



Stock Code : 665.HK

INTERIM REPORT 2020



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"



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Financial Highlights

Results

	Six months ended		Percentage change Increase/ (Decrease)
	30.6.2020	30.6.2019	
Revenue (HK\$'000)	3,524,658	4,108,628	(14)
– Commission and fee income	1,196,142	915,706	31
– Interest income	1,362,554	1,404,896	(3)
– Net trading and investment income	965,962	1,788,026	(46)
Net profit excluding impairment on secured financing (HK\$'000)	1,074,973	1,045,527	3
Net Profit Attributable to Shareholders (HK\$'000)	521,498	1,038,885	(50)
Per share			
Basic Earnings Per Share (HK Cents)	8.90	18.04	(51)
Diluted Earnings Per Share (HK Cents)	8.88	16.61	(47)

Financial Position

			Percentage change Increase/ (Decrease)
	30.6.2020	31.12.2019	
Shareholders' Funds (HK\$'000)	27,155,290	27,030,581	–
Total Assets (HK\$'000)	156,318,285	156,274,502	–
Number of Shares in Issue (Note)	6,036,035,086	5,940,583,872	2
NAV Per Share (HK\$)	4.50	4.55	(1)

Note:

Certain shareholders elected scrip dividend for the 2019 second interim dividend. Hence, the total number of shares of the Company was increased to 6,036,035,086 as at 30 June 2020.

Management Discussion and Analysis

REVIEW AND ANALYSIS OF RESULTS

In the first half of 2020, the outbreak of Covid-19 in the globe has sent the global economy in a free fall and given the financial market a rollercoaster ride, posing brutal challenges to investment bankers worldwide. As an open and export-oriented economy, Hong Kong and its financial market were inevitably caught in the downdraft.

Gratefully, Haitong International has mapped out its way and rolled out its Strategic Plan 3.0 ("Plan 3.0") starting from as early as 2018 to diversify income streams, defuse risk assets, build a team of professionals, enrich product structures and maintain profitability, stability and sustainability. As such, the Company has successfully positioned itself well to serve as an information, trading and capital intermediary in an all-round way. Under the direction of Plan 3.0, Haitong International prioritized risk control as the top item in its 2020 agenda. Earlier this year, our management took proactive initiative to keep leverage size and liquidity on a short leash and steered away from the global liquidity crunch rarely seen in a decade. The Company literally got a "pass" on this "stress test".

During the reporting period, the Company notched up a revenue of HKD3.525 billion and its fee-based business, a central part emphasized in the Plan 3.0, achieved an revenue of HKD1.196 billion, representing a year-on-year growth of 31%, and its share to the total revenue jumped from last year's 22% to 34%.

1. Leading IB services across the world

In the 1st half, Haitong International's investment banking business achieved a revenue of HKD465 million, representing a growth of 39% over 2019, with top ranking in a number of businesses. During the period, Haitong International completed 18 IPOs in Hong Kong, acting as a sponsor for 3 of which and ranking No.1 in terms of number of IPO deals underwritten; it also completed 21 equity financing deals, ranking No.2 in terms of number of deals; for DCM, it also ranked No.1 and No.3 in terms of number of bond deals and underwriting amount in the Asia ex-Japan G3 HY bond league.

Seeing the trend of repatriation of Chinese IPOs to Hong Kong as the primary listing place, the Company gears up to seize this chance to grow its business. During the period, the Company completed a stellar Chinese IPO, and more are in the pipeline and will come in the 2nd half. Haitong International has entrenched its leadership in the healthcare and property management sectors. During the period, the Company acted as the sponsor for 1 IPO and as the underwriter for 5 IPOs and will support more projects on the way of listing to gain a solid foothold in such segments. The Company is moving ahead to establish presence in the global arena in terms of investment banking businesses. During the period, it completed 1 IPO in the U.S. and 1 equity financing project in Singapore. There are also many more in the pipeline in emerging markets such as India which is expected to be completed in the 2nd half. Though staying on the top of the curve, our DCM team lives up to the commitment to promoting ESG and green finance. During the period, the Company has underwritten 3 green bonds amounting to USD 700 million. For mergers and acquisitions, the Company has been actively blazing new trails for product distribution and set up funds to boost fee-based income and enhance capability for active management. Meanwhile, a new credit capital market team has been formed to provide diversified financing solutions other than equity financing for clients with full-spectrum investment banking services.

2. **Globe-spanning trading capability integration in the fast track**

During the 1st half of this year, Haitong International rolled Prime Brokerage, Equity Research and Sale, Fixed Income Market Making, and Derivatives Trading into a single segment to provide a one-stop and diversified trading platform with greater synergies. With this integration, the multi-dimensional network interwoven with research, sales, information and counterparty layers enables clients to hunt for more investment opportunities. Clients can also get investment consultation, innovative trading offerings, more trading execution and investment & financing solutions from the network. As the Company plays a good role of being an information, trading and capital intermediary, deals are now achieved in a customer-initiated manner.

During the reporting period, the 1-year-old prime brokerage business witnessed a burgeoning growth and client assets under management and the scale of margin trading and securities lending doubled. Boasting Haitong International's leadership and size of assets, the prime brokerage business successfully drew in a cluster of hedge funds and financial institutions to land on Haitong International's global trading platform to carry out block trades, derivatives hedging and product transactions such as equity-linked notes. For cash equity, the Company focused on strategic clients with research on stocks in Hong Kong, Mainland China, the U.S., Japan and India to heighten its trading capability. The equity trading turnover for the period was over HKD220 billion, representing a year-on-year growth of 42%, pushing up the commission income drastically. For fixed income market-making, Haitong International is providing bilateral quotes of liquidity regarding interest and credit products for almost 800 institutions per day and offering clients bespoke risk-hedging and investment & financing solutions. For ETF market making, Haitong International provides market making for a trove of ETFs in the market including 4 most active Hang Seng index-related ETFs with a collective trading volume over HKD330 billion, the market share of which makes up 41.9%. For derivatives, Haitong International launched a total of 1,714 CBBCs, representing a 22% increase over 2019 with turnover amounting to over HKD200 billion, making it the 5th place in the Hong Kong market. During the period, Haitong International was granted the Derivatives Provider of the Year-Excellence by Bloomberg Businessweek.

3. **Effective global wealth management switchover**

Asset Management is one of the centerpiece in the Plan 3.0. Haitong International has been kicking it up a notch to advocate the switchover of wealth management in a "two-wheel drive" approach. On one side, the Company leverages off its state-of-the-art fin-tech to facilitate development of e-trading platform for individual clients. On the other, the Company targets high-net worth clients and demands itself to evolve into a private wealth management institution for entrepreneurs.

As the plaque rattles the market in the 1st half, Haitong International saw it as much as a catalyst for its transformation. An optimized e-platform, better user experience and high-efficient onboarding procedure have allured more individual clients to turn to Haitong International's e-platform for trading. During the period, wealth management retail brokerage commission income reached HKD287 million, representing a year-on-year rise of 54%. Meanwhile, in the face of undulation in the market, the Company took a step forward to modify its asset structure and keep perilous assets in check. As at the end of the reporting period, the weighting of blue-chip shares held by the Company as collaterals for margin financing took up nearly 50%, reflecting a healthier status of customer assets.

Management Discussion and Analysis

For high-net-worth clients, Haitong International keeps optimizing its business models to provide more diversified, idiosyncratic, sublime and fit-to-need services and products. Since last year, the Company has been looking to catch up with the norms of private banking industry and inviting towering talents in the investment banking universe to join its crew. Building on its investment banking, trading and research strengths as well as synergetic effects, the Company hopes to offer entrepreneurs advantages in terms of investment banking, trading, research and products. The high-net-worth assets of the Company stood at over HKD100 billion as at the end of the period, which is expected to become a new growth engine for the Company.

4. Swelling global AUM

Asset management is another highlighted business in the Plan 3.0, serving as an important fee-based income stream. Haitong international has been endeavoring to shovel resources into asset management product research and proactively explore ways to distribute offerings and grow the AUM. In 2nd half of 2019, Haitong Asia High Yield Bond Fund was approved to be included as a northbound mutual fund in the Mainland-Hong Kong Mutual Recognition of Funds (MRF). The fund quickly gained traction among investors in the Mainland. Under a spate of impacts on the global asset management industry, Haitong International's AUM grew by 24% over previous year and amounted to HKD66.5 billion. In addition, the Company achieved HKD154 million in terms of fee-based income for asset management, representing a year-on-year growth of 44%.

To bring its ESG and impact investment strategy into full play, Haitong International ramped up to establish ESG-related ETFs which are expected to come on stream in the 2nd half. Haitong International acquits itself well with its outstanding brand and promising performance, and was recognized with a concatenation of accolades granted by reputed institutions including Asian Investor during the period.

5. Full-fledged global operating system and IT infrastructure

Haitong International constantly builds up its global comprehensive operational capacity and automatic operation relying on its central data base management system to achieve central management of data worldwide. Under the threat of Covid-19, Haitong International activated its BCP (Business Continuity Plan) for its headquarters and overseas offices at a pinch. A contingent of employees are teleworking but our middle office, IT and risk management divisions are tasked to complete a chain of operations such as trading, settlement, asset evaluation, risk monitoring in many global financial hubs. This brings great pressure and challenges to corresponding departments. Thanks to Company's strong global operating systems and IT powers, it is capable to weather the storm and operate stably with its BCP backup measures to enable its staff to telework in different time zones and locations.

This 1st half, the financial markets across the world was smacked hardly. Based on the risk models and predictions, Haitong International has planned ahead and readied itself to manage the market, credit and liquidity risks. A sound risk management structure has been built in compliance with regulatory standards laid down by international financial institutions and the Company's "prudent to conservative" risk appetite in tandem with its in-house rating system and risk-weighted asset (RWA) based on quantifying models. Earlier this year, Haitong International had the foresight to perform a stress test for the worst scenario brought by the plague compounded with the economic recession and proactively targeted to curb the gearing ratio and leverage size, and roll back from high-risk assets throughout the year. In this sense, disposal of, impairment to and provision for the perilous assets and projects will be carried out in the most prudent way. Haitong International is now residing at one of the lowest risk levels on record thanks to its prudent maneuver of full provision against risky projects.

Prospects

The likely cause is that the global economy will face the headwind in the 2nd half of 2020. It is uncertain how the Covid-19 situation will develop, which may impede kick-starting of many economies. A cascade of bankruptcies and corporate closedowns may cause asset quality to rot away and inflict damages to the stability of the global financial market. Most governments may take out new financial relief measures and central banks will keep their accommodative monetary policies.

Facing torrents of challenges such as global economic recession, the spreading Covid-19, Sino-U.S confrontation and undercurrents in Hong Kong, Haitong International will stick to its Plan 3.0. For strategic positioning of its businesses, the Company decides to stay true to the nature of financial service intermediary. Therefore, it will improve income structure, keep leverage size under control, strengthen risk control and set up a better, stable and sound commercial and profit-earning model to cope with sheer uncertainties in this global financial market. For constructing a middle and back office operating system, the Group insists on making its headway toward digitalization and redesigning the procedures for fin-tech business to provide financial infrastructure to meet regulatory requirements and cross-time-zone and cross-market demands and augment the development business-wise systems. The Company will invite more towering talents on board to form an international, quality, diversified and multifunctional investment banking team and move forward to become an omnipotent investment bank with international competitiveness from a quality-focused one.

The spreading Covid-19 serves as a warning shot, reminding us that the world as a whole shares the same destiny. Haitong International kicked off the ESG development plan in 2019 and put social responsibilities on its shoulder to promote responsible investment and impact investment. This year, the Company was granted the HR Asia Best Companies to Work for and HR Asia Most Caring Companies Award 2020 by HR Asia as recognition to its longstanding commitment to social responsibilities and caring the community. However, it will not stop paying heed to employees' well-being and welfare and paying attention on talent grooming and attraction; it will take its corporate governance structure to a higher level with professionalism, rule-based decision-making and supervisory regimes.

In this fateful stroke of time never seen in the past century, Haitong International still keeps going with its core values, namely "Courageous, Sincere and Innovative", and raises the bar of its core competitiveness such as global investment banking, trading, asset management and global operations in a treacherous world like this. We will keep on creating values for the community, our employees, clients and investors.

Financial Review

Overview of Financial Performance

In the first half of 2020, the overall environment presented more challenges than 2019. The ongoing geopolitical tensions between the US and China, and the outbreak and global spread of COVID-19 have dealt a hard blow to the economy. Hong Kong's GDP contracted by around 9% in both first quarter and second quarter of 2020 year-on-year; and Hang Seng index dropped by 13%.

However, thanks to the progress made according to our Strategic Plan 3.0 ("Plan 3.0") roadmap, Haitong International Securities Group Limited (the "Company") together with its subsidiaries (collectively referred herein as to the "Group") achieved a net profit excluding impairment on non-recurrent secured financing of HK\$1,075 million and net profit of HK\$521 million. Among the revenue streams, commission and fee income increased by 31% and amounted to HK\$1,196 million, and accounted for 34% of revenue for the first half of 2020, increased from 22% for the first half of 2019. Major income types under commission and fee income, namely, commission on brokerage, commission on underwriting and placing, and asset management and performance fee income increased by 56%, 39% and 44% respectively, outrunning the relevant market benchmarks in terms of market turnover and fundraising in global IPOs. On top of exploring the fee income source, the Group actively managed the leverage and liquidity during the financial turmoil in the first half of 2020 and also made one-time full provision on a syndicated loan that the Group participated.

In respect of the revenue streams, besides commission and fee income as detailed above, interest income, amounted to HK\$1,363 million, remained stable during the first half of 2020, compared with HK\$1,405 million for the same period of last year. Balance of interest generating assets recorded a year-on-year decrease. Net trading and investment income dropped by 46% year-on-year. Trading and market-making of fixed income, currency and commodities recorded a loss, reflecting the unfavourable movement in bond indices, in particular substantial drop of bond indices during March to April 2020. Net investment gain on financial assets held decreased by 5% year-on-year and amounted to HK\$612 million.

Net impairment charges was HK\$773 million for the first half of 2020. Year-on-year increase in net impairment charges was a result of the one-time full impairment provision of HK\$636 million on a syndicated loan that the Group participated.

Total assets and shareholders' equity as at 30 June 2020 amounted to HK\$156.3 billion and HK\$27.2 billion respectively, remaining at the same level as at 31 December 2019. Net assets per share as at 30 June 2020 was HK\$4.50, representing a decrease of 1% from HK\$4.55 as at 31 December 2019.

Revenue

Revenue of the Group for the six months ended 30 June 2020 was HK\$3,525 million (6 months ended 30 June 2019: HK\$4,109 million). Details of the major revenue streams and its proportion to total revenue are set out below:

	For the six months ended			
	2020		2019	
	Jan to Jun	%	Jan to Jun	%
	HK\$'000		HK\$'000	
Commission and fee income	1,196,142	33.9	915,706	22.3
Interest income	1,362,554	38.7	1,404,896	34.2
Net trading and investment income	965,962	27.4	1,788,026	43.5
	3,524,658	100.0	4,108,628	100.0

Commission and fee income increased by 31% year-on-year and amounted to HK\$1,196 million, mainly attributed to the increase in major revenue streams under commission and fee income, namely, commission on brokerage, commission on underwriting and placing, and asset management fee and performance fee income. The Group achieved a strong growth in brokerage commission (2020: HK\$395 million; 2019: HK\$253 million). The growth in brokerage commission was due to strong growth in commission income on securities dealing and commission income on distribution of over-the-counter products. In addition, the Group achieved a 39% growth in underwriting and placing commission. The Group continued to rank top in the league tables and the growth in revenue exceeded the fundraising amount in Hong Kong IPOs and Chinese US Dollar bond issuance. Asset management and performance fee income increased by 44%, mainly contributed by both increase in Asset Under Management ("AUM") and average fee rate. Performance fee income also increased substantially. Proportion of fee income to the total revenue increased from 22% for the first half of 2019 to 34% for the first of 2020, 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 remained stable as compared between the current period and the same period of last year. Interest generating assets (including advances to customers and investment securities at amortised cost) recorded a drop of 18% as compared between 30 June 2020 and 31 December 2019. While maintaining a stable income source from its interest generating assets, the Group strives to diversify its fee income streams according to its Plan 3.0 instead of relying on income generated from substantial asset portfolio.

Net trading and investment income decreased by 46% year-on-year. Net trading income on fixed income, currency and commodities, and equity derivatives sustained a loss of HK\$51 million, compared with a gain of HK\$765 million for the same period of last year. The loss was mainly attributable to the substantial drop in Chinese USD high yield bonds indices during March to April 2020. On the other hand, such a loss was fully offset by net trading income from financial products issuance and net investment gain from financial assets held. Investment returns on financial assets held by the Group (mainly including investment funds, listed equities and private equities) recorded a gain of HK\$612 million amidst volatile financial market, reflecting the Group's successful investment strategy.

Total Costs and Impairment Charges

An analysis of total costs and net impairment charges is as below:

	For the six months ended		+/-%
	2020	2019	
	Jan to Jun HK\$'000	Jan to Jun HK\$'000	
Salaries and allowances, bonuses and pension	559,202	677,548	-17.5
Commission expenses	126,133	90,925	+38.7
Finance costs	1,179,853	1,455,257	-18.9
Operating expenses:			
– Amortisation and depreciation	118,704	102,654	+15.6
– Information technology related expenses	111,002	104,029	+6.7
– Other operating expenses	152,566	217,127	-29.7
Total costs	2,247,460	2,647,540	-15.1
Impairment charges, net of reversal	772,705	205,903	+275.3
	3,020,165	2,853,443	+5.8

Decrease in total costs was mainly attributable to the decrease in salaries and allowances, bonuses and pension and finance costs.

Salaries and allowances, bonuses and pension decreased despite continued investment in manpower as a part of the Group's Plan 3.0. The decrease was mainly driven by decrease in provision for bonuses and incentives as a result of a decrease in the Group's net profit, coupled with the Group's strategy in diversifying the compensation basis by changing it from pure cash bonus to other compensation scheme such as share award and share option. The Group purchased additional shares during the first half of 2020 as a reserve for future distribution to employees, subject to employees' performance appraisal. Details of the share award scheme are disclosed in note 31 of the unaudited condensed consolidated financial statements.

Commission expenses saw an increase of 39% due to increase in turnover. However, due to restructuring of the remuneration scheme to salespersons, with a shift from commission expenses to fixed salary and incentives, bringing the remuneration scheme in line with foreign private banks, the magnitude of increase was less than that in commission on brokerage.

Finance costs decreased by 19% year-on-year. The Group's interest bearing liabilities saw a drop as compared between June 2020 and June 2019, echoing with the Group's strategy to fund clients' financing without recourse to our balance sheet. In addition, the Group actively managed the finance costs by reducing the spread charged. For a new syndicated loan facility entered by the Group in March 2020, the spread charged was lower than the syndicated loan facility entered in 2019. The Group issued 2 tranches of US dollar bond in July 2019 and November 2019 after the US dollar bond issued in 2014 matured, and the interest rates of both issuances are lower than the 2014 issuance. The Group has further issued a US dollar bond in July 2020 with an interest rate of 2.125% to replenish the US dollar bond issued in 2015 carried an interest rate of 4.2%.

Financial Review

Impairment charges (net of reversal) were HK\$773 million, compared with HK\$206 million for the first half of 2019. An increase in net impairment charges in 2020 was mainly attributable to a full impairment provision of HK\$636 million in respect of a syndicated loan that the Group participated. The Group has been maintaining a prudent impairment provision policy on impaired credit exposures. As part of the credit risk monitoring, the Group has developed an impairment methodology in compliance with the impairment framework under Hong Kong Financial Reporting Standard ("HKFRS") 9, "Financial Instruments", and calculates impairment provision for credit exposures on a monthly basis.

Amortisation and depreciation increased due to higher depreciation on the right-of-use assets following the adoption of HKFRS 16 last year and transferring of investment properties (measured under the revaluation model) previously held by the Group, to property and equipment (measured at cost less depreciation) during the current interim period.

Information technology related expenses saw an increase as the Group commits to invest in information technology during the transformation process. Other operating expenses saw a decrease due to the Group's continued focus in enhancing operational efficiencies; while that was partially offset by increase in settlement costs due to increase in turnover during the current interim period.

Analysis by Business Segments

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

Segment revenue	For the six months ended			
	2020 Jan to Jun HK\$'000	%	2019 Jan to Jun HK\$'000	%
Wealth management	984,337	27.9	1,049,679	25.5
Corporate finance	909,804	25.8	644,404	15.7
Asset management	154,446	4.4	106,947	2.6
Institutional clients	852,170	24.2	1,658,000	40.4
Investment	623,901	17.7	649,598	15.8
	3,524,658	100.0	4,108,628	100.0

Segment profit/(loss) before tax

	2020		For the six months ended			
	Jan to Jun HK\$'000	%	Segment margin	2019 Jan to Jun HK\$'000	%	Segment margin
Wealth management	369,446	31.8	37%	250,580	20.2	24%
Corporate finance	567,194	48.8	62%	316,608	25.5	49%
Asset management	72,750	6.3	47%	42,364	3.5	40%
Institutional clients	(628,761)	N/A	N/A	428,218	34.5	26%
Investment	152,693	13.1	24%	201,992	16.3	32%
	533,322	100.0	15%	1,239,762	100.0	30%

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

Financial Review

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

	For the six months ended		+/-%
	2020	2019	
	Jan to Jun	Jan to Jun	
	HK\$'000	HK\$'000	
Commission and fee income	341,944	288,930	+18.3
Interest income	642,393	760,749	-15.6
Segment revenue	984,337	1,049,679	-6.2
Other income and gains or losses	7,031	4,246	+65.6
Segment expenses	991,368 (519,186)	1,053,925 (593,973)	-5.9 -12.6
Profit before impairment charges and tax	472,182	459,952	+2.7
Impairment charges, net of reversal	(102,736)	(209,372)	-50.9
Segment profit before tax	369,446	250,580	+47.4
Segment margin (%)	37	24	+13

Segment revenue

Within commission and fee income, commission on brokerage increased by 54% due to increase in Hong Kong stock turnover in respect of this segment and increase in commission from distribution of over-the-counter ("OTC") products. The Group positions itself as the private wealth manager for entrepreneurs and establishes brand new investment advisory platform with increased OTC product coverage and services. The Group's market share in Hong Kong stock market remained stable during the current interim period.

Interest income of this segment comprised of interest income from advances to customers in margin financing and interest spread from deposits placed by wealth management customers. Average margin loan size recorded a decrease while average interest rate remained stable. Details of advances to customers in margin financing are disclosed in note 18 of the unaudited condensed consolidated financial statements.

Segment profit before tax and segment margin

Total segment expenses recorded a decrease, mainly attributable to decrease in finance costs borne by this segment. Impairment charges also decreased by 51% year-on-year.

As a result, segment profit before tax increased by 47% year-on-year and the segment margin increased from 24% to 37%.

Corporate Finance Segment

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

Analysis of results

	For the six months ended		+/-%
	2020 Jan to Jun HK\$'000	2019 Jan to Jun HK\$'000	
Commission and fee income	536,225	413,956	+29.5
Interest income	373,579	230,448	+62.1
Segment revenue	909,804	644,404	+41.2
Other income and gains or losses	404	1,278	-68.4
Segment expenses	910,208 (322,563)	645,682 (328,700)	+41.0 -1.9
Profit before impairment charges and tax	587,645	316,982	+85.4
Impairment charges, net of reversal	(20,451)	(374)	+>100%
Segment profit before tax	567,194	316,608	+79.1
Segment margin (%)	62	49	+13

Segment revenue

The Group's underwriting and placing commission increased from HK\$334 million for the 6 months ended 30 June 2019 to HK\$465 million for 6 months ended 30 June 2020. On the other hand, interest income from financing solutions provided to corporate clients for merger and acquisition projects recorded an increase due to increase in average balance.

Segment profit before tax and segment margin

Segment profit before tax increased substantially, and finance costs increased as a result of increase in assets held by this segment. Segment profit before tax for the first half of 2020 amounted to HK\$567 million, representing a 79% year-on-year increase and the segment margin boosted to 62%.

Asset Management Segment

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

Analysis of results

	For the six months ended		+/-%
	2020 Jan to Jun HK\$'000	2019 Jan to Jun HK\$'000	
Commission and fee income	154,446	106,947	+44.4
Segment expenses	(81,696)	(64,583)	+26.5
Segment profit before tax	72,750	42,364	+71.7
Segment margin (%)	47	40	+7

Segment revenue

Increase in segment revenue was mainly attributable to the increase in Asset Under Management ("AUM") and the average fee rate. AUM grew by 24% over previous year and amounted to HK\$66.5 billion as at 30 June 2020, and management fee income increased by 33% year-on-year. In addition, increase in performance fee income by more than 100% year-on-year also contributed to the increase in this segment's revenue.

Segment profit before tax and segment margin

Increase in segment expenses was mainly due to increase in segment direct expenses during the current period. Segment profit amounted to HK\$73 million, increased by 72% year-on-year.

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.

Financial Review

Analysis of results

	For the six months ended		+/-%
	2020	2019	
	Jan to Jun HK\$'000	Jan to Jun HK\$'000	
Commission and fee income	163,527	105,873	+54.5
Interest income	335,118	405,830	-17.4
Net trading income	353,525	1,146,297	-69.2
Segment revenue	852,170	1,658,000	-48.6
Other income and gains or losses	407	399	+2.0
Segment expenses	852,577 (831,820)	1,658,399 (1,231,670)	-48.6 -32.5
Profit before impairment charges and tax	20,757	426,729	-95.1
Impairment charges, net of reversal	(649,518)	1,489	N/A
Segment (loss)/profit before tax	(628,761)	428,218	N/A
Segment margin (%)	N/A	26	N/A

Segment revenue

Commission and fee income increased by 55% year-on-year, which was attributable to a year-on-year increase of 39% in cash equity trading turnover while commission rate remained stable. The Group provides a one-stop shop for global institutional clients for stock trading and execution services in different markets, coupled with enhanced research services and capabilities. The growth in securities lending business during the first half of 2020 also contributed the growth in fee income.

Decrease in net trading income was due to the loss recorded for net trading income on fixed income, currency and commodities, and equity derivatives, which was mainly attributable to the substantial drop in Chinese USD high yield bonds indices during March to April 2020. On the other hand, such a loss was fully offset by net trading income from financial products issuance, which remained relatively stable as compared between the current period and the same period of last year (6 months ended 30 June 2020: HK\$405 million; 6 months ended 30 June 2019: HK\$381 million).

Impairment charges (net of reversal)

Impairment charges for the first half of 2020 were attributable to the full impairment provision of HK\$636 million in respect of a syndicated loan exposure that the Group participated in with reference to assessment made by the Group, which was based on a number of factors including outstanding balance of this exposure as at 30 June 2020, latest business update on the borrower and the financial status of the borrower and the guarantor. The Group will monitor closely the update on this syndicated loan exposure during the second half of 2020 on the potential recoverability.

Financial Review

Segment loss/profit before tax and segment margin

With the decrease in net trading income and the net impairment charges recognized during the first half of 2020, this segment recorded a loss of HK\$629 million.

Investment segment

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

Analysis of results

	For the six months ended		+/-%
	2020 Jan to Jun HK\$'000	2019 Jan to Jun HK\$'000	
Interest income	11,464	7,869	+45.7
Net investment gain on financial assets/ liabilities at fair value through profit or loss	612,437	641,729	-4.6
Segment revenue	623,901	649,598	-4.0
Other income and gains or losses (note)	20,987	(21,346)	+198.3
Segment expenses	644,888 (492,195)	628,252 (428,614)	+2.6 +14.8
Profit before impairment charges and tax	152,693	199,638	-23.5
Impairment charges, net of reversal	–	2,354	N/A
Segment profit before tax	152,693	201,992	-24.4
Segment margin (%)	24	32	-8

Note: This mainly represents net loss or 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 23 of the unaudited condensed consolidated financial statements.

Segment revenue

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

The net investment gain was mainly contributed by the Group's listed equity investments, fund-of-fund investments and private equity investments, while the decrease in segment revenue was due to a drop in return from the Group's seed money investments.

Financial Review

Segment profit before tax and segment margin

Segment profit before tax for the current period amounted to HK\$153 million while segment margin for the current period was 24%. Increase in segment expenses was due to the increase in finance costs borne by this segment and increase in segment direct expenses.

Assets and Liabilities

	30 June 2020 HK\$'000	31 December 2019 HK\$'000	+/-%
Total Assets	156,318,285	156,274,502	–
Total Liabilities	129,162,995	129,243,921	-0.1
Net Assets	27,155,290	27,030,581	+0.5

Assets

Total assets as at 30 June 2020 remained at the same level as at 31 December 2019. As part of the liquidity and cash management of the Group, the Group invested into highly liquid financial assets for the purpose of maintaining sufficient cash and financial assets that are readily convertible into cash while aiming to earn an investment return. As at 30 June 2020, such financial assets held amounted to HK\$6,431 million (31 December 2019: HK\$1,436 million). Assets acquired for financial products issued increased (30 June 2020: HK\$46,024 million; 31 December 2019: HK\$32,386 million) but was offset by decrease in financial assets held for trading and market making activities (30 June 2020: HK\$12,526 million; 31 December 2019: HK\$28,460 million). During the current period, as part of the Group's implementation of Plan 3.0, the Group further strengthened the financial products issuance and product distribution capabilities with an aim to earn stable funding income and fee income from clients (while maintaining a strict risk control), and at the same time to reduce the Group's direct exposure in trading debt and equity securities to reduce the volatility of profits.

As a result of continuing enhancement of credit risk management mechanism, the Group's interest generating assets (including advances to customers and investment securities at amortised cost) decreased from HK\$31,144 million as at 31 December 2019 to HK\$25,635 million as at 30 June 2020, representing a drop of 18%.

Liabilities

Total liabilities as at 30 June 2020 also remained at the same level as at 31 December 2019. Within the category of liabilities, financial products issued at fair value (which represents margin provided by customers) recorded an increase of 16% (30 June 2020: HK\$22,124 million; 31 December 2019: HK\$19,030 million) while interest bearing liabilities (including cash collateral on securities lent and repurchase agreements, bank borrowings and debt securities in issuance) recorded a decrease of 9% (30 June 2020: HK\$77,769 million; 31 December 2019: HK\$85,746 million). It is the Group's strategy to maintain a stable balance sheet and aims at helping clients access to various products without recourse to the Group's own funding.

In March 2020, the Group entered into a HK\$12 billion 3-year revolving syndicated loan facility. The interest rate of the new syndicated loan was lower than that entered in 2019. The new syndicated loan facility provides a stable funding source to the Group and helps to reduce the funding cost of the Group. In addition, the Group issued US\$400 million of USD bonds in July 2020, which carries an interest rate of 2.125%, lower than all the USD bonds previously issued by the Group.

Gearing ratio

The Group's gearing ratio (calculated by total assets excluding accounts payable to clients and accounts receivable from clients for subscription of new shares in IPO divided by shareholders' equity) decreased from 5.17 times as at 31 December 2019 to 4.95 times as at 30 June 2020.

Capital Structure and Regulatory Capital

	30 June 2020 HK\$'000	31 December 2019 HK\$'000	+/-%
Issued share capital	603,603	594,058	+1.6
Number of issued shares	6,036,035,086	5,940,583,872	+1.6

As at 30 June 2020, the total issued share capital of the Group stood at HK\$603.603 million (31 December 2019: HK\$594.058 million), comprising 6,036,035,086 shares of HK\$0.10 each (31 December 2019: 5,940,583,872 shares of HK\$0.10 each).

Issued share capital increased during the current period was due to new shares issued on scrip dividends in relation to 2019 second interim dividend. Details of movement of share capital during the current period are disclosed in note 30 of the unaudited condensed consolidated financial statements.

The Group has a number of regulated entities that are subject to regulatory capital requirements set by respective regulatory bodies globally, 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 current period, all these regulated entities complied with applicable regulatory capital requirements. In addition, as part of the regulatory capital contingency planning, the Group revisits 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 Amendments to Accounting Standards and Adoption of Accounting Policies

The Group is required to adopt a number of amendments to Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants from 1 January 2020. The amendments to HKFRSs do not result in material impact to the Group's financial positions. Further details on the principal accounting policies are detailed in note 3 of the unaudited condensed consolidated financial statements.

Treasury Policies

The Group generally finances its business operations with internally generated cash flow, bank borrowings and funding from capital markets. In March 2020, 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\$12,000 million for a term of up to 3 years. In addition to the syndicate loan facilities, the Group’s other banking facilities are mainly renewable on a yearly basis and are on floating interest rates basis.

It has also been the Group’s practice to support its long term funding requirements by tapping the capital markets in various currencies, subject to market conditions. In 2020, drawdown of HK\$925 million and US\$523 million have been made from the US\$5 billion Medium Term Note Programme, with the majority of which on fixed interest rate basis. It has been the policy of the Group to maintain adequate liquidity at all times to meet its liabilities 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. The Group also actively monitors foreign currency movements and hedge net exposures with FX derivatives when necessary.

Liquidity and Financial Resources

The financial position of the Group remained sound and healthy during the current period. As of 30 June 2020, the Group’s cash and bank balance amounted to HK\$3,374 million, and financial assets that are highly liquid and easily converting into cash amounted to HK\$6,431 million. The Group also has unutilized banking facilities of HK\$29,459 million (including syndicated loan and bilateral loan facilities) to ensure the Group’s ability to meet funding needs when they arise.

Human Resources Policy

As at 30 June 2020, the Group employed a total of 1,262 (31 December 2019: 1,228) 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; SAIL Program to nurture talents and provide foundation for our future leaders, compliance and risk management training, as well as banking product and market update courses. The Group’s structured Management Trainee Development Program is instrumental to fuel the talent needs of the sustainable growth of businesses not only locally but globally.

Condensed Consolidated Statement of Profit or Loss

For the six months ended 30 June 2020

	NOTES	Six months ended	
		30.6.2020 HK\$'000 (unaudited)	30.6.2019 HK\$'000 (unaudited)
Revenue			
Commission and fee income	6	1,196,142	915,706
Interest income	6	1,362,554	1,404,896
Net trading and investment income	6	965,962	1,788,026
		3,524,658	4,108,628
Other income and gains or losses	6	28,829	(15,423)
		3,553,487	4,093,205
Salaries and allowances, bonuses and pension	7	(559,202)	(677,548)
Commission expenses	7	(126,133)	(90,925)
Amortisation and depreciation		(118,704)	(102,654)
Operating expenses		(263,568)	(321,156)
		(1,067,607)	(1,192,283)
Finance costs	9	(1,179,853)	(1,455,257)
Profit before impairment charges and tax		1,306,027	1,445,665
Impairment charges, net of reversal	8	(772,705)	(205,903)
Profit before tax		533,322	1,239,762
Income tax expense	10	(11,824)	(200,877)
Profit for the period attributable to owners of the Company		521,498	1,038,885
Earnings per share attributable to owners of the Company	11		
— Basic (HK cents per share)		8.90	18.04
— Diluted (HK cents per share)		8.88	16.61

Condensed Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the six months ended 30 June 2020

	Six months ended	
	30.6.2020 HK\$'000 (unaudited)	30.6.2019 HK\$'000 (unaudited)
Profit for the period attributable to owners of the Company	521,498	1,038,885
Other comprehensive (expense) income:		
<i>Items that will not be reclassified subsequently to profit or loss:</i>		
Fair value changes on investments in equity instruments at fair value through other comprehensive income	(40,397)	(602)
<i>Items that may be reclassified subsequently to profit or loss:</i>		
Fair value changes on investments in debt instruments at fair value through other comprehensive income		
– Net fair value changes during the period	(13,014)	(586)
– Reclassification adjustment to profit or loss on disposal	4,926	–
Exchange differences on translating foreign operations	(55,512)	(15,821)
Other comprehensive expense for the period	(103,997)	(17,009)
Total comprehensive income for the period attributable to owners of the Company	417,501	1,021,876

Condensed Consolidated Statement of Financial Position

At 30 June 2020

	NOTES	30.6.2020 (unaudited)			31.12.2019 (audited)		
		Current HK\$'000	Non-current HK\$'000	Total HK\$'000	Current HK\$'000	Non-current HK\$'000	Total HK\$'000
ASSETS							
Cash and cash equivalents		3,373,842	–	3,373,842	4,269,608	–	4,269,608
Cash held on behalf of customers	13	17,864,004	–	17,864,004	15,134,126	–	15,134,126
Financial assets held for trading and market making activities	14	12,525,842	–	12,525,842	28,459,878	–	28,459,878
Investment securities	15						
– measured at fair value		22,542,565	8,519,524	31,062,089	9,774,362	17,245,225	27,019,587
– measured at amortised cost		7,330,295	706,541	8,036,836	9,416,784	1,144,299	10,561,083
Assets acquired for financial products issued	16	39,305,854	6,718,461	46,024,315	29,756,276	2,629,569	32,385,845
Derivative financial instruments	17	944,506	–	944,506	340,153	–	340,153
Advances to customers	18	14,358,965	3,239,019	17,597,984	19,469,052	1,114,087	20,583,139
Cash collateral on securities borrowed and reverse repurchase agreements	19	7,822,609	–	7,822,609	5,324,550	–	5,324,550
Accounts receivable	20	7,903,887	–	7,903,887	8,683,114	–	8,683,114
Tax recoverable		319,345	–	319,345	230,117	–	230,117
Prepayments, deposits and other receivables	21	1,221,868	100,907	1,322,775	1,687,520	75,261	1,762,781
Goodwill and other intangible assets	24	–	487,480	487,480	–	485,916	485,916
Other assets		–	163,982	163,982	–	103,128	103,128
Investment property	25	–	70,078	70,078	–	192,471	192,471
Property and equipment	26	–	753,205	753,205	–	706,275	706,275
Deferred tax assets		–	45,506	45,506	–	32,731	32,731
Total assets		135,513,582	20,804,703	156,318,285	132,545,540	23,728,962	156,274,502

Condensed Consolidated Statement of Financial Position

At 30 June 2020

	NOTES	30.6.2020 (unaudited)			31.12.2019 (audited)		
		Current HK\$'000	Non-current HK\$'000	Total HK\$'000	Current HK\$'000	Non-current HK\$'000	Total HK\$'000
LIABILITIES AND EQUITY							
Liabilities							
Financial liabilities held for trading and market making activities	14	2,550,000	–	2,550,000	1,945,382	–	1,945,382
Financial products issued at fair value	16	20,521,775	1,602,307	22,124,082	17,103,333	1,926,905	19,030,238
Derivative financial instruments	17	370,381	–	370,381	545,139	–	545,139
Cash collateral on securities lent and repurchase agreements	27	17,207,719	–	17,207,719	27,455,006	–	27,455,006
Accounts payable	28	24,028,946	–	24,028,946	19,107,219	–	19,107,219
Bank borrowings	29	40,079,285	–	40,079,285	36,872,917	–	36,872,917
Debt securities in issue	29	11,885,051	8,596,915	20,481,966	12,791,450	8,626,979	21,418,429
Other liabilities arising from consolidation of investment funds	23	439,986	–	439,986	421,238	–	421,238
Tax payable		459,496	–	459,496	559,082	–	559,082
Other payables, accruals and other liabilities		1,274,745	117,958	1,392,703	1,660,778	199,498	1,860,276
Deferred tax liabilities		–	28,431	28,431	–	28,995	28,995
Total liabilities		118,817,384	10,345,611	129,162,995	118,461,544	10,782,377	129,243,921
Equity							
Share capital	30			603,603			594,058
Reserves				26,286,101			26,181,078
Proposed dividends				265,586			255,445
Total shareholders' equity				27,155,290			27,030,581
Total liabilities and shareholders' equity				156,318,285			156,274,502
Net current assets				16,696,198			14,083,996

Condensed Consolidated Statement of Changes in Equity

For the six months ended 30 June 2020

	Attributable to owners of the Company													Total HK\$'000
	Share capital HK\$'000	Share premium account ¹ HK\$'000	Share option reserve ¹ HK\$'000	Share award reserve ¹ HK\$'000	Shares held for employee share award scheme ¹ HK\$'000 (note 31)	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	Convertible bond reserve ¹ HK\$'000	Proposed cash/scrip dividend HK\$'000	Retained profits ¹ HK\$'000	
At 1 January 2020 (audited)	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
Profit for the period	-	-	-	-	-	-	-	-	-	-	-	-	521,498	521,498
Other comprehensive expense for the period	-	-	-	-	-	-	-	-	(48,485)	(55,512)	-	-	-	(103,997)
Total comprehensive (expense) income	-	-	-	-	-	-	-	-	(48,485)	(55,512)	-	-	521,498	417,501
Recognition of equity-settled share-based payment (note 31)	-	-	537	14,196	-	-	-	-	-	-	-	-	-	14,733
Vesting of shares for the share award scheme	-	(2,101)	-	(26,846)	28,947	-	-	-	-	-	-	-	-	-
Purchases of shares held under the share award scheme	-	-	-	-	(222,250)	-	-	-	-	-	-	-	-	(222,250)
2019 second interim dividend declared and settled in cash and scrip (note 12)	9,545	160,625	-	-	-	-	-	-	-	-	-	(255,445)	-	(85,275)
Share options lapsed	-	1,749	(1,749)	-	-	-	-	-	-	-	-	-	-	-
Share awards lapsed	-	133	-	(133)	-	-	-	-	-	-	-	-	-	-
Proposed 2020 interim dividend (note 12)	-	-	-	-	-	-	-	-	-	-	-	265,586	(265,586)	-
At 30 June 2020 (unaudited)	603,603	19,313,976	48,675	21,602	(400,513)	5,102	21	40,383	(60,409)	(160,880)	6,411	265,586	7,471,733	27,155,290
At 1 January 2019 (audited)	578,975	18,818,321	38,313	25,926	(155,372)	5,102	21	40,383	-	(78,268)	200,471	81,056	6,247,694	25,802,622
Profit for the period	-	-	-	-	-	-	-	-	-	-	-	-	1,038,885	1,038,885
Other comprehensive expense for the period	-	-	-	-	-	-	-	-	(1,188)	(15,821)	-	-	-	(17,009)
Total comprehensive (expense) income	-	-	-	-	-	-	-	-	(1,188)	(15,821)	-	-	1,038,885	1,021,876
Recognition of equity-settled share-based payment (note 31)	-	-	9,724	15,071	-	-	-	-	-	-	-	-	-	24,795
Vesting of shares for the share award scheme	-	(2,802)	-	(24,318)	27,120	-	-	-	-	-	-	-	-	-
Purchases of shares held under the share award scheme	-	-	-	-	(35,165)	-	-	-	-	-	-	-	-	(35,165)
Shares issued under share option scheme (note 31)	258	7,130	(283)	-	-	-	-	-	-	-	-	-	-	7,105
2018 second interim dividend declared and settled in cash (note 12)	-	-	-	-	-	-	-	-	-	-	-	(81,056)	(36)	(81,092)
Share options lapsed	-	2,190	(2,190)	-	-	-	-	-	-	-	-	-	-	-
Share awards lapsed	-	754	-	(754)	-	-	-	-	-	-	-	-	-	-
Proposed 2019 interim dividend (note 12)	-	-	-	-	-	-	-	-	-	-	-	521,310	(521,310)	-
At 30 June 2019 (unaudited)	579,233	18,825,593	45,564	15,925	(163,417)	5,102	21	40,383	(1,188)	(94,089)	200,471	521,310	6,765,233	26,740,141

¹ These reserve accounts represent the unaudited consolidated reserves other than share capital and proposed cash/scrip dividend of approximately HK\$26,286 million (31 December 2019: approximately HK\$26,181 million) in the unaudited condensed consolidated statement of financial position.

Condensed Consolidated Statement of Cash Flows

For the six months ended 30 June 2020

	Six months ended	
	30.6.2020 HK\$'000 (unaudited)	30.6.2019 HK\$'000 (unaudited)
OPERATING ACTIVITIES		
Operating cash flows before movements in working capital	1,014,557	1,465,760
Increase in other assets	(60,854)	(10,417)
Decrease in advances to customers	2,220,020	3,561,425
Decrease (increase) in accounts receivable	780,003	(5,182,400)
Decrease (increase) in prepayments, deposits and other receivable	51,671	(225,646)
Decrease in financial assets held for trading and market making activities	15,934,036	1,179,968
Increase in investment securities measured at fair value	(4,092,200)	(8,267,279)
Decrease (increase) in investment securities measured at amortised cost	2,517,952	(2,747,974)
(Increase) decrease in asset acquired for financial products issued	(13,638,470)	4,943,267
(Increase) decrease in cash held on behalf of customers	(2,730,016)	201,831
Increase in accounts payable	4,921,727	1,408,711
(Decrease) increase in cash collateral on securities lent and repurchase agreements	(10,247,287)	985,646
(Increase) decrease in cash collateral on securities borrowed and reverse repurchase agreements	(2,498,749)	1,435,639
Increase (decrease) in financial liabilities held for trading and market making activities	604,618	(2,689,387)
Increase (decrease) in other liabilities	18,748	(59,312)
Increase in financial products issued at fair value	3,093,844	1,606,517
Change in derivative financial instruments (net)	(779,111)	385,469
(Decrease) increase in other payables, accruals and other liabilities	(383,640)	379,051
Cash used in operations	(3,273,151)	(1,629,131)
Interest received	1,750,889	1,310,849
Dividend received	232,911	66,159
Interest paid	(541,386)	(1,348,199)
Tax paid	(213,977)	(31,961)
NET CASH USED IN OPERATING ACTIVITIES	(2,044,714)	(1,632,283)

Condensed Consolidated Statement of Cash Flows

For the six months ended 30 June 2020

	NOTES	Six months ended	
		30.6.2020 HK\$'000 (unaudited)	30.6.2019 HK\$'000 (unaudited)
INVESTING ACTIVITIES			
Proceeds from disposal of property and equipment		9,308	1,532
Purchase of intangible assets		(19,581)	(25,994)
Purchases of property and equipment		(22,374)	(14,693)
Disposal of investments accounted for using equity method		–	154,440
NET CASH (USED IN) FROM INVESTING ACTIVITIES		(32,647)	115,285
FINANCING ACTIVITIES			
Proceeds from issuance of non-convertible notes		4,978,157	7,445,861
Proceeds from share issued upon exercise of share options	31	–	7,105
Net proceeds for bank borrowings raised		2,425,791	5,391,255
Repayments of lease liabilities		(62,649)	(45,710)
Dividends paid to shareholders	12	(85,275)	(81,092)
Purchase of shares held under share award scheme	31	(222,250)	(35,165)
Repayment of non-convertible notes		(5,852,179)	(9,636,396)
NET CASH FROM FINANCING ACTIVITIES		1,181,595	3,045,858
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS		(895,766)	1,528,860
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD		4,269,608	7,088,829
CASH AND CASH EQUIVALENTS AT END OF PERIOD		3,373,842	8,617,689
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and cash equivalents (Note 1)		3,373,842	8,617,689

Notes:

- For the purpose of the condensed consolidated statement of cash flows, cash and cash equivalents comprise cash on hand and demand deposits, are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, which are repayable on demand and form an integral part of the Group's cash management.
- As part of the liquidity and cash management of the Group, in addition to the cash and cash equivalents held, the Group invested into certain investments that can be realized in the market on a short term basis for the purpose of maintaining sufficient liquidity. As at 30 June 2020, such financial assets held amounted to HK\$6,431 million (31 December 2019: HK\$1,436 million). Further details are disclosed in note 15 of the unaudited condensed consolidated financial statements.

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2020

1. General Information

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

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

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

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

2. Basis of Preparation

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

Change in presentation of condensed consolidated statement of profit or loss

From 2020 onwards, an additional subtotal for profit before impairment charges and tax has been included in the unaudited condensed consolidated statement of profit or loss, which is a non-HKFRS measure used by management for monitoring operating performance of the Group.

Change in presentation of condensed consolidated statement of financial position

Advances to customers

To better reflect the business operations and activities of the Group and the Company in relation to advances to customers, the directors of the Company decided to present and group the "Advances to customers in margin financing", "Advances to customers for merger and acquisition activities" and "Asset-backed financing to customers" under "Advances to Customers" in the unaudited condensed consolidated statement of financial position from 2020 onward.

Accordingly, the comparative figures of "Advances to customers in margin financing" of HK\$12,630 million, "Advances to customers for merger and acquisition activities" of HK\$2,828 million and "Asset-backed financing to customers" of HK\$5,125 million have been reclassified to conform with current period presentation and there is no financial impact on the unaudited condensed consolidated statement of financial position. In addition, the "Asset-backed financing to customers" has been renamed as "Secured financing" from 2020 onward.

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2020

2. Basis of Preparation (continued)

Change in presentation of condensed consolidated statement of financial position (continued)

Cash collateral on securities borrowed and lent

As at 31 December 2019, cash collateral on securities borrowed and lent were presented in “accounts receivable” and “accounts payable” respectively. For the period ended 30 June 2020, the Group revisited the business model of its trading and market making activities and financial product issuance activities and considers that the cash collateral on securities borrowed and lent shall be presented together with “reverse repurchase agreements” and “repurchase agreements” respectively to better reflect the proximity of the business model.

3. Principal Accounting Policies

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

Other than changes in accounting policies resulting from application of amendments to Hong Kong Financial Reporting Standards (“HKFRSs”) and application of certain accounting policies which became relevant to the Group, the accounting policies and methods of computation used in the unaudited condensed consolidated financial statements for the six months ended 30 June 2020 are the same as those followed in the preparation of the Group’s audited consolidated financial statements for the year ended 31 December 2019.

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

Application of amendments to HKFRSs

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

Amendments to HKFRS 3	Definition of a Business
Amendments to HKAS 1 and HKAS 8	Definition of Material
Amendments to HKFRS 9, HKAS 39 and HKFRS 7	Interest Rate Benchmark Reform

In addition to the above 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*, are effective for annual periods beginning on or after 1 January 2020.

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

For the six months ended 30 June 2020

3. Principal Accounting Policies (continued)

Accounting policies newly applied by the Group

During the six months ended 30 June 2020, the Group considers that repurchase agreements shall be designated at fair value through profit or loss to reduce the accounting mis-match and better reflect the business model of its trading and market making activities and financial product issuance activities. As a result, the Group designated the liability arising from repurchase agreements entered during the six months ended 30 June 2020 as financial liability measured at fair value through profit or loss and such fair value gain or loss recognised in profit or loss (including any finance cost on the repurchase agreements) is presented within "Net trading and investment income" in the unaudited condensed consolidated statement of 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 judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources.

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

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

In preparing the unaudited condensed consolidated interim financial statements, the significant judgments made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the audited consolidated financial statements for the year ended 31 December 2019.

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.

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2020

5. Segment Information (continued)

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. Consequently, comparative information for the 6 months ended 30 June 2019 on segment revenue and segment expenses (as a result of reclassification of segment revenue) has been restated to conform the current period's presentation.

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2020

5. Segment Information (continued)

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

For the six months ended 30 June 2020

	Wealth management HK\$'000	Corporate finance HK\$'000	Asset management HK\$'000	Institutional clients HK\$'000	Investment HK\$'000	Consolidated HK\$'000
Segment revenue:						
Commission and fee income	341,944	536,225	154,446	163,527	–	1,196,142
Interest income	642,393	373,579	–	335,118	11,464	1,362,554
Net trading and investment income	–	–	–	353,525	612,437	965,962
Segment revenue	984,337	909,804	154,446	852,170	623,901	3,524,658
Other income and gains	7,031	404	–	407	20,987	28,829
Segment expenses	991,368 (519,186)	910,208 (322,563)	154,446 (81,696)	852,577 (831,820)	644,888 (492,195)	3,553,487 (2,247,460)
Profit before impairment charges and tax	472,182	587,645	72,750	20,757	152,693	1,306,027
Impairment charges, net of reversal	(102,736)	(20,451)	–	(649,518)	–	(772,705)
Profit (loss) before tax	369,446	567,194	72,750	(628,761)	152,693	533,322
Income tax expense						(11,824)
Profit for the period						521,498
Amortisation and depreciation	(36,038)	(9,250)	(2,892)	(68,748)	(1,776)	(118,704)
Finance costs	(184,484)	(142,669)	–	(401,660)	(451,040)	(1,179,853)

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2020

5. Segment Information (continued)

For the six months ended 30 June 2019 (restated)

	Wealth management HK\$'000	Corporate finance HK\$'000	Asset management HK\$'000	Institutional clients HK\$'000	Investment HK\$'000	Consolidated HK\$'000
Segment revenue:						
Commission and fee income	288,930	413,956	106,947	105,873	–	915,706
Interest income	760,749	230,448	–	405,830	7,869	1,404,896
Net trading and investment income	–	–	–	1,146,297	641,729	1,788,026
Segment revenue	1,049,679	644,404	106,947	1,658,000	649,598	4,108,628
Other income and gains (losses)	4,246	1,278	–	399	(21,346)	(15,423)
Segment expenses	1,053,925 (593,973)	645,682 (328,700)	106,947 (64,583)	1,658,399 (1,231,670)	628,252 (428,614)	4,093,205 (2,647,540)
Profit before impairment charges and tax	459,952	316,982	42,364	426,729	199,638	1,445,665
Impairment charges, net of reversal	(209,372)	(374)	–	1,489	2,354	(205,903)
Profit before tax	250,580	316,608	42,364	428,218	201,992	1,239,762
Income tax expense						(200,877)
Profit for the period						1,038,885
Amortisation and depreciation	(30,028)	(5,770)	(2,028)	(63,492)	(1,336)	(102,654)
Finance costs	(238,292)	(106,658)	–	(780,757)	(329,550)	(1,455,257)

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2020

6. Revenue and Other Income and Gains or Losses

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

	Six months ended	
	30.6.2020 HK\$'000 (unaudited)	30.6.2019 HK\$'000 (unaudited)
Revenue		
Commission and fee income (note (i)):		
Commission on brokerage (note (ii))	394,600	253,278
Commission on underwriting and placing	464,859	334,131
Financial advisory and consultancy fee income (note (ii))	71,366	79,825
Asset management fee and performance fee income	154,446	106,947
Handling, custodian and service fee income (note (ii))	110,871	141,525
	1,196,142	915,706
Interest income:		
Interest income from advances to customers		
— margin financing	516,441	592,797
— merger and acquisition financing	117,865	165,436
— secured financing	125,855	142,851
Interest income from investment securities at amortised cost	416,023	317,826
Interest income from reverse repurchase agreements	51,273	18,688
Interest income from bank deposits and others	135,097	167,298
	1,362,554	1,404,896
Net trading and investment income:		
Net trading income on fixed income, currency and commodities, and equity derivatives	(51,102)	765,336
Net trading income on financial products	404,627	380,961
Net investment gain on financial assets/liabilities at fair value through profit or loss	612,437	641,729
	965,962	1,788,026
	3,524,658	4,108,628
Other income and gains or losses		
Others (note (iii))	28,829	(15,423)

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2020

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 contracts with customers recognised at a point in time and over time were HK\$999,232,000 (six months ended 2019: HK\$737,419,000) and HK\$196,910,000 (six months ended 2019: HK\$178,287,000) respectively.
- (ii) Amounts of commission on brokerage of HK\$107,335,000 (six months ended 2019: HK\$66,933,000) and handling, custodian and service fee income of HK\$56,192,000 (six months ended 2019: HK\$38,940,000) have been included in institutional clients segment and each of the remaining amounts of these revenue types have been included in wealth management segment.
- Amounts of financial advisory and consultancy fee income of HK\$71,366,000 (six months ended 2019: HK\$79,825,000) have been included in corporate finance segment.
- (iii) Included in other income and gains or losses is the net gain on remeasurement of the liability in relation to the share of consolidated investment funds attributable to third-party unit/shareholders of HK\$16 million (six months ended 2019: net loss of HK\$26 million).
- Details of the Group's interest in consolidated investment funds are disclosed in note 23 to the unaudited condensed consolidated financial statements.

Certain comparative figures have been reclassified to conform with current period presentation and there is no impact on the total revenue.

7. Employee Benefit Costs

	Six months ended	
	30.06.2020	30.06.2019
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
Salaries, bonuses and allowances	537,926	662,678
Pension scheme contributions (net)	21,276	14,870
	559,202	677,548
Commission to accounts executives (note)	106,968	77,030
	666,170	754,578

Note: Included in commission expenses of HK\$126,133,000 (six months ended 2019: HK\$90,925,000) is commission to accounts executives of HK\$106,968,000 (six months ended 2019: HK\$77,030,000).

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2020

8. Impairment Charges, Net of Reversal

	Six months ended	
	30.06.2020 HK\$'000 (unaudited)	30.06.2019 HK\$'000 (unaudited)
Impairment charges (reversal of impairment charges) on:		
Advances to customers (note 18)		
— margin financing	101,425	199,675
— merger and acquisition financing	866	(43)
— secured financing	662,844	7,955
Investment securities at amortised cost	6,295	(2,524)
Accounts receivable and others	1,275	840
	772,705	205,903

9. Finance Costs

	Six months ended	
	30.06.2020 HK\$'000 (unaudited)	30.06.2019 HK\$'000 (unaudited)
Bank loans and overdrafts	780,577	610,524
Debt securities in issue:		
— Convertible bonds	1,054	34,841
— Non-convertible bonds	269,466	227,205
— Non-convertible notes	107,959	203,883
Interest on lease liabilities	5,824	3,756
Repurchase agreements and others (note)	14,973	375,048
	1,179,853	1,455,257

Note: For the period ended 30 June 2019, included in the “finance costs — repurchase agreement and others” of HK\$375 million was the finance costs arising from repurchase agreements of HK\$350 million. During the current period, the Group considers that repurchases agreements shall be designated at fair value through profit or loss to reduce the accounting mis-match and better reflect the business model of its trading and market making activities and financial product issuance activities. Consequently, any gains or loss arising from the Group’s repurchase agreements entered during the 6 months ended 30 June 2020 are presented in “net trading and investment income” in the unaudited condensed consolidated statement of profit or loss. Further details of this change in presentation basis are disclosed in note 3.

Details of the Group’s loans and borrowings and debt securities in issue are disclosed in note 29.

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2020

10. Income Tax Expense

	Six months ended	
	30.6.2020 HK\$'000 (unaudited)	30.6.2019 HK\$'000 (unaudited)
Current taxation		
— Hong Kong	10,488	191,507
— Other jurisdictions	14,675	9,876
	25,163	201,383
Deferred tax		
— Current period	(13,339)	(506)
	11,824	200,877

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

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

11. Earnings Per Share

Basic earnings per share

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

	Six months ended	
	30.6.2020 (unaudited)	30.6.2019 (unaudited)
Earnings		
Profit for the period attributable to owners of the Company (HK\$'000)	521,498	1,038,885
Number of shares		
Weighted average number of ordinary shares in issue less shares held for the share award scheme (in thousands) (note (a))	5,857,881	5,759,506
Basic earnings per share (HK cents per share)	8.90	18.04

For the six months ended 30 June 2020

11. Earnings Per Share (continued)**Diluted earnings per share**

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

	Six months ended	
	30.6.2020 (unaudited)	30.6.2019 (unaudited)
Earnings		
Profit for the period attributable to owners of the Company (HK\$'000)	521,498	1,038,885
Effect of dilutive potential ordinary shares		
— Interest on convertible bonds (net of tax) (HK\$'000) (note (b))	880	29,093
Earnings for the purpose of diluted earnings per share (HK\$'000)	522,378	1,067,978
Number of shares		
Weighted average number of ordinary shares in issue less shares held for the share award scheme (in thousands) (note (a))	5,857,881	5,759,506
Effect of dilutive potential ordinary shares:		
— Convertible bonds (in thousands) (note (b))	18,026	668,823
— Share options (in thousands) (note (c))	310	211
— Share awards (in thousands) (note (c))	3,438	1,443
Weighted average number of ordinary shares for the purpose of diluted earnings per share (in thousands)	5,879,655	6,429,983
Diluted earnings per share (HK cents per share)	8.88	16.61

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2020

11. Earnings Per Share (continued)**Diluted earnings per share (continued)**

Notes:

- (a) As at 30 June 2020, the trustee of the share award scheme held 175,503,979 ordinary shares of the Company (30 June 2019: 42,405,142 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\$401 million (30 June 2019: HK\$163 million).

During the current period, 14,372,205 (30 June 2019: 6,982,366 awarded shares) awarded shares were granted by the Company. There were 235,671 awarded shares lapsed in respect of such grant, while 150,000 awarded shares (30 June 2019: Nil) in respect of the grant by the Company on 29 October 2019, 108,143 awarded shares (30 June 2019: 37,744 awarded shares) in respect of the grant by the Company on 25 March 2019, 131,545 awarded shares (30 June 2019: 239,159 awarded shares) in respect of the grant by the Company on 11 May 2018, 7,485 awarded shares (30 June 2019: 41,237 awarded shares) in respect of the grant by the Company on 10 March 2017 were lapsed during the current period. 29,820 awarded shares were lapsed during the six months ended 30 June 2019 in respect of the grant by the Company on 11 March 2016. In addition, 78,000 awarded shares were vested during the current six-month period in relation to the grant made by the Company on 8 May 2020, 2,615,000 awarded shares (30 June 2019: Nil) were vested during the current six-month period in relation to the grant made by the Company on 29 October 2019, 2,123,722 awarded shares (30 June 2019: Nil) were vested during the current six-month period in relation to the grant made by the Company on 25 March 2019, 1,971,575 awarded shares (30 June 2019: 2,199,883 awarded shares) were vested during the current six-month period in relation to the grant made by the Company on 11 May 2018, 1,147,866 awarded shares (30 June 2019: 1,259,541 awarded shares) were vested during the current six-month period in relation to the grant made by the Company on 10 March 2017. 2,133,343 awarded shares were vested during the six-month ended 30 June 2019 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 31 and should be read in conjunction with the relevant announcements of the share award scheme made by the Company.

- (b) 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 29.

The convertible bonds 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 had been redeemed in full during the year ended 31 December 2019. As at 30 June 2020, the convertible bonds issued in 2016 that remain outstanding are convertible into ordinary shares of the Company at a conversion price of HK\$5.67 (31 December 2019: HK\$5.81), at the option of the holders of the convertible bonds, which created a potential dilutive effect to the earnings per share. In the calculation of the diluted earnings per share, the convertible bonds are assumed to have been converted into ordinary shares. The weighted average number of ordinary shares outstanding is increased by the weighted average number of additional ordinary shares that would have been outstanding assuming the conversion of all dilutive potential ordinary shares was made from the date of the first issue with the adjustment if there is any conversion of the convertible bonds into ordinary shares during the period. The net profit is adjusted to eliminate the relevant interest expense less the tax effect.

- (c) The computation of diluted earnings per share assumed the exercise of the Company's outstanding share options and share awards with the exercise price lower than the average market price during the six months ended 30 June 2020 and with the adjustment for the share options and share awards lapsed or exercised during the period.

12. Dividends

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 the meeting of the Board on 23 August 2019, the Board declared an interim dividend of HK9 cents per share in cash for the six months ended 30 June 2019. The shareholders were 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 the 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. The shareholders were given the option to receive second interim dividend in new shares in lieu of cash. The second interim dividend was paid on 2 June 2020, with an approximate total of HK\$85,275,000 cash dividend paid to the shareholders and 95,451,214 shares were issued in scrip form with an approximate amount of HK\$170,170,000.

At the meeting of the Board on 21 August 2020, the Board declared an interim dividend of HK4.4 cents per share in cash for the six months ended 30 June 2020 to shareholders whose names appear on the register of members of the Company on 9 September 2020. The interim dividend is expected to be paid on or about 21 September 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.

For the six months ended 30 June 2020

13. Cash Held on behalf of Customers

The Group maintains segregated accounts with authorized institutions to hold clients' monies arising from its normal course of business. The Group has classified the clients' monies as cash held on behalf of customers under the current assets section of the unaudited condensed consolidated statement of financial position and recognised the corresponding accounts payable (note 28) to respective clients on the grounds that it is liable for any loss or misappropriation of clients' monies. The cash held on behalf of customers is restricted and governed by the Securities and Futures (Client Money) Rules under the Securities and Futures Ordinance ("HKSF").

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

	30.6.2020 HK\$'000 (unaudited)	31.12.2019 HK\$'000 (audited)
Financial assets held for trading and market making activities – at fair value		
Listed equity investments	1,134,436	1,748,246
Exchange traded funds	59,414	151,404
Listed preference shares	1,376	3,280
Listed debt investments	10,989,398	25,956,217
Unlisted debt investments	341,218	600,731
	12,525,842	28,459,878
Financial liabilities held for trading and market making activities – at fair value		
Listed equity investments (note (i))	246,170	191,272
Exchange traded funds (note (i))	23,789	22,922
Listed debt investments (note (i))	2,257,817	1,654,878
Listed preference shares (note (i))	22,224	55,127
Unlisted debt investments (note (i))	–	21,183
	2,550,000	1,945,382

Details of disclosure for fair value measurement are set out in note 34.

Note:

- (i) Balance represents the fair value of equity and debt securities from short selling activities.

Notes to the Condensed Consolidated Financial Statements

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15. Investment Securities

	30.6.2020 HK\$'000 (unaudited)	31.12.2019 HK\$'000 (audited)
Investment securities measured at fair value		
Investment securities at fair value through profit or loss (note (v))		
Listed equity investments	3,386,548	2,200,493
Exchange traded funds	209,675	406,867
Listed debt investments	154,990	1,292,434
Unlisted partnership investments (note (iv))	1,409,118	1,295,951
Unlisted equity investments	705,811	346,717
Unlisted debt investments	4,806,874	2,863,987
Unlisted investment funds (note (ii))	6,378,203	10,396,154
Consolidated investment funds (note (i))	13,605,724	7,296,738
	30,656,943	26,099,341
Less: Non-current portion (note (iii))	(8,302,105)	(17,032,056)
Current portion	22,354,838	9,067,285
Investment securities measured at fair value through other comprehensive income		
Listed equity investments	112,840	151,676
Listed debt investments	292,306	768,570
	405,146	920,246
Less: Non-current portion (note (iii))	(217,419)	(213,169)
Current portion	187,727	707,077
Total investment securities measured at fair value	31,062,089	27,019,587
Less: Non-current portion	(8,519,524)	(17,245,225)
Current portion	22,542,565	9,774,362

Details of disclosure for fair value measurements in respect of investment securities measured at fair value are set out in note 34.

	30.6.2020 HK\$'000 (unaudited)	31.12.2019 HK\$'000 (audited)
Investment securities measured at amortised cost		
Unlisted debt investments	8,056,855	10,574,807
Less: Impairment allowance	(20,019)	(13,724)
	8,036,836	10,561,083
Less: Non-current portion (note (iii))	(706,541)	(1,144,299)
Current portion	7,330,295	9,416,784

For the six months ended 30 June 2020

15. Investment Securities (continued)

Notes:

- (i) Investment securities at fair value through profit or loss include certain investment funds that are consolidated in the unaudited condensed consolidated financial statements of the Group (note 23).

As at 30 June 2020 and 31 December 2019, the amount includes the consolidated bond funds, equity funds and private equity funds, which mainly invested in listed and unlisted equity investment, listed and unlisted debt investment, unlisted partnership and unlisted investment funds. Details of the breakdown of investments held by consolidated investment funds and fair value measurement are set out in footnote (4) of disclosure note "financial risk management"(note 34) on page 73 of the unaudited condensed consolidated financial statements.

- (ii) The Group invested in investment funds. These investment funds invest in mainly stocks, bonds, funds and currencies, with the primary objectives to provide the investors with capital appreciation, investment income and for selling in the near future for profit.

There is no unfilled capital commitment to these investment funds. The current carrying amount of HK\$6,378 million (31 December 2019: HK\$10,396 million) in the unaudited condensed consolidated statement of financial position represents the Group's maximum exposure.

- (iii) As at 30 June 2020 and 31 December 2019, included in the non-current portion are listed equity investments, unlisted equity investments, listed debt investments, unlisted debt investments, unlisted partnership investments and unlisted investment funds that the directors of the Company expect to realise not within twelve months after each reporting period.

- (iv) As at 30 June 2020, the unfilled capital commitment to the partnerships were HK\$618 million (31 December 2019: HK\$450 million).

- (v) As part of the liquidity and cash management, the Group invested into certain investments, including treasury bills, money market funds and bond funds, that can be realized in the market on a short term basis for the purpose of maintaining sufficient liquidity while aiming to earn an investment return. It is the Group's strategy to invest into financial assets that are not subject to any holding period restriction and that are issued by reputable financial institutions for treasury management. As at 30 June 2020, such financial assets held amounted to HK\$6,431 million (31 December 2019: HK\$1,436 million).

Included in investment securities at amortised cost are HK\$7,882 million (31 December 2019: HK\$10,519 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.

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2020

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

	30.6.2020 HK\$'000 (unaudited)	31.12.2019 HK\$'000 (audited)
Assets – acquired for financial products issued		
Listed equity investments, at fair value (note (iii))	4,884,417	1,438,796
Listed debt investments, at fair value (note (ii))	10,822,160	18,905,357
Unlisted equity investments, at fair value (notes (i) & (ii))	537,907	560,048
Unlisted partnership investments, at fair value (notes (i) & (ii))	248,010	207,049
Unlisted debt investments, at fair value (note (ii))	4,046,959	1,556,038
Unlisted investment funds, at fair value (notes (i) & (ii))	10,056,497	3,272,753
Unlisted financial products, at fair value (note (ii) & (iv))	9,494,601	6,445,804
Consolidated investment fund, at fair value (note (v))	5,933,764	–
	46,024,315	32,385,845
Less: Non-current portion	(6,718,461)	(2,629,569)
Current portion	39,305,854	29,756,276
Liabilities – financial products issued at fair value		
Unlisted issued financial products, at fair value (note (iii))	22,124,082	18,998,315
Listed equity investments, at fair value	–	31,923
	22,124,082	19,030,238
Less: Non-current portion	(1,602,307)	(1,926,905)
Current portion	20,521,775	17,103,333

Details of disclosure for fair value measurements are set out in note 34.

For the six months ended 30 June 2020

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

Notes:

- (i) As at 30 June 2020 and 31 December 2019, 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\$10,842 million (31 December 2019: HK\$4,040 million) in the unaudited condensed consolidated statement of financial position represents the Group's maximum exposure.

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

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

- (iii) As at 30 June 2020 and 31 December 2019, financial products issued at fair value are generally issued in the form of notes and swaps of which payouts are linked to the values/returns of certain underlying investments related to listed/unlisted equity investments, listed/unlisted debt investments, unlisted investment funds, unlisted financial products, unlisted partnership investments and consolidated investment funds held by the Group.

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

- (iv) Unlisted financial products are financial instruments, mostly in the form of total return swap with referencing assets being listed equity instruments, listed debts investments and unlisted debts investments entered by the Group to hedge the financial products issued.

- (v) Assets acquired for financial products issued include an investment fund that is consolidated in the unaudited condensed consolidated financial statements of the Group (note 23).

As at 30 June 2020, the investments held by consolidated investment fund are listed and unlisted debt investments of HK\$5,934 million (2019: Nil).

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For the six months ended 30 June 2020

17. Derivative Financial Instruments

	30.6.2020 HK\$'000 (unaudited)	31.12.2019 HK\$'000 (audited)
Assets		
Swaps	642,546	188,328
Forward foreign currency exchange contracts	74,007	71,959
Listed futures/options/warrants	157,525	52,990
Callable bull/bear contracts	17,853	8,133
Unlisted options	52,575	18,743
	944,506	340,153
Liabilities		
Swaps	4,224	68,162
Forward foreign currency exchange contracts	20,876	26,676
Listed futures/options/warrants	277,131	197,195
Callable bull/bear contracts	46,891	208,343
Unlisted options	21,259	44,763
	370,381	545,139

18. Advances to Customers

	30.6.2020 HK\$'000 (unaudited)	31.12.2019 HK\$'000 (audited)
Advances to customers:		
– Margin financing	11,453,159	12,629,847
– Merger and acquisition financing	3,002,947	2,827,958
– Secured financing	3,141,878	5,125,334
	17,597,984	20,583,139
Less: Non-current portion	(3,239,019)	(1,114,087)
Current portion	14,358,965	19,469,052

For the six months ended 30 June 2020

18. Advances to Customers (continued)

	30.6.2020 HK\$'000 (unaudited)	31.12.2019 HK\$'000 (audited)
Margin financing		
Margin financing	12,429,579	13,504,901
Less: Impairment allowance	(976,420)	(875,054)
	11,453,159	12,629,847

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. As at 30 June 2020, margin financing of HK\$11,453 million (31 December 2019: HK\$12,630 million) were secured by securities pledged by the customers to the Group as collateral with undiscounted market value of HK\$48,604 million (31 December 2019: HK\$51,549 million). In determining the allowances for credit impaired loans to margin clients for the current period, the management of the Group also takes into account shortfall by comparing the fair value of securities pledged as collateral and the outstanding balance of loan to margin clients individually taking into account subsequent settlements or executable settlement plans and restructuring arrangements in assessing the expected credit loss.

As at 30 June 2020 and 31 December 2019, included in the margin financing is a margin loan to an independent customer of gross amount of HK\$546,711,000 (2019: HK\$602,810,000) with impairment of HK\$526,732,000 (2019: HK\$426,732,000) where one of the major pledged stock is suspended for trading and under a debt and financial restructuring process. During the current period, there is a significant uncertainty in the debt and financial restructuring process of this major pledged stock. The Group applied judgement in assessing the above status and the impairment assessment for this margin loan is dependent on the fair value of securities pledged as collateral, other types of credit enhancement including security over properties obtained by the Group and the outstanding balance of loan to this margin client.

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.

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For the six months ended 30 June 2020

18. Advances to Customers (continued)

	30.6.2020 HK\$'000 (unaudited)	31.12.2019 HK\$'000 (audited)
Merger and acquisition financing		
Merger and acquisition financing	3,047,683	2,871,828
Less: Impairment allowance	(44,736)	(43,870)
	3,002,947	2,827,958
Less: Non-current portion	(389,760)	(157,907)
Current portion	2,613,187	2,670,051

Included in merger and acquisition financing are HK\$3,048 million (31 December 2019: HK\$2,838 million) of advances that are secured. Collateral 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 merger and acquisition financing are conducted by the Risk Management Department and the Credit Approval Committee of the Group based on the latest status of these merger and acquisition financing, 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 merger and acquisition financing in order to minimise credit risk by reviewing the borrowers' and/or guarantors' financial positions.

As at 30 June 2020 and 31 December 2019, there was one past due merger and acquisition financing.

As at 30 June 2020 and 31 December 2019, there was a past due merger and acquisition financing with a gross and carrying amount of HK\$197 million and HK\$158 million respectively that was advanced to an external party for its property development project in the PRC with the principal due for repayment in 2021, but with delay in interest repayment for more than 90 days. 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 forced sale value) and the credit protection structure. In the opinion of the directors of the Company, the impairment provision for the current period and prior year are appropriate.

Interest income derived from merger and acquisition financing was recognised as "interest income from advances to customers — merger and acquisition financing" as set out in note 6. The carrying value of merger and acquisition financing is approximate to their fair value.

For the six months ended 30 June 2020

18. Advances to Customers (continued)

	30.6.2020 HK\$'000 (unaudited)	31.12.2019 HK\$'000 (audited)
Secured financing		
Secured financing	3,827,894	5,148,506
Less: Impairment allowance	(686,016)	(23,172)
	3,141,878	5,125,334
Less: Non-current portion	(2,849,259)	(956,180)
Current portion	292,619	4,169,154

Included in secured financing are HK\$3,828 million (31 December 2019: HK\$5,149 million) that are secured.

The majority of these secured financing are secured and/or guaranteed with contractual maturity within 1 year to 2 years from the reporting date and credit limits are set for borrowers.

Collateral held includes equity instruments held by the corporate borrowers and investment portfolio held by institutional borrowers, etc. Regular reviews on these secured financing are conducted by the Risk Management Department and the Credit Approval Committee of the Group based on the latest status of these secured financing 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 secured financing in order to minimise credit risk by reviewing the borrowers' and/or guarantors' financial positions.

As at 30 June 2020 and 31 December 2019, there was one past due secured financing.

During the period ended 30 June 2020, collaterals of a syndicated loan that the Group participated were disposed of due to default of the borrower. After disposal of the collaterals in repaying part of this syndicated loan, the outstanding gross balance amounted to HK\$636 million as at 30 June 2020. After assessment by the management based on a number of factors including the outstanding balance of this exposure, latest business update of the borrower, and the financial status of the borrower and the guarantor, an impairment provision at the full amount of the outstanding gross balance was recognised.

During the year ended 31 December 2019, management recognised an impairment provision of HK\$10 million for a loan due to default of the borrower. Details of impairment assessment are set out in the Group's audited consolidated financial statements for the year ended 31 December 2019.

Interest income derived from secured financing was recognised as "interest income from advances to customers — secured financing" as set out in note 6. The carrying value of the secured financing is approximate to their fair value.

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19. Cash Collateral on Securities Borrowed and Reverse Repurchase Agreements

	30.6.2020 HK\$'000 (unaudited)	31.12.2019 HK\$'000 (audited)
Cash collateral on securities borrowed	999,287	337,640
Reverse repurchase agreements	6,823,322	4,986,910
	7,822,609	5,324,550
Reverse repurchases agreements:		
Analysed by collateral type:		
Equities	1,106,210	237,300
Bonds	5,717,114	4,749,615
	6,823,324	4,986,915
Less: Impairment allowance	(2)	(5)
	6,823,322	4,986,910
Analysed by market:		
Inter-bank market	6,823,322	4,986,910
Analysed for reporting purposes:		
Current	6,823,322	4,986,910

Cash collateral paid under securities borrowing agreements is repayable upon expiry of relevant securities borrowing agreements and the relevant stocks borrowed are returned to the lender. Reverse repurchase agreements are transactions in which the external investors sell a security to the Group and simultaneously agree to repurchase it (or an asset that is substantially the same) at the agreed date and price. The repurchase prices are fixed and the Group is not exposed to substantially all the credit risks, market risks and rewards of those securities bought. These securities are not recognised in the unaudited condensed consolidated financial statements but regarded as "collateral" because the external investors retain substantially all the risks and rewards of these securities.

As at 30 June 2020, the fair value of the collateral in respect of reverse repurchase agreements was HK\$8,778 million (31 December 2019: HK\$6,213 million).

Notes to the Condensed Consolidated Financial Statements

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20. Accounts Receivable

	30.6.2020 HK\$'000 (unaudited)	31.12.2019 HK\$'000 (audited)
Accounts receivable from:		
— Clients	699,613	924,685
— Brokers, dealers and clearing houses	5,157,426	6,347,099
— Clients for subscription of new shares in IPO	1,195,864	5,611
— Immediate holding company (note (i))	428,690	947,640
— Others (note (ii))	422,294	458,079
	7,903,887	8,683,114

Notes:

- (i) In December 2019, Haitong International Holdings Limited (immediate holding company of the Company) purchased a debt security from a subsidiary of the Company and such transaction was settled in January 2020. During the current interim period, the Company advanced a loan to Haitong International Holdings Limited at an interest rate of US Dollar London Interbank Offer Rate plus a spread. The outstanding principal balance as at 30 June 2020 amounted to US\$55,000,000 (equivalent to HK\$426,267,000), which will be fully repayable on the maturity date on 15 January 2021.
- (ii) The amount represents the fees receivable from corporate finance, wealth management and asset management business.

The following is an ageing analysis of the accounts receivable, excluding the advance to the immediate holding company, based on trade date/invoice date as at period/year end:

	30.6.2020 HK\$'000 (unaudited)	31.12.2019 HK\$'000 (audited)
Between 0 and 3 months	7,454,977	8,519,010
Between 4 and 6 months	1,990	148,472
Between 7 and 12 months	8,473	3,988
Over 1 year	12,180	11,644
	7,477,620	8,683,114

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For the six months ended 30 June 2020

20. Accounts Receivable (continued)

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

Accounts receivable from clients arising from financing of IPO subscriptions are required to settle their securities trading balances on the allotment date determined under the relevant market practices or exchange rules. As at 30 June 2020, the settlement dates are in the range of 2 to 7 days. Subsequent to the period ended 30 June 2020, the receivables have been settled respectively during the period of 2 July 2020 to 9 July 2020.

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

21. Prepayments, Deposits and Other Receivables

	30.6.2020 HK\$'000 (unaudited)	31.12.2019 HK\$'000 (audited)
Prepayments, deposits and other receivables (note)	1,322,775	1,762,781
Less: Non-current portion	(100,907)	(75,261)
Current portion	1,221,868	1,687,520

Note: Included in the amount of prepayments, deposits and other receivables are the interest receivable of HK\$801 million (31 December 2019: HK\$1,190 million) from bank deposits, advances to customers, and debt securities held which are receivable within one year.

For the six months ended 30 June 2020

22. Interests in Unconsolidated Investments

The Group invested in certain investment funds, partnership and private equity investments (collectively referred to as the "Investments" for the purpose of notes 22 and 23) with primary objectives for capital appreciation, investment income and selling in the near future for profit. Pursuant to subscription agreements or equivalent documents, the beneficial interests held by the Group in these Investments are in the form of participating shares or interests which primarily provide the Group with the share of returns from the Investments but not any decision making power nor any voting right to involve in and control the daily operation.

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

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

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

In the opinion of the directors of the Company, the variable returns that the Group is exposed to with respect to these Investments are not significant and/or the Group is primarily acting as an agent and subject to substantive removal rights held by other parties who may remove the Group as an investment manager. Therefore, the Group did not consolidate these Investments.

The Group classified its interests in Investments as investment securities and assets acquired for financial products issued in notes 15 and 16.

23. Interest in Consolidated Investments

The Group had consolidated certain Investments in accordance with the criteria set out in note 22. Especially for those investment funds where the Group involved as an investment manager and also as an investor, the Group assesses whether (i) the Group is acting as an agent/principal in these investment; (ii) there are any other external holders in these Investments which have power to remove or control over the party having the ability to direct the relevant activities of the Investments based on the facts and circumstances and (iii) the combination of investments it held together with its remuneration creates exposure to variability of returns from the activities of the asset management products that is of such significance that it indicates the Group is a principal.

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.

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24. Goodwill and Other Intangible Assets

	30.6.2020 HK\$'000 (unaudited)	31.12.2019 HK\$'000 (audited)
Goodwill	380,099	380,099
Other intangible assets	107,381	105,817
	487,480	485,916

25. Investment Property

	HK\$'000
Fair value	
At 1 January 2020	192,471
Net increase in fair value recognised in profit or loss	–
Transfer to property and equipment	(122,393)
At 30 June 2020	70,078
At 1 January 2019	231,539
Net increase in fair value recognised in profit or loss	–
Transfer to property and equipment	(39,068)
At 30 June 2019	192,471

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

The fair value of the Group's investment properties as at 30 June 2020 and 31 December 2019 has been arrived at on the basis of a valuation carried out on the respective dates by Colliers International (Hong Kong) Limited, independent qualified professional valuers not connected to the Group. The fair value is based on market approach, by comparing recent arms-length sales of similar interests located in the surrounding area.

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.

For the six months ended 30 June 2020

25. Investment Property (continued)

The fair value of properties, which are all classified as level 3 fair value hierarchy, was determined based on the direct comparison approach assuming sale of the property interest in its existing state with the benefit of vacant possession and by making reference to recent comparable sales evidence as available in the relevant market.

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

Investment properties held by the Group	Fair value hierarchy as defined in note 34	Valuation techniques and key inputs	Significant unobservable inputs	Relationship of unobservable inputs to fair value
At 30 June 2020 and 31 December 2019				
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

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26. Property and Equipment

	Leasehold land and buildings HK\$'000	Leasehold improvements HK\$'000	Furniture, fixtures and equipment HK\$'000	Computer hardware and equipment HK\$'000	Total HK\$'000
30 June 2020 (unaudited)					
At 1 January 2020					
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
At 1 January 2020, net of accumulated depreciation	593,724	43,940	21,666	46,945	706,275
Transfer from investment property	122,393	–	–	–	122,393
Additions – right-of-use assets under HKFRS 16	2,863	–	–	–	2,863
Additions – others	3	3,243	3,747	15,381	22,374
Disposal	–	–	(6)	(7)	(13)
Depreciation	(68,587)	(9,763)	(3,190)	(19,147)	(100,687)
At 30 June 2020, net of accumulated depreciation	650,396	37,420	22,217	43,172	753,205
At 30 June 2020					
Cost	823,757	143,639	88,611	550,305	1,606,312
Accumulated depreciation	(173,361)	(106,219)	(66,394)	(507,133)	(853,107)
Net carrying values	650,396	37,420	22,217	43,172	753,205
30 June 2019 (unaudited)					
At 1 January 2019					
Cost	476,145	97,835	74,720	578,210	1,226,910
Accumulated depreciation	(8,014)	(64,972)	(55,409)	(474,313)	(602,708)
Net carrying values	468,131	32,863	19,311	103,897	624,202
At 1 January 2019, net of accumulated depreciation	468,131	32,863	19,311	103,897	624,202
Transfer from investment property	39,068	–	–	–	39,068
Additions – right-of-use assets under HKFRS 16	103,697	–	–	–	103,697
Additions – Others	1,016	8,041	1,725	3,911	14,693
Disposal	–	(455)	(440)	(12,794)	(13,689)
Depreciation	(51,002)	(11,156)	(2,517)	(36,512)	(101,187)
At 30 June 2019, net of accumulated depreciation	560,910	29,293	18,079	58,502	666,784
At 30 June 2019					
Cost	619,926	105,421	76,005	569,327	1,370,679
Accumulated depreciation	(59,016)	(76,128)	(57,926)	(510,825)	(703,895)
Net carrying values	560,910	29,293	18,079	58,502	666,784

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27. Cash Collateral on Securities Lent and Repurchase Agreements

	30.6.2020 HK\$'000 (unaudited)	31.12.2019 HK\$'000 (audited)
Cash collateral on securities lent	2,036,482	1,077,440
Repurchase agreements	15,171,237	26,377,566
	17,207,719	27,455,006
Repurchase agreements:		
Analysed by collateral type:		
Equities	1,408,764	1,581,894
Bonds	13,762,473	24,795,672
Analysed by market:		
Inter-bank market	15,171,237	26,377,566
Analysed for reporting purposes:		
Current	15,171,237	26,377,566

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

As at 30 June 2020, 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\$20,117 million (31 December 2019: HK\$34,528 million), which are subject to the simultaneous agreements to repurchase these investments at the agreed date and price.

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28. Accounts Payable

	30.6.2020 HK\$'000 (unaudited)	31.12.2019 HK\$'000 (audited)
Accounts payable to:		
— Clients	20,785,226	16,593,685
— Brokers, dealers and clearing houses	2,167,173	1,483,844
— Others	1,076,547	1,029,690
	24,028,946	19,107,219

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.

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

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

Except for the accounts payable to clients which bear interest at 0.001% as at 30 June 2020 (31 December 2019: 0.001%), all the accounts payable are non-interest bearing.

Accounts payable to clients include those payables placed in segregated accounts with authorized institutions of HK\$17,864,004,000 (31 December 2019: HK\$14,964,001,000), HKFE Clearing Corporation Limited, the SEHK Options Clearing House Limited and other futures dealers totalling HK\$962,558,000 (31 December 2019: HK\$1,170,453,000).

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29. Loans and Borrowings

	30.6.2020 HK\$'000 (unaudited)	31.12.2019 HK\$'000 (audited)
Debt securities in issue		
Non-current		
Convertible bonds (note (a))	124,322	123,269
Non-convertible bonds (note (b))	8,472,593	8,503,710
Total non-current debt securities in issue	8,596,915	8,626,979
Current		
Non-convertible bonds (note (b))	5,423,671	5,437,305
Non-convertible notes (note (c))	6,461,380	7,354,145
Total current debt securities in issue	11,885,051	12,791,450
Total debt securities in issue	20,481,966	21,418,429
Bank borrowings		
Unsecured borrowing		
— Bank loans (notes (d), (e) and (f))	40,079,285	36,872,917
Total bank borrowings	40,079,285	36,872,917
Total borrowings	60,561,251	58,291,346

Notes:

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

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 30 June 2020, the number of outstanding share convertible under the convertible bonds issued in 2016 is 21,869,488 (31 December 2019: 21,342,512) with principal amount of HK\$124 million. Please refer to the Company's announcement on 25 October 2019 for details of the redemption.

As at 30 June 2020, the conversion prices of convertible bonds issued by the Company in 2016 is HK\$5.67 per share (31 December 2019: HK\$5.81 per share). No convertible bonds issued by the Company in 2016 were converted during current period and prior year.

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2020

29. Loans and Borrowings (continued)

Notes: (continued)

- (b) 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. The guaranteed bond were redeemed and cancelled on 29 July 2020 in accordance with terms and conditions of the guaranteed 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 full 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 full 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 current period ended 30 June 2020, the Company has issued medium term notes under the Company's Medium Term Note Programme (the "MTN Programme") in principal amount totalling HK\$4,978 million with a maturity period of 1 year and repaid several medium term notes of principal amount totalling HK\$5,884 million. As at 30 June 2020, the outstanding loan balances of HK\$6,461 million (31 December 2019: HK\$7,354 million) represent the unsecured and unguaranteed non-convertible notes.
- (d) All the Group's bank borrowings bear interest at variable interest rates based on Hong Kong Interbank Offered Rate ("HIBOR") per annum.
- (e) Bank loans are repayable on demand or within 1 year. As at 30 June 2020 and 31 December 2019, 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.
- (f) Bank loans are classified as current liabilities for the purpose of presentation in these unaudited condensed consolidated financial statements as the bank loans are drawn under revolving credit facilities (including syndicated loan facilities) with repayment dates being less than 12 months from 30 June 2020, 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\$39,800 million, and these facilities have tenors of 36 months.

As at 30 June 2020, HK\$27,200 million (31 December 2019: HK\$26,104 million) bank loans are drawn under revolving credit facilities with respective remaining tenor of more than 12 months, while they are classified current liabilities for the purpose of disclosure in these unaudited condensed consolidated financial statements.

For the six months ended 30 June 2020

30. Share Capital

	30.6.2020 HK\$'000 (unaudited)	31.12.2019 HK\$'000 (audited)
Authorised: 20,000,000,000 (31 December 2019: 20,000,000,000) ordinary shares of HK\$0.10 each	2,000,000	2,000,000
Issued and fully paid: 6,036,035,086 (31 December 2019: 5,940,583,872) ordinary shares of HK\$0.10 each	603,603	594,058

The movements in issued share capital were as follows:

	Number of shares in issue	Issued share capital HK\$'000
As at 1 January 2019	5,789,746,388	578,975
New shares issued under exercise of share option	2,582,759	258
As at 30 June 2019	5,792,329,147	579,233
Scrip dividend issued – 2019 interim dividend (note 12)	148,254,725	14,825
As at 31 December 2019 and 1 January 2020	5,940,583,872	594,058
Scrip dividend issued – 2019 second interim dividend (note 12)	95,451,214	9,545
As at 30 June 2020	6,036,035,086	603,603

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2020

31. Share Option/Award Scheme

2015 Share Option Scheme

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

Details of the share option scheme of the Company has been disclosed in the Group's annual financial statements for the year ended 31 December 2019 and should be read in conjunction with the relevant announcements of the share options made by the Company.

On 31 May 2019, the Company granted 10,645,000 share options at exercise price of HK\$2.56 per share to its directors and employees under the 2015 Share Option Scheme. Please refer to audited financial statements for the year ended 31 December 2019 for details.

On 29 May 2020, the Company granted 10,645,000 share options at the exercise price of HK\$1.727 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 exercise period of the share options is from 25 December 2020 to 28 May 2025. 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\$1.57 per share. The estimated fair values of the options granted under 2015 Share Option Scheme on the grant date on 29 May 2020 is approximately HK\$3.2 million, which was calculated using the Binomial Option Pricing model with the key inputs into the model as disclosed below.

	2020
Weighted average share price at the date of grant	HK\$1.57
Initial exercise price	HK\$1.727
Expected volatility	49.389%
Expected option life	5 years
Risk-free rate	0.52%
Expected dividend yield	11.439%
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 six months ended 30 June 2020, the Group has recognised an equity-settled share-based payment of HK\$537,000 (six months ended 2019: HK\$9,724,000) for the share options under the 2015 Share Option Scheme in unaudited condensed consolidated statement of profit or loss.

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2020

31. 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.

	2020		2019	
	Weighted average exercise price HK\$ per share	Number of options '000	Weighted average exercise price HK\$ per share	Number of options '000
At 1 January	3.728	54,106	4.031	46,717
Granted and accepted during the period/year	1.727	10,645	2.56	10,645
Adjusted during the period/year (note)	3.717	95	3.737	28
Forfeited during the period/year	4.01	(1,769)	4.238	(3,284)
At 30 June 2020/31 December 2019	3.376	63,077	3.728	54,106

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

30 June 2020 Number of options '000	Exercise price HK\$ per share (note)	Exercise period
12,813	4.635	8 December 2016 – 11 May 2021
11,380	5.002	7 June 2018 – 9 November 2022
17,890	2.898	28 May 2019 – 31 October 2023
10,349	2.554	27 December 2019 – 30 May 2024
10,645	1.727	25 December 2020 – 28 May 2025
63,077		

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		

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.

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2020

31. Share Option/Award Scheme (continued)**2015 Share Option Scheme (continued)**

As at 30 June 2020, the Company had 63,077,474 (2019: 54,106,262) share options outstanding under the 2015 Share Option Scheme, which represented approximately 1.05% (2019: 0.91%) 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 63,077,474 (2019: 54,106,262) additional ordinary shares of the Company and additional share capital of HK\$6,307,747 (2019: HK\$5,411,000) and share premium of HK\$206,665,000 (2019: HK\$196,270,000) (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 for their contributions to the Group and to attract suitable personnel for further development of the Group.

Details of the awarded shares granted and unvested as at 30 June 2020 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 (i))	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	3,725,644	520,590	–	note (b)	19,320,000
11 May 2018	7,010,493	4,171,458	888,680	1,950,355	note (c)	32,108,000
11 January 2019	134,000	134,000	–	–	note (d)	351,080
25 March 2019	6,848,366	2,123,722	585,294	4,139,350	note (e)	21,024,000
29 October 2019	8,175,000	2,615,000	480,000	5,080,000	note (f)	18,557,000
25 March 2020	14,294,205	–	235,671	14,058,534	note (g)	28,731,000
8 May 2020	78,000	78,000	–	–	note (h)	138,000

For the shares granted, the fair value of the shares were measured at the market price of the Company's shares. For the six months ended 30 June 2020, the Group has recognised an equity-settled share-based payment of HK\$14,196,000 (six months ended 30 June 2019: HK\$15,071,000) for the Scheme in unaudited condensed consolidated statement of profit or loss.

As at 30 June 2020 and 31 December 2019, the Company did not have any awarded shares granted on 11 March 2016 which were outstanding under the Scheme. During the six months ended 30 June 2019, 29,820 awarded shares were lapsed and 2,133,343 awarded shares were vested.

For the six months ended 30 June 2020

31. Share Option/Award Scheme (continued)

Share award scheme (continued)

As at 30 June 2020, the Company did not have any awarded shares granted on 10 March 2017 which were outstanding under the Scheme (31 December 2019: 1,155,351 awarded shares). During the current six-month period, 7,485 (six months ended 2019: 41,237) and 1,147,866 (six months ended 2019: 1,259,541) awarded shares granted on 10 March 2017 were lapsed and vested respectively.

As at 30 June 2020, the Company had 1,950,355 (31 December 2019: 4,053,475) awarded shares granted on 11 May 2018 which were outstanding under the Scheme. During the current six-month period, 131,545 (six months ended 2019: 239,159) and 1,971,575 (six months ended 2019: 2,199,883) awarded shares granted on 11 May 2018 were lapsed and vested.

As at 30 June 2020, the Company had no awarded shares granted on 11 January 2019 which were outstanding under the Scheme. All 134,000 awarded shares granted on 11 January 2019 were vested in the prior year.

As at 30 June 2020, the Company had 4,139,350 (31 December 2019: 6,371,215) awarded shares granted on 25 March 2019 which were outstanding under the Scheme. During the current six-month period, 108,143 (six months ended 2019: 37,744) and 2,123,722 awarded shares granted on 25 March 2019 were lapsed and vested.

As at 30 June 2020, the Company had 5,080,000 (31 December 2019: 7,845,000) awarded shares granted on 29 October 2019 which were outstanding under the Scheme. During the current six-month period, 150,000 and 2,615,000 awarded shares granted on 29 October 2019 were lapsed and vested.

As at 30 June 2020, the Company had 14,058,534 awarded shares granted on 25 March 2020 which were outstanding under the Scheme. During the current six-month period, 235,671 awarded shares granted on 25 March 2020 were lapsed.

As at 30 June 2020, the Company had no awarded shares granted on 8 May 2020 which were outstanding under the Scheme. During the current six-month period, all 78,000 awarded shares granted on 8 May 2020 were vested.

Notes:

- (a) Pursuant to the agreed terms, the vesting date of one-third of the award shares granted on 11 March 2016 is on 15 March 2017 while the vesting date of another one-third of award shares granted on 11 March 2016 would be on 15 March 2018 and the vesting date for the remaining would be on 15 March 2019.
- (b) Pursuant to the agreed terms, the vesting date of one-third of the award shares granted on 10 March 2017 is on 19 March 2018 while the vesting date of another one-third of award 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 award shares granted on 11 May 2018 is on 13 May 2019 while the vesting date of another one-third of award shares granted on 11 May 2018 would be on 13 May 2020 and the vesting date for the remaining would be on 13 May 2021.

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2020

31. Share Option/Award Scheme (continued)**Share award scheme (continued)**

Notes: (continued)

- (d) Pursuant to the agreed terms, the vesting date of all the award shares granted on 11 January 2019 is on 18 January 2019.
- (e) Pursuant to the agreed terms, the vesting date of one-third of the award shares granted on 25 March 2019 is on 23 March 2020 while the vesting date of another one-third of award 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 award shares granted on 29 October 2019 is on 2 January 2020 while the vesting date of another one-third of award 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) Pursuant to the agreed terms, the vesting date of one-third of the award shares granted on 25 March 2020 is on 24 March 2021 while the vesting date of another one-third of award shares granted on 25 March 2020 would be on 24 March 2022 and the vesting date for the remaining would be on 24 March 2023.
- (h) Pursuant to the agreed terms, the vesting date of all the award shares granted on 8 May 2020 is on 25 May 2020.
- (i) 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 employees. The lapsed Awarded Shares were transferred out from share award reserve to share premium as disclosed in the unaudited condensed consolidated statement of changes in equity.

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

	2020		2019	
	HK\$'000	Number of shares	HK\$'000	Number of shares
At 1 January	207,210	62,273,142	155,372	33,370,909
Purchased during the period/year	222,250	121,167,000	78,958	34,629,000
Vested and transferred out during the period/year	(28,947)	(7,936,163)	(27,120)	(5,726,767)
At 30 June 2020/31 December 2019	400,513	175,503,979	207,210	62,273,142

For the six months ended 30 June 2020

32. Commitments

Capital commitments

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

	30.6.2020 HK\$'000 (unaudited)	31.12.2019 HK\$'000 (audited)
Contracted, but not provided for:		
Computer equipment	6,240	11,613
Others	10,932	12,050
	17,172	23,663

33. Related Party Transactions

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

- (a) On 15 February 2019, the Company entered into a master services agreement with Haitong Securities Co., Limited, the ultimate holding company of the Company, for a term of 2 years and 6 months from 1 January 2019 to 30 June 2021. 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. Services covered under the 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\$348,000 and HK\$420,000 (six months ended 30 June 2019: income and expenses of HK\$279,000 and HK\$251,000) respectively for the current interim period in accordance with terms of the master services agreement.
- (ii) Income from investment management and advisory services amounted to HK\$11,388,000 (six months ended 30 June 2019: HK\$7,533,000) to Haitong International Holdings Limited (the immediate holding company of the Company). Income from investment management and advisory service amounted to HK\$551,000 (six months ended 30 June 2019: HK\$993,000) was received from Haitong Securities Co., Ltd. (the ultimate holding company of the Company) and expenses related to referral fee amounted to HK\$751,000 was paid to Haitong Securities Co., Ltd.. The fee is charged in accordance with the relevant investment management agreement or investment advisory agreement.

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2020

33. Related Party Transactions (continued)

(a) (continued)

- (iii) During the year ended 31 December 2019, 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. During the current period, income received from Haitong Bank in connection to such services amounted to EUR394,000 (equivalent to HK\$3,388,000) and expenses paid by this subsidiary in connection to such services amounted to EUR3,046,000 (equivalent to HK\$26,246,000). The relevant income and expense are based on the agreement entered by this subsidiary and Haitong Bank.
- (iv) During the year ended 31 December 2019, 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 period, amortisation of the underwriting commission paid amounted to HK\$312,000, which was recognised in the unaudited condensed consolidated statement of profit or loss as part of interest expense.
- (v) During the current period, Haitong Bank provided financial advisory for the Group's financing activities, the Group paid financial advisory fee of US\$2.5 million (equivalent to HK\$19.38 million) (six months ended 30 June 2019: 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)) to Haitong Bank where such amount constitutes part of the effective interest expense of the Group under the applicable accounting standard. During the current period, amortisation of the financial advisory fee paid amounted to HK\$8,684,000 (six months ended 30 June 2019: HK\$5,457,000), which was recognised in the unaudited condensed consolidated statement of profit or loss as part of the interest expense.
- (vi) During the current period, the Company provided an unsecured loan to Haitong International Holdings Limited, the immediate holding company of the Company. As at 30 June 2020, the outstanding principal amount amounted to US\$55,000,000 (equivalent to approximately HK\$426,267,000). The loan is chargeable at an interest rate of US Dollar LIBOR +1.25%. During the current six-month period, interest income amounted to US\$1,078,000 (equivalent to HK\$8,374,000) was recognised in the unaudited condensed consolidated statement of profit or loss.

For the six months ended 30 June 2020

33. Related Party Transactions (continued)

(a) (continued)

- (vii) During the current period, Haitong International Holdings Limited (immediate holding company of the Company) provided an unsecured loan to the Company. The loan was repaid during the current period and there was no outstanding balance as at 30 June 2020. The loan was chargeable at an interest rate of US Dollar LIBOR + 1.25%. Interest expense amounted to US\$1,376,000 (equivalent to HK\$10,698,000) was paid.
- (viii) 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.
- (ix) During the year ended 31 December 2019, 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, 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 product" in note 6. The note was terminated in April 2019.
- (x) During the year ended 31 December 2019, 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, an interest expense of US\$103,000 (equivalent to HK\$808,000) was paid by the Company, and was recognised within "net trading income on financial product" in note 6. The note was terminated in May 2019.
- (xi) 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 year ended 31 December 2019, 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 product" in note 6. Relevant contract was early terminated on 22 January 2019.
- (xii) During the year ended 31 December 2019, 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.

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2020

33. Related Party Transactions (continued)

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

	Six months ended	
	30.6.2020	30.6.2019
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
Short term employee benefits	14,275	15,864
Post-employment benefits	551	559
Total compensation paid to key management personnel	14,826	16,423

34. Financial Risk Management**Financial risk factors**

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

The unaudited condensed consolidated interim financial statements do not include all financial risk management information and disclosures related to the unaudited condensed consolidated financial statements, and should be read in conjunction with the consolidated financial statements for the year ended 31 December 2019.

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

Financial assets and financial liabilities that are not measured at fair value

As at 30 June 2020 and 31 December 2019, 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:

	30.6.2020		31.12.2019	
	Carrying amount	Fair value	Carrying amount	Fair value
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	(unaudited)	(unaudited)	(audited)	(audited)
Convertible bonds (note ii)	124,322	125,194	123,269	125,500
Non-convertible bonds (note ii)	13,896,264	14,233,031	13,941,015	14,120,630
Non-convertible notes (note i)	6,461,380	6,481,498	7,354,145	7,265,192

For the six months ended 30 June 2020

34. Financial Risk Management (continued)

Financial assets and financial liabilities that are not measured at fair value (continued)

Notes:

- (i) The fair values are based on discounted cash flows. The future cash flows are estimated based on applying the interest yield curves of different types of bonds as the key parameter. The most significant input is the discount rates of the instruments.
- (ii) The fair values are based on the quoted prices from the Hong Kong stock exchange and other foreign stock exchanges.

These assets and liabilities are classified under Level 2 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/incurred 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.

Definition of fair value measurement

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

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2020

34. Financial Risk Management (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 30 June 2020 (unaudited)

	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	1,134,436	–	–	1,134,436
– Exchange traded funds	59,414	–	–	59,414
– Listed preference shares	–	1,376	–	1,376
– Listed debt investments	–	10,821,514	167,884	10,989,398
– Unlisted debt investments	–	324,566	16,652	341,218
	1,193,850	11,147,456	184,536	12,525,842
Investment securities at fair value (through profit or loss and through other comprehensive income)				
– Listed equity investments	3,499,388	–	–	3,499,388
– Exchange traded funds	209,675	–	–	209,675
– Listed debt investments	–	447,296	–	447,296
– Unlisted partnership investments	–	22,626	1,386,492	1,409,118
– Unlisted equity investments	–	573,585	132,226	705,811
– Unlisted debt investments	–	4,527,862	279,012	4,806,874
– Unlisted investment funds	–	6,378,203	–	6,378,203
– Consolidated investment funds (Note 4)	275,290	12,855,803	474,631	13,605,724
	3,984,353	24,805,375	2,272,361	31,062,089
Derivative financial assets				
– Swaps	–	642,546	–	642,546
– Forward foreign currency exchange contracts	–	74,007	–	74,007
– Listed futures/options/warrants	9,413	148,112	–	157,525
– Callable bull/bear contracts	–	17,853	–	17,853
– Unlisted options	–	52,575	–	52,575
	9,413	935,093	–	944,506
Total	5,187,616	36,887,924	2,456,897	44,532,437

For the six months ended 30 June 2020

34. Financial Risk Management (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 2019 (audited)**

	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	2,352,169	–	–	2,352,169
– Exchange traded funds	406,867	–	–	406,867
– Listed debt investments	–	2,061,004	–	2,061,004
– Unlisted partnership investments	–	–	1,295,951	1,295,951
– Unlisted equity investments	–	213,919	132,798	346,717
– Unlisted debt investments	–	2,535,419	328,568	2,863,987
– Unlisted investment funds	–	10,396,154	–	10,396,154
– Consolidated investment funds (Note 4)	1,350,562	5,386,767	559,409	7,296,738
	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

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2020

34. Financial Risk Management (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 30 June 2020 (unaudited)**

	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	246,170	–	–	246,170
– Exchange traded funds	23,789	–	–	23,789
– Listed debt investments	–	2,257,817	–	2,257,817
– Listed preference shares	–	22,224	–	22,224
	269,959	2,280,041	–	2,550,000
Derivative financial liabilities				
– Swaps	–	4,224	–	4,224
– Forward foreign currency exchange contracts	–	20,876	–	20,876
– Listed futures/options/warrants	25,498	251,633	–	277,131
– Callable bull/bear contracts	–	46,891	–	46,891
– Unlisted options	–	21,259	–	21,259
	25,498	344,883	–	370,381
Total	295,457	2,624,924	–	2,920,381

For the six months ended 30 June 2020

34. Financial Risk Management (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 (audited)**

	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

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2020

34. Financial Risk Management (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)

Notes:

- (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.
- (4) As at 30 June 2020, the investments held by consolidated investment funds as disclosed in note 15(i) are HK\$13.6 billion (2019: HK\$7.3 billion), which include (i) listed equity investments of HK\$275 million (2019: HK\$1,351 million) classified as level 1, (ii) listed and unlisted debt investments of HK\$12,693 million (2019: HK\$525 million), unlisted equity of Nil (2019: HK\$127 million) and unlisted fund investments of HK\$163 million (2019: HK\$4,735 million) collectively classified as level 2, (iii) unlisted equity investments of HK\$297 million (2019: HK\$380 million), unlisted fund investments of HK\$127 million (2019: HK\$128 million), unlisted partnership of HK\$51 million (2019: HK\$51 million) collectively classified as level 3, with the total amounts of level 1, 2 and 3 investments being HK\$275 million, HK\$12,856 million and HK\$475 million (2019: HK\$1,351 million, HK\$5,387 million and HK\$559 million) respectively.

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\$22,124 million (2019: HK\$18,998 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\$46,024 million (2019: HK\$32,386 million) and short hedging position is HK\$ Nil (2019: HK\$32 million).

The variable return of these groups of financial assets and liabilities in 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.

For the six months ended 30 June 2020

34. Financial Risk Management (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)*

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

As at 30 June 2020 (unaudited)

	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	4,884,417	–	–	4,884,417
– Listed debt investments	–	10,822,160	–	10,822,160
– Unlisted equity investments	–	159,234	378,673	537,907
– Unlisted partnership investments	–	232,509	15,501	248,010
– Unlisted debt investments	–	4,046,959	–	4,046,959
– Unlisted investment funds	–	10,056,497	–	10,056,497
– Unlisted financial products	–	9,494,601	–	9,494,601
– Consolidated investment funds (Note 4)	–	5,933,764	–	5,933,764
	4,884,417	40,745,724	394,174	46,024,315
Financial products issued at fair value				
– Unlisted issued financial products	–	21,729,908	394,174	22,124,082
Net position as of 30 June 2020	4,884,417	19,015,816	–	23,900,233

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2020

34. Financial Risk Management (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 2019 (audited)**

	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

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 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 unlisted financial products 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. The Group managed relevant assets and liabilities on a pair basis and as such relevant liabilities are valued with directly reference to its hedging assets.
- (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.
- (4) As at 30 June 2020, the investments held by consolidated investment funds under level 2 are listed and unlisted debt investments of HK\$5,934 million (2019: Nil).

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.

For the six months ended 30 June 2020

34. Financial Risk Management (continued)**Information about Level 3 fair value measurements**

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:

30 June 2020

	Financial assets measured at FVTPL		Financial liabilities measured at FVTPL
	Financial assets held for trading and market making activities/ investment securities at FVTPL HK\$'000 (unaudited)	Assets acquired for financial products issued HK\$'000 (unaudited)	Financial products issued at fair value HK\$'000 (unaudited)
Opening balance	2,655,454	395,878	(395,878)
Addition (note i)	44,468	–	–
Transfer into Level 3 (note ii)	126,509	–	–
Disposal	(380,933)	–	–
Total gains (losses) in profit or loss (note iv)	11,399	(1,704)	1,704
Closing balance	2,456,897	394,174	(394,174)

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2020

34. Financial Risk Management (continued)**Information about Level 3 fair value measurements (continued)****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 (audited)	Assets acquired for financial products issued HK\$'000 (audited)	Financial products issued at fair value HK\$'000 (audited)
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 iv)	(81,260)	6,293	(27,171)
Closing balance	2,655,454	395,878	(395,878)

Notes:

- (i) For the period ended 30 June 2020, addition of HK\$44 million (2019: HK\$57 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 period ended 30 June 2020, private equity investments amounted to HK\$127 million (2019: private equity investments, partnership investments and private equity funds amounted to HK\$906 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 were transferred from Level 2 to Level 3 category. The reasons for the transfer is due to the fair value was determined with reference to the recent transaction price and therefore classified as Level 2 investments, and as of the reporting dates were 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 year ended 31 December 2019, 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) Of the total gains or losses for the period included in profit or loss, losses of HK\$11 million (2019: losses of HK\$102 million) 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 the unaudited condensed consolidated statement of profit or loss.

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2020

34. Financial Risk Management (continued)**Information about Level 3 fair value measurements (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		Valuation techniques	Significant unobservable inputs	Relationship of unobservable inputs to fair value
	30 June 2020 HK\$'000 (unaudited)	31 December 2019 HK\$'000 (audited)			
Financial assets other than financial assets relating to financial product issuance					
Debt investments	463,548	667,296	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/ unlisted equity investments held by consolidated investment funds	428,697	512,665	Market approach	Pricing multiples of market comparable companies used to determine the estimated equity value of the project company: – Price to sales multiple Discount rate for lack of marketability	The higher the pricing multiples, the higher the fair value The higher the discount rate, the lower the fair value
Unlisted partnerships Investments/Unlisted investment funds/ unlisted investment funds held by consolidated investment funds	1,564,652	1,475,493	Net asset value of the unlisted 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
	2,456,897	2,655,454			

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2020

34. Financial Risk Management (continued)

Information about Level 3 fair value measurements (continued)

	Fair value as at		Valuation techniques	Significant unobservable inputs	Relationship of unobservable inputs to fair value
	30 June 2020 HK\$'000 (unaudited)	31 December 2019 HK\$'000 (audited)			
Financial assets and financial liabilities relating to product issuance					
<i>Asset acquired for financial products issued</i>					
Unlisted equity investments	378,673	380,310	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	15,501	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
	394,174	395,878			
<i>Financial products issued at fair value</i>					
Unlisted financial products	394,174	395,878	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 of the net assets value, the higher the fair value

For the six months ended 30 June 2020

35. Transfer of Financial Assets

The Group enters into transactions in the normal course of business by which it transfers recognised financial assets or transfer rights and obligations relating to financial assets to third parties. 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 agreements

Transferred financial assets that do not qualify for derecognition include bonds and equities held by counterparties as collateral under repurchase agreements, and the Group has determined that the Group retains substantially all the risks and rewards of these bonds and equities 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 equities sold under repurchase agreements shall be derecognised are disclosed in note 27 of the unaudited condensed consolidated financial statements.

36. Events after the Reporting Period

On 2 July 2020, the Company issued bonds in principal amount of US\$400 million at a discount of 99.873% which is listed on the The Stock Exchange of Hong Kong Limited. The bond carries a fixed interest rate of 2.125% with a maturity period of 3 years. The principal will be fully repayable on the maturity date at 2 July 2023. Please refer to the Company's announcement on 19 June 2020 and 2 July 2020 for details of the bonds.

37. Approval of the Interim Financial Statements

These unaudited condensed consolidated interim financial statements were approved and authorised for issue by the Board of Directors on 21 August 2020.

Report on Review of Condensed Consolidated Financial Statements

Deloitte.

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TO THE BOARD OF DIRECTORS OF
HAITONG INTERNATIONAL SECURITIES GROUP LIMITED

Introduction

We have reviewed the condensed consolidated financial statements of Haitong International Securities Group Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 19 to 80, which comprise the condensed consolidated statement of financial position as of 30 June 2020 and the related condensed consolidated statement of profit or loss, statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the six-month period then ended, and certain explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard 34 "Interim Financial Reporting" ("HKAS 34") issued by the Hong Kong Institute of Certified Public Accountants. The directors of the Company are responsible for the preparation and presentation of these condensed consolidated financial statements in accordance with HKAS 34. Our responsibility is to express a conclusion on these condensed consolidated financial statements based on our review, and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Scope of Review

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

Conclusion

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

Deloitte Touche Tohmatsu
Certified Public Accountants

Hong Kong
21 August 2020

Other Information

DIVIDEND AND CLOSURE OF REGISTER OF MEMBERS

The board of directors of the Company (the "Board") has declared an interim dividend of HK4.4 cents per share (2019: HK9 cents) in cash, payable on or about Monday, 21 September 2020 to shareholders whose names appear on the register of members of the Company on Wednesday, 9 September 2020.

The register of members of the Company will be closed from Monday, 7 September 2020 to Wednesday, 9 September 2020, both dates inclusive, during which period no transfer of shares will be registered. In order to qualify for the interim dividend, all completed transfer forms accompanied by the relevant share certificates must be lodged with the Company's Branch Share Registrar and Transfer Office in Hong Kong, Tricor Investor Services Limited, at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong, for registration not later than 4:30 p.m. on Friday, 4 September 2020. Shares of the Company will be traded ex-dividend as from Thursday, 3 September 2020.

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

As at 30 June 2020, the interests and short positions of the directors of the Company in the shares, underlying shares and debentures of the Company and any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")), as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code"), were as follows:

The Company

Name of director	Class of shares	Number of shares held			Number of underlying shares held under equity derivatives	Total	Approximate percentage of the Company's total issued share capital*
		Personal interests	Family interests	Corporate interests			
QU Qiuping	Share Options	-	-	-	1,502,292 (Note 1)	1,502,292	0.02%
LIN Yong	Ordinary shares/share options	8,554,150 (Note 2)	-	-	5,218,979 (Note 1)	13,773,129	0.23%
LI Jianguo	Ordinary shares/share options	2,391,532 (Note 3)	-	-	1,558,493 (Note 1)	3,950,025	0.07%
POON Mo Yiu	Ordinary shares/share options	3,123,495 (Note 4)	-	-	2,410,757 (Note 1)	5,534,252	0.09%
SUN Jianfeng	Ordinary shares/share options	2,552,349 (Note 5)	-	-	3,412,117 (Note 1)	5,964,466	0.10%
SUN Tong	Ordinary shares/share options	2,209,932 (Note 6)	-	-	3,111,430 (Note 1)	5,321,362	0.09%
CHENG Chi Ming Brian	Ordinary shares/share options	880,946 (Note 7)	-	-	1,205,823 (Note 1)	2,086,769	0.03%
ZHANG Xinjun	Ordinary shares/share options	869,784 (Note 8)	-	-	2,510,972 (Note 1)	3,380,756	0.06%
William CHAN	Share options	-	-	-	1,205,823 (Note 1)	1,205,823	0.02%
TSUI Hing Chuen William	Ordinary shares/share options	346,712 (Note 9)	-	-	1,205,823 (Note 1)	1,552,535	0.03%
LAU Wai Piu	Ordinary shares/share options	428,160 (Note 10)	-	-	1,205,823 (Note 1)	1,633,983	0.03%
WEI Kuo-chiang	Share options	-	-	-	1,205,823 (Note 1)	1,205,823	0.02%
WAN Kam To	Share options	-	-	-	601,032 (Note 1)	601,032	0.01%
LIU Yan	Share options	-	-	-	601,032 (Note 1)	601,032	0.01%

* The total number of issued shares of the Company was 6,036,035,086 as at 30 June 2020.

Other Information

Notes:

1. On 2 June 2020, the number of outstanding share options and the exercise price were adjusted in the following manner consequent to the allotment of ordinary shares on the same day under the second interim dividend for the year ended 31 December 2019 in form of scrip dividend:

Name of director	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	500,251	2.903	501,146	2.898
	31 May 2019	500,251	2.559	501,146	2.554
LIN Yong	12 May 2016	805,673	4.643	807,116	4.635
	10 November 2017	804,232	5.011	805,672	5.002
	1 November 2018	1,800,903	2.903	1,804,127	2.898
	31 May 2019	900,452	2.559	902,064	2.554
LI Jianguo	12 May 2016	604,252	4.643	605,334	4.635
	10 November 2017	301,587	5.011	302,127	5.002
	1 November 2018	300,151	2.903	300,689	2.898
	31 May 2019	150,075	2.559	150,343	2.554
POON Mo Yiu	12 May 2016	704,961	4.643	706,224	4.635
	10 November 2017	301,587	5.011	302,127	5.002
	1 November 2018	700,351	2.903	701,604	2.898
	31 May 2019	350,176	2.559	350,802	2.554
SUN Jianfeng	12 May 2016	503,544	4.643	504,446	4.635
	10 November 2017	502,645	5.011	503,545	5.002
	1 November 2018	1,200,602	2.903	1,202,751	2.898
	31 May 2019	600,301	2.559	601,375	2.554
SUN Tong	12 May 2016	503,544	4.643	504,446	4.635
	10 November 2017	502,645	5.011	503,545	5.002
	1 November 2018	1,000,502	2.903	1,002,293	2.898
	31 May 2019	500,251	2.559	501,146	2.554

Other Information

Name of director	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
CHENG Chi Ming Brian	12 May 2016	302,124	4.643	302,664	4.635
	10 November 2017	301,587	5.011	302,127	5.002
	1 November 2018	300,151	2.903	300,689	2.898
	31 May 2019	150,075	2.559	150,343	2.554
ZHANG Xinjun	12 May 2016	503,544	4.643	504,446	4.635
	10 November 2017	502,645	5.011	503,545	5.002
	1 November 2018	1,000,502	2.903	1,002,293	2.898
	31 May 2019	300,151	2.559	300,688	2.554
William CHAN	12 May 2016	302,124	4.643	302,664	4.635
	10 November 2017	301,587	5.011	302,127	5.002
	1 November 2018	300,151	2.903	300,689	2.898
	31 May 2019	150,075	2.559	150,343	2.554
TSUI Hing Chuen William	12 May 2016	302,124	4.643	302,664	4.635
	10 November 2017	301,587	5.011	302,127	5.002
	1 November 2018	300,151	2.903	300,689	2.898
	31 May 2019	150,075	2.559	150,343	2.554
LAU Wai Piu	12 May 2016	302,124	4.643	302,664	4.635
	10 November 2017	301,587	5.011	302,127	5.002
	1 November 2018	300,151	2.903	300,689	2.898
	31 May 2019	150,075	2.559	150,343	2.554
WEI Kuo-chiang	12 May 2016	302,124	4.643	302,664	4.635
	10 November 2017	301,587	5.011	302,127	5.002
	1 November 2018	300,151	2.903	300,689	2.898
	31 May 2019	150,075	2.559	150,343	2.554
WAN Kam To	1 November 2018	300,151	2.903	300,689	2.898
	31 May 2019	150,075	2.559	150,343	2.554
LIU Yan	1 November 2018	300,151	2.903	300,689	2.898
	31 May 2019	150,075	2.559	150,343	2.554

Other Information

2. Those shares are held by Mr. LIN Yong as beneficial owner, included 1,871,595 unvested awarded shares granted by the Company pursuant to the share award scheme as at 30 June 2020 and a total of 560,183 awarded shares which were vest in tranches on 19 March 2020, 23 March 2020 and 13 May 2020 pursuant to the award schemes during the 6 months ended 30 June 2020.
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 620,100 unvested awarded shares granted by the Company pursuant to the share award scheme as at 30 June 2020 and a total of 86,951 awarded shares which were vest in tranches on 19 March 2020 and 23 March 2020 pursuant to the award schemes during the 6 months ended 30 June 2020.
5. Those shares are held by Mr. SUN Jianfeng as beneficial owner, included 810,343 unvested awarded shares granted by the Company pursuant to the share award scheme as at 30 June 2020 and a total of 206,680 awarded shares which were vest in tranches on 19 March 2020, 23 March 2020 and 13 May 2020 pursuant to the award schemes during the 6 months ended 30 June 2020.
6. Those shares are held by Mr. SUN Tong as beneficial owner, included 777,176 unvested awarded shares granted by the Company pursuant to the share award scheme as at 30 June 2020 and a total of 207,840 awarded shares which were vest in tranches on 19 March 2020, 23 March 2020 and 13 May 2020 pursuant to the award schemes during the 6 months ended 30 June 2020.
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 67,651 unvested awarded shares granted by the Company pursuant to the share award scheme as at 30 June 2020 and a total of 104,995 awarded shares which were vest in tranches on 19 March 2020 and 13 May 2020 pursuant to the award schemes during the 6 months ended 30 June 2020.
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 30 June 2020, none of the directors of the Company or their associates had registered any other interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) that was required to be recorded in the register kept by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed under the sections headed "Directors' Interests and Short Positions in Shares, Underlying Shares and Debentures" above and "Share Option Scheme" below, at no time during the 6 months ended 30 June 2020 were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any director or their respective spouse or children under 18 years of age, or were any such rights exercised by them; nor was the Company or any of its subsidiaries a party to any arrangement to enable the directors to acquire such rights in any other body corporate.

SHARED-BASED COMPENSATION SCHEMES

The Company operates two equity-settled share-based compensation schemes including one share option scheme (the "Share Option Scheme") 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 Scheme

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

Other Information

Movements of the share options under the 2015 Share Option Scheme during the 6 months ended 30 June 2020 are listed below:

Name or category of participants	Number of share options					At 30 June 2020	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 2020	Granted during the period	Adjusted during the period	Exercised during the period	Lapsed during the period					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	500,251	–	895 (Note 1)	–	–	501,146	1 November 2018	28 May 2019 – 31 October 2023	2.898 (Note 1)	2.56	N/A
	500,251	–	895 (Note 1)	–	–	501,146	31 May 2019	27 December 2019 – 30 May 2024	2.554 (Note 1)	2.39	N/A
	–	500,000	–	–	–	500,000	29 May 2020	25 December 2020 – 28 May 2025	1.727 (Note 1)	1.55	N/A
LIN Yong	805,673	–	1,443 (Note 1)	–	–	807,116	12 May 2016	8 December 2016 – 11 May 2021	4.635 (Note 1)	4.25	N/A
	804,232	–	1,440 (Note 1)	–	–	805,672	10 November 2017	7 June 2018 – 9 November 2022	5.002 (Note 1)	4.58	N/A
	1,800,903	–	3,224 (Note 1)	–	–	1,804,127	1 November 2018	28 May 2019 – 31 October 2023	2.898 (Note 1)	2.56	N/A
	900,452	–	1,612 (Note 1)	–	–	902,064	31 May 2019	27 December 2019 – 30 May 2024	2.554 (Note 1)	2.39	N/A
	–	900,000	–	–	–	900,000	29 May 2020	25 December 2020 – 28 May 2025	1.727 (Note 1)	1.55	N/A
LI Jianguo	604,252	–	1,082 (Note 1)	–	–	605,334	12 May 2016	8 December 2016 – 11 May 2021	4.635 (Note 1)	4.25	N/A
	301,587	–	540 (Note 1)	–	–	302,127	10 November 2017	7 June 2018 – 9 November 2022	5.002 (Note 1)	4.58	N/A
	300,151	–	538 (Note 1)	–	–	300,689	1 November 2018	28 May 2019 – 31 October 2023	2.898 (Note 1)	2.56	N/A
	150,075	–	268 (Note 1)	–	–	150,343	31 May 2019	27 December 2019 – 30 May 2024	2.554 (Note 1)	2.39	N/A
	–	200,000	–	–	–	200,000	29 May 2020	25 December 2020 – 28 May 2025	1.727 (Note 1)	1.55	N/A
POON Mo Yiu	704,961	–	1,263 (Note 1)	–	–	706,224	12 May 2016	8 December 2016 – 11 May 2021	4.635 (Note 1)	4.25	N/A
	301,587	–	540 (Note 1)	–	–	302,127	10 November 2017	7 June 2018 – 9 November 2022	5.002 (Note 1)	4.58	N/A
	700,351	–	1,253 (Note 1)	–	–	701,604	1 November 2018	28 May 2019 – 31 October 2023	2.898 (Note 1)	2.56	N/A
	350,176	–	626 (Note 1)	–	–	350,802	31 May 2019	27 December 2019 – 30 May 2024	2.554 (Note 1)	2.39	N/A
	–	350,000	–	–	–	350,000	29 May 2020	25 December 2020 – 28 May 2025	1.727 (Note 1)	1.55	N/A

Other Information

Name or category of participants	Number of share options					At 30 June 2020	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 2020	Granted during the period	Adjusted during the period	Exercised during the period	Lapsed during the period					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											
SUN Jianfeng	503,544	–	902 (Note 1)	–	–	504,446	12 May 2016	8 December 2016 – 11 May 2021	4.635 (Note 1)	4.25	N/A
	502,645	–	900 (Note 1)	–	–	503,545	10 November 2017	7 June 2018 – 9 November 2022	5.002 (Note 1)	4.58	N/A
	1,200,602	–	2,149 (Note 1)	–	–	1,202,751	1 November 2018	28 May 2019 – 31 October 2023	2.898 (Note 1)	2.56	N/A
	600,301	–	1,074 (Note 1)	–	–	601,375	31 May 2019	27 December 2019 – 30 May 2024	2.554 (Note 1)	2.39	N/A
	–	600,000	–	–	–	600,000	29 May 2020	25 December 2020 – 28 May 2025	1.727 (Note 1)	1.55	N/A
SUN Tong	503,544	–	902 (Note 1)	–	–	504,446	12 May 2016	8 December 2016 – 11 May 2021	4.635 (Note 1)	4.25	N/A
	502,645	–	900 (Note 1)	–	–	503,545	10 November 2017	7 June 2018 – 9 November 2022	5.002 (Note 1)	4.58	N/A
	1,000,502	–	1,791 (Note 1)	–	–	1,002,293	1 November 2018	28 May 2019 – 31 October 2023	2.898 (Note 1)	2.56	N/A
	500,251	–	895 (Note 1)	–	–	501,146	31 May 2019	27 December 2019 – 30 May 2024	2.554 (Note 1)	2.39	N/A
	–	600,000	–	–	–	600,000	29 May 2020	25 December 2020 – 28 May 2025	1.727 (Note 1)	1.55	N/A
CHENG Chi Ming Brian	302,124	–	540 (Note 1)	–	–	302,664	12 May 2016	8 December 2016 – 11 May 2021	4.635 (Note 1)	4.25	N/A
	301,587	–	540 (Note 1)	–	–	302,127	10 November 2017	7 June 2018 – 9 November 2022	5.002 (Note 1)	4.58	N/A
	300,151	–	538 (Note 1)	–	–	300,689	1 November 2018	28 May 2019 – 31 October 2023	2.898 (Note 1)	2.56	N/A
	150,075	–	268 (Note 1)	–	–	150,343	31 May 2019	27 December 2019 – 30 May 2024	2.554 (Note 1)	2.39	N/A
	–	150,000	–	–	–	150,000	29 May 2020	25 December 2020 – 28 May 2025	1.727 (Note 1)	1.55	N/A

Other Information

Name or category of participants	Number of share options					At 30 June 2020	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 2020	Granted during the period	Adjusted during the period	Exercised during the period	Lapsed during the period					At immediately preceding the grant date of share options HK\$ per share	At immediately preceding the exercise date of share options HK\$ per share
Directors											
WANG Meijuan (retired on 29 May 2020)	302,124	–	540 (Note 1)	–	(302,664) (Note 2)	–	12 May 2016	8 December 2016 – 11 May 2021	4.635 (Note 1)	4.25	N/A
	300,151	–	538 (Note 1)	–	(300,689) (Note 2)	–	1 November 2018	28 May 2019 – 31 October 2023	2.898 (Note 1)	2.56	N/A
	150,075	–	268 (Note 1)	–	(150,343) (Note 2)	–	31 May 2019	27 December 2019 – 30 May 2024	2.554 (Note 1)	2.39	N/A
ZHANG Xinjun	503,544	–	902 (Note 1)	–	–	504,446	12 May 2016	8 December 2016 – 11 May 2021	4.635 (Note 1)	4.25	N/A
	502,645	–	900 (Note 1)	–	–	503,545	10 November 2017	7 June 2018 – 9 November 2022	5.002 (Note 1)	4.58	N/A
	1,000,502	–	1,791 (Note 1)	–	–	1,002,293	1 November 2018	28 May 2019 – 31 October 2023	2.898 (Note 1)	2.56	N/A
	300,151	–	537 (Note 1)	–	–	300,688	31 May 2019	27 December 2019 – 30 May 2024	2.554 (Note 1)	2.39	N/A
–	200,000	–	–	–	200,000	29 May 2020	25 December 2020 – 28 May 2025	1.727 (Note 1)	1.55	N/A	
William CHAN	302,124	–	540 (Note 1)	–	–	302,664	12 May 2016	8 December 2016 – 11 May 2021	4.635 (Note 1)	4.25	N/A
	301,587	–	540 (Note 1)	–	–	302,127	10 November 2017	7 June 2018 – 9 November 2022	5.002 (Note 1)	4.58	N/A
	300,151	–	538 (Note 1)	–	–	300,689	1 November 2018	28 May 2019 – 31 October 2023	2.898 (Note 1)	2.56	N/A
	150,075	–	268 (Note 1)	–	–	150,343	31 May 2019	27 December 2019 – 30 May 2024	2.554 (Note 1)	2.39	N/A
	–	150,000	–	–	–	150,000	29 May 2020	25 December 2020 – 28 May 2025	1.727 (Note 1)	1.55	N/A
TSUI Hing Chuen William	302,124	–	540 (Note 1)	–	–	302,664	12 May 2016	8 December 2016 – 11 May 2021	4.635 (Note 1)	4.25	N/A
	301,587	–	540 (Note 1)	–	–	302,127	10 November 2017	7 June 2018 – 9 November 2022	5.002 (Note 1)	4.58	N/A
	300,151	–	538 (Note 1)	–	–	300,689	1 November 2018	28 May 2019 – 31 October 2023	2.898 (Note 1)	2.56	N/A
	150,075	–	268 (Note 1)	–	–	150,343	31 May 2019	27 December 2019 – 30 May 2024	2.554 (Note 1)	2.39	N/A
	–	150,000	–	–	–	150,000	29 May 2020	25 December 2020 – 28 May 2025	1.727 (Note 1)	1.55	N/A

Other Information

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 2020	Granted during the period	Adjusted during the period	Exercised during the period	Lapsed during the period	At 30 June 2020				At immediately preceding the grant date of share options	At immediately preceding the exercise date of share options
										HK\$ per share	HK\$ per share
Directors											
LAU Wai Piu	302,124	–	540 (Note 1)	–	–	302,664	12 May 2016	8 December 2016 – 11 May 2021	4.635 (Note 1)	4.25	N/A
	301,587	–	540 (Note 1)	–	–	302,127	10 November 2017	7 June 2018 – 9 November 2022	5.002 (Note 1)	4.58	N/A
	300,151	–	538 (Note 1)	–	–	300,689	1 November 2018	28 May 2019 – 31 October 2023	2.898 (Note 1)	2.56	N/A
	150,075	–	268 (Note 1)	–	–	150,343	31 May 2019	27 December 2019 – 30 May 2024	2.554 (Note 1)	2.39	N/A
	–	150,000	–	–	–	150,000	29 May 2020	25 December 2020 – 28 May 2025	1.727 (Note 1)	1.55	N/A
WEI Kuo-chiang	302,124	–	540 (Note 1)	–	–	302,664	12 May 2016	8 December 2016 – 11 May 2021	4.635 (Note 1)	4.25	N/A
	301,587	–	540 (Note 1)	–	–	302,127	10 November 2017	7 June 2018 – 9 November 2022	5.002 (Note 1)	4.58	N/A
	300,151	–	538 (Note 1)	–	–	300,689	1 November 2018	28 May 2019 – 31 October 2023	2.898 (Note 1)	2.56	N/A
	150,075	–	268 (Note 1)	–	–	150,343	31 May 2019	27 December 2019 – 30 May 2024	2.554 (Note 1)	2.39	N/A
	–	150,000	–	–	–	150,000	29 May 2020	25 December 2020 – 28 May 2025	1.727 (Note 1)	1.55	N/A
WAN Kam To	300,151	–	538 (Note 1)	–	–	300,689	1 November 2018	28 May 2019 – 31 October 2023	2.898 (Note 1)	2.56	N/A
	150,075	–	268 (Note 1)	–	–	150,343	31 May 2019	27 December 2019 – 30 May 2024	2.554 (Note 1)	2.39	N/A
	–	150,000	–	–	–	150,000	29 May 2020	25 December 2020 – 28 May 2025	1.727 (Note 1)	1.55	N/A
LIU Yan	300,151	–	538 (Note 1)	–	–	300,689	1 November 2018	28 May 2019 – 31 October 2023	2.898 (Note 1)	2.56	N/A
	150,075	–	268 (Note 1)	–	–	150,343	31 May 2019	27 December 2019 – 30 May 2024	2.554 (Note 1)	2.39	N/A
	–	150,000	–	–	–	150,000	29 May 2020	25 December 2020 – 28 May 2025	1.727 (Note 1)	1.55	N/A
In aggregate	23,268,265	4,400,000	41,650	–	(753,696)	26,956,219					

Other Information

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 2020	Granted during the period	Adjusted during the period	Exercised during the period	Lapsed during the period	At 30 June 2020				At immediately preceding the grant date of share options HK\$ per share	At immediately preceding the exercise date of share options HK\$ per share
Continuous contract employees	8,106,895	-	13,884 (Note 1)	-	(453,361) (Note 2)	7,667,418	12 May 2016	8 December 2016 – 11 May 2021	4.635 (Note 1)	4.25	N/A
	7,288,362	-	12,506 (Note 1)	-	(351,941) (Note 2)	6,948,927	10 November 2017	7 June 2018 – 9 November 2022	5.002 (Note 1)	4.58	N/A
	9,344,681	-	16,582 (Note 1)	-	(90,063) (Note 2)	9,271,200	1 November 2018	28 May 2019 – 31 October 2023	2.898 (Note 1)	2.56	N/A
	6,098,059	-	10,747 (Note 1)	-	(120,096) (Note 2)	5,988,710	31 May 2019	27 December 2019 – 30 May 2024	2.554 (Note 1)	2.39	N/A
	-	6,245,000	-	-	-	6,245,000	29 May 2020	25 December 2020 – 28 May 2025	1.727 (Note 1)	1.55	N/A
In aggregate	30,837,997	6,245,000	53,719	-	(1,015,461)	36,121,255					
	54,106,262	10,645,000	95,369	-	(1,769,157)	63,077,474					

* 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 2 June 2020 consequent to the allotment of ordinary shares on the same day under the second interim dividend for the year ended 31 December 2019 in form of scrip dividend.
2. These share options were lapsed during the 6 months ended 30 June 2020 as a result of staff resignation.

Share Award Scheme

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

Details of the shares awarded, vested, lapsed and unvested during the 6 months ended 30 June 2020 are set out below:

Date of awards	Number of Awarded Shares unvested as at 31 December 2019	Number of Awarded Shares granted during the period	Awarded Shares vested during the period		Number of Awarded Shares lapsed during the period	Awarded Shares unvested as at 30 June 2020	
			Number	Vesting date		Number	Vesting date
			28 April 2017	1,155,351		-	1,147,866
28 May 2018	4,053,475	-	1,971,575	13/05/2020	131,545	1,950,355	13/05/2021
4 April 2019	6,371,215	-	2,123,722	23/3/2020	108,143	4,139,350	Note 1
4 November 2019	7,845,000	-	2,615,000	2/1/2020	150,000	5,080,000	Note 2
24 April 2020	-	14,294,205	-	-	235,671	14,058,534	Note 3
21 May 2020*	-	78,000	78,000	25/5/2020	-	-	-

* Special grant of awarded shares granted and vested during the 6 months ended 30 June 2020.

Notes:

1. The unvested Awarded Shares outstanding as at 30 June 2020 are due vested in two batches on 23 March 2021 and 23 March 2022 respectively.
2. The unvested Awarded Shares outstanding as at 30 June 2020 are due vested in two batches on 2 January 2021 and 2 January 2022 respectively.
3. The unvested Awarded Shares outstanding as at 30 June 2020 are due vested in three batches on 25 March 2021, 25 March 2022 and 25 March 2023 respectively.

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

As at 30 June 2020, 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")	-	3,917,798,194	-	3,917,798,194	64.91
Haitong International Holdings Limited ("HTIH")	3,917,798,194	-	-	3,917,798,194	64.91

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

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

Save as disclosed above, as at 30 June 2020, no person, other than the directors of the Company, whose interests are set out in the section headed "Directors' Interests and Short Positions in Shares, Underlying Shares and Debentures" above, had registered an interest or short position in the shares or underlying shares of the Company that was required to be recorded pursuant to Section 336 of the SFO.

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

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities during the six months ended 30 June 2020 other than as an agent for clients of the Company or its subsidiaries.

COMPLIANCE WITH CORPORATE GOVERNANCE

The Board is committed to maintaining a high standard of corporate governance practices within the Group. Throughout the six months ended 30 June 2020, the Company has fully complied with the code provisions set out in the Corporate Governance Code as contained in Appendix 14 of the Listing Rules.

COMPLIANCE WITH MODEL CODE

The Company has adopted the Model Code set out in Appendix 10 of the Listing Rules as its code of conduct for securities transactions by the directors of the Company. Having made specific enquiry of all directors of the Company, all directors confirmed that they have complied with the required standard set out in the Model Code throughout the six months ended 30 June 2020.

AUDIT COMMITTEE

The Audit Committee of the Company (the "Audit Committee") has met with the external auditor of the Group, Messrs. Deloitte Touche Tohmatsu, to review the accounting principles and practices adopted by the Group and the unaudited consolidated results for the six months ended 30 June 2020 of the Group. The Audit Committee currently comprises 4 non-executive directors of the Company and 3 of whom, including the Chairman of the Audit Committee (the "Chairman"), are independent non-executive directors. The Chairman has the appropriate professional qualification and experience in financial matters.

DISCLOSURES PURSUANT TO THE LISTING RULES

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

Mr. POON Mo Yiu has been re-designated from Chief Operating Officer to Chief Financial Officer of the Group with effect from 1 May 2020. He ceased to be a board member of Haitong Bank, S.A., a wholly-owned subsidiary of HTIH with effect from 3 July 2020.

Mr. SUN Tong has been appointed as the director of Chinese Asset Management Association of Hong Kong with effect from 20 March 2020.

Pursuant to rule 13.21 of the Listing Rules, the loans disclosed under rule 13.18 of the Listing Rules required to be disclosed in this report are as follows:

On 15 March 2018, the Company (as borrower) entered into a facility agreement (the "Facility Agreement I") with certain financial institutions (as lenders) in respect of a term loan facility in an aggregate amount of HK\$3,540,000,000 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 II") 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 III") 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.

Other Information

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

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

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

Corporate Information

GENERAL INFORMATION

Board of Directors

Executive Directors

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

Non-executive Directors

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

Independent Non-executive Directors

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

Company Secretary

LO Wai Ho

External Auditor

Deloitte Touche Tohmatsu

Place of Incorporation

Bermuda

Registered Office

Clarendon House
 2 Church Street
 Hamilton HM 11
 Bermuda

Principal Place of Business

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

Principal Share Registrar and Transfer Office

Conyers Corporate Services (Bermuda) 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