518)	–
Other payables and accruals	(7,322)	(18,254)
Net assets acquired at the date of acquisition	71,297	2,094

In the opinion of the directors of the Company, the fair values of the accounts and other receivables acquired 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.

43. Investment in Subsidiaries (continued)

Acquisition in 2018 (continued)

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.

The goodwill is allocated to the Institutional Clients CGU and Corporate Finance CGU respectively. Details of the impairment testing are disclosed in note 30.

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

43. Investment in Subsidiaries (continued)

Acquisition in 2018 (continued)

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

Included in the profit for the year ended 31 December 2018 was loss of HK$35 million attributable to the business generated by Haitong UK and Haitong USA respectively which has been acquired by the Group on 23 February 2018. Revenue for the year ended 31 December 2018 included HK$114 million generated by Haitong UK and Haitong USA.

Had the acquisition been completed on 1 January 2018, total revenue for the year ended 31 December 2018 would have been HK$6,392 million, and profit for the year ended 31 December 2018 would have been HK$993 million. The pro forma information is for illustrative purposes only and is not necessarily an indication of revenue and results of operations of the Group that actually would have been achieved had the acquisition been completed on 1 January 2018, nor is it intended to be a projection of future results.

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

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

Debt securities issued by subsidiaries

None of the subsidiaries had issued any debt securities during the current and prior years except for Haitong International Finance 2015 Limited and Haitong International Finance 2014 Limited which have issued US$700 million and US$600 million of guaranteed bonds in 2015 and 2014 respectively, while the guarantee bonds issued by Haitong International Finance 2014 Limited were redeemed during the current year. Details of the debt securities issued are set out in note 36.

Significant restrictions

Cash and cash equivalents held by subsidiaries in the Mainland China are subject to exchange control restrictions. The carrying amount of these restricted assets in the consolidated financial statements at 31 December 2019 was approximately of HK$35.3 million (31 December 2018: HK$68.5 million).

44. Capital Management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern and to maintain healthy capital ratios in order to support its business and maximise shareholder value.

The Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives, policies or processes during the year.

The Group is not subject to any externally imposed capital requirements except for certain subsidiaries engaged in regulated activities as defined under the HKSFO. In addition, certain overseas subsidiaries are also subject to externally purposed capital requirements by overseas regulatory bodies, such as the Monetary Authority of Singapore, the UK Financial Conduct Authority and the United States Financial Industry Regulatory Authority.

During the year, the subsidiaries that are subject to minimum capital requirements imposed by respective regulatory activities, complied with all the minimum capital requirements.

The Group monitors capital using a leverage ratio, which is calculated by total assets excluding accounts payable to clients divided by the total shareholders' equity.

The leverage ratios as at the end of the reporting period were as follows:

	2019 HK$'000	2018 HK$'000
Total assets	156,274,502	151,181,085
Less: Accounts payable to clients (note 35)	(16,593,685)	(17,710,600)
	139,680,817	133,470,485
Shareholders' equity	27,030,581	25,810,337
Leverage ratio (times)	5.17	5.17

45. Financial Risk Management

The Group's major financial instruments include refundable deposits and other receivables, investment securities measured at FVTPL/FVTOCI/amortised cost, advances to customers in margin financing, advances to customers for merger and acquisition activities and asset-backed financing to customers, financial assets/liabilities held for trading and market making activities, assets acquired for financial products issued, derivative financial instruments, accounts receivable, reverse repurchase agreements, cash and cash equivalents, repurchase agreements, financial products issued at fair value, accounts payable, debt securities in issue and bank borrowings.

Advances to customers in margin financing, advances to customers for merger and acquisition activities and asset-backed financing to customers, financial assets or liabilities held for trading and market making activities, assets acquired for financial products issued, derivative financial instruments, reverse repurchase agreements, investment securities measured at FVTPL/FVTOCI/amortised cost, accounts receivable, financial products issued at fair value and accounts payable mainly arise from the Group's operations while cash and bank balances, repurchase agreements, bank borrowings and debt securities in issue are to maintain liquidity or to raise financing for the Group's operations.

The risks associated with these financial instruments include market risk (price risk, currency risk and interest rate risk), credit risk and liquidity risk. The policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in economic environment. Market risk comprises three types of risks: price risk, currency risk and interest rate risk.

The Group's exposures to market risk include price risk, currency risk and interest rate risk.

Price risk

Price risk is the risk that the fair values of equity investments, debt instruments, exchange traded funds, unlisted funds and partnership investments and derivatives decreased as a result of changes in the levels of equity indexes and the values of individual investment.

The Group is exposed to price risk mostly arising from equity investments, fund investments, and derivative financial instruments that are classified as financial assets/liabilities held for trading and market making activities and investment securities measured at FVTPL. Majority of the Group's equity investments and exchange traded funds are listed on the Stock Exchange and respective overseas stock exchanges, while the unlisted investment funds are traded in the over-the-counter markets.

The Group has established a risk management mechanism led by the Board and the Executive Committee through its 2 sub-committees, the Credit Approval Committee and the Investment Committee.

45. Financial Risk Management (continued)

Market risk (continued)

Price risk (continued)

In addition, the Group's exposures are closely monitored by other relevant internal control units, including the Risk Management Department, the Treasury Department, the Legal Department, the Compliance Department and the Internal Audit Department.

Listed equity investments (including exchange traded funds)

The table below summarises the impact of changes in the Hong Kong Hang Seng Index and other relevant indexes on the Group's profit after tax for the year and on the investments revaluation reserve. The analysis is based on the assumption that the equity index had changed by 10% with all other variables held constant and all the listed equity instruments move according to the historical correlation with the index. The directors of the Company consider the Group's exposure to price risk arising from the listed equity investments acquired for the issued financial products presented in assets acquired financial products issued can be offset against the Group's exposure to price risk arising from the issued financial products presented in financial products issued at fair value and therefore are excluded from the analysis below.

Hong Kong Hang Seng Index and other relevant indexes

	2019	
	Net impact on profit after tax HK$'000	Impact on the investments revaluation reserve in equity HK$'000
Increase by 10%	471,222	15,168
Decrease by 10%	(471,222)	(15,168)

Hong Kong Hang Seng Index and other relevant indexes

	2018	
	Net impact on profit after tax HK$'000	Impact on the investments revaluation reserve in equity HK$'000
Increase by 10%	89,289	–
Decrease by 10%	(89,289)	–

45. Financial Risk Management (continued)

Market risk (continued)

Price risk (continued)

Unlisted fund, unlisted equity and partnership investments

The directors of the Company consider the Group's exposure to price risk arising from the listed/unlisted fund, unlisted equity and partnership investments as well as unlisted financial product acquired for the issued financial products presented in assets acquired for financial products issued can be offset against the Group's exposure to price risk arising from the issued financial products presented in financial products issued at fair value.

The fair value of listed/unlisted fund, unlisted equity and partnership investments as well as unlisted financial products depend on the valuation of the respective investments or underlying investments. If the unit price increased/decreased by 5%, profit after tax for the year would be subject to an estimated HK$609,796,000 increase/decrease (2018: HK$415,932,000 increase/decrease).

Derivative financial instruments – held for trading

The fair value of derivative financial instruments held for trading depends on the underlying investment portfolio or linked index. If the fair value of the underlying investment portfolio or linked index increased/decreased by 5%, the fair value of derivative financial instruments held for trading and profit after tax would be subject to an estimated HK$8,558,000 decrease/increase (2018: HK$1,463,000 increase/decrease).

Debt securities measured at fair value

For sensitivity analysis purpose of debt securities, if the prices of debt securities (measured at fair value) had been 2% higher/lower, the profit after tax for the year ended 31 December 2019 would have increased/decreased by approximately HK$492,820,000 (2018: HK$619,771,000), the investments revaluation reserve in consolidated statement of profit or loss and other comprehensive income would be subject to an estimated HK$15,371,000 increase/decrease (2018: nil).

In opinion of the management, the sensitivity analysis is unrepresentative of the price risk as the year end exposure does not reflect the exposure during the year.

45. Financial Risk Management (continued)

Market risk (continued)

Currency risk

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate as a result of changes in foreign exchange rates.

The Group's foreign currency risk arises principally from the Group's transactions and borrowings denominated in currencies other than Hong Kong dollars ("HKD").

During the year ended 31 December 2018, the Group had a cross currency swap with a notional contract amount of RMB200 million (equivalent to HK$239 million) which has been terminated before year ended 31 December 2018, which was designated as cash flow hedges of the currency risk inherent in a RMB denominated note issued by the Group.

The majority of the Group's assets and liabilities are denominated in HKD, Euro ("EUR"), Singapore dollars ("SGD"), United States dollars ("USD") and Renminbi ("RMB"). The directors do not expect significant foreign exchange risk arising from USD denominated monetary items in view of the Hong Kong dollar pegged system to the USD.

At 31 December 2019, if EUR strengthened/weakened against HKD by 5% with all other variables including tax rate being constant, profit after tax for the year would have been HK$22,567,000 (2018: HK$4,381,000) higher/lower.

At 31 December 2019, if SGD strengthened/weakened against HKD by 5% with all other variables including tax rate being constant, profit after tax for the year would have been HK$16,197,000 (2018: HK$5,895,000) higher/lower.

At 31 December 2019, if RMB strengthened/weakened against HKD by 5% with all other variables including tax rate being constant, profit after tax for the year would have been HK$39,285,000 higher/lower (2018: HK$57,524,000 lower/higher).

In the opinion of the management, the sensitivity analysis is unrepresentative of the inherent foreign currency risk as the year end exposure does not reflect the exposure during the year.

45. Financial Risk Management (continued)

Market risk (continued)

Interest rate risk

Fair value interest rate risk

The Group's fair value interest rate risk relates primarily to investments in preference shares, debt securities and unlisted financial products within investment securities measured at FVTPL, and financial assets/liabilities held for trading and market making activities that carry fixed interest rates. However, the directors of the Company consider the Group's exposure to interest risk arising from the listed and unlisted debt investments acquired for the issued financial products presented in assets acquired for financial products issued can be offset against the Group's exposure to interest risk arising from the issued financial products presented in financial products issued at fair value.

For the year ended 31 December 2019, the total interest income under effective interest method from financial assets that are measured at amortised cost or at FVTOCI amounts to HK$2,941,593,000 (2018: HK$2,575,717,000). For year ended 31 December 2019, the interest expense on financial liabilities that are measured at amortised cost amounts to HK$3,129,773,000 (2018: HK$2,473,278,000).

The Group's fair value interest rate risk exposure is summarised as follows:

	2019 HK$'000	2018 HK$'000
Financial assets held for trading and market making activities	26,560,228	33,607,531
Investment securities at FVTPL	4,681,152	8,452,280
Financial liabilities held for trading and market making activities	(1,731,188)	(3,953,825)
Financial products issued at fair value	(1,542,155)	(2,525,808)
Investment securities at FVTOCI	768,570	–
	28,736,607	35,580,178

At 31 December 2019, if market interest rates had been 25 basis points (2018: 25 basis points) higher/lower with all other variables held constant, profit after tax for the year would have decreased/increased by HK$58,383,000 (2018: decreased/increased by HK$74,274,000), the investments revaluation reserve in equity would have decreased/increased by HK$1,921,000 (2018: nil).

In the opinion of the management, the sensitivity analysis is unrepresentative of the fair value interest rate risk as the year end exposure does not reflect the exposure during the year.

Cash flow interest rate

The Group's cash flow interest rate risk relates primarily to the bank deposits, advances to customers in margin financing, advances to customers for merger and acquisition activities and asset-backed financing to customers, investment securities at amortised cost, debt securities in issue and bank borrowings.

The Group's cash flow interest rate risk is mainly concentrated on the fluctuation of HIBOR arising from the Group's HKD denominated borrowings as its interest-bearing assets and liabilities are mainly HKD denominated.

45. Financial Risk Management (continued)

Market risk (continued)

Interest rate risk (continued)

Cash flow interest rate (Continued)

The Group's exposure to interest rate risk arising from the interest-bearing assets can be offset against the Group's interest-bearing liabilities. Management actively monitors the Group's net interest rate exposure through setting limits on the level of mismatch of interest rate re-pricing and duration gap and aims at maintaining an interest rate spread, such that the Group is always in a net interest-bearing asset position and derives net interest income. The directors of the Company considered that there is no concentration of interest rate risk exposure.

The Group's cash flow interest rate risk exposure arises on positions with the following carrying values:

	2019 HK$'000	2018 HK$'000
Advances to customers in margin financing	12,629,847	15,952,460
Advances to customers for merger and acquisition activities	329,471	1,229,403
Asset-backed financing to customers	1,282,345	1,528,704
Investment securities at amortised cost	2,509,388	–
Cash held on behalf of customers	5,019,281	5,189,798
Cash and cash equivalents	4,252,530	7,071,996
Bank borrowings (excluding those hedged by interest rate swaps)	(36,867,917)	(33,521,656)
Debt securities in issue	(395,417)	(1,490,000)
	(11,240,472)	(4,039,295)

At 31 December 2019, if market interest rates had been 25 basis points (2018: 25 basis points) higher/lower with all other variables held constant, profit after tax for the year would have decreased/increased by HK$23,464,000 (2018: decreased/increased by HK$8,432,000). In the opinion of the management, the sensitivity analysis is unrepresentative of the cash flow interest rate risk as the year end exposure does not reflect the exposure during the year.

Credit risk and impairment assessment

As at 31 December 2019, the Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge an obligation by the counterparties is arising from the carrying amount of the respective recognised financial assets as stated in the consolidated statement of financial position.

The Group's credit risk exposure are primarily attributable to investment securities at amortised cost, financial products issued at fair value, advances to customers in margin financing, advances to customers for merger and acquisition activities and asset-backed financing to customers, debt instruments at FVTOCI, accounts receivable, cash and cash equivalents and reverse repurchase agreements. The Group's maximum exposure to the credit risk arising from the default of the counterparty equal to the carrying amounts of these financial assets in the consolidated statement of financial position.

45. Financial Risk Management (continued)

Credit risk and impairment assessment (continued)

In order to manage the credit risk, the Credit Approval Committee of the Group has appointed a group of authorised persons who are charged with the responsibility of approving credit limit of each customer, including advances to customers in margin financing, advances to customers for merger and acquisition activities, asset-backed financing to customers and investment securities measured at amortised cost. The Credit Approval Committee is also responsible for the credit risk arising from the Group's investment in debt securities.

For margin lending, the Group adopts a proprietary developed credit scoring framework which is approved by the Credit Approval Committee for calculating applicable margin ratios for individual stocks at acceptable collateral. The acceptable share list will be updated and approved quarterly and/or when deemed necessary by a working group consisted of Risk Management Department and relevant business units and support functions. The Credit Approval Committee also prescribes the maximum margin limits on both Group level and individual account level for margin lending against a single client (or a group of connected margin clients) and/or a single stock from time to time to avoid over-concentration of risk.

The Risk Management Department of the Group is responsible for overall monitoring of the credit risk of its customers. It will closely monitor the financial position of the debtors and guarantors and for the loans with collateral pledged to the Group. The deficiency reports and customers' account portfolios are monitored on a daily basis to ensure that sufficient collateral are received to maintain an acceptable loan to collateral value ratio. Accounts with margin deficit is subject to margin calls, failure to meet margin calls may result in forced liquidation of part or all positions of the account.

For advances to customers for merger and acquisition activities, asset-backed financing to customers and investment securities measured at amortised cost, prior to the lending of a loan and subscription of debt securities, the Credit Approval Committee will review the financial strength, purpose of the borrowing, repayment ability of the borrower to ensure that the borrower has sound financial repayment ability. The Group assesses the credit profile of each individual debtor by analysing many factors that influence the default probability, including (but not limited to) the counterparty's financial profile, business prospects and management, macroeconomic development, industrial and sovereign risk, and historical performance. The Credit Approval Committee holds meetings from time to time as the chairperson considers appropriate and reviews from time to time the financial conditions of the borrower or the guarantors.

For the Group's issued financial products and investments in debt securities, the Investment Committee, the Credit Approval Committee, the Risk Management Department and respective business units of the Group assess the financial performance of the holders and issuers to ensure that the holders and issuers can satisfy the repayment of the principal and interest as they fall due. Failure to repay may result in collateral liquidation and/or legal actions against the holders and issuers.

The Group has set portfolio size and single issuer limits to control the Group's exposure to the credit risk.

The Group also monitors the credit rating and market news of the issuers of respective equity, debts, derivatives and unlisted financial products as well as the holders of unlisted financial products issued by the Group of respective equity, debts and derivatives as well for any indication of potential credit deterioration. For those financial products issued by the Group, the directors will also maintain a regular communication with the holders and assess the performance of the underlying investments to evaluate if there is any indication of potential credit deterioration.

For other credit exposures such as the derivative financial instruments, accounts and other receivables and cash and cash equivalents, the Group ensures that the exposures are limited to reputable counterparties, such as the financial institutions, brokers, dealers or clearing houses, which are governed by regulators including the Hong Kong Monetary Authority, the Hong Kong Securities and Futures Commission and other overseas regulators. The risk of default in repayment is considered to be minimal by the directors.

45. Financial Risk Management (continued)

Credit risk and impairment assessment (continued)

Other than concentration of credit risk on liquid funds which are deposited with several banks with high credit ratings, the Group does not have any other significant concentrations of credit risk.

The management is confident in its ability to continue to control and sustain minimal exposure of credit risk arising from below major recognised financial assets as stated in the consolidated statement of financial position.

- For accounts receivable, approximately HK$2,698,034,000 (2018: HK$1,362,545,000) was receivables from clients arising from dealing in securities, which normally had a delivery-against payment settlement term of 2 days.

  There is no concentration of credit risk with respect to the receivables, as the Group has a large number of clients who are internationally dispersed. Most of the accounts and other receivables from clients with overdue more than 30 days are fully secured by listed securities with market value significantly higher than the carrying amount.

- Advances to customers in margin financing are backed by collateral. The Group only accepts collateral in the form of cash and liquid stocks. Concentration risk of advances to customers in margin financing is managed by reference to individual customers. The aggregate credit exposure in relation to the ten largest outstanding customers, including corporate entities and individuals at 31 December 2019 was HK$5,784 million (31 December 2018: HK$7,355 million) which were secured by collateral.

- Loans and debt securities classified as advances to customers in margin financing, advances to customers for merger and acquisition activities and asset-backed financing to customers and investment securities at amortised cost are either secured or guaranteed. Concentration risk of loans and debt securities is managed by reference to individual borrowers and issuers. The aggregate credit exposure in relation to the ten largest outstanding loans borrowers and issuers of debt securities at 31 December 2019 was HK$12,326 million (31 December 2018: HK$9,212 million). There was no recent history of individual impairment allowance recognised for these ten largest parties.

- For stock-pledged repurchase and stock-acquired resale business, management conducts strict due diligence and project review procedures, and control the credit risk relating to the business through marking the market, tracking projects, closing the position and other approaches. The directors of the Company focus on the investment diversification for credit-class fixed income securities investments and closely follow up the operation condition of counterparties and their credit ratings changes. Majorities of the above-mentioned businesses were entered with the counterparties with the credit rating of Baa1 or above issued by Moody's or BBB+ or above issued by Standards & Poor's.

- Majority of derivative financial instruments are entered with reputable financial institutions with credit rating of Baa1 or above issued by Moody's or BBB+ or above issued by Standards & Poor's.

- Majority of cash and cash equivalents are deposited in reputable large commercial banks with credit rating of Baa2 or above issued by Moody's or BBB or above issued by Standards & Poor's.

45. Financial Risk Management (continued)

Credit risk and impairment assessment (continued)

The Group's internal credit risk grading assessment comprises the following categories:

Internal credit rating	Description	Accounts receivable	Other financial assets/other items
Low risk	The counterparty has a low risk of default and does not have any past-due amounts	Lifetime ECL – not credit-impaired	12-month ECL
Watch list	The counterparty has past due amounts but the payment has not been past due for 5 days (advance to customers in margin financing: no shortfall)	Lifetime ECL – not credit-impaired	12-month ECL
Doubtful	There have been significant increases in credit risk since initial recognition through information developed internally or external resources or payments have been overdue for more than 30 days (advance to customers in margin financing: shortfall outstanding between 1 and 30 days)	Lifetime ECL – not credit-impaired	Lifetime ECL – not credit-impaired
Loss	There is evidence indicating the asset is credit-impaired or payment has been overdue for more than 90 days (advance to customers in margin financing: shortfall outstanding for over 30 days)	Lifetime ECL – credit-impaired	Lifetime ECL – credit-impaired
Write-off	There is evidence indicating that the debtor is in severe financial difficulty and the Group has no realistic prospect of recovery	Amount is written off	Amount is written off

45. Financial Risk Management (continued)

Credit risk and impairment assessment (continued)

The tables below detail the credit risk exposures of the Group's financial assets, which are subject to ECL assessment:

	Notes	External credit rating	Internal credit rating	12-month or lifetime ECL	2019 Gross carrying amount HK$'000	2019 Gross carrying amount HK$'000	2018 Gross carrying amount HK$'000	2018 Gross carrying amount HK$'000
Financial assets at amortised cost								
Advance to customer in margin financing	21	N/A	Low risk	12-month ECL	8,333,263		10,962,390	
			Watch list	12-month ECL	2,958,832		3,210,147	
			Doubtful	Lifetime ECL (not credit impaired)	352,152		969,944	
			Loss	Credit-impaired	1,860,654	13,504,901	1,425,341	16,567,822
Advance to customers for merger and acquisition activities	22	N/A	Low risk	12-month ECL	2,348,265		3,380,937	
			Watch list	12-month ECL	326,179		200,029	
			Doubtful	Lifetime ECL (not credit impaired)	–		–	
			Loss	Credit-impaired	197,384	2,871,828	–	3,580,966
Asset-backed financing to customers	23	N/A	Low risk	12-month ECL	5,065,393		5,309,400	
			Watch list	12-month ECL	9,000		–	
			Doubtful	Lifetime ECL (not credit impaired)	–		35,333	
			Loss	Credit-impaired	74,113	5,148,506	102,883	5,447,616
Investment securities at amortised cost	18	N/A	Low risk	12-month ECL	7,665,757		5,371,706	
			Watch list	12-month ECL	2,909,050		–	
			Doubtful	Lifetime ECL (not credit impaired)	–		–	
			Loss	Credit-impaired	–	10,574,807	–	5,371,706
Debt instruments at FVTOCI (note)	18	Above Baa2 (Moody)/ BBB (S & P)	N/A	12-month ECL		768,570		–
Reverse repurchase agreements (note)	24	Above Baa1 (Moody)/ BBB+ (S & P)	N/A	12-month ECL		4,986,915		4,343,561
Cash and cash equivalents (note)		Above Baa2 (Moody)/ BBB (S & P)	N/A	12-month ECL		4,629,654		7,088,878
Cash held on behalf of customers (note)	16	Above Baa2 (Moody)/ BBB (S & P)	N/A	12-month ECL		15,134,943		15,999,107
Account receivables (note)	25	N/A	Low risk	12-month ECL		9,237,408		6,969,565

Note: The directors of the Company consider the impacts of the ECL are immaterial to the Group and no reconciliation of gross carrying amount and impairment allowances have been prepared.

45. Financial Risk Management (continued)

Credit risk and impairment assessment (continued)

The estimated loss rates for each class of financial assets are estimated based on historical observed default rates over the expected life of the respective class of financial assets and are adjusted for forward-looking information that is available without undue cost or effort, including macroeconomic data such as GDP growth, unemployment, benchmark interest rates and house prices. The identification of internal credit rating for individual financial assets regularly reviewed by management to ensure relevant information about specific financial assets is updated.

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

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

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

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

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

	Stage 1 HK$'000	Stage 2 HK$'000	Stage 3 HK$'000	Total HK$'000
As at 1 January 2018	15,823,494	246,086	538,841	16,608,421
As at 31 December 2018 and 1 January 2019	14,172,537	969,944	1,425,341	16,567,822
As at 31 December 2019	11,292,095	352,152	1,860,654	13,504,901

45. Financial Risk Management (continued)

Credit risk and impairment assessment (continued)

Movement in the allowances for impairment that has been recognised for advances to customers in margin financing are as follows:

31 December 2019

	Stage 1 12-month ECL HK$'000	Stage 2 Lifetime ECL HK$'000	Stage 3 Lifetime ECL HK$'000	Total HK$'000
As at 1 January 2019	28,649	31,475	555,238	615,362
Changes due to financial instruments recognised as at 1 January 2019:				
– Net remeasurement of ECL without transfer of stage	814	7,866	300,639	309,319
– Repayments (note iv)	(423)	(619)	(22,179)	(23,221)
– Transfer from/to 12-month ECL to/from lifetime ECL (note i)	(202)	(25,521)	25,723	–
– Net remeasurement of ECL arising from transfer of stage (note i)	(1,277)	20,790	223,686	243,199
– De-recognition (note iv)	–	–	(272,585)	(272,585)
New lending (note ii)	2,980	–	–	2,980
As at 31 December 2019 (note iii)	30,541	33,991	810,522	875,054

31 December 2018

	Stage 1 12-month ECL HK$'000	Stage 2 Lifetime ECL HK$'000	Stage 3 Lifetime ECL HK$'000	Total HK$'000
As at 1 January 2018	24,922	4,931	239,204	269,057
Changes due to financial instruments recognised as at 1 January 2018:				
– Net remeasurement of ECL without transfer of stage	5,608	1,224	59,288	66,120
– Repayments	(1,606)	(19)	(8,374)	(9,999)
– Transfer from/to 12-month ECL to/from lifetime ECL	3,235	(3,924)	689	–
– Net remeasurement of ECL arising from transfer of stage	(5,938)	29,104	271,734	294,900
New lending	2,693	–	–	2,693
Transfer from/to 12-month ECL to/from lifetime ECL of new lending	(265)	159	106	–
Written off	–	–	(7,409)	(7,409)
As at 31 December 2018 (note iii)	28,649	31,475	555,238	615,362

45. Financial Risk Management (continued)

Credit risk and impairment assessment (continued)

Notes:

(i) Financial assets with a gross carrying amount of HK$843 million were assessed as becoming credit-impaired. Accordingly, ECL in stage 1 and 2 of HK$26 million was transferred to stage 3 during the current year. Additional impairment allowance of HK$224 million was made under lifetime ECL in respect of these assets.

(ii) Impairment allowance of HK$3 million made under 12m ECL is in relating to new financial assets with gross amount of HK$333 million. During the current year, these advances to customers in margin financing had no significant increase in credit risk since initial recognition and were not assessed to be credit-impaired.

(iii) In determining the allowances for credit-impaired advances to customers in margin financing, the management of the Group also takes into account shortfall by comparing the fair value of securities pledged as collateral, other types of credit enhancement and the outstanding balance of loan to margin clients individually taking into account subsequent settlement or executable settlement plan and restructuring arrangements. In the opinion of the directors of the Company, the impairment provision for both years are appropriate.

(iv) During the current year, loans with gross carrying amounts of HK$83 million and HK$273 million were repaid (with a corresponding reversals of impairment) and disposed to counterparty at carrying amount respectively with the loans being derecognised.

Analysis of the gross carrying amount of investment securities at amortised cost is as follows:

	Stage 1 HK$'000	Stage 2 HK$'000	Stage 3 HK$'000	Total HK$'000
As at 1 January 2018	4,952,104	–	–	4,952,104
As at 31 December 2018 and 1 January 2019	5,371,706	–	–	5,371,706
As at 31 December 2019	10,574,807	–	–	10,574,807

No investment securities at amortised cost had been past due as at 31 December 2019 and 2018.

Movement in the allowances for impairment that has been recognised for investment securities at amortised cost are as follows:

31 December 2019

	Stage 1 12-month ECL HK$'000	Stage 2 Lifetime ECL HK$'000	Stage 3 Lifetime ECL HK$'000	Total HK$'000
As at 1 January 2019	12,645	–	–	12,645
Change due to financial instruments recognised as at 1 January 2019:				
– Net remeasurement of ECL	(3,994)	–	–	(3,994)
– Repayments (note i)	(905)	–	–	(905)
New lending (note ii)	5,978	–	–	5,978
As at 31 December 2019	13,724	–	–	13,724

45. Financial Risk Management (continued)

Credit risk and impairment assessment (continued)

31 December 2018

	Stage 1 12-month ECL HK$'000	Stage 2 Lifetime ECL HK$'000	Stage 3 Lifetime ECL HK$'000	Total HK$'000
As at 1 January 2018	14,945	–	–	14,945
Change due to financial instruments recognised as at 1 January 2018:				
– Net remeasurement of ECL	(6,336)	–	–	(6,336)
– Repayments	(2,095)	–	–	(2,095)
New lending	6,131	–	–	6,131
As at 31 December 2018	12,645	–	–	12,645

Notes:

(i) During the current year, impairment allowance of HK$1 million was reversed due to repayment of financial assets with a gross carrying amount of HK$368 million.

(ii) Impairment allowance of HK$6 million made under 12m ECL is in relation to new financial assets with gross amount of HK$5,247 million. During the current year, these investment securities at amortised cost had no significant increase in credit risk since initial recognition and were not assessed to be credit-impaired. In the opinion of the directors of the Company, the impairment provision for both years are appropriate.

Analysis of the gross carrying amount of advances to customers for merger and acquisition activities is as follows:

	Stage 1 HK$'000	Stage 2 HK$'000	Stage 3 HK$'000	Total HK$'000
As at 1 January 2018	4,242,836	–	200,029	4,442,865
As at 31 December 2018 and 1 January 2019	3,580,966	–	–	3,580,966
As at 31 December 2019	2,674,444	–	197,384	2,871,828

45. Financial Risk Management (continued)

Credit risk and impairment assessment (continued)

Movement in the allowances for impairment that has been recognised for advances to customers for merger and acquisition activities are as follows:

31 December 2019

	Stage 1 12-month ECL HK$'000	Stage 2 Lifetime ECL HK$'000	Stage 3 Lifetime ECL HK$'000	Total HK$'000
As at 1 January 2019	8,833	–	–	8,833
Changes due to financial instruments recognised as at 1 January 2019:				
– Transfer from/to 12m ECL to/from lifetime ECL (note iii)	(2,726)	–	2,726	–
– Net remeasurement of ECL without transfer of stage	(1,638)	–	–	(1,638)
– Net remeasurement of ECL arising from transfer of stage	–	–	36,751	36,751
– Repayments (note i)	(2,908)	–	–	(2,908)
New lending (note ii)	2,832	–	–	2,832
As at 31 December 2019 (note iii)	4,393	–	39,477	43,870

45. Financial Risk Management (continued)

Credit risk and impairment assessment (continued)

31 December 2018

	Stage 1 12-month ECL HK$'000	Stage 2 Lifetime ECL HK$'000	Stage 3 Lifetime ECL HK$'000	Total HK$'000
As at 1 January 2018	6,673	–	108,647	115,320
Changes due to financial instruments recognised as at 1 January 2018:				
– Transfer from/to 12m ECL to/from lifetime ECL	108,647	–	(108,647)	–
– Net remeasurement of ECL without transfer of stage	112	–	–	112
– Net remeasurement of ECL arising from transfer of stage	(105,921)	–	–	(105,921)
– Repayments	(4,709)	–	–	(4,709)
New lending	4,031	–	–	4,031
As at 31 December 2018 (note ii)	8,833	–	–	8,833

Notes:

(i) During the current year, impairment allowance of HK$3 million was reversed due to repayment of financial assets with a gross carrying amount of HK$1,364 million.

(ii) Impairment allowance of HK$3 million made under 12m ECL is in relation to new financial assets with gross amount of HK$971 million. During the current year, these advances to customers for merger and acquisition activities had no significant increase in credit risk since initial recognition and were not assessed to be credit-impaired.

(iii) As at 31 December 2019 and 2018, there was no past due advances to customers for merger and acquisition activities, except for a loan with gross carrying amount of HK$200 million that was advanced to an external party for its property development project in the PRC with the due date in 2021 for the principal but with delay of interest repayment for more than 90 days. The loan was assessed as becoming credit-impaired and corresponding ECL in stage 1 of HK$2.7 million was transferred to stage 3 during the current year. In assessing the impairment, the management considered a number of factors including creditworthiness and status of the borrower, recoverable amount of the collateral (at its force sale value), and the credit protection structure, an impairment charges of HK$36.8 million was recognised during the year ended 31 December 2019. In the opinion of the directors of the Company, the impairment provision for both years are appropriate.

Analysis of the gross carrying amount of asset-backed financing to customers is as follows:

	Stage 1 HK$'000	Stage 2 HK$'000	Stage 3 HK$'000	Total HK$'000
As at 1 January 2018	5,615,489	–	102,883	5,718,372
As at 31 December 2018 and 1 January 2019	5,309,400	35,333	102,883	5,447,616
As at 31 December 2019	5,074,393	–	74,113	5,148,506

45. Financial Risk Management (continued)

Credit risk and impairment assessment (continued)

Movement in the allowances for impairment that has been recognised for asset-backed financing to customers are as follows:

31 December 2019

	Stage 1 12-month ECL HK$'000	Stage 2 Lifetime ECL HK$'000	Stage 3 Lifetime ECL HK$'000	Total HK$'000
As at 1 January 2019	6,499	992	101,508	108,999
Changes due to financial instruments recognised as at 1 January 2019:				
– Net remeasurement of ECL without transfer of stage	(1,643)	–	–	(1,643)
– Transfer from/to 12-month ECL to/from lifetime ECL (note i)	(69)	–	69	–
– Net remeasurement of ECL arising from transfer of stage (note i)	–	–	10,790	10,790
– Repayments and de-recognition (note ii)	(4,516)	(992)	(101,508)	(107,016)
New lending (note iii)	12,042	–	–	12,042
As at 31 December 2019 (note iv)	12,313	–	10,859	23,172

45. Financial Risk Management (continued)

Credit risk and impairment assessment (continued)

31 December 2018

	Stage 1 12-month ECL HK$'000	Stage 2 Lifetime ECL HK$'000	Stage 3 Lifetime ECL HK$'000	Total HK$'000
As at 1 January 2018	11,456	–	102,883	114,339
Changes due to financial instruments recognised as at 1 January 2018:				
– Net remeasurement of ECL	(1,170)	–	(1,375)	(2,545)
– Repayments	(9,632)	–	–	(9,632)
New lending	7,363	–	–	7,363
Transfer from/to 12-month ECL to/from lifetime ECL of new lending	(1,518)	1,518	–	–
Net remeasurement of ECL arising from transfer of stage of new lending	–	(526)	–	(526)
As at 31 December 2018 (note iii)	6,499	992	101,508	108,999

Notes:

(i) Financial assets with a gross carrying amount of HK$74 million were assessed as becoming credit-impaired. Accordingly, ECL in stage 1 of HK$69,000 was transferred to stage 3 during the current year. Additional impairment allowance of HK$11 million was made under lifetime ECL in respect of these assets. As at 31 December 2019, a credit-impaired loan with gross carrying amount of HK$64 million is secured by properties. In determining the allowances for credit-impaired loan, the management of the Company takes into account the fair value of collateral and the creditworthiness and status of the borrower and guarantor, and based on these factors, no loss allowance has been recognised.

(ii) During the current year, loans with gross carrying amounts of HK$4,671 million and HK$102 million were repaid (with corresponding reversal of allowance of HK$5m and HK$1m from stages 1 and 2 respectively) and derecognised respectively.

(iii) Impairment allowance of HK$12 million made under 12m ECL is in relation to new financial assets with gross amount of HK$4,769 million. During the current year, these asset-backed financing to customers had no significant increase in credit risk since initial recognition and were not assessed to be credit-impaired.

(iv) In determining the allowance of credit-impaired asset-backed financing to customers, the management considered the creditworthiness and status of the borrower and the present value of estimated future cash flows. In the opinion of the directors of the Company, the impairment provision for the both years are appropriate.

45. Financial Risk Management (continued)

Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting obligations associated with its financial liabilities. As part of the measures to safeguard liquidity, the Group has maintained substantial long term and other stand-by banking facilities, diversifying the funding sources and spacing out the maturity dates.

A number of the Group's activities in Hong Kong and overseas are subject to various statutory liquidity requirements as prescribed by respective regulators.

The Group has also put in place a monitoring system to ensure that it maintains adequate liquid capital to fund its business commitments and to comply with relevant liquid capital requirements imposed by respective regulators.

As at 31 December 2019, the Group has available unutilised overdrafts, and short and medium term bank loan facilities of approximately HK$27,327 million (31 December 2018: HK$25,503 million).

The table below presents the cash flows payable by the Group under non-derivative financial liabilities held for managing liquidity risk by remaining contractual maturities at the reporting date.

The amounts disclosed in the table are the contractual undiscounted cash flows. The table includes both interest and principal cash flows. In addition, the following table details the Group's liquidity analysis for its derivative financial instruments. The tables have been drawn up based on the undiscounted contractual net cash (inflows) and outflows on derivative instruments that settle on a net basis. When the amount payable is not fixed, the amount disclosed has been determined by reference to the projected interest rates as illustrated by the yield curves existing at the end of the reporting period. The liquidity analysis for the Group's derivative financial instruments are not prepared based on the contractual settlement dates as the management consider that the settlement dates are not essential for an understanding of the timing of the cash flows of derivatives that are held-for-trading.

45. Financial Risk Management (continued)

Liquidity risk (continued)

Liquidity table

	Repayable on demand or less than 3 months HK$'000	Over 3 months to 1 year HK$'000	Over 1 year to 5 years HK$'000	Over 5 years HK$'000	Total HK$'000
31 December 2019					
Convertible bonds issued	–	–	127,137	–	127,137
Non-convertible bonds issued	242,314	5,715,108	9,735,588	–	15,693,010
Non-convertible notes issued	1,033,458	6,526,322	–	–	7,559,780
Bank borrowings (note)	36,996,641	–	–	–	36,996,641
Repurchase agreements	24,839,668	1,537,898	–	–	26,377,566
Accounts payable	20,184,659	–	–	–	20,184,659
Financial liabilities held for trading and market making activities	1,945,382	–	–	–	1,945,382
Financial products issued at fair value	17,103,333	–	1,926,905	–	19,030,238
Other payables and accruals	1,490,778	–	–	–	1,490,778
Other liabilities arising from consolidation of investment funds	421,238	–	–	–	421,238
Derivative financial instruments – net settlement	545,139	–	–	–	545,139
Lease liabilities	46,905	130,271	192,261	12,635	382,072
	104,849,515	13,909,599	11,981,891	12,635	130,753,640

45. Financial Risk Management (continued)

Liquidity risk (continued)

Liquidity table (continued)

	Repayable on demand or less than 3 months HK$'000	Over 3 months to 1 year HK$'000	Over 1 year to 5 years HK$'000	Total HK$'000
31 December 2018				
Convertible bonds issued	–	145,442	3,978,164	4,123,606
Non-convertible bonds issued	208,867	4,897,382	5,711,053	10,817,302
Non-convertible notes issued	1,758,793	9,415,649	–	11,174,442
Bank borrowings (note)	33,833,049	45,335	–	33,878,384
Repurchase agreements	21,911,027	2,178,016	–	24,089,043
Accounts payable	20,974,552	–	–	20,974,552
Financial liabilities held for trading and market making activities	4,405,866	–	–	4,405,866
Financial products issued at fair value	13,315,922	–	638,846	13,954,768
Other payables and accruals	1,265,691	–	–	1,265,691
Other liabilities arising from consolidation of investment funds	483,781	–	–	483,781
Derivative financial instruments – net settlement	505,496	–	–	505,496
	98,663,044	16,681,824	10,328,063	125,672,931

Note: Bank loans with a repayment on demand clause are included in the 'repayable on demand or less than 3 months' time band in the maturity analysis. As at 31 December 2019, the aggregate undiscounted principal amounts of these bank loans amounted to HK$2,000 million (31 December 2018: HK$3,190 million). Taking into account the Group's financial position, the directors do not believe that it is probable that the banks will exercise their discretionary rights to demand immediate repayment. The directors believe that such bank loans will be repaid within one year after the end of the reporting period (2018: within one year). At that time, the aggregate principal and interest cash outflows will amount to HK$2,007 million (31 December 2018: HK$3,196 million).

Stock borrowing and lending arrangement

Under the normal course of business, the Group may enter into stock borrowing and lending arrangements with other financial institutions and its customers. Equity securities may be borrowed from the other financial institutions and lent to its customers or for the Group's proprietary short selling activity.

During the process, the Group receives cash collateral from the customers and also places cash collateral in other financial institutions as collateral.

	2019 HK$'000	2018 HK$'000
Equity securities borrowed from external financial institutions	324,239	663,583
Equity securities lent to counterparties and customers	1,015,164	1,649,398
Cash collateral received from counterparties and customers	1,077,440	1,708,575
Cash collateral held by financial institutions	337,640	688,739

46. Fair Value Measurements of Financial Instruments

Financial assets and financial liabilities that are not measured at fair value

As at 31 December 2019 and 31 December 2018, the fair values of the Group's financial assets and liabilities not measured at fair value are not materially different from their carrying amount, except as detailed in the following table:

	2019		2018	
	Carrying amount HK$'000	Fair value HK$'000	Carrying amount HK$'000	Fair value HK$'000
Convertible bonds (note ii)	123,269	125,500	3,933,350	4,935,826
Non-convertible bonds (note ii)	13,941,015	14,120,630	10,138,605	10,207,298
Non-convertible notes (note i)	7,354,145	7,265,192	10,975,672	10,980,656

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.

These assets and liabilities are classified under Level 2 (as defined in note 3 above) in the fair value hierarchy.

Financial assets and financial liabilities that are measured at fair value on a recurring basis

Valuation control framework

Fair values are subject to a control framework established by the Risk Management Department and the Finance Department of the Group to ensure that they are determined and/or validated independently from front-line business units acquiring/incurring these financial assets or financial liabilities.

For all financial assets and financial liabilities where fair values are determined by reference to externally quoted prices or observable pricing inputs to models, independent price determination and/or verification is adopted. In circumstances where direct observation of a traded price is not possible, the Group will seek alternative market information to validate the fair value of relevant financial asset or financial liability, with greater weight given to information that is considered to be more relevant and reliable.

For fair values determined using a valuation model, the control framework may include, as applicable, development or validation independently of (i) the logic within valuation models; (ii) the inputs to those models; (iii) any adjustments required outside the valuation models; and (iv) where possible, model outputs. Valuation models are subject to independent assessment before being adopted and will re-assess on a regular basis.

Independent determination and/or verification on the fair values adopted and independent assessment on the valuation models are responsible by the Risk Management Department while the Finance Department is responsible for establishing the accounting policies governing valuation, and is responsible for ensuring compliance with relevant accounting standards.

46. Fair Value Measurements of Financial Instruments (continued)

Financial assets and financial liabilities that are measured at fair value on a recurring basis (continued)

Fair value hierarchy and valuation technique of financial assets and financial liabilities other than financial assets and financial liabilities relating to financial product issuance

An analysis of the fair value and the valuation techniques of financial assets/liabilities held for trading and market making activities, investment securities at fair value (through profit or loss, or through other comprehensive income) and derivative financial instruments are as follows:

Assets – at 31 December 2019

	Level 1 HK$'000 (Note 1)	Level 2 HK$'000 (Note 2)	Level 3 HK$'000 (Note 3)	Total HK$'000
Financial assets held for trading and market making activities				
– Listed equity investments	1,748,246	–	–	1,748,246
– Exchange traded funds	151,404	–	–	151,404
– Listed preference shares	–	3,280	–	3,280
– Listed debt investments	–	25,634,824	321,393	25,956,217
– Unlisted debt investments	–	583,396	17,335	600,731
	1,899,650	26,221,500	338,728	28,459,878
Investment securities at fair value (through profit or loss and through other comprehensive income)				
– Listed equity investments	3,702,731	–	–	3,702,731
– Exchange traded funds	406,867	–	–	406,867
– Listed debt investments	–	2,548,077	–	2,548,077
– Unlisted partnership investments	–	–	1,347,393	1,347,393
– Unlisted equity investments	–	340,428	512,665	853,093
– Unlisted debt investments	–	2,573,077	328,568	2,901,645
– Unlisted investment funds	–	15,131,681	128,100	15,259,781
	4,109,598	20,593,263	2,316,726	27,019,587
Derivative financial assets				
– Swaps	–	188,328	–	188,328
– Forward foreign currency exchange contracts	–	71,959	–	71,959
– Listed futures/options/warrants	237	52,753	–	52,990
– Callable bull/bear contracts	–	8,133	–	8,133
– Unlisted options	–	18,743	–	18,743
	237	339,916	–	340,153
Total	6,009,485	47,154,679	2,655,454	55,819,618

46. Fair Value Measurements of Financial Instruments (continued)

Financial assets and financial liabilities that are measured at fair value on a recurring basis (continued)

Fair value hierarchy and valuation technique of financial assets and financial liabilities other than financial assets and financial liabilities relating to financial product issuance (continued)

Assets – 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
Financial assets held for trading and market making activities				
– Listed equity investments	612,530	–	–	612,530
– Exchange traded funds	94,506	–	–	94,506
– Listed preference shares	–	146,846	–	146,846
– Listed debt investments	–	30,843,347	260,352	31,103,699
– Unlisted debt investments	–	2,169,029	187,957	2,356,986
	707,036	33,159,222	448,309	34,314,567
Investment securities at fair value (through profit or loss and through other comprehensive income)				
– Listed equity investments	1,396,115	89,893	–	1,486,008
– Exchange traded funds	138,481	–	–	138,481
– Listed debt investments	–	2,291,763	–	2,291,763
– Unlisted partnership investments	–	284,820	811,935	1,096,755
– Unlisted equity investments	–	1,369,901	136,338	1,506,239
– Unlisted debt investments	–	5,966,664	193,853	6,160,517
– Unlisted investment funds	–	8,025,643	81,398	8,107,041
	1,534,596	18,028,684	1,223,524	20,786,804
Derivative financial assets				
– Swaps	–	80,978	–	80,978
– Forward foreign currency exchange contracts	–	53,529	–	53,529
– Listed futures/options/warrants	15,528	169,507	–	185,035
– Callable bull/bear contracts	–	480	–	480
– Unlisted options	–	220,541	–	220,541
	15,528	525,035	–	540,563
Total	2,257,160	51,712,941	1,671,833	55,641,934

46. Fair Value Measurements of Financial Instruments (continued)

Financial assets and financial liabilities that are measured at fair value on a recurring basis (continued)

Fair value hierarchy and valuation technique of financial assets and financial liabilities other than financial assets and financial liabilities relating to financial product issuance (continued)

Liabilities – at 31 December 2019

	Level 1 HK$'000 (Note 1)	Level 2 HK$'000 (Note 2)	Level 3 HK$'000 (Note 3)	Total HK$'000
Financial liabilities held for trading and market making activities				
– Listed equity investments	191,272	–	–	191,272
– Exchange traded funds	22,922	–	–	22,922
– Listed preference shares	–	55,127	–	55,127
– Listed debt investments	–	1,654,878	–	1,654,878
– Unlisted debt investments	–	21,183	–	21,183
	214,194	1,731,188	–	1,945,382
Derivative financial liabilities				
– Swaps	–	68,162	–	68,162
– Forward foreign currency exchange contracts	–	26,676	–	26,676
– Listed futures/options/warrants	–	197,195	–	197,195
– Callable bull/bear contracts	–	208,343	–	208,343
– Unlisted options	–	44,763	–	44,763
	–	545,139	–	545,139
Total	214,194	2,276,327	–	2,490,521

46. Fair Value Measurements of Financial Instruments (continued)

Financial assets and financial liabilities that are measured at fair value on a recurring basis (continued)

Fair value hierarchy and valuation technique of financial assets and financial liabilities other than financial assets and financial liabilities relating to financial product issuance (continued)

Liabilities – 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
Financial liabilities held for trading and market making activities				
– Listed equity investments	452,041	–	–	452,041
– Listed preference shares	–	29,519	–	29,519
– Listed debt investments	–	2,736,382		2,736,382
– Unlisted debt investments	–	1,187,924	–	1,187,924
	452,041	3,953,825	–	4,405,866
Derivative financial liabilities				
– Swaps	–	41,795	–	41,795
– Forward foreign currency exchange contracts	–	124,052	–	124,052
– Foreign currency option contracts	–	10,317	–	10,317
– Listed futures/options/warrants	–	251,514	–	251,514
– Callable bull/bear contracts	–	28,358	–	28,358
– Unlisted options	–	49,460	–	49,460
	–	505,496	–	505,496
Total	452,041	4,459,321	–	4,911,362

(1) The fair values of financial instruments traded in active markets are based on quote prices at the end of reporting period.

(2) The fair values of listed preference shares, listed debt investments and unlisted debt investments are determined with reference to market observable broker/financial institution quotes. The fair values of unlisted equity investments are determined with reference to the recent transaction price of the investments. The fair value of unlisted partnership investments and unlisted investment funds are determined based on the fair value of the underlying investment portfolio, which is comprised of (i) listed equity investments of which their price are quoted in active market and/or (ii) unlisted debt investments of which the fair value are determined based on quoted price provided by brokers/financial institution. The fair value of derivative financial instruments are determined based on discounted cash flow model applying various market observable financial parameters, including interest rates, forward exchange rate, credit spread, yield spread, etc.

If one or more of these significant inputs in valuation are not based on observable market data, the financial instrument is included in Level 3.

(3) The fair values are determined by using valuation techniques with one or more of the significant inputs not based on observable market data. Information on Level 3 fair value measurements are further detailed below.

46. Fair Value Measurements of Financial Instruments (continued)

Financial assets and financial liabilities that are measured at fair value on a recurring basis (continued)

Fair value hierarchy and valuation technique of financial assets and financial liabilities relating to financial product issuance

Apart from financial assets and financial liabilities as detailed above, 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 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$18,998 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$32,386 million (2018: HK$27,753 million) and short hedging position is HK$32 million (2018: HK$271 million).

The variable return of these groups of financial assets and liabilities on a net basis is not significant. Management is of 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 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 31 December 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	1,438,796	–	–	1,438,796
– Listed debt investments	–	18,905,357	–	18,905,357
– Unlisted equity investments	–	179,738	380,310	560,048
– Unlisted partnership investments	–	191,481	15,568	207,049
– Unlisted debt investments	–	1,556,038	–	1,556,038
– Unlisted investment funds	–	3,272,753	–	3,272,753
– Unlisted financial products	–	6,445,804	–	6,445,804
	1,438,796	30,551,171	395,878	32,385,845
Financial products issued at fair value				
– Unlisted issued financial products	–	18,602,437	395,878	18,998,315
– Listed equity investments	31,923	–	–	31,923
	31,923	18,602,437	395,878	19,030,238
Net position as of 31 December 2019	1,406,873	11,948,734	–	13,355,607

46. Fair Value Measurements of Financial Instruments (continued)

Financial assets and financial liabilities that are measured at fair value on a recurring basis (continued)

Fair value hierarchy and valuation technique of financial assets and financial liabilities relating to financial product issuance (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
	1,729,650	25,660,634	362,566	27,752,850
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
	271,074	13,342,006	341,688	13,954,768
Net position as of 31 December 2018	1,458,576	12,318,628	20,878	13,798,082

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 not based on observable market data. Information on Level 3 fair value measurements are further detailed below.

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.

46. Fair Value Measurements of Financial Instruments (continued)

Information about Level 3 fair value measurement

The following table shows a reconciliation from the beginning balances to the ending balances for fair value measurement in Level 3 of the fair value hierarchy:

31 December 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$'000	Assets acquired for financial products issued HK$'000	Financial products issued at fair value HK$'000
Opening balance	1,671,833	362,566	(341,688)
Addition (note i)	200,852	–	–
Transfer into Level 3 (note ii)	1,245,839	27,019	(27,019)
Derecognition due to deconsolidation of an investment fund (note iii)	(193,853)	–	–
Disposal	(187,957)	–	–
Total (losses) gains in profit or loss (note v)	(81,260)	6,293	(27,171)
Closing balance	2,655,454	395,878	(395,878)

46. Fair Value Measurements of Financial Instruments (continued)

Information about Level 3 fair value measurement (continued)

31 December 2018

	Financial assets measured at FVTPL		Financial liabilities measured at FVTPL
	Financial assets held for trading and market making activities/ investment securities at FVTPL HK$'000	Assets acquired for financial products issued HK$'000	Financial products issued at fair value HK$'000
Opening balance	549,022	464,097	(328,570)
Total gains (losses) in profit or loss (note v)	120,047	44,890	(44,141)
Addition (note i)	222,635	–	–
Transfer into Level 3 (note ii)	891,182	86,147	(86,147)
Transfer into Level 2 (note iv)	(111,053)	(111,053)	48,526
Disposal	–	(121,515)	68,644
Closing balance	1,671,833	362,566	(341,688)

Notes:

(i) For the year ended 31 December 2019, addition of HK$57 million (2018: HK$223 million) represents additional capital call to private equity funds, while for year the ended 31 December 2019, addition also includes purchase of a debt investment amounted to HK$143 million where the fair value is determined based on significant unobservable inputs in particular the discount rate specific to the issuer of the debt investment.

(ii) For the years ended 31 December 2019, private equity investments, partnership investments and private equity funds amounted to HK$906 million (2018: HK$335 million) were transferred from Level 2 to Level 3 category. For the year ended 31 December 2019, unlisted and listed debt investments amounted to HK$367 million (2018: HK$642 million) were transferred from Level 2 to Level 3 category. The reasons for the transfer is due to the fair value as of the reporting dates are based on significant unobservable inputs applied (including the credit assessment of the issuer) in valuing these investments. Financial products issued increased as a result of underlying investments were transferred into Level 3 category.

(iii) An unlisted debt security amounted to HK$194 million classified as Level 3 category as at 31 December 2018 was held by a consolidated investment fund. During the current year, 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.

(iv) An equity investment that was previously unlisted (and therefore classified as Level 3 category as at 31 December 2017) were listed on a stock exchange during the year ended 31 December 2018, and consequently such equity investment held as investment and as underlying investments for financial products issued were transferred into Level 2 Category during the prior year.

(v) Of the total gains or losses for the period included in profit or loss, losses of HK$102,138,000 (2018: gains of HK$120,796,000) relates to financial assets held for trading and market making activities, investment securities at FVTPL, assets acquired for financial products issued and financial products issued at fair value held at the end of the current reporting period. The fair value gains or losses are included in "Net trading and investment income" line item in profit or loss.

46. Fair Value Measurements of Financial Instruments (continued)

Information about Level 3 fair value measurement (continued)

For financial assets and liabilities with Level 3 fair value measurements, fair value is determined by using valuation techniques such as discounted cash flow models, and generally based on parameters with significant unobservable inputs. The following table presents the related valuation techniques and inputs of the major financial assets (or financial products issued with underlying investments being such financial assets) with Level 3 fair value measurements.

	Fair value as at 31 December 2019 HK$'000	2018 HK$'000	Valuation techniques and key inputs	Significant unobservable inputs	Relationship of unobservable inputs to fair value
Financial assets other than financial assets relating to financial product issuance					
Debt investments	667,296	642,162	Discounted cash flow models	Discount rate taking into account the credit risk of the issuer	The higher the discount rate, the lower the fair value
Unlisted equity investments	512,665	136,338	Market approach	Pricing multiples of market comparable companies used to determine the estimated equity value of the project company: – Price to sales multiple	The higher the pricing multiples, the higher the fair value
				Discount rate for lack of marketability	The higher the discount rate, the lower the fair value
Unlisted partnerships investments/ Unlisted investment funds	1,475,493	893,333	Net asset value of the unlisted equity investments which are the deemed resale price of investments provided by the external counterparties	Net assets value	The higher the net assets value, the higher the fair value
	2,655,454	1,671,833			
Financial assets and financial liabilities relating to product issuance					
Asset acquired for financial products issued					
Unlisted equity investments	380,310	362,566	Net asset value of the unlisted equity investments which are the deemed resale price of investments provided by the external counterparties	Net asset value	The higher the net assets value, the higher the fair value
Unlisted partnerships investment	15,568	–	Net asset value of the unlisted partnership investment which are the deemed resale price of investments provided by the external counterparties	Net asset value	The higher the net assets value, the higher the fair value
	395,878	362,566			

46. Fair Value Measurements of Financial Instruments (continued)

Information about Level 3 fair value measurement (continued)

	Fair value as at 31 December 2019 HK$'000	2018 HK$'000	Valuation techniques and key inputs	Significant unobservable inputs	Relationship of unobservable inputs to fair value
Financial products issued at fair value					
Unlisted financial products	395,878	341,688	The return of the financial products issued is linked to equity investments or partnership investment, which are valued with directly reference to its hedging assets	Net asset value of its hedging assets	The higher the net assets value, the higher the fair value

47. Financial Assets and Financial Liabilities Offsetting

The disclosures set out in the tables below include financial assets and financial liabilities that:

- are offset in the Group's consolidated statement of financial position; or
- are subject to an enforceable master netting arrangement or similar agreement that covers similar financial instruments, irrespective of whether they are offset in the Group's consolidated statement of financial position.

Under the agreement of continuous net settlement made between the Group and Hong Kong Securities Clearing Company Limited ("HKSCC"), Clearing Participant of China Securities Depository and Clearing Corporation Limited ("CSDC") and brokers, the Group has a legally enforceable right to set off the money obligation receivable and payable with HKSCC, CSDC and brokers on the same settlement date and the Group intends to set off on a net basis.

In addition, the Group has a legally enforceable right to set off the accounts receivable and payable with brokerage clients that are due to be settled on the same date and the Group intends to settle these balances on a net basis.

47. Financial Assets and Financial Liabilities Offsetting (Continued)

Except for balances which are due to be settled on the same date which is being offset, amounts due from/to HKSCC, CSDC, brokers and brokerage clients that are not to be settled on the same date, financial collateral including cash and securities received by the Group, deposits placed with HKSCC, CSDC and brokers do not meet the criteria for offsetting in the consolidated statement of financial position since the right of set-off of the recognised amounts is only enforceable following an event of default.

As at 31 December 2019

	Gross amounts of recognised financial assets (liabilities) after impairment HK$'000	Gross amounts of recognised financial (liabilities) assets set off in the consolidated statement of financial position HK$'000	Net amounts of financial assets (liabilities) presented in the consolidated statement of financial position HK$'000	Related amounts not set off in the consolidated statement of financial position: Financial instruments HK$'000	Related amounts not set off in the consolidated statement of financial position: Collateral received HK$'000	Net amount HK$'000
Financial assets						
Accounts receivable from clients, brokers, dealers and clearing houses	14,885,607	(5,864,853)	9,020,754	(228,283)	(1,869,936)	6,922,535
Deposits placed with clearing houses	103,128	–	103,128	–	–	103,128
Advances to customers in margin financing	12,629,847	–	12,629,847	(92,509)	(11,437,832)	1,099,506
Financial liabilities						
Accounts payable to clients, brokers, dealers and clearing houses	(26,049,512)	5,864,853	(20,184,659)	320,792	973,741	(18,890,126)
Financial liabilities held for trading and market making activities	(1,945,382)	–	(1,945,382)	–	1,945,382	–

47. Financial Assets and Financial Liabilities Offsetting (continued)

As at 31 December 2018

	Gross amounts of recognised financial assets (liabilities) after impairment HK$'000	Gross amounts of recognised financial (liabilities) assets set off in the consolidated statement of financial position HK$'000	Net amounts of financial assets (liabilities) presented in the consolidated statement of financial position HK$'000	Related amounts not set off in the consolidated statement of financial position: Financial instruments HK$'000	Related amounts not set off in the consolidated statement of financial position: Collateral received HK$'000	Net amount HK$'000
Financial assets						
Accounts receivable from clients, brokers, dealers and clearing houses	11,442,961	(4,474,485)	6,968,476	(1,141,587)	(147,354)	5,679,535
Deposits placed with clearing houses	76,296	–	76,296	–	–	76,296
Advances to customers in margin financing	15,952,460	–	15,952,460	(408,380)	(15,317,669)	226,411
Financial liabilities						
Accounts payable to clients, brokers, dealers and clearing houses	(25,449,037)	4,474,485	(20,974,552)	1,549,967	1,626,320	(17,798,265)
Financial liabilities held for trading and market making activities	(4,405,866)	–	(4,405,866)	–	4,405,866	–

48. Transfer of Financial Assets

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

Financial assets sold under repurchase agreement

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

Details of carrying amount and fair value of transferred assets, and the assessment performed by the Group in respect of whether bonds and preference shares sold under repurchase agreements shall be derecognised are disclosed in note 34 to the consolidated financial statements.

Transfer of loans and receivables

As part of normal course of business, the Group enters into agreements with independent third parties to assign (on a without recourse basis) certain investment securities to special purpose entities, which in turn issue securities with different tranches to investors with the investment securities transferred as the underlying asset. The Group may acquire different tranches, and accordingly, may retain part of the risks and rewards in relation to these investment securities. The Group would determine whether or not to derecognise these investment securities by evaluating the extent to which the Group retains risks and rewards.

During the year ended 31 December 2017, the Group assigned investment securities amounting to HK$586 million to an independent party with these transactions not qualifying for derecognition based on the group retaining substantially all risks and rewards. The corresponding liability of HK$586 million was recognised as other payables and accruals as at 31 December 2018 in the consolidated statement of financial position. The directors of the company determined the carrying amount of the transferred assets and associated liabilities approximate their fair value.

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.

49. Events after the Reporting Period

The outbreak of COVID-19 has caused disruption to businesses and economic activities and shock to financial markets. This may result in an impact on the fair value of the financial assets and impairment charges on loans and advances to customers of the Group. The degree of the impact depends on the duration of the pandemic, the implementation of preventive measures and fiscal easing policies posted by the impacted countries and regions. As the situation is rapidly evolving, we do not consider it is practicable to provide a quantitative estimate of the potential impact of this outbreak on the Group.

Such impact is a non-adjusting event after the financial year end and does not result in any adjustments to the consolidated financial information for the year ended 31 December 2019. Nevertheless, the Group and the management will continue to monitor the situation closely and actively respond to the impacts on the Group's financial position and operating results.

Five Years Financial Summary

	31/12/2019 HK$'000	31/12/2018 HK$'000	31/12/2017 HK$'000	31/12/2016 HK$'000	31/12/2015 HK$'000
RESULTS					
REVENUE	8,243,974	6,328,782	7,195,021	5,350,817	5,808,359
OPERATING PROFIT	1,850,629	1,406,453	3,101,512	2,020,131	3,039,910
Share of (loss) profit of investments accounted for using the equity method	–	(226,869)	470,727	(27,658)	(53,522)
PROFIT BEFORE TAX	1,850,629	1,179,584	3,572,239	1,992,473	2,986,388
Income tax expense	(299,771)	(156,746)	(543,551)	(312,248)	(476,336)
PROFIT FOR THE YEAR	1,550,858	1,022,838	3,028,688	1,680,225	2,510,052
ASSETS AND LIABILITIES:					
TOTAL ASSETS	156,274,502	151,181,085	130,223,838	131,505,248	91,919,000
TOTAL LIABILITIES	(129,243,921)	(125,370,748)	(104,855,959)	(109,056,224)	(71,090,214)
SHAREHOLDERS' FUNDS	27,030,581	25,810,337	25,367,879	22,449,024	20,828,786

Corporate Information

General Information

Board of Directors

Executive Directors

LIN Yong	*Deputy Chairman and Chief Executive Officer*
LI Jianguo	*Deputy Chairman*
POON Mo Yiu	
SUN Jianfeng	
SUN Tong	

Non-executive Directors

QU Qiuping	*Chairman*
CHENG Chi Ming Brian	
WANG Meijuan	
ZHANG Xinjun	
William CHAN	

Independent Non-executive Directors

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

Company Secretary

LO Wai Ho

External Auditor

Deloitte Touche Tohmatsu

Legal Adviser in Hong Kong

Woo, Kwan, Lee & Lo

Legal Adviser on Bermuda Law

Conyers Dill & Pearman

Place of Incorporation

Bermuda

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

海通國際
HAITONG

Haitong International Securities Group Limited
22/F Li Po Chun Chambers
189 Des Voeux Road Central, Hong Kong