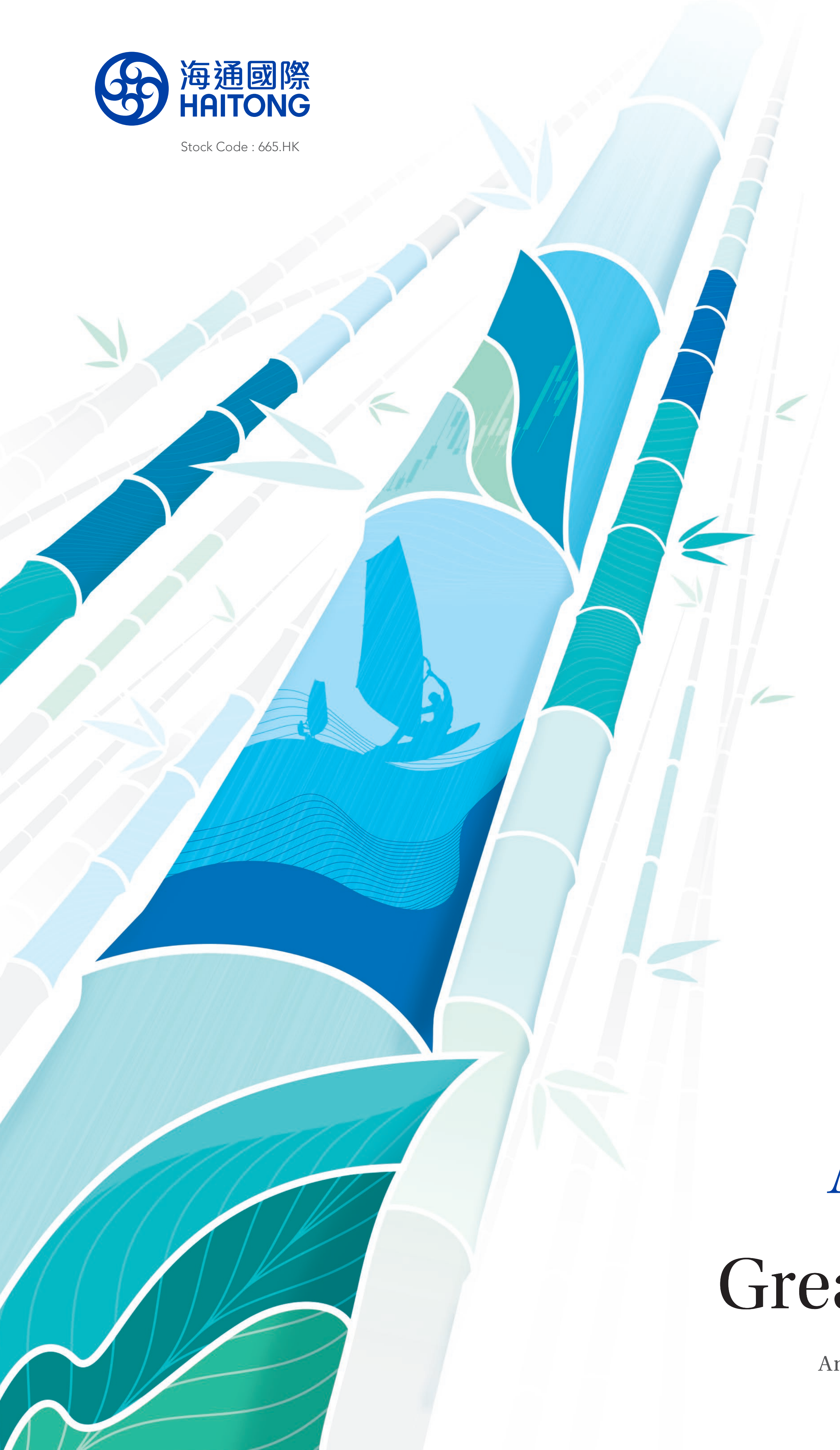
海通國際
HAITONG

Stock Code : 665.HK



Aspire for Greatness

Annual Report 2020

Aspire for Greatness

Bamboo inhabits the core of the universe. It is blessed with a lofty and strong integrity; a modest and open mind; branches that are bent but not broken; and shapes that are upright and pure. Through snow and frost it survives; through all seasons it thrives.

The cover takes an elevated view of the bamboo forest to convey the theme "Aspiring for Greatness". It represents Haitong International's long-held belief and persistence in adopting sustainable business practices. Like the evergreen bamboo, Haitong International understands that, in the face of an ever-changing global setting, we must prepare for the uncharted future and save for a rainy day. At the same time, we keep both feet on the ground – by continuing to seize the right opportunities and leverage on our resilient business model to meet the challenges of a highly volatile and uncertain external environment. Rooted in China like bamboo, Haitong International aspires to be a world-class Chinese financial institution.

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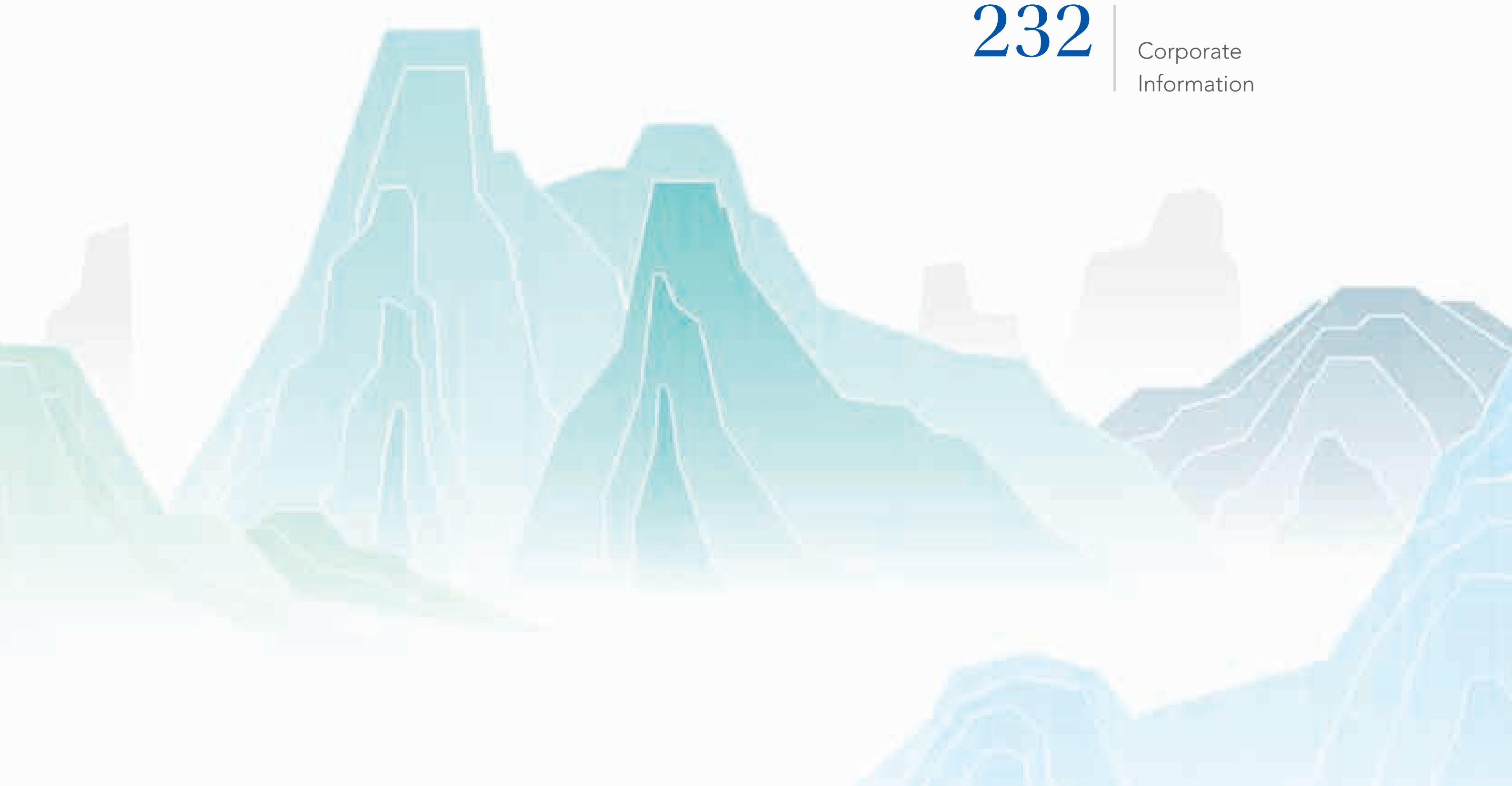


Financial Highlights

Results

	For the year ended 31 December 2020	2019	Percentage change Increase/(Decrease)
Revenue *(HK$'000)*	8,329,747	8,243,974	1
– Commission and fee income	2,864,575	2,291,922	25
– Interest income	2,464,585	2,941,593	(16)
– Net trading and investment income	3,000,587	3,010,459	–
Profit before impairment charges and tax *(HK$'000)*	3,286,707	2,485,118	32
Net Profit Attributable to Shareholders *(HK$'000)*	1,932,877	1,550,858	25
Per share			
Basic Earnings Per Share *(HK Cents)*	32.97	26.85	23
Diluted Earnings Per Share *(HK Cents)*	32.85	26.45	24

Financial Position

	31.12.2020	31.12.2019	Percentage change Increase/(Decrease)
Shareholders' Funds *(HK$'000)*	28,317,169	27,030,581	5
Total Assets *(HK$'000)*	146,442,516	156,274,502	(6)
Number of Shares in Issue *(Note)*	6,036,035,086	5,940,583,872	2
NAV Per Share *(HK$)*	4.69	4.55	3

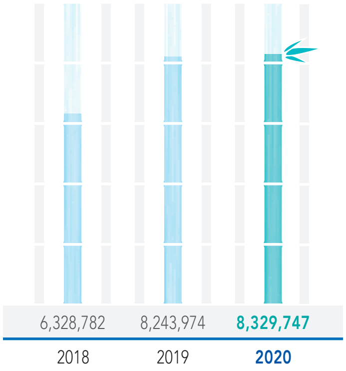
Note:

Certain shareholders elected scrip dividend for the 2019 second interim dividend during the year. Hence, the total number of shares of the company was increased to 6,036,035,086 as at 31 December 2020.

Financial Highlights

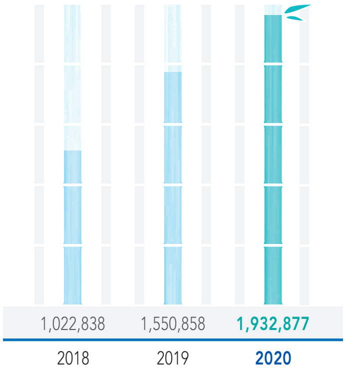
Revenue

(HK$'000)



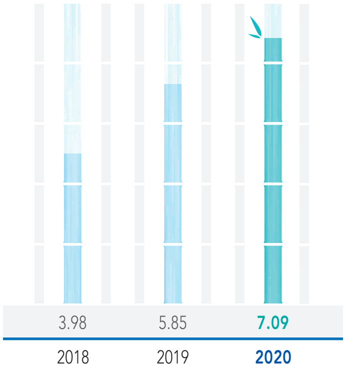
Net Profit Attributable to Shareholders

(HK$'000)



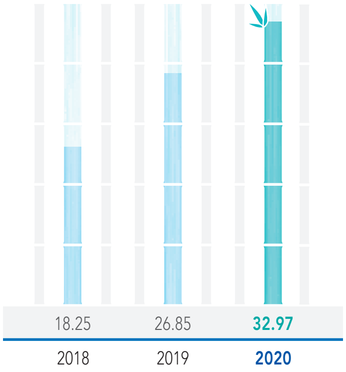
Return on Shareholders' Funds

(%)



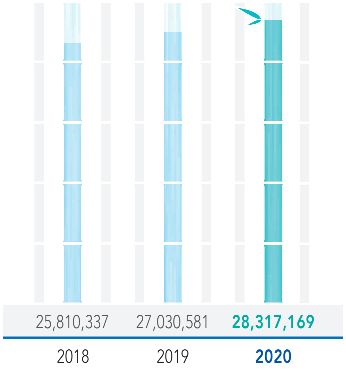
Basic Earnings per Share

(HK Cents)



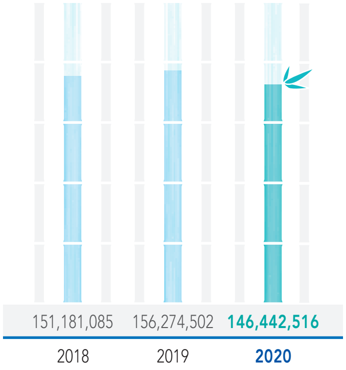
Shareholders' Funds

(HK$'000)



Total Assets

(HK$'000)



Analysis of 2020 Revenue

(For the year ended 31 December 2020)

Analysis of 2020 Profit

(For the year ended 31 December 2020)

24%	Wealth Management	25%
23%	Corporate Finance	40%
4%	Asset Management	7%
27%	Institutional Clients	1%
22%	Investment	27%

Business Highlights

Overseas Footprint

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

Singapore

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

- In March 2020, the Singapore office launched its debut fund focusing on REITs listed across Asia-Pacific markets, further the range of Haitong International's fund products.

U.S. – New York

Mainly engaged in equity research, corporate finance, institutional equity sales, secondary market equity trading, Nasdaq stock market making and bond trading

- Completed 4 IPOs in 2020, including Lufax, Yalla Group, Xiaopeng and Guangzhou LiZhi INC.; and 2 additional issuances, including Dada and Futu.

UK – London

Mainly engaged in financial services including equity sales, fixed income sales and trading, equity research and sales, and corporate finance

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

Business Segments

Wealth management

Provides financial advisory services and customized investment solutions to satisfy the specific financial needs of high net worth clients. This segment offers a broad range of products and services including securities, futures and options contracts, over-the-counter products, funds, securities custodian services, and securities margin financing.

Corporate finance

Engaged in provision of sponsoring and underwriting services to corporate clients for their fund raising activities in equity and debt capital markets, and is also engaged in provision of financial advisory service for corporate actions such as mergers and acquisitions. In addition, this segment also provides financing solutions to the corporate clients and distributes these financing assets in secondary market.

Japan – Tokyo

Engaged in investment advisory business

- In Asiamoney Brokers Poll 2020, Haitong International Japanese analysts were voted No. 1 in Small/Mid-Caps, Consumer, Real Estate, Software & Internet, etc. eight sectors.
- In 2020 Refinitive Starmine Analyst Awards, Haitong International's analysts were awarded Top Stock Picker for the Japan Retail Sector and Top Earnings Estimator for the Japan Real Estate sector.

India – Mumbai

Mainly engaged in institutional cash equities brokerage service and diverse investment banking businesses

- In November 2020, completed the INR 64.8 billion IPO of Gland Pharma Ltd. This was the largest pharma IPO in India to date.

Australia – Sydney

Mainly engaged in equity trading by using algorithmic trading

- Becoming the first Chinese securities firm to obtain an Australian Financial Services Licence (AFSL) from the Australian Securities and Investments Commission (ASIC) through direct application.

Asset management

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

Institutional clients

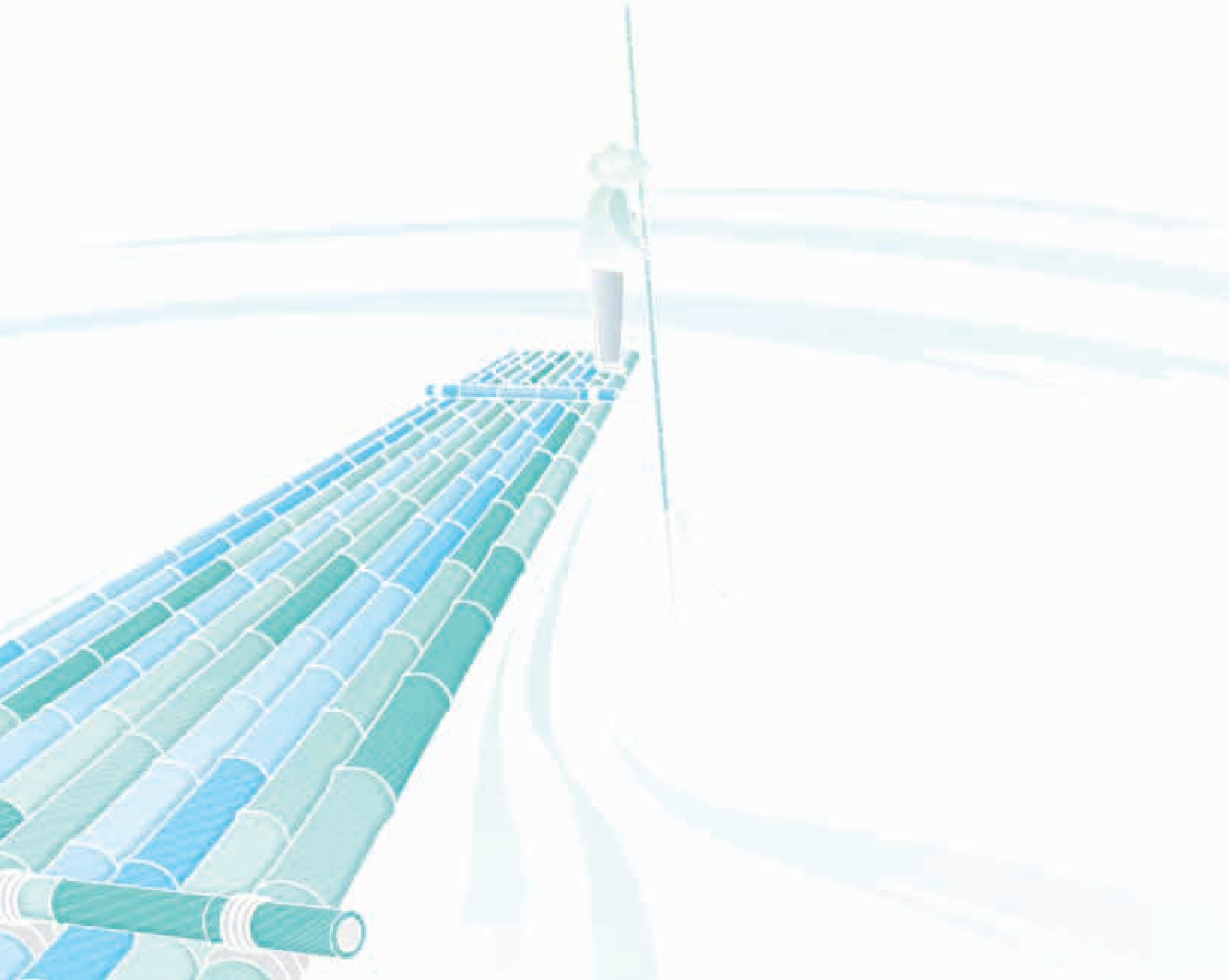
Serves institutional clients globally through sales and trading of both equity and fixed income products, financing, structuring products, offering risk management solutions and providing research advisory. It is also an active player in equity derivative products creation and trading. This segment is supported by the award winning equity research team that specializes in listed equities in Asian financial markets.

Investment

Invests in various financial instruments, primarily on listed equities, investment funds and private equity investments, to explore investment opportunities with reasonable returns.

EXPLORE with Courage

By adhering to the corporate core values of being "courageous, sincere and innovative", Haitong International fully utilized its experience gained to stride on the path of higher stability and profitability, healthier gearing ratio, stricter compliance and risk management and more professional crews.



Highlights of the Year

Jan 2020

- Haitong International received "Top Market Maker ETP Turnover" award from HKEX.

Feb 2020

- Haitong International successfully obtained the Australian Financial Services Licence issued by the Australian Securities and Investments Commission (ASIC), becoming the first Chinese securities firm to obtain the license through direct application. Haitong International (Australia) is authorized to carry out services including financial product transaction and advisory services for institutional investors in Australia.

Mar 2020

- Haitong International Asset Management's product "Haitong MPF Retirement Fund Global Diversification A" was awarded "Hong Kong Pension Funds Awards: Equity Global 3 Years" in 2020 Refinitiv Lipper Fund Awards.

May 2020

- Haitong International was named "Best Broker in Hong Kong – Chinese Financial Institutions" again by FinanceAsia.

- Haitong International Asset Management was awarded "Best Fund House, China Offshore" by AsianInvestor.

- Haitong International received "Derivatives Provider of the Year Excellence" award from Bloomberg BusinessWeek Financial Institution Awards for the 4th consecutive year.

Jun 2020

- Haitong International was named "Best Companies to Work for in Asia" for the 3rd consecutive year by HR Asia, and was also awarded "WeCare: HR Asia Most Caring Companies Award 2020".

Jul 2020

- Haitong International was named "Hong Kong's Best Securities House 2020" and "Best for Cross Border ECM" by Asiamoney.

Aug 2020

AsiaRisk Awards 2020 Winner | Haitong International Securities house of the year

- Haitong International received "Securities House of the Year" award from Asia Risk for the 4th consecutive year.

Sep 2020

- Haitong International was named "FIC Key Business Partner" by HKEX.

Oct 2020

- Haitong International Asset Management launched the "Haitong MSCI China A ESG ETF" on HKEX, which is the first broad based ESG ETF listed on HKEX and currently the only ETF on Hong Kong market offering broad ESG investment exposure on China A shares.

- Dr. LIN Yong, Deputy Chairman and CEO of Haitong International, was appointed as Justice of the Peace (JP) by HKSAR.

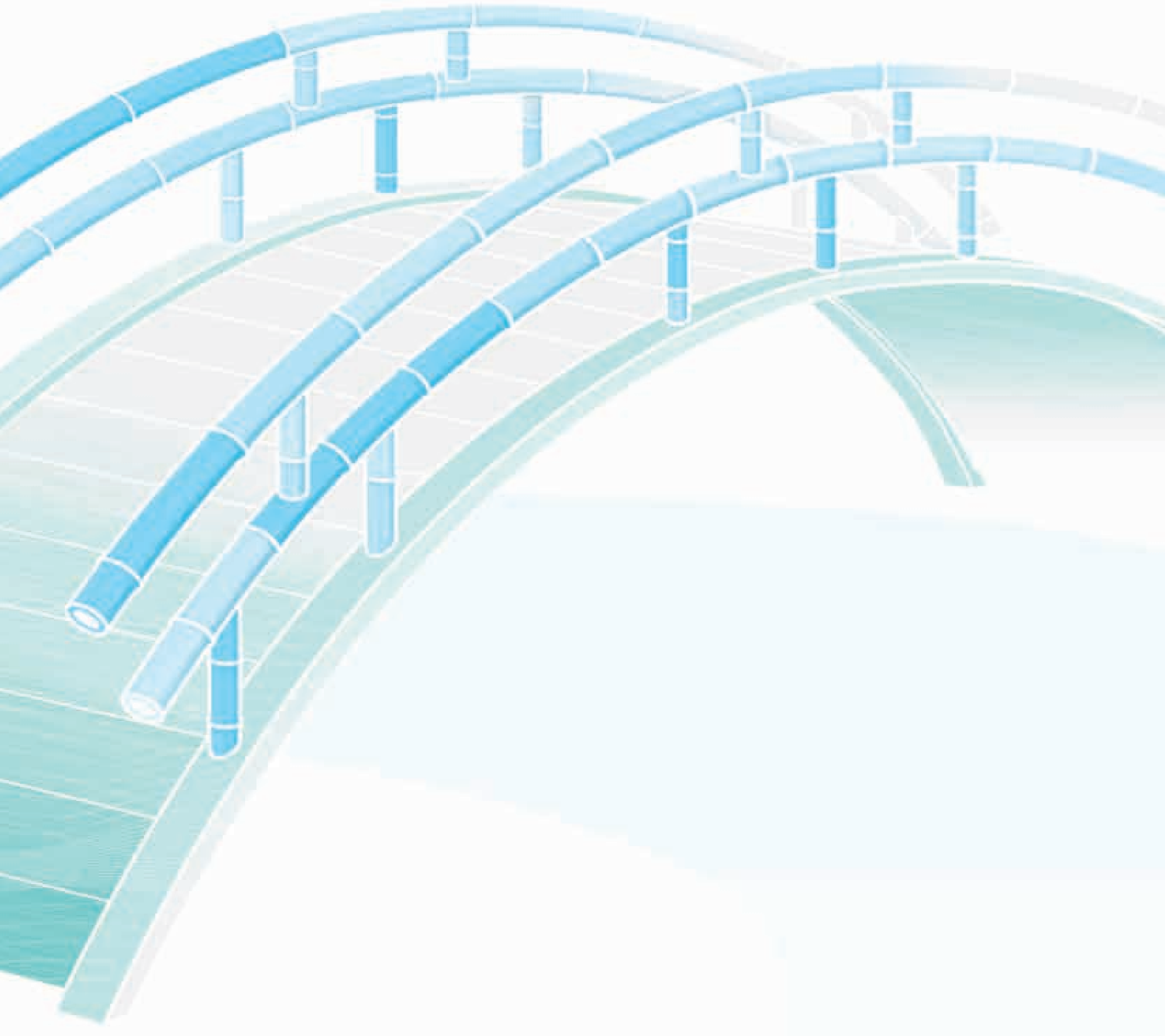
Dec 2020

- Haitong International published its first ESG Statement, pledging to achieve Carbon Neutrality by the end of 2025. This is the first publicized commitment for Carbon Neutrality in Hong Kong financial circle, 25 years ahead of the city's target.

- Haitong International was named "Best Asian Investment Bank 2020" by GlobalCapital Asia and was the only Chinese IB among all the house award winners.
- Haitong International achieved recording breaking results in "Asiamoney Brokers Poll 2020", in which it was voted No. 1 in 18 award categories and Top 3 in 47 award categories. The numbers are the highest ever for Haitong International.
- Haitong International successfully held the second edition of its AI Conference, and published the third edition of its annual "Haitong International China AI Industry Development Report", which explored the development of AI technology in China.

CONNECT with Sincerity

Haitong International continues to serve as the bridge linking up the Chinese and overseas capital markets by marching ahead steadily on its path of internationalization with broadening networking centering on New York, London, Singapore and Hong Kong and expanding to major Asia-Pacific capital markets like Tokyo, Sydney and Mumbai.



Chairman's Statement

QU Qiuping
Chairman

Economic, Market and Business Review

Hardly hit by the coronavirus in 2020, the globe was thrown into a recession with a spike of unemployment rate and wobbling financial markets. To avoid this abrupt health crisis escalating into humanitarian, economic and financial crisis, governments in this world threw out jumbo size easing policies, particularly the quantitative easing unfolded by the US Fed, has injected a surge of liquidity to this financial market. Upheld by this bailout, the stock markets around the world rebounded with fierce rally of prices for all kinds of assets. 3 major stock indexes hit record highs one after another. The recovery of the virus-plagued global economy was pale in contrast when compared with the stock markets. The asset prices are greatly divergent with the economic fundamentals.

China, the first pandemic-hit country in the world, has demonstrated its outstanding efforts and results to combat the disease, is now enjoying a rapid recovery of production. Along with active fiscal policy and easing monetary measures, the state is heading toward a solid economic recuperation. In 2020, China achieved a substantial GDP growth of 2.3%, becoming the only one economy with positive growth in the world. The country's adamant fundamentals and reasonable macroeconomic policies served as a shot in the arm for the global investors' confidence for RMB-denominated assets. Therefore, there was a great influx of capital into Stock Connect and Bond Connect as well as foreign direct investment (FDI), driving a stable appreciation of RMB as capital flows are coming to China. Amidst the gloomy economic outlook and roller-coaster-like financial markets, Chinese government insists to open and reform including letting its financial and technological spheres accessible to foreign countries with more international cooperation to carry forward its dual circulation strategy. During the year, Chinese government signed off milestone deals, namely RCEP and EU-China Comprehensive Agreement on Investment and declared to achieve carbon neutrality by 2060, demonstrating its determination for its openness and commitment to building a community of shared future for mankind.

Hong Kong endured the longest and deepest recession in 2020. Its GDP fell by 6.1% while the unemployment rate jumped to the highest level within 16 years. The local consumption and investment activities were fragile due to the distancing measures and travelling restrictions. The number of visitors plummeted by 90%, blasting its travelling, hospitality, catering and retailing industries, and in turns triggered laid-offs. In the face of the shockwaves, HKSAR government rolled out 2 rounds of massive relief measures including the HKD81 billion worth "Employment Support Scheme" to effectively relieve the pressure of livelihood of citizens. In the financial market, despite an overall drop of 3.4% for Hang Seng Index in 2020, the transactions of Hong Kong shares were active. Thanks to the 2nd round of repatriation of IPOs from Chinese enterprises, the turnover of IPO deals peaked this year in the past decade with capitalization of over HKD47 trillion. Moreover, the exchange rate of Hong Kong dollar remained stable and capitals kept flowing into Hong Kong.

In a complicated situation like this, Haitong International stably navigated through undulating markets and seized at the opportunities as it always makes the hay while the sun shines, and eventually reached new highs in different business spheres. Adhering to its development direction to "diversify income streams, asset risks, product structures with professional talents invited on board", Haitong International strictly controlled its leverage ratio, broadened its income streams, and improved income quality with total assets maintained at a stable level to achieve a growth of income and profit while risks were mitigated and returns on asset were boosted significantly. Among the incomes, the fee-based income accounted for over 33% of the total income, becoming a strong driver for the Group's stable income.

In 2020, Haitong International entered into a fast-track for a number of business spheres and maintained its leadership in the sector. On the ECM front, the Group ranked no.1 among all financial institutions for the 3rd consecutive year in terms of no. of projects underwritten. Among which, the Group completed 13 sponsored deals, ranking no.2 in Hong Kong. Haitong International completed a total of 9 equity financing projects across the U.S., Singapore and India, particularly the sponsored IPO in India is the largest medical IPO in the national market's history, burnishing the brand of the Group in the South Asian market. Haitong International topped the list of Asia (ex-Japan) high yield bond league among financial institutions worldwide in terms of number of deals underwritten. For asset management, the AUM achieved a 9-fold increase over the past 8 years. For wealth management, the Group focused on building a veteran private banking crew and doubled its AUM of clients. Haitong International's research team was granted no. 1 for 18 categories and made into top 3 for 40 categories in AsiaMoney's poll during the year.

In the red-hot competition in the market, Haitong International always strikes a balance between profitability and integrity and pays high attention to its social responsibility. In 2020, Haitong International completed a total of 12 green bond deals amounting to over USD3 billion, becoming a green bond financing leader. Moreover, it launched Haitong MSCI China A Share ESG ETF, the first-ever ESG-themed A Share ETF project in the Hong Kong market. In addition, the company actively joined the China-UK Financial Institution Climate and Environmental Information Disclosure Pilot, becoming the only Chinese financial institution participant of the project. On 1st December 2020, Haitong International officially declared to achieve its goal of carbon neutrality by 2025, 35 years ahead of that of China, becoming the first Chinese financial institution to pledge for carbon neutrality. Given Haitong International's rosy performance in the ESG investment and sustainable finance spheres, it was granted the "Best ESG Award" in the "5th Annual Golden Hong Kong Stock Awards Ceremony".

Future Prospect

Looking ahead in 2021, the global economy will recover from a low base but it will be difficult for many economies to restore back to the activity level as that in 2019. The plague is still the biggest uncertainty for the global economy. The new U.S. president will bring out a jumbo size relief and stimulating measures to buoy economic resuscitation. However, aggressive fiscal and monetary policies heightens the risks of asset bubble. Once the creeping inflation comes back, the expectation of tightening monetary measures might buzz in the market that might in turn trigger a U-turn of crowded trade. To this end, a tumultuous market will be triggered.

For China, 2021 is the starting year for the "14th five year plan", its dual circulation strategy and the 40-year carbon neutrality plan. Shifting to its sustainable development of low carbon and environmental protection, China will build new infrastructure and hasten to remove its weakness by stepping up its research efforts and industrial upgrade. There is a great potentiality for high-tech and strategic emerging industries like big data, cloud calculation, AI, quantum information, integrated circuit, renewable energy, biomedical, high-end manufacturing, aerospace engineering. These will bring a wealth of investment and financing opportunities to investment banks and intermediary financial institutions.

With the coronavirus kept under the harness, Hong Kong's economy will pick up in 2021. Bullish factors like economic recovery, IPO repatriation and attractive stock valuation in Hong Kong will inject a dose of energy to Hong Kong. Relying on its cash-rich coffer and its efforts to seek new positioning, advantages and roles over past years including its ambition to make Hong Kong a super connector for the "Belt and Road Initiative", the green financial hub in Asia, the fin-tech center and ESG investment artery, it will succeed along with the opportunities given by the Guangdong-Hong Kong-Macao-Greater Bay Area and deep integration with Mainland China. All these will help buttress prosperity and stability of Hong Kong's economy and solidify its roles of international financial hub and asset management centre.

Looking forward, Haitong International will continue to keep risks under strict control, seize at the opportunities, head forward stably, train up quality talents, expand its businesses, innovate financial products, perfect the business models, strengthen internal control, optimize international networks, practice ESG investment and sustainable finance and step up our core competitiveness in 2021 with an aim to become an investment bank with international competitiveness, systemic importance and brand influence.

QU Qiuping
Chairman

Hong Kong, 24 March 2021

CREATE with Innovation

With the solid base of risk management infrastructures,
Haitong International is determined to promote transformation toward digitalization with application of fin-tech and pinpointing its efforts on creating new products, blazing new trails of businesses, forming new teams, fast-tracking changeover of products and establishing new models & global operating frameworks.

CEO's Review

LIN Yong *JP*
Deputy Chairman and CEO

The global economies and financial markets were struck hard by the coronavirus in 2020. In the face of this mayhem, Haitong International stayed calm and seized opportunities with determination to diversify its income streams, asset risks and product structures with talented professionals invited on board in furtherance of complementation, coordination and development of its informediary, trading and capital intermediary functions amidst market oscillations.

Throughout the year, Haitong International took an active initiative to cut down on its leverage ratio and size of high-risk assets while setting aside more provisions for contingency. In this way, it achieved stable and eye-catching growth of total income and net profit, showcasing fruitful results of its successful business transformation and upgrade with a boom in quality and efficiency. The outcomes also serve as solid bedrocks and pave the way for the less asset-heavy Group to go to the next level with endogenous development. With risks on a short leash and pinpointing its efforts on creating new products, blazing new trails of businesses, forming new teams, fast-tracking changeover of products and establishing new models & global operating frameworks, building a springboard for its next leapfrog and long-lasting growth.

Business Review and Analysis

In 2020, Haitong International achieved a 5-year record high total income of HK$8.33 billion and a net profit of HK$1.93 billion, representing a growth of 25% YoY. The stable results were backed by the Group's redefined asset structure and business focus, in particular the tremendous growth of the fee-based business producing an income of HK$2.865 billion, representing a growth of 25% over 2020 and accounting for 1/3 of the total income, making it a cornerstone for the Group's stably improving performance.

With its total assets remaining stable, Haitong International rationalised its assets and liabilities structure with interest bearing liabilities downsized by HK$19.7 billion, representing a decrease of 23% YoY. Leverage ratio shot down from 5.17 to 4.45, epitomizing the improvement of the Group's capital adequacy. The Group's return on shareholders' fund hit 7.09%, up 1.24% over the previous year. Despite the decreasing leverage ratio, higher profitability and return on shareholders fund were achieved by Haitong International.

1. Corporate Finance Business – a quantum leap forward

In 2020, Haitong International's investment banking team seized at the opportunities of repatriation trend of US-listed Chinese companies to Hong Kong and achieved HK$1.317 billion for its fee-based income during the year, representing a growth of 35% YoY, with underwriting and placement commission income reaching HK$1.114 billion, representing a growth of 43% YoY. The Group completed a total of 56 deals in the Hong Kong ECM market, ranking no.1 among all financial institutions in terms of no. of IPOs for the 3rd consecutive year. Moreover, the Group completed 13 sponsored deals (excluding listing by way of introduction), 5 of which were considered as among top 10 blockbuster IPOs in Hong Kong for the year (including the largest healthcare IPO in Asia so far, the largest property management IPO in Hong Kong so far and the largest third party data center IPO so far), ranking no.2 among all its peers in Hong Kong. Besides, Haitong International completed a total of 9 equity financing projects across the U.S., Singapore and India. Among which, the Indian IPO represented the largest medical listing project in India's history. All these hallmarks have burnished the brand of the Group in the South Asian market.

On the DCM front, Haitong International completed a total of 216 bond deals. In the China risk G3 (e.g. denominated in US$, JPY and EUR) + CNY bond markets, the Company ranked no.2 in terms of no. of projects underwritten, outrunning its financial peers worldwide. The Group topped the list of Asia (ex-Japan) G3 high yield bond league among financial institutions worldwide in terms of number of deals. In addition, Haitong International took an active part in promoting sustainable finance and lived up to its ESG philosophy by completing a total of 12 green bonds issuance with a collective size of over US$3 billion, representing a growth of 350%, demonstrating its leadership in investment banking ESG sphere among all Chinese financial institutions.

2. Institutional Clients: Multi-layered trading platform

Haitong International insists to craft a customer-oriented and all-encompassing trading platform for institutional clients worldwide. High-efficient trading services were therefore provided for clients through this platform with integrated sales network and a plethora of products & solutions.

During the year, Institutional Clients achieved an income of HK$2.2 billion. Turnovers of cash equities in the markets of Mainland China, Hong Kong, the U.S., Japan and India aggregated to over HK$500 billion, representing a growth of 66% YoY where the income amounted to HK$234 million, representing a growth of 71% YoY, hitting a historical high. As to derivatives, the Group issued a total of almost 3,000 warrants and CBBCs as at 2020 with a turnover up to over HK$460 billion, ranking no.4 in the Hong Kong market. The Group's research team also ranked no.1 for 18 categories and ranked within top 3 for 47 categories in Asiamoney Brokers polls, most of which were covering its performance in Asia, showcasing its leading research capability among investment banks in Asia.

3. Wealth Management: a focus on being a private wealth manager for enterprises

Private wealth management is a pièce de résistance business for the Haitong International brand. In 2020, Haitong International set up a veteran private wealth management crew. Building on its comprehensive strength in investment banking, trading, research and products, Haitong International can provide enterprise clients with a diversity of one stop financial services up to international standards. During the year, the brokerage commission income of wealth management stood at HK$582 million, representing a growth of 39% over 2019, among which securities trading commission income amounted to HK$404 million, representing a growth of 74% YoY, emerging as a new growth point for the Group. Besides entrenching fee-based business, the Group tapped into its financial planning business including family trust and wealth legacy consultancy and built a one-stop platform in its own right to meet enterprise clients' demands with its all-ranging offerings and solutions.

Meanwhile, Haitong International transformed challenges into opportunities despite the twists and turns brought by the pandemic. With its fintech lever applied to its wealth management business, the development of online trading platform was sped up, evidenced by over 80% of its orders of securities trading completed online.

4. Asset Management: Stronger investment and fundraising muscles with bigger AUM

Haitong International Asset Management never stops smartening up its investment and research teams in hopes of crafting a professional and management regime. Taking market environment and customer demands into account, Haitong International kept enriching its product structures and providing clients with global asset management solutions with great connectivity. During the year, the AUM under Haitong International Asset Management swelled by 14% to HK$60.8 billion, representing a ninefold growth over the past 8 years. An income of HK$371 million was achieved during the year, representing a growth of 20% YoY.

Haitong International seized at the market opportunities and deployed its strategy proactively with many of its funds delivering outstanding performance. To promote integration and development of the Greater Bay Area and to meet the overseas asset allocation demands by domestic clients, Haitong Asian High Yield Bond Fund was approved as a northbound mutual fund in Mainland-Hong Kong Mutual Recognition Fund (MRF). Soon after its launch, the fund was well sought after by the mainland investors with a growth of subscription by 17.6 times YoY. Haitong Global Diversification Fund under the Haitong International MPF Scheme registered an aggregated return of 84.8% over the past 5 years, ranking no. 1 among similar funds and being named as Hong Kong MPF – Global Equity- 3 Years- The Best Fund in the Lipper Fund Awards Hong Kong 2020. Moreover, Haitong International also provides overseas investors with solutions to participate in China's burgeoning growth. Haitong Global RMB Income Fund ranked no.4 among similar funds in terms of 5-year return. In October 2020, the Group issued Haitong MSCI China A share ESG ETF, the first China A share ESG product offering board investment ESG exposure in Hong Kong. Adhering to its "responsible investment" philosophy, Haitong International provides foreign investors with tools and conduits to access Chinese ESG investment. With outperforming products, Haitong International's asset management team honorably acquired the Best Chinese Offshore Fund Company 2020 from Asian Investor.

5. Full-fledging Global Operating System and Risk Management Regime

Haitong International's ever-improving comprehensive global operating capability relies on its central database management system backstopped by its extensive application of fintech and robotic technologies in its operations. On top of its informatization management, Hationg International keeps augmenting its digital and smart operating capabilities, serving as a booster for its business transformation.

The outbreak of coronavirus catalysed Haitong International's ascension of management in the ways of refinement and automation. Thanks to the maneuvering of the global smart operating system and central information system, over 70% of the Group's employees worldwide were teleworking during the extreme situation but the Group, with the aid of its operating, IT and risk management units, was able to complete deals, settlement, valuation and risk management tasks in multiple financial hubs across the globe with resilient presences.

In 2020, risk management was set as a top priority for Haitong International. Taking a "stable to prudent" risk appetite, Haitong International set up a multi-layered risk management structure. The Group forecasted the impacts brought by the virus coupled with the deteriorating economy, and performed a stress test with the use of its self-developed risk management models to keep its scale of assets and liabilities under active control, reduce its leverage ratio and refine its high-risk asset structure. Amidst the gloomy outlook for the global economy and market conditions, the Group acquired the BBB rating with a stable outlook from Standard and Poor's and the Baa2 rating from Moody's, with major risk indicators kept at the optimized level over the past 5 years.

6. Environmental, Social and Governance (ESG)

Haitong International has been keeping its ESG responsibilities and commitments to clients, shareholders, employees, community and the natural environment. In 2020, Haitong International set up an ESG committee and adopted its ESG philosophy into each part of the Group's operations.

In 2020, Haitong International issued Haitong International ESG Statement to pledge zero net carbon emission by the end of 2025 to the public, becoming the first Chinese financial institution to vow for carbon neutrality with definite schedule. Meanwhile, the Group will provide a total of US$20 billion to support ESG as well as sustainable financing and investment funds by 2025 to practice "impact investment" and "responsible investment". Recently, Haitong International was granted an A rating in MSCI ESG rating, setting a good example for Chinese financial institutions.

Haitong International has always been treasuring its employees as its core resource. In 2020, the Group shoved more resources to human capital to train up, incentivise and recruit professional talents. During the year, the Company kicked off the whole new "SAIL Programme" to groom future management to prepare ahead for the Company's development engine. In support of the HKSAR government's employment support calling, the Group also launched a "graduate intern" scheme and recruited over 50 interns to walk with Hong Kong in this difficult time. In 2020, Haitong International was named one of the "Best Employers to work for in Asia" and "Best Caring Company for the Year" by HR Asia.

For the details of the Group's ESG performance, please refer to the electronic version of the ESG Report published in conjunction with the Group's annual report.

Prospect

Looking ahead in 2021, it is expected the mass application of the vaccines to combat Covid-19 will bring a hope of global economic resuscitation. However, the recuperating economy will also usher in inflation and higher interest rates, bringing greater uncertainty to the financial markets. With the "14th five year plan" and its dual circulation strategy, China will step up efforts in transformation and upgrade with robust domestic demand and opening-up and reform. It is hopeful that China can become a recovery driver for the globe. Hong Kong, as a gateway to go global for China and an international financial hub in the Asia-Pacific market, possesses its unique role and strengths for the development of Guangdong-Hong Kong-Macao Greater Bay Area development and Belt and Road Initiative. Therefore, on one hand, it should cope with short-term challenges and on the other hand jump at the opportunities given by China's new strategies.

In the face of torrents of new climates and challenges, the Group will position its strategic business development with better income structure, restrained leverage size and stronger risk management capability to seek a more resilient commercial and profitability model amidst the highly volatile market conditions in the world. The Group is determined to promote transformation toward digitalization with application of fin-tech. The Group will also construct financial infrastructures in compliance with regulatory requirements of different jurisdictions and to meet cross-bordered operations to step up its proactive efforts on system development. Last but not least, the Group will pay more attention to employees' health and benefits with active participation in community development and harmony facilitation to live up to its ESG philosophy and shouldering greater social responsibilities.

In this once in a blue moon scenario, Haitong International will fully utilized its experience gained to stride on the path of higher stability and profitability, more healthy gearing ratio, stricter compliance and risk management and more professional crews by adhering to its core values of being "courageous, sincere and innovative" to create values for the community, employees, clients, shareholders and investors.

LIN Yong *JP*
Deputy Chairman and CEO

Hong Kong, 24 March 2021

Financial Review

Overview of Financial Performance

2020 was a year full of challenges. Economy was seriously disrupted by the outbreak and global spread of coronavirus with Hong Kong's GDP contracted by 6.1% as compared with 2019. Stock and bond indices plummeted during March to April 2020 with a strong rebound in the second half of 2020 as a result of monetary and fiscal intervention by governments globally, relaxation of lockdowns, and development of vaccines.

The Group delivered a resilient performance, despite of the volatile financial market, with a strong growth of commission and fee income. Haitong International Securities Group Limited (the "Company") and its subsidiaries (collectively referred as the "Group") achieved a net profit of HK$1,933 million, representing an increase of 25% over 2019. Profit before impairment charges and tax increased by 32% (or HK$802 million) and amounted to HK$3,287 million. With the strategic focus in expanding fee based businesses, commission and fee income increased by 25% (or HK$573 million), and amounted to HK$2,865 million.

Commission and fee income accounted for 34% of revenue, which is the highest in the past 5 years. In particular, underwriting and placing commission was HK$1,114 million, 43% (or HK$332 million) higher than that of 2019, once again sustaining the leading position of our investment banking business. Commission on brokerage amounted to HK$913 million, representing an increase of 39% (or HK$254 million), in which commission on securities dealing surged by 73% from HK$369 million in 2019 to HK$638 million in 2020, surpassing the overall market turnover growth. Commission income on securities dealing attributable to institutional clients segment and wealth management segment increased by 71% and 74%, respectively. Asset management fee and performance fee income also recorded a growth of 20% (or HK$62 million), amounted to HK$371 million.

As part of the rebalanced strategic focus and enhanced risk management, our lending activities had also been attentively focused on high quality margin financing, resulting with advances to customers decreased by 21% (31 December 2020: HK$16.2 billion; 31 December 2019: HK$20.6 billion) as compared between two year-ends while margin loan balance remained stable (31 December 2020: HK$12.3 billion; 31 December 2019: HK$12.6 billion). Correspondingly, interest income recorded a decrease of 16% (or HK$477 million) and amounted to HK$2,465 million.

Net trading and investment income amounted to HK$3,001 million and remained at a similar level as that of 2019 (2019: HK$3,010 million). Net trading income on fixed income, currency and commodities, and equity derivatives decreased by 55% (or HK$701 million) to HK$569 million in 2020 while net investment gain on financial assets increased by 88% (or HK$853 million) to HK$1,825 million in 2020. The plunge in net trading income on fixed income, currency and commodities, and equity derivatives was a corresponding result of downsized trading fixed income portfolio during 2020. Investment returns on financial assets held by the Group (mainly consisted of investment funds, fund-of-funds, private equity funds and private equity investments, and listed equities) recorded a gain of HK$1,825 million in 2020, yielding an overall investment return of close to 10%.

The Group's total costs for the year were HK$4,946 million, decreased by 14% (or HK$774 million) from 2019. Finance costs significantly reduced by 31% (or HK$985 million) to HK$2,145 million, contributed by the lessened funding needs as seen from the decrease of interest bearing liabilities coupled with lower funding costs. Staff costs amounted to HK$1,565 million, representing 13% (or HK$184 million) increase year-on-year, reflecting the Group's commitment in recruiting and nourishing talented professionals to expand and sustain the core of fee based businesses. Meanwhile, the Group achieved a cost to income ratio at 59%, being the lowest in the past 3 years.

Net impairment charges in 2020 was HK$986 million, increased by 55% from HK$634 million in 2019, driven by a full impairment provision of HK$434 million on a syndicated loan that the Group participated and a margin loan impairment where the pledged shares were delisted during the year.

As a result of expanding fee based businesses, while reducing reliance on advances to customers and investment portfolios, total assets as at 31 December 2020 amounted to HK$146.4 billion, decreased by HK$9.8 billion, or 6% from HK$156.3 billion as at 31 December 2019. Net assets (which are also shareholders' equity) amounted to HK$28.3 billion as at 31 December 2020 (31 December 2019: HK$27.0 billion). Net assets per share as at 31 December 2020 was HK$4.69, representing an increase of 3% from HK$4.55 as at 31 December 2019. Annualised return on shareholders' funds (calculated by net profit divided by weighted average shareholders' equity) was 7.09% for the year ended 31 December 2020, higher than the 5.85% for the year ended 31 December 2019.

Revenue

Revenue of the Group for the year ended 31 December 2020 was HK$8,330 million (2019: HK$8,244 million). Details of the major revenue streams and the respective proportion to total revenue are set out below:

	2020 HK$'000	%	2019 HK$'000	%
Commission and fee income	2,864,575	34	2,291,922	28
Interest income	2,464,585	30	2,941,593	36
Net trading and investment income	3,000,587	36	3,010,459	36
	8,329,747	100	8,243,974	100

Commission and fee income

Commission and fee income amounted to HK$2,865 million, increased by 25% (or HK$573 million). Breakdown of commission and fee income is as below:

	2020 HK$'000	2019 HK$'000	+/-%
Commission on brokerage	913,265	659,296	+39
Commission on underwriting and placing	1,114,145	781,741	+43
Asset management fee and performance fee income	370,651	309,115	+20
Financial advisory and consultancy fee income	202,920	192,820	+5
Handling, custodian and service fee income	263,594	348,950	-24
	2,864,575	2,291,922	+25

Commission on brokerage includes commission income from dealing in securities, futures and over-the-counter products (mainly bonds and financial products). Commission on securities dealing was the highest contributor at HK$638 million, representing an increase of 73% from 2019. Commission on securities dealing attributable from wealth management segment and Institutional clients segment amounted to HK$404 million and HK$234 million, and increased by 74% and 71% year-on-year, respectively. The Group's commission rates remained stable between both years.

Underwriting and placing commission increased by 43% (or HK$332 million), amounted to HK$1,114 million. During the year, the Group once again ranked number 1 among all financial institutions in terms of number of IPOs in Hong Kong, and completed a number of blockbuster IPOs. In respect of debt capital markets, the Group topped the list of the Asia (ex-Japan) G3 high yield bond league among financial institutions worldwide in terms of number of deals. Further details on underwriting and placing commission are stated in the analysis of segment revenue of corporate finance segment below.

Asset management and performance fee increased by 20% (or HK$62 million) and amounted to HK$371 million, which was mainly due to the increase in management fees from the launch of new investment funds. Asset under management ("AUM") as at 31 December 2020 amounted to HK$60.8 billion, increased by 14% from HK$53.5 billion as at 31 December 2019.

Interest income

Interest income decreased by 16% (or HK$477 million) and amounted to HK$2,465 million. Interest income for the year was composed of mainly interest income from margin loans (2020: HK$1,023 million; 2019: HK$1,176 million) and interest income from investment securities (2020: HK$764 million; 2019: HK$766 million). Lowered market interest rates and decrease in the Group's interest bearing assets contributed to the decrease in interest income. Advances to customers as at 31 December 2020 amounted to HK$16.2 billion, decreased by 21% from HK$20.6 billion as at 31 December 2019. Consequently, interest income from advances to customers decreased by 21% (or HK$376 million). As part of the strategic focus of the Group in expanding fee based businesses, the Group expects the interest bearing assets to be further reduced in the coming financial year.

Net trading and investment income

Net trading and investment income amounted to HK$3,001 million, remained at the same level as that of 2019. Breakdown of net trading and investment income is as below:

	2020 **HK$'000**	2019 HK$'000	+/-%
Net trading income on fixed income, currency and commodities, and equity derivatives	569,381	1,269,930	-55
Net trading income on financial products	606,153	768,681	-21
Net investment gain on financial assets/liabilities at FVTPL	1,825,053	971,848	+88
	3,000,587	3,010,459	–

Net trading income on fixed income, currency and commodities, and equity derivatives decreased by 55% (or HK$701 million), which was consequential from the decrease in financial assets held for trading and market making activities (31 December 2020: HK$10.6 billion; 31 December 2019: HK$28.5 billion). Further details are stated in the analysis of total assets below.

Net investment gain on financial assets increased by 88% (or HK$853 million), which was attributable to returns from investments including investment funds, fund-of-funds, private equity funds and private equity investments, and listed equities. The rate of return of these investments ranged from 7% to 19%. Further details are stated in the analysis of segment revenue of investment segment below.

Total Costs

Total costs for 2020 amounted to HK$4,946 million, representing a decrease of 14% (or HK$774 million) from 2019. The table below presents total costs by major items:

	2020 HK$'000	2019 HK$'000	+/-%
Staff costs	1,564,995	1,380,918	+13
Commission expenses	257,958	179,351	+44
Finance costs	2,144,511	3,129,773	-31
Operating expenses:			
– Amortisation and depreciation	252,091	225,566	+12
– Information technology related expenses	234,060	224,249	+4
– Other operating expenses	492,114	580,190	-15
Total costs	4,945,729	5,720,047	-14

Staff costs saw an increase of 13% (or HK$184 million), which was attributable to the increase in number of staff (31 December 2020: 1,355; 31 December 2019: 1,228) with the recruitment of talents and professionals, in particular for expansion of the fee based businesses of corporate finance and wealth management businesses.

Commission expenses saw an increase of 44% (or HK$79 million) due to the increase in brokerage turnover. However, due to restructuring of the remuneration scheme to salespersons so as to align with industry practice, with a shift from commission expenses to fixed salary and incentives, the magnitude of increase was less than that in commission on securities dealing.

Finance costs saw a decrease of 31% (or HK$985 million), which was mainly contributed by decrease in average interest bearing liabilities (interest bearing liabilities as at 31 December 2020 amounted to HK$65.0 billion, decreased by 23% from HK$84.7 billion as at 31 December 2019), and reduction in funding costs. 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. In addition, the Group has issued a US dollar bond in July 2020 with an interest rate of 2.125% to replenish the US dollar bond issued in 2015 that carried an interest rate of 4.2%. Decrease in market interest rates also contributed to the decrease in finance costs.

Amortisation and depreciation saw an increase of 12% (or HK$27 million), which was mainly due to a full year depreciation impact of right-to-use assets on the office leases entered in the second half of 2019, and a transfer of investment property (measured at fair value) to property and equipment (measured at cost less depreciation) during the year.

Information technology related expenses increased as a result of continuous commitment to invest in information technology to further strengthen the Group's data management, digitisation and operational efficiency.

Other operating expenses decreased due to the Group's continued focus in enhancing operational efficiencies and also reduced spending in business travelling due to the coronavirus pandemic; which was partially offset by increased marketing and promotion expenses to sustain the Group's presence in the market and higher settlement costs due to increase in turnover.

Impairment Charges

Impairment charges consisted of provision for credit losses on advances to customers, investment securities measured at amortised costs, and accounts receivables and others under the impairment framework and methodology established by the Group in accordance to HKFRS 9 "Financial Instruments".

The table below presents the impairment charges by assets types:

	2020 **HK$'000**	2019 HK$'000	+/-%
Advances to customers			
– margin financing	331,816	532,277	-38
– merger and acquisition financing	148,618	35,037	+>100
– secured financing	474,243	50,198	+>100
Investment securities at amortised cost	20,909	1,079	+>100
Accounts receivables and others	10,529	15,898	-34
	986,115	634,489	+55

Impairment charges on margin financing saw a decrease of 38% (or HK$200 million) due to provision of HK$262 million made in 2019 on a margin loan as the associated pledged stock was suspended for trading and under a debt restructuring process. The pledged stock was delisted during the current year, resulting a further impairment provision at a lesser amount of HK$149 million made to the same margin loan in 2020. Other impairment provisions for both years relate to a number of margin loans where the relevant pledged stocks were suspended for trading. The Group adopts a prudent provisioning policy in respect of these margin loans and on average accumulated impairment percentages of over 80% were recognised on each of these margin loans.

Impairment charges on merger and acquisition financing amounted to HK$149 million, which was mainly due to impairment on an advance to a company listed in the PRC and Hong Kong for an overseas acquisition. The loan was matured with no repayment as at 31 December 2020. Impairment provision was made on the net exposure of the outstanding loan balance in excess of the expected recoverable amount from enforcement proceedings in the PRC.

Impairment charges on secured financing amounted to HK$474 million, of which HK$434 million related to a syndicated loan that the Group participated. Collaterals of this syndicated loan 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, which was subsequently disposed to an independent third party at a discount, resulting in the recognition of a final accumulated impairment provision of HK$436 million.

The Group maintains a prudent and transparent impairment provisioning policy, aiming at recognising impairment provision on risk assets in the most cautious way and prior to substantial credit deterioration of these assets. The Group remains vigilant and will continue to monitor the credit assets with different tools including stress testing with internally developed risk models, regular reviews and close monitoring of market conditions.

Analysis by Business Segments

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

Segment revenue

	2020 HK$'000	%	2019 HK$'000	%
Wealth management	1,994,069	24	2,087,919	25
Corporate finance	1,918,679	23	1,528,058	19
Asset management	370,651	4	309,115	4
Institutional clients	2,201,915	27	3,329,468	40
Investment	1,844,433	22	989,414	12
	8,329,747	100	8,243,974	100

Segment profit before tax

	2020 HK$'000	%	Segment margin	2019 HK$'000	%	Segment margin
Wealth management	575,891	25	29%	371,869	20	18%
Corporate finance	920,673	40	48%	748,337	40	49%
Asset management	163,542	7	44%	127,420	7	41%
Institutional clients	13,388	1	1%	485,715	26	15%
Investment	627,098	27	36%	117,288	7	12%
	2,300,592	100	28%	1,850,629	100	23%

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

Wealth Management Segment

Wealth management segment provides financial advisory services and customized investment solutions to satisfy the specific financial needs of high net worth clients. This segment offers a broad range of products and services including securities, futures and options contracts, over-the-counter products, funds, securities custodian services, and securities margin financing.

Analysis of Results

	2020 HK$'000	2019 HK$'000	+/-%
Commission and fee income	714,296	614,542	+16
Interest income	1,279,773	1,473,377	-13
Segment revenue	1,994,069	2,087,919	-4
Other income and gains or losses	15,319	(8,526)	N/A
	2,009,388	2,079,393	-3
Segment expenses	(1,052,848)	(1,149,740)	-8
Profit before impairment charges and tax	956,540	929,653	+3
Impairment charges, net of reversal	(380,649)	(557,784)	-32
Segment profit before tax	575,891	371,869	+55
Segment margin (%)	29	18	+11

Segment revenue

Commission and fee income of this segment composes of commission on brokerage, and handling, custodian and service fee income. Commission on brokerage increased by 39%, of which commission on securities dealing increased by 74% (or HK$172 million) and amounted to HK$404 million, outperforming the increase in average daily turnover of Hong Kong stock market. Increase in commission on securities dealing was contributed by both increase in market turnover and swelling AUM. Increase in commission on brokerage was partly offset by decrease in handling, custodian and service fee, which was due to decrease in arrangement fee charged to customers on financing solutions provided.

Interest income includes interest income from margin financing and bank deposits on client money. Interest income from margin financing amounted to HK$1,023 million, representing a 13% (or HK$153 million) decrease, contributed by the drop in average margin loan balance. Margin loan balance decreased from HK$16 billion as at 31 December 2018 to HK$12.6 billion as at 31 December 2019, and remained stable throughout the financial year resulting with a balance of HK$12.3 billion as at 31 December 2020. Interest income from bank deposits and others amounted to HK$201 million, representing a 42% (or HK$144 million) decrease as a result of the low market interest rates.

Segment expenses and impairment charges

Decrease in segment expenses was due to lower finance costs borne by this segment as a result of reduced average margin loan size and market interest rates. Finance costs of this segment decreased by 35% (or HK$173 million) and amounted to HK$319 million. Decrease in finance costs of this segment is aligned with the overall movement of the Group's finance costs.

Impairment charges recognised in this segment decreased by 32%, with reasons as detailed in impairment charges section above.

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 financial advisory service for corporate actions such as mergers and acquisitions. In addition, this segment provides financing solutions to corporate clients and distributes these financing assets in the secondary market.

Analysis of Results

	2020 HK$'000	2019 HK$'000	+/-%
Commission and fee income	1,317,065	974,561	+35
Interest income	601,614	553,497	+9
Segment revenue	1,918,679	1,528,058	+26
Other income and gains or losses	2,811	3,554	-21
	1,921,490	1,531,612	+25
Segment expenses	(823,112)	(739,447)	+11
Profit before impairment charges and tax	1,098,378	792,165	+39
Impairment charges, net of reversal	(177,705)	(43,828)	+>100
Segment profit before tax	920,673	748,337	+23
Segment margin (%)	48	49	-1

Segment revenue

Commission and fee income from this segment consists of underwriting and placing commission, financial advisory and sponsor fees. Breakdown of commission and fee income is as below:

	2020 HK$'000	2019 HK$'000	+/-%
Underwriting and placing commission			
– Debt capital markets	484,319	549,780	-12
– Equity capital markets	629,826	231,961	+>100
Financial advisory and consultancy fee income	202,920	192,820	+5
	1,317,065	974,561	+35

Underwriting and placing commission from equity capital markets in 2020 was more than doubled from that of 2019. During the year, the Group ranked number 2 in terms of the number of Hong Kong IPO sponsor. In particular, the number of IPO sponsored deals (excluding listing by way of introduction) increased to 13 in 2020 from 6 in 2019, and completed several blockbuster IPOs. The Group also completed its first IPO sponsoring project in India, demonstrating the Group's capability in executing capital markets projects in other financial centres.

Underwriting and placing commission from debt capital markets remained stable. The Group topped the list of Asia (ex-Japan) G3 high yield bond league among financial institutions worldwide in terms of number of deals. In addition, as part of the Group's ESG commitment, 12 "Green Bonds" issuance were completed during the year, which also contributed to the underwriting commission.

Financial advisory and consultancy fee income increased by 5%, attributable to the establishment of the Loan Capital Markets team, which provides financing solutions to corporate clients and distributes these financing assets in the secondary market. The fee income generated from this new business standalone amounted to HK$33 million.

Interest income of this segment increased by 9%, driven by financing solutions offered to corporate clients for merger and acquisition projects.

Segment expenses and impairment charges

Increase in segment expenses was due to recruitment of professionals in support of expanding its fee income streams and slightly higher finance costs (2020: HK$255 million; 2019: HK$229 million).

Impairment charges recognised in this segment in relation to merger and acquisition financing increased with reasons as detailed in impairment charges section above.

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

	2020 **HK$'000**	2019 HK$'000	+/-%
Commission and fee income	370,651	309,115	+20
Segment expenses	(207,109)	(181,695)	+14
Segment profit before tax	163,542	127,420	+28
Segment margin (%)	44	41	+3

Segment revenue

Segment revenue composes of asset management fee and performance fee. Increase in segment revenue was attributable to the launch of new investment funds during the year, including Haitong Select China Offshore Real Estate Bond Fund and the first Hong Kong ESG ETF - Haitong MSCI China A ESG ETF. Asset Management's AUM as at 31 December 2020 amounted to HK$60.8 billion, representing a 14% increase as compared with the HK$53.5 billion as at 31 December 2019.

Segment expenses

Segment expenses were HK$207 million, 14% higher than that of 2019, due to higher staff costs and distribution fee expenses.

Institutional Clients Segment

Institutional clients segment serves institutional clients globally through sales and trading of both equity and fixed income products, financing, structuring products, offering risk management solutions and providing research advisory. It is also an active player in equity derivative products creation and trading. This segment is supported by the award winning equity research team that specialises in listed equities in Asian financial markets.

Analysis of Results

	2020 HK$'000	2019 HK$'000	+/-%
Commission and fee income	462,563	393,704	+17
Interest income	563,818	897,153	-37
Net trading income:			
– Net trading income on fixed income, currency and commodities, and equity derivatives	569,381	1,269,930	-55
– Net trading income on financial products	606,153	768,681	-21
Segment revenue	2,201,915	3,329,468	-34
Other income and gains or losses	2,332	1,145	+>100
	2,204,247	3,330,613	-34
Segment expenses	(1,763,098)	(2,809,748)	-37
Profit before impairment charges and tax	441,149	520,865	-15
Impairment charges, net of reversal	(427,761)	(35,150)	+>100
Segment profit before tax	13,388	485,715	-97
Segment margin (%)	1	15	-14

Segment revenue

Commission and fee income of this segment consists of commission on brokerage, and handling and service fee income. Commission on brokerage increased to HK$331 million in 2020 from HK$242 million in 2019, of which commission on securities dealing increased to HK$234 million in 2020 from HK$137 million in 2019. This segment also saw an increase in overall turnover and its market share in Hong Kong. Commission rates remained stable between both years. During the year, both number of equities and market capitalisation covered by the research team doubled. Equity sales and trading team and research team together achieved higher brokerage commission. The growth in this segment's securities lending business also contributed towards the higher commission and fee income.

Interest income is generated from financing solutions to clients, which decreased during the year, yet this was partly offset by the interest income from reverse repurchase agreements that amounted to HK$109 million in 2020. As a whole, interest income from this segment amounted to HK$564 million, decreased by 37% year-on-year.

Net trading income on fixed income, currency and commodities, and equity derivatives decreased by 55% (or HK$701 million) year-on-year. The decrease reflected the downsized fixed income portfolio. During the year, the Group proactively managed and de-leveraged its fixed income portfolio, resulting to a decrease of financial assets held for trading and market making activities to HK$10.6 billion as at 31 December 2020 from HK$28.5 billion as at 31 December 2019.

Net trading income on financial products decreased by 21% (or HK$163 million) year-on-year, which was due to the decrease in notional amounts of financial products issued.

Segment expenses and impairment charges

Decrease in segment expenses was mainly driven by the lower finance costs while other segment expenses remained stable. Finance costs (including its finance costs on repurchase agreements) decreased by 56% year-on-year. Repurchase agreements on fixed income securities decreased substantially to HK$4.3 billion as at 31 December 2020 from HK$24.8 billion as at 31 December 2019 due to the de-leveraging of fixed income portfolio; partly offset by the increase in repurchase agreement on equity securities (31 December 2020: HK$4.8 billion; 31 December 2019: HK$1.6 billion).

Impairment charges were mainly contributed by an impairment provision of HK$434 million on a syndicated loan (classified as secured financing) that the Group participated, with reasons as detailed in impairment charges section above.

Investment Segment

Investment segment invests in various financial instruments, primarily on listed equities, investment funds and private equity investments, to explore investment opportunities with reasonable returns.

Analysis of Results

	2020 **HK$'000**	2019 HK$'000	+/-%
Interest income	19,380	17,566	+10
Net investment gain on financial assets/liabilities at fair value through profit or loss	1,825,053	971,848	+88
Segment revenue	1,844,433	989,414	+86
Other income and gains or losses (note)	(117,773)	(34,982)	N/A
	1,726,660	954,432	+81
Segment expenses	(1,099,562)	(839,417)	+31
Profit before impairment charges and tax	627,098	115,015	+>100
Impairment charges, net of reversal	–	2,273	-100
Segment profit before tax	627,098	117,288	+>100
Segment margin (%)	36	12	+24

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 26 of the consolidated financial statements.

Segment revenue

Revenue of this segment composes of investment gains and losses from investment securities held by this segment measured at fair value through profit or loss, including investment funds, fund-of-funds, private equity funds and private equity investments, and listed equities.

The Group's investments have benefited from the bullish markets in bonds and equities during the second half of 2020, resulting in a sound performance for the year.

The Group's private equity funds and private equity investments focus on industries such as medical and healthcare, education, consumer and TMT. Investment gains include realised gains from project disposals, dividend distribution and fair value movements.

Segment expenses

Segment expenses increased 31% (or HK$260 million), which was mainly due to the increase in finance costs to HK$823 million in 2020 from HK$700 million in 2019.

Assets and Liabilities

	31 December 2020 HK$'000	31 December 2019 HK$'000	+/-%
Total Assets	**146,442,516**	156,274,502	-6
Total Liabilities	**118,125,347**	129,243,921	-9
Net Assets	**28,317,169**	27,030,581	+5

Assets

Total assets decreased by 6% (or HK$9.8 billion) as compared with 2019 year-end, to HK$146.4 billion, with the Group's strategy in expanding fee based businesses to achieve a sustainable revenue source and profit growth with reduced reliance in revenue from substantial asset portfolio. Decrease was mainly due to downsized advances to customers and financial assets held for trading and market making activities, while partly offset by increase in investment securities. Assets acquired for financial products issued remained stable during the year.

Advances to customers (net of impairment charges) was HK$16.2 billion, representing a 21% (or HK$4.4 billion) decrease compared to 2019 year-end. During the year, the Group focused on maintaining a stable margin loan portfolio and actively minimised credit exposures in other types of financing. Margin financing remained at similar level as at year-end of 2020 and 2019 (31 December 2020: HK$12.3 billion; 31 December 2019: HK$12.6 billion) while other types of financing (merger and acquisition financing and secured financing) reduced by 51% (31 December 2020: HK$3.9 billion; 31 December 2019: HK$8.0 billion).

Financial assets held for trading and market making activities was HK$10.6 billion, representing a 63% decrease as compared with HK$28.5 billion as at 31 December 2019 and a further decrease of HK$1.9 billion as compared with the balance of HK$12.5 billion as at 30 June 2020. Financial assets held for trading and market making activities include mainly fixed income securities. With the sound risk management system and advance alert from our prediction model, the Group proactively managed and de-leveraged its fixed income portfolio, and redeployed resources in other asset classes.

Investment securities (measured at fair value and at amortised costs) amounted to HK$46.8 billion, increased from HK$37.6 billion as at 31 December 2019, as a result of redeployment of resources from fixed income portfolio. These resources were redeployed to investments that aim to generate stable returns, which included some highly liquid investments of HK$9.4 billion being preferred class of several investments funds carrying a fixed rate of return. The Group has been actively managing and maintaining an overall stable investment portfolio.

Liabilities

Total liabilities decreased by 9% (or HK$11.1 billion) as compared with 2019 year-end, to HK$118.1 billion as at 2020 year-end. Decrease in total liabilities was mainly due to decrease in interest bearing liabilities (including repurchase agreements, bank borrowings, and debt securities issued). Interest bearing liabilities as at 31 December 2020 amounted to HK$65.0 billion, decreased by 23% from HK$84.7 billion as at 31 December 2019, while this was partly offset by increase in accounts payable and liabilities arising from consolidation of investment funds.

With the swelling AUM, cash held on behalf of customers saw an increase (31 December 2020: HK$19.6 billion; 31 December 2019: HK$15.1 billion), and correspondingly accounts payable to clients also increased. Liabilities arising from consolidation of investment funds is an accounting technical adjustment in recognising interest held by third-party unit/shareholders in investment funds that were consolidated into the Group’s financial statements. Such amount increased to HK$5.1 billion as at 31 December 2020 from HK$421 million as at 31 December 2019 due to the consolidation of an investment fund that the Group held 69% interest as at 31 December 2020.

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 to 4.45 times as at 31 December 2020 from 5.17 times as at 31 December 2019.

Capital Structure and Regulatory Capital

	31 December 2020 HK$’000	31 December 2019 HK$’000	+/-%
Issued share capital	**603,603**	594,058	+2
Number of issued shares	**6,036,035,086**	5,940,583,872	+2

As at 31 December 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).

Increase in issued share capital during the current year 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 year are disclosed in note 35 of the consolidated financial statements.

The Group has a number of regulated entities that are subject to the 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. All these regulated entities complied with the applicable regulatory capital requirements. In addition, as part of the regulatory capital contingency planning, the Group revisits regulatory capital of these regulated entities regularly to ensure the regulatory capital 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.

Income Tax Expense

	2020 HK$'000	2019 HK$'000	+/-%
Income tax expense	367,715	299,771	+23
Effective tax rate (%)	16.0	16.2	-0.2

Income tax expense increased due to the increase in profit before tax while effective tax rate remained stable, and was close to Hong Kong statutory profits tax rate of 16.5%.

The Company is an investment holding company and its business activities are conducted through a number of subsidiaries in Hong Kong and overseas. The Group has adopted a Hong Kong transfer pricing policy and a cross border transfer pricing policy in accordance with the Organization for Economic Cooperation and Development Transfer Pricing Guidelines for Multinational Enterprises and Tax Administrations. Different methodologies are applied for different types of transactions. The adoption and implementation of these transfer pricing policies aims at minimising tax exposure and ensuring compliance with the transfer pricing regulations promulgated by the government of various jurisdictions.

Impact on New 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 did not result in material impact to the Group's financial positions. Further details of the principal accounting policies are detailed in note 2 and note 3 of the consolidated financial statements.

Dividend Policy

Objective

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

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

Principles

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

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

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

(c) the level of the Group's gearing ratio, return on shareholders' equity, and relevant financial covenants;

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

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

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

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

Ways of Declaring and Distributing Dividend

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

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

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

Review on the Policy

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

Treasury Policies

The Group manages liquidity and cash through diversified sources of funding, including business generated cash flows, bank borrowings, and funding raised from the capital markets. The Group regularly monitors and optimises assets and liabilities to ensure the maturities, scales, and composition of financial assets and liabilities are well fitted to the Group's strategic focus and risk management.

Long term banking relationships with numerous commercial banks are well maintained to ensure sufficient banking facilities are in place to support the Group's funding needs. These banking facilities are mostly renewable annually and on floating interest rates basis. Subject to market conditions, the Group also taps on capital markets in various currencies. In 2020, the Group successfully renewed US$5 billion Medium Term Note Programme and made drawdowns of HK$925 million and US$929 million during the year, with majority of these at fixed interest rates.

The Group's risk management strategies require actively managing a firm level liquidity base and interest rate profile by obtaining funding from diversified term structures and sources. Numerous liquidity stress tests with supervisory indicators are established and performed regularly to envision the Group's liquidity adequacy under different stress scenarios and conditions. The Group also actively monitors its foreign currencies position, hedging the net exposures with FX derivatives when necessary.

Liquidity and Financial Resources

The financial position of the Group has remained sound and healthy with overall liquidity being maintained at a relatively secured level throughout the year.

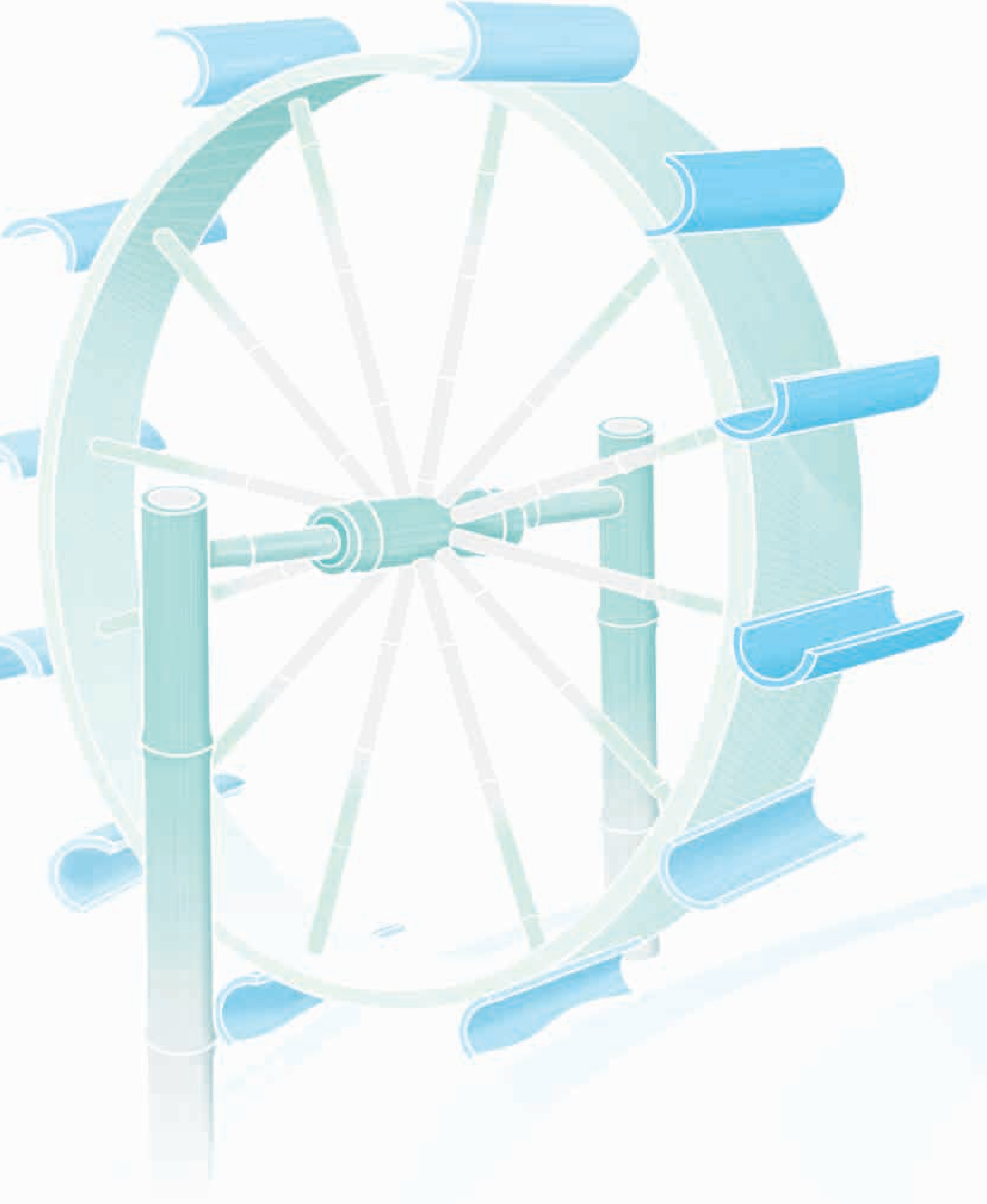
As of 31 December 2020, the Group's cash and cash equivalent amounted to HK$4,335 million. To ensure the Group's capability to finance recurring working capital requirements and meet funding needs as they arise, the Group maintained un-utilised banking facilities of HK$29,133 million as at 31 December 2020 and adequate issuance limit in the Medium Term Note Programme.

Human Resources Policy

As at 31 December 2020, the Group employed a total of 1,355 (31 December 2019: 1,228) permanent employees.

The Group will determine the remuneration of employees based on various factors, including the nature of job, market data, employee's experiences, qualifications, and capabilities. The Group's remuneration framework has a strong linkage between pay and performance. Base salary and discretionary incentive and bonus will be reviewed on an annual basis by making references to market, business results, and the employee's performance and fulfillment of compliance requirements. Annual reviews are conducted aiming to reward employees for their contributions over the year, and to retain and inspire talented and experienced employees to continue in creating values for the Group. Also, share awards are granted to employees in recognising their contributions to the Group. Other benefits offered by the Group include employer voluntary contributions to mandatory provident fund scheme, various Group insurance schemes, and medical check-up plans.

The Group views the employees as an invaluable asset and is committed to offer a continuous learning and developing environment. The Group 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; financial assistance provision to acquire professional qualification; promoting our "Sail Program" to develop high performing staffs at mid-management level; and offering various compliance training courses. The Group's International Management Trainee Development Program is instrumental to fuel the appetite of talent needs in supporting the sustainable growth of businesses not only locally but globally.



POWERED by Integrity

> In 2020, Haitong International published its first ESG Statement to pledge for carbon neutrality by the end of 2025, becoming the first HK financial firm to make a public vow for carbon neutrality, 25 years ahead of the city's target.

Corporate Governance Report

Corporate Governance Practices

The board of directors of the Company (the "Board") is committed to maintaining a high standard of corporate governance practices within the Group. Throughout the year ended 31 December 2020, the Company has fully complied with the code provisions set out in the Corporate Governance Code (the "CG Code") as contained in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

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

Corporate Governance Structure

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

The following table shows the attendance of each director of the Company (the "Director(s)") and members of the respective Board Committees at the Board and the respective Board Committee meetings and general meetings held during the year ended 31 December 2020:

	Attendance/number of meetings held							
Name of members of the Board/ the respective Board Committees	Board meeting	Audit Committee meeting	Executive Committee meeting	Nomination Committee meeting	Remuneration Committee meeting	Risk Committee meeting	Strategic Development Committee meeting	General meeting
The Board								
Chairman and Non-executive Director								
QU Qiuping	4/4	n/a	n/a	1/1	1/1	n/a	1/1	1/1
Deputy Chairman, Chief Executive Officer and Executive Director								
LIN Yong	4/4	n/a	15/15	n/a	n/a	n/a	1/1	1/1
Deputy Chairman and Executive Director								
LI Jianguo	4/4	n/a	n/a	n/a	n/a	n/a	1/1	1/1
Executive Director								
POON Mo Yiu	4/4	n/a	15/15	n/a	n/a	n/a	n/a	1/1
SUN Jianfeng	4/4	n/a	15/15	n/a	n/a	n/a	n/a	1/1
SUN Tong	4/4	n/a	15/15	n/a	n/a	n/a	n/a	1/1
Non-executive Directors								
CHENG Chi Ming Brian	4/4	n/a	n/a	n/a	1/1	n/a	1/1	1/1
WANG Meijuan *(retired on 29 May 2020)*	1/1	1/1	n/a	n/a	n/a	1/1	n/a	1/1
ZHANG Xinjun	4/4	2/2	n/a	n/a	n/a	n/a	1/1	1/1
William CHAN	4/4	n/a	n/a	n/a	n/a	2/2	1/1	1/1
Independent Non-executive Directors								
TSUI Hing Chuen William	4/4	2/2	n/a	1/1	1/1	n/a	n/a	1/1
LAU Wai Piu	4/4	2/2	n/a	1/1	1/1	2/2	n/a	1/1
WEI Kuo-chiang	4/4	n/a	n/a	n/a	1/1	2/2	n/a	1/1
WAN Kam To	4/4	2/2	n/a	n/a	n/a	n/a	n/a	1/1
LIU Yan	4/4	n/a	n/a	1/1	n/a	n/a	n/a	1/1
Other Executive Committee Members								
SHI Ping	n/a	n/a	15/15	n/a	n/a	n/a	n/a	n/a
JI Qingyu	n/a	n/a	15/15	n/a	n/a	n/a	n/a	n/a
DU Jinsong	n/a	n/a	15/15	n/a	n/a	n/a	n/a	n/a
CHEN Xuan	n/a	n/a	15/15	n/a	n/a	n/a	n/a	n/a
HUANG Zeng	n/a	n/a	10/10	n/a	n/a	n/a	n/a	n/a
KONG Weipeng	n/a	n/a	5/5	n/a	n/a	n/a	n/a	n/a
Average attendance :	100%	100%	100%	100%	100%	100%	100%	100%

The Board

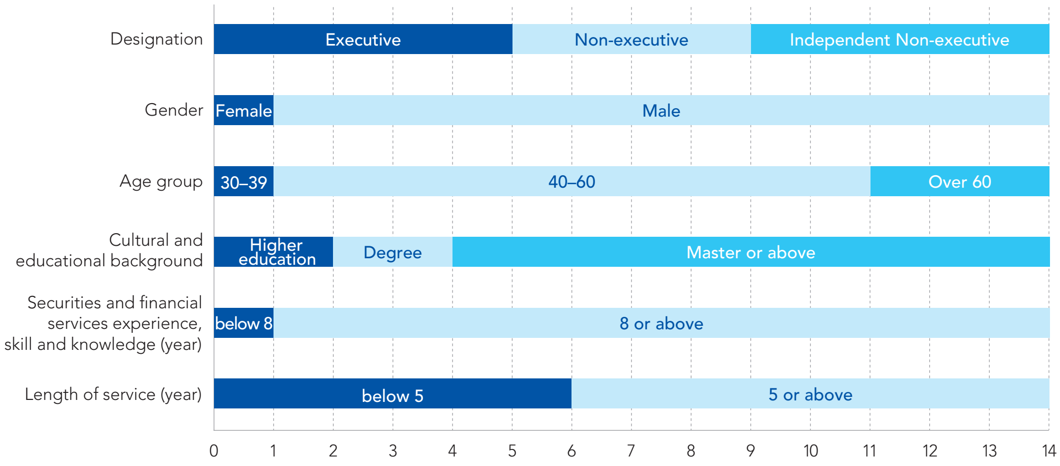
Composition

The Board currently comprises a total of 14 Directors, with 5 executive Directors, namely Mr. LIN Yong (Deputy Chairman and Chief Executive Officer), Mr. LI Jianguo (Deputy Chairman), Mr. POON Mo Yiu, Mr. SUN Jianfeng and Mr. SUN Tong; 4 non-executive Directors, namely Mr. QU Qiuping (Chairman), Mr. CHENG Chi Ming Brian, Mr. ZHANG Xinjun and Mr. William CHAN; and 5 independent non-executive Directors, namely Mr. TSUI Hing Chuen William, Mr. LAU Wai Piu, Mr. WEI Kuo-chiang, Mr. WAN Kam To and Ms. LIU Yan. Biographical details of the Directors as of the date of this report are set out in the "Board of Directors" section in pages 56 to 60 of this Annual Report.

Board Diversity Policy

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

Selection of candidates will be based on a range of aforesaid Major Diversity Perspectives. The ultimate decision will be based on merit and contribution that the selected candidates will bring to the Board. The Nomination Committee reviews annually the Board's composition under Major Diversity Perspectives and monitors the implementation of the Board Diversity Policy. During the year, the Nomination Committee has reviewed its practice on Board diversity based on the Major Diversity Perspectives set forth and has come to the conclusion that it is a balanced Board. For the year ended 31 December 2020, the Board's composition under Major Diversity Perspectives was summarised as follows:



Meetings

The Board meets regularly at least 4 times a year at quarterly intervals and will meet at other times when the Board thinks appropriate. In general, notice of at least 14 days is given for a regular Board meeting so as to give all Directors an opportunity to attend. Agenda and meeting materials for each meeting are normally circulated to all Directors 7 days in advance of the date of the meeting. Senior management may, from time to time, be invited to attend the Board meetings for making presentation and/or answering any queries that may be raised by the Board. During the year, 4 Board meetings were held with an average turnout of 100%.

Proceedings of the Board and the Respective Board Committee Meetings

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

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

Chairman and Chief Executive Officer

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

Non-executive Directors

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

Throughout the year ended 31 December 2020, the Company complied with the requirements of the Listing Rules relating to the appointment of at least one-third independent non-executive Directors and at least one of which have appropriate professional qualifications or accounting or related financial management expertise.

Pursuant to the requirement of the Listing Rules, the Company has received from each of the independent non-executive Directors a written confirmation of his independence to the Company. The Company considers that all the independent non-executive Directors were independent in accordance with the Listing Rules throughout the year ended 31 December 2020.

Appointment and Re-election

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

Induction and Continuous Professional Development

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

Directors are encouraged to participate in continuing professional development to develop and refresh their knowledge and skills. They are required to submit to the Company annually details of training sessions undertaken by them in each financial year for the Company to maintain a training record for its Directors. According to the training records maintained by the Company, the training received by each of the Directors during the year ended 31 December 2020 is summarised as follows:

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

Corporate Governance Function

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

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

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

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

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

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

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

Directors' Securities Transactions

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

Having made specific enquiry of all Directors, all Directors confirmed that they have complied with the required standard set out in the Model Code throughout the year ended 31 December 2020. Securities interests in the Company and its associated corporations held by each of the Directors are set out in the "Report of the Board of Directors" section in pages 61 to 80 of this Annual Report.

Board Committees

Audit Committee

The Audit Committee is currently composed of 3 independent non-executive Directors, namely Messrs. WAN Kam To (Chairman of the Audit Committee), TSUI Hing Chuen William and LAU Wai Piu and 1 non-executive Director, namely Mr. ZHANG Xinjun. The Chairman of the Audit Committee has the appropriate financial-related professional qualification and experience. The Audit Committee will meet no less than twice a year to review all business affairs managed by the executive Directors, in particular those related to connected transactions and continuing connected transactions, if any, and to review the interim and annual financial statements of the Group before their submission to the Board for approval. It will also review the effectiveness of the internal control and risk management system of the Group. The Audit Committee has reviewed the accounting principles and practices adopted by the Group and the consolidated results for the year ended 31 December 2020 of the Group. The terms of reference of the Audit Committee are aligned with the requirements of the Listing Rules and the recommendations set out in "A Guide for Effective Audit Committees" published by the Hong Kong Institute of Certified Public Accountants and any updates thereof. A copy of the terms of reference of the Audit Committee has been posted on the Company's website and the website of the Hong Kong Exchange and Clearing Limited ("HKEx") at www.hkexnews.hk.

During the year ended 31 December 2020, the Audit Committee met on 2 occasions with the presence of the external auditor and discharged its responsibilities to review the interim and annual results and the effectiveness of the internal control and risk management system of the Group. The work performed by the Audit Committee for the year ended 31 December 2020 included reviews of the following:

- the directors' report and the consolidated financial statements for the year ended 31 December 2019 of the Group, with a recommendation to the Board for approval;
- the consolidated financial statements for the 6 months ended 30 June 2020 of the Group, with a recommendation to the Board for approval;
- the audit fees for the year ended 31 December 2020 proposed by the external auditor, with a recommendation to the Board for approval;
- the new accounting policies and practices adopted by the Group;
- the continuing connected transactions undertaken by the Group;
- the internal control and risk management system of the Group;
- the findings and recommendations of the Group's internal auditor on the Group's operations and of the regulatory review carried out by the regulators;
- compliance status of the Group with the applicable regulatory and other legal requirements;
- the Group's investment policy and the adequacy of provision made for diminution in value for the Group's investments;
- the litigation cases of the Group;
- the adequacy of the provision for bad debts; and
- the error trades occurred during the 6 months ended 30 June 2020.

Executive Committee

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

Nomination Committee

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

During the year ended 31 December 2020, the work performed by the Nomination Committee included reviews of the followings:

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

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

Nomination Policy

Objective

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

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

Selection criteria

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

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

Nomination procedure

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

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

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

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

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

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

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

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

Proposal by shareholders

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

Succession plan

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

Review on the policy

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

Remuneration Committee

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

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

During the year ended 31 December 2020, the work performed by the Remuneration Committee included reviews of the following:

- the proposal for 2020 remuneration adjustment;
- the proposal for 2019 bonus distribution;
- the proposal of granting awarded shares pursuant to the share award scheme; and
- the proposal of granting share options.

Risk Committee

The Risk Committee is currently composed of 1 non-executive Director of the Company, namely Mr. William CHAN (Chairman of the Risk Committee) and 2 independent non-executive Directors of the Company, namely Messrs. LAU Wai Piu and WEI Kuo-chiang. The Risk Committee is responsible for advising the Board on the Group’s risk appetite statement(s), risk principles and other risk-related issues including corporate actions and proposed strategic transactions such as mergers, acquisitions and disposals; considering major investigation findings on risk management matters as delegated by the Board or on its own initiative and management response to these findings; approving the Group’s risk policies and risk tolerances; considering emerging risks relating to the Group’s business and strategies to ensure that appropriate arrangements are in place to control and mitigate the risks effectively; reviewing risk reports and breaches of risk tolerances and policies; reviewing and assessing regularly the adequacy and effectiveness of the Group’s risk management framework, internal control system and risk management policies and procedures in identifying, measuring, monitoring and controlling risk, and overseeing their effective operation, implementation and maintenance; reviewing and assessing the effectiveness of the Group’s risk control/mitigation tools including the enterprise risk management programme, the risk management systems, the internal audit function relating to risk management and the Group’s contingency plans; and reviewing the Group’s capital adequacy and solvency level. The Risk Committee will meet at least 2 times a year at approximately half-yearly intervals to discharge its responsibilities in accordance with its terms of reference. A copy of the terms of reference of the Risk Committee has been posted on the Company’s website and the website of HKEx at www.hkexnews.hk.

During the year ended 31 December 2020, the work performed by the Risk Committee included reviews of the followings:

- the aggregate risk assessment report for the year ended 31 December 2019 of the Group;
- the risk assessment report for each quarter of the Group;
- the 2020 value at risk; and
- the 2020 risk policy.

Strategic Development Committee

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

Company Secretary

The Company Secretary, namely Mr. LO Wai Ho, is a full time employee of the Company and has day-to-day knowledge of the Company's affairs. The Company Secretary is responsible for advising the Board on corporate governance matters. During the year ended 31 December 2020, the Company Secretary has confirmed that he has taken no less than 15 hours of relevant professional training.

Internal Control Framework

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

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

The Three Lines of Defense Model

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

Risk Management

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

Risk Appetite, Risk Management Framework and Culture

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

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

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

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

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

Liquidity Risk

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

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

Credit Risk

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

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

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

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

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

Market Risk

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

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

Operational Risk

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

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

Legal and Compliance Risk

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

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

To mitigate the relevant risks, the Group established legal department and compliance department. Compliance department carries out compliance monitoring and provides comments on business plans and activities, while the legal department actively handles legal documents reviewing and vetting and also manages legal disputes.

All rounded Group policies, procedures and standardized templates are implemented and updated timely with business development and regulatory rules changes. Through sounded management system and procedures, the professional team monitors and prevents compliance risks in relation to anti-money laundering, conflict of interests, information barriers, market misconducts etc.. The Group's compliance culture and awareness are elevated by setting compliance responsibilities in each business line and subsidiary, conducting legal and compliance trainings to staff from time to time and providing internal guidelines on regulatory changes.

Technology Risk

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

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

Reputational Risk

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

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

Responsibilities of Directors for the financial statements

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

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

Internal Audit

The Group's Internal Audit constitutes the third line of defense in its internal control framework, which plays a critical role in evaluating and improving the adequacy and effectiveness of the Group's internal control systems, risk management and governance processes. Through conducting analysis and independent appraisal, the Group Internal Audit provides independent assurance as to the adequacy and effectiveness of the Group's internal controls. The Group Internal Audit directly reports to the Audit Committee.

By adopting a risk-based approach, the Group Internal Audit develops its annual audit plan which covers the Group's major business activities, operations and processes, as well as its IT environment across all geographic locations. The Group Internal Audit submits its annual audit plan which is reviewed and approved by the Audit Committee. Based on the approved audit plan, the Group Internal Audit schedules and carries out internal audit activities of different business, functions and operations with resources focusing on areas of higher risk. The head of Group Internal Audit directly reports audit results and matters to the Audit Committee and senior management.

In addition to the internal audit activities, a Group-wide internal control self-assessment exercise is conducted annually across all business, functions and locations of the Group to establish a long-term mechanism for evaluation, feedback, and continuous improvement of its internal control system. Moreover, ad hoc reviews shall be conducted on specific areas of concern identified by the Audit Committee and senior management.

External Auditor

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

	Fee charged For the year ended 31 December	
Type of Services	**2020** **HK$'000**	2019 HK$'000
Statutory audit service fee	5,450	5,450
Non-statutory audit service fee	770	2,401

Communication with Shareholders

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

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

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

Shareholders' Rights

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

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

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

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

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

2. The procedures for sending enquiries to the Board

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

3. The procedures for making proposals at shareholders' meetings

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

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

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

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

Constitutional Documents

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

Board of Directors

Executive Directors

LIN Yong *JP*, aged 51, was appointed as an Executive Director of the Company on 23 December 2009. He has been a Deputy Chairman of the Board of Directors and the Managing Director of the Company as well as the Chief Executive Officer of the Group since 29 April 2011. He is also the Chairman of the Executive Committee as well as a member of the Strategic Development Committee of the Company. In addition, Mr. Lin is a director of subsidiary of the Company and a board member of Haitong Bank, S.A. (“Haitong Bank”) and Haitong Banco de Investimento do Brasil S.A., wholly-owned subsidiaries of Haitong International Holdings Limited (formerly known as “Hai Tong (HK) Financial Holdings Limited”) (“HTIH”). He also acts as the chairman of Haitong Bank since 30 October 2017. Mr. Lin holds a Doctorate Degree in Economics from Xi’an Jiaotong University and has over 20 years of experience in the investment banking industry. Mr. Lin joined Haitong Securities Co., Ltd. (“HSCL”, whose shares are listed on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) and on the Shanghai Stock Exchange (the “SSE”)) in 1996 and was a general manager of the Investment Banking Department of HSCL from 2001 to 2007. He has been appointed as an assistant to general manager of HSCL with effect from 30 December 2014 and a director and general manager of HTIH since 2007. He is responsible for the overall operation of HTIH and the business development of the Group. In 2006, Mr. Lin was named “2006 Top Ten Outstanding Young Person in Financial Sector in Shanghai” (2006年上海首届十大金融傑出青年) and was honoured as the“2014 Shanghai Financial Industry Leader” (2014滬上金融行業領袖) in 2014. He acts as an adjunct professor in Management College of Xiamen University since 12 May 2010 and acts as chairman of Chinese Securities Association of Hong Kong since 25 February 2019. Mr. Lin was appointed as a member of the Mainland Opportunities Committee of the Financial Services Development Council since 1 April 2019. He was appointed as a non-executive director of Financial Reporting Council for a two-year term from 1 October 2019 to 30 September 2021. He was also appointed to the board of directors of Financial Services Development Council for a term commencing from 2 January 2020 to 16 January 2023, a honorary executive director of the Hong Kong Chinese Enterprises Association for a term commencing from 16 September 2020 to 15 September 2022, and a 52nd term committee member of The Chinese General Chamber of Commerce for a term commencing from November 2020 to October 2022. Mr. Lin was appointed as a Justice of the Peace (JP) by the Government of the HKSAR in October 2020. On 16 October 2019, Mr. Lin resigned as an independent non-executive director of Zhongsheng Group Holdings Limited, whose shares are listed on the Stock Exchange.

LI Jianguo, aged 57, was appointed as an Executive Director of the Company on 13 January 2010 and a Deputy Chairman of the Board of Directors of the Company on 10 March 2010. He is also a member of the Strategic Development Committee of the Company. Mr. Li holds a Doctorate Degree in Economics from Xi’an Jiaotong University. He has 29 years of experience in the securities industry. Mr. Li was a general manager of Henan Securities Co., Ltd. from 1992 to 1998. He joined HSCL in 1998 and served as the deputy general manager of HSCL from 1998 to 1999. Mr. Li was the vice president and the general manager of Fullgoal Fund Management Co., Ltd. from 1999 to 2008. Mr. Li has been the assistant to the general manager of HSCL and the chairman of the board of directors of HTIH since 2008 and the vice chairman of HTIH since 9 August 2010.

POON Mo Yiu, aged 56, joined the Group in August 2008. He was appointed as an Executive Director of the Company on 1 July 2009 and was the Chief Operating Officer of the Group as well as a member of the Executive Committee of the Company prior to his re-designation as a Non-executive Director on 16 February 2016. Mr. Poon was re-designated as an Executive Director of the Company and was appointed as a member of the Executive Committee of the Company on 8 February 2018. He was also appointed as the Chief Operating Officer of the Group on 15 August 2018 and has been re-designated from Chief Operating Officer to Chief Financial Officer of the Group with effect from 1 May 2020. Mr. Poon is also a director of various subsidiaries of the Company. Mr. Poon holds a Master of Business Administration Degree from The Chinese University of Hong Kong. He is a fellow of the Association of Chartered Certified Accountants, the Hong Kong Institute of Certified Public Accountants (“HKICPA”) and the Institute of Chartered Accountants in England & Wales. Mr. Poon has extensive experience in financial management, management of information systems, accounting projects as well as various aspects of mergers and acquisitions. Prior to joining the Group, Mr. Poon worked for Sun Hung Kai & Co. Limited as the Group Chief Operating Officer and the Group Chief Financial Officer. He was also previously the Vice President in Finance of JPMorgan Chase Bank and the Group Financial Controller of Jardine Fleming Group in Asia before its merger with JPMorgan Chase Bank.

SUN Jianfeng, aged 44, joined the Group in 2010 and was appointed as an Executive Director of the Company with effect from 1 June 2017. He is the Chairman of Corporate Finance to provide a wide range of corporate finance services. He is also responsible for the development and management of the Alternative Asset Management business. He is also a member of the Executive Committee of the Company. Mr. Sun is also a director of various subsidiaries of the Company as well as a responsible officer of Haitong International Capital Limited under the Securities and Futures Ordinance. Mr. Sun holds a Master of Applied Economics from Xi'an Jiaotong University. He possesses extensive experience in the corporate finance industry. He participated and completed a number of IPOs in Hong Kong and China.

SUN Tong, aged 44, joined the Group in May 2010 and was appointed as an Executive Director of the Company with effect from 27 March 2018. He has been appointed as the Chief Investment Officer of the Group since September 2017 and is a member of Executive Committee of the Company. He is also a director of numerous subsidiaries of the Company, and serves as a responsible officer of Haitong International Securities Company Limited under the Securities and Futures Ordinance. Mr. Sun graduated with a Bachelor Degree in Computer Science from Nanjing Normal University and obtained a MBA Degree from the Chinese University of Hong Kong. Mr. Sun joined HSCL in 2000 and he is now a deputy general manager of HTIH. Mr. Sun was appointed as a director of Chinese Asset Management Association of Hong Kong on 20 March 2020.

Non-executive Directors

QU Qiuping, aged 59, was appointed as a Non-executive Director of the Company on 8 February 2018. He has been the Chairman of the Board, and the Chairman of the Nomination Committee and the Strategic Development Committee as well as a member of the Remuneration Committee of the Company. Mr. Qu is a member of the Chinese Communist Party and holds a Master degree in Economics from Fudan University. He is a senior accountant in the People's Republic of China (the "PRC") and was the accountant, deputy section chief, Youth League secretary of Nanshi District Office of the People's Bank of China Shanghai (中國人民銀行上海市南市區辦事處) from September 1980 to December 1983; the deputy section chief and section chief of Nanshi District Office of the Industrial and Commercial Bank of China Shanghai (中國工商銀行上海市南市區辦事處) from January 1984 to September 1992; the vice president of Nanshi Sub-branch of the Industrial and Commercial Bank of China Shanghai Branch (中國工商銀行上海市分行南市支行) from September 1992 to November 1995; the deputy head of the accounting and cashier department of the Industrial and Commercial Bank of China Shanghai Branch (中國工商銀行上海市分行) from November 1995 to December 1996 (He was in charge of the party and political work of Shanghai Jiading Sub-branch of the Industrial and Commercial Bank of China (中國工商銀行上海市嘉定支行) from December 1995 to December 1996); the president and deputy secretary of CPC party committee of Shanghai Baoshan Sub-branch of the Industrial and Commercial Bank of China (中國工商銀行上海市寶山支行) from December 1996 to March 1999; the head of the accounting and clearing department of the Industrial and Commercial Bank of China Shanghai Branch from March 1999 to December 1999; the assistant to the president of the Industrial and Commercial Bank of China Shanghai Branch from December 1999 to June 2000; the vice president of the Industrial and Commercial Bank of China Shanghai Branch from June 2000 to February 2005 (he was a visiting scholar at University of Pennsylvania from September 2002 to September 2003); the vice president of the Industrial and Commercial Bank of China Jiangsu Branch (中國工商銀行江蘇省分行) from February 2005 to September 2008; the deputy secretary of CPC party committee and the vice chairman of the board of directors of Bank of Shanghai (上海銀行) from September 2008 to November 2008; the president, deputy secretary of CPC party committee and the vice chairman of the board of directors of Bank of Shanghai from November 2008 to December 2010; the head of the Investor Education Office of the Work Coordination Department of the Dispatched Offices of the CSRC (中國證監會派出機構工作協調部) from December 2010 to August 2012; and the head of the Department of Unlisted Public Company Supervision of the CSRC (中國證監會非上市公眾公司監管部) from August 2012 to April 2014. Mr. Qu has been the director of Self-discipline and Supervision Committee of the Securities Association of China (中國證券業協會自律監察專業委員會) since October 2015, and the member of Expert Committee of the Finance Research Centre of Counselors' Office of the State Council (國務院參事室金融研究中心) since October 2016. He has been the Council member of the Shenzhen Stock Exchange since April 2017; Vice Chairman of Securities Association of China since June 2017; a member of the Chinese People's Political Consultative Conference Shanghai Committee since December 2017; Chief Supervisor of Shanghai Association of Listed Companies since June 2018; Chairman of Mergers and Acquisition Financing Professional Committee of the China Association for Public Companies (中國上市公司協會併購融資專業委員會) since October 2018; and a member of the Standing Committee of the Shanghai Municipal Committee of the Chinese People's Political Consultative Conference since January 2021. Mr. Qu has served as an executive director, the general manager and the deputy secretary of CPC party committee of HSCL since 25 June 2014, and the chairman of the board of directors of HTIH since February 2018.

CHENG Chi Ming Brian, aged 38, joined the Group in June 2009 and was appointed as an Executive Director of the Company on 1 July 2009. He was re-designated as a Non-executive Director of the Company on 13 January 2010. Mr. Cheng is also a member of the Remuneration Committee and the Strategic Development Committee of the Company. Mr. Cheng holds a Bachelor of Science degree from Babson College in Massachusetts, U.S.A. Mr. Cheng is currently an executive director of NWS Holdings Limited and is mainly responsible for overseeing the infrastructure business and the merger and acquisition affairs of NWS Holdings Limited and its subsidiaries. He is also the chairman and a non-executive director of Integrated Waste Solutions Group Holdings Limited and a non-executive director of Wai Kee Holdings Limited. The shares of all these companies are listed on the Stock Exchange. Mr. Cheng was a non-executive director of Leyou Technologies Holdings Limited (resigned on 5 June 2019), whose shares were listed on the Stock Exchange. In addition, Mr. Cheng is also the chairman of Goshawk Aviation Limited, and a director of SUEZ NWS Limited and PBA International Pte. Ltd. Mr. Cheng is currently a member of the Thirteenth Shanghai Municipal Committee of the Chinese People's Political Consultative Conference of the People's Republic of China. Mr. Cheng has previously worked as a research analyst in the Infrastructure and Conglomerates sector for CLSA Asia-Pacific Markets.

ZHANG Xinjun, aged 45, was appointed as a Non-executive Director of the Company on 27 March 2018 and is a member of Audit Committee and the Strategic Development Committee. Mr. Zhang holds a postgraduate Master degree in Management from the Department of Accounting of Nankai University. He is a Chinese Middle Grade Accountant and has extensive experience in financial accounting, finance management and merger and acquisition. Mr. Zhang joined the Company in March 2010 and was appointed as the Chief Financial Officer of the Company and was also a member of the Executive Committee of the Company. Prior to joining the Company, Mr. Zhang worked at the Planning and Finance Department of HSCL and had been the Chief Financial Officer of HTIH since March 2009. He has been appointed as the Chief Financial Officer and a member of the assets and liabilities allocation committee of HSCL and ceased to act as the Chief Financial Officer of the Company with effect from 27 March 2018. Mr. Zhang has been appointed as a non-executive director of Haitong Bank, S.A. since January 2018, and a director of Haitong Investment Ireland P.L.C. since February 2020. All these companies are wholly-owned subsidiaries of HTIH. He has also been appointed as a director of Fullgoal Fund Management Co., Ltd, an affiliate of HSCL, since February 2019.

William CHAN, aged 54, was appointed as a Non-executive Director on 2 January 2015 and is the Chairman of the Risk Committee and a member of the Strategic Development Committee of the Company. Mr. Chan was awarded a Master of Business Administration Degree from National University of Singapore and a Bachelor Degree in Shipbuilding from Dalian University of Technology in China. Mr. Chan has extensive experience in equity and bond analysis, trading and portfolio construction, currency trading, distress investment, quantitative research and derivative trading. Mr. Chan is currently a director of Harveston Asset Management Pte. Ltd. and MM River Fund Pte. Ltd. He previously worked for China Aviation Oil (Singapore) Pte. Ltd. as Head of Strategic Investment and the Credit and Finance Manager of treasury department and financial risk unit for Asia Pacific of Dow Chemical Singapore.

Independent Non-executive Directors

TSUI Hing Chuen William *JP*, aged 69, was appointed as an Independent Non-executive Director of the Company on 1 July 2004 and is the Chairman of the Remuneration Committee, a member of the Audit Committee and the Nomination Committee of the Company. Mr. Tsui is the founder partner of Messrs. Lo, Wong & Tsui, Solicitors & Notaries since 1980. He has been a solicitor of the High Court of Hong Kong since 1977, a solicitor of the Supreme Court of England & Wales since 1981 as well as a barrister and solicitor of the Supreme Court of Victoria, Australia since 1983. He has also been an advocate and solicitor of the Supreme Court of Republic of Singapore since 1985 and a notary public appointed by the Archbishop of Canterbury, England since 1988. Mr. Tsui was appointed as a Justice of the Peace by the Government of Hong Kong in 1997. He was admitted to the Roll of Honour of The Law Society of Hong Kong in 2013. Mr. Tsui is currently an independent non-executive director of Mongolia Energy Corporation Limited and Vision Values Holdings Limited. The shares of all these companies are listed on the Stock Exchange.

LAU Wai Piu, aged 57, was appointed as an Independent Non-executive Director of the Company on 1 December 2006 and is a member of the Audit Committee, the Nomination Committee, the Remuneration Committee and the Risk Committee of the Company. Mr. Lau is a member of the HKICPA and a fellow of the Association of Chartered Certified Accountants. He possesses over 20 years of extensive experience in accounting and financial management. Mr. Lau is currently an independent non-executive director of Mongolia Energy Corporation Limited and Vision Values Holdings Limited. The shares of all these companies are listed on the Stock Exchange.

WEI Kuo-chiang, aged 70, was appointed as an Independent Non-executive Director of the Company on 31 December 2012 and is a member of the Remuneration Committee and the Risk Committee of the Company. He was awarded a Doctor of Philosophy Degree in Finance from the University of Illinois at Urbana-Champaign in the United States, a Master of Business Administration Degree in Finance from the National Chengchi University in Taiwan, and a Bachelor of Engineering Degree in Industrial Management from the National Taiwan University of Science and Technology. Mr. Wei is currently the Chair Professor of Financial Economics in the School of Accounting and Finance at The Hong Kong Polytechnic University. He previously acted as chair professor, professor, associate professor and assistant professor of finance at a number of prestigious universities, including the University of Mississippi, the University of Miami and the Indiana University at Bloomington/Indianapolis in the United States as well as The Hong Kong University of Science and Technology ("HKUST"), and also served as Director of Value Partners Center for Investing, Director of the Center for Asian Financial Markets and Director of Master of Science (Financial Analysis)/(Investment Management) Programs at the HKUST for many years. Mr. Wei has written a number of research papers on issues such as the United States and Global Capital Markets and Pricing of Assets and he was also a column writer on Hong Kong stock market and warrant trading for Hong Kong Economic Journal for many years. Moreover, he assisted to develop wealth management and investment models for, among others, Hang Seng Bank Limited and The Hongkong and Shanghai Banking Corporation Limited and also organized and conducted a consultancy project for the Government of Hong Kong and Asia-Pacific Economic Cooperation. Mr. Wei has been a council member of the Chinese Finance Annual Meeting and the Global Chinese Real Estate Congress since 2004 and 2008 respectively.

WAN Kam To, aged 68, was appointed as an Independent Non-executive Director of the Company on 19 June 2018 and is the chairman of the Audit Committee of the Company. Mr. Wan graduated from the accountancy department of Hong Kong Polytechnic (now known as The Hong Kong Polytechnic University) with a higher diploma in 1975. He was a partner of PricewaterhouseCoopers where he worked for over 30 years and accumulated extensive experience in auditing, finance advisory and management. Mr. Wan is currently a council member of The Open University of Hong Kong, a fellow member of HKICPA and the Association of Chartered Certified Accountants. He has been appointed as the non-executive director of the Financial Reporting Council with effect from 1 October 2019. Mr. Wan is also currently an independent non-executive director of various listed companies, namely A-Living Smart City Services Co., Ltd, China Resources Land Limited, Fairwood Holdings Limited, KFM Kingdom Holdings Limited, and Target Insurance (Holdings) Limited. The shares of all these companies are listed on the Stock Exchange. He also serves as an independent director of China World Trade Center Co., Ltd. (listed on the SSE). Mr. Wan was previously an independent non-executive director of Kerry Logistics Network Limited (listed on the Stock Exchange) from November 2013 to May 2019, an independent non-executive director of Shanghai Pharmaceuticals Holding Co., Ltd. (listed on the Stock Exchange and the SSE) from June 2013 to June 2019, an independent non-executive director of Huaneng Renewable Corporation Limited (listed on the Stock Exchange) from August 2010 to June 2019 and an independent non-executive director of Harbin Bank Co., Ltd. (listed on the Stock Exchange) from October 2013 to October 2019.

LIU Yan, aged 50, was appointed as an Independent Non-executive Director of the Company on 19 June 2018 and is a member of the Nomination Committee. She holds a Bachelor degree in economics from Central University of Finance and Economics and Master Degree in Business Administration from the University of Rochester. She is a member of Chinese Institute of Certified Public Accountants (CICPA) and passed all tests for Chartered Financial Analyst (CFA) Program. Ms. Liu has over 20 years of experience in auditing, financial management, taxation and fund management. From 1992 to 1994, Ms. Liu worked at Brilliance Group Holdings Limited in Shanghai. From 1994 to 2001, Ms. Liu worked at PricewaterhouseCoopers in Guangzhou. In 2005, Ms. Liu joined Global Financial Risk Management Department at Barclays Capital (New York). She worked at Angelo Gordon Asia Limited from 2007 to 2010. From 2010 to 2015, Ms. Liu worked at Fund Management Department and Investment Management Department in China Everbright Limited (Hong Kong). Ms. Liu is currently an independent non-executive director of Tai United Holdings Limited, Great Wall Pan Asia Holdings Limited and Planetree International Development Limited. She was an independent non-executive director of U Banquet Group Holding Ltd. from November 2016 to September 2018. The shares of all these companies are listed on the Stock Exchange.

Report of the Board of Directors

The board of directors of the Company (the "Board") is pleased to present its report and the audited financial statements of the Company and the Group for the year ended 31 December 2020.

Principal Activities

The principal activity of the Company is investment holding. The Company's subsidiaries are principally engaged in wealth management, corporate finance, asset management, institutional clients and investment. There were no significant changes in the nature of the Group's principal activities during the year ended 31 December 2020.

Business Review

The business review of the Company for the year ended 31 December 2020 is set out in the sections headed, "Financial Highlights", "Chairman's Statement", "CEO's Review", "Financial Review" and "Corporate Governance Report" on pages 2 to 3, pages 12 to 13, pages 16 to 19, pages 20 to 35 and pages 38 to 55 respectively on this Annual Report and the standalone Environmental, Social and Governance Report 2020.

Results and Dividends

The Group's profit for the year ended 31 December 2020 and the state of affairs of the Company and the Group on date are set out in the financial statements on pages 89 to 230.

The Board has declared a second interim dividend of HK11.7 cents per share in cash for the year ended 31 December 2020, payable on Wednesday, 28 April 2021 to shareholders whose names appear on the register of members of the Company on Friday, 16 April 2021. Together with the interim dividend of HK4.4 cents per share paid on 21 September 2020, the total dividend payout for 2020 would be HK16.1 cents per share.

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

The register of members of the Company will be closed from Wednesday, 14 April 2021 to Friday, 16 April 2021, both dates inclusive, during which period no transfer of shares will be registered. In order to qualify for the second interim dividend, unregistered holders of the shares of the Company should ensure that all completed transfer forms accompanied by the relevant share certificates must be lodged with the Company's Branch Share Registrar and Transfer Office in Hong Kong, Tricor Investor Services Limited, at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong, for registration not later than 4:30 p.m. on Tuesday, 13 April 2021. Shares of the Company will be traded ex-dividend as from Monday, 12 April 2021.

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

The register of members of the Company will be closed from Tuesday, 25 May 2021 to Friday, 28 May 2021, both dates inclusive, during which period no transfer of shares will be registered. In order to qualify for attending and voting at the annual general meeting, unregistered holders of the shares of the Company should ensure that all completed transfer forms accompanied by the relevant share certificates must be lodged with the Company's Branch Share Registrar and Transfer Office in Hong Kong, Tricor Investor Services Limited, at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong, for registration not later than 4:30 p.m. on Monday, 24 May 2021.

Summary of Financial Information

A summary of the published results, assets, liabilities and non-controlling interests of the Group for the year ended 31 December 2020 and the previous 5 financial periods/years, as extracted from the audited financial statements and reclassified as appropriate, is set out on page 231 of this Annual Report. This summary does not form part of the audited financial statements.

Charitable Contributions and Other Charitable Expenditure

During the year ended 31 December 2020, the Group's charitable and other charitable expenditure totalled HK$1,203,452.

Reserves

Details of movements in the reserves of the Company and the Group during the year ended 31 December 2020 are set out in note 39 to the financial statements and in the consolidated statement of changes in equity, respectively.

Distributable Reserves

As at 31 December 2020, the Company's reserves available for distribution, calculated in accordance with the provisions of the Companies Act 1981 of Bermuda (as amended), amounted to HK$2,340,312,000, of which HK$706,216,000 has been proposed as a second interim dividend for the year ended 31 December 2020. In addition, the Company's share premium account, in the amount of HK$19,311,207,000, may be distributed in the form of fully paid bonus shares.

Fixed Assets

Details of movements in the fixed assets of the Company and the Group during the year ended 31 December 2020 are set out in note 30 to the financial statements.

Share Capital

Details of movements in the Company's share capital during the year ended 31 December 2020, together with the reasons thereof, are set out in note 35 to the financial statements.

Debentures Issued

Details of loans and other borrowings are set out in note 33 to the financial statements and details of the convertible bonds are set out in the Company's announcements on 12 October 2016 and 25 October 2016.

Equity-Linked Agreements

Other than the share option schemes and convertible bonds of the Company with details as respectively disclosed in this Directors' Report and note 36 to the financial statements, no equity-linked agreements were entered into by the Company that will or may result in the Company issuing shares or that require the Company to enter into any agreements that will or may result in the Company issuing shares during the year or subsisted at the end of the year.

Pre-emptive Rights

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

Purchase, Sale or Redemption of Listed Securities of the Company

Neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities during the year ended 31 December 2020 other than as an agent for clients of the Company or its subsidiaries and for the trustee of the share award scheme of the Company.

Major Customers and Suppliers

In the year ended 31 December 2020, the revenue attributable to the 5 largest customers of the Group accounted for less than 30% of the Group's total revenue for the year ended 31 December 2020.

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

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

Directors

The directors of the Company during the year ended 31 December 2020 and up to the date of this report are:

Executive Directors:

LIN Yong
LI Jianguo
POON Mo Yiu
SUN Jianfeng
SUN Tong

Non-Executive Directors:

QU Qiuping
CHENG Chi Ming Brian
ZHANG Xinjun
William CHAN

Independent Non-Executive Directors:

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

Pursuant to the Company's New Bye-laws 87(1) and (2), Mr. QU Qiuping, Mr. LIN Yong, Mr. SUN Tong, Mr. TSUI Hing Chuen William, Mr. LAU Wai Piu and Mr. WEI Kuo-chiang shall retire from office by rotation at the forthcoming annual general meeting. Except Mr. TSUI Hing Chuen William, Mr. LAU Wai Piu and Mr. WEI Kuo-chiang who have decided not to offer themselves for re-election and will retire as independent non-executive directors upon conclusion of the annual general meeting, the aforesaid directors, namely Mr. QU Qiuping, Mr. LIN Yong and Mr. SUN Tong are being eligible and offer themselves for re-election.

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

Directors' Biographical Details

Biographical details of the directors of the Company are set out on pages 56 to 60 of this Annual Report.

Directors' Service Contracts

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

Directors' Interests in Transactions, Arrangements or Contracts

No director had a material interest, either directly or indirectly, in any transactions, arrangement or contract of significance to the business of the Group to which the Company or any of its subsidiaries was a party during the year ended 31 December 2020.

Permitted Indemnity Provision

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

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

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

The Company

Name of directors	Class of shares	Personal interests	Family interests	Corporate interests	Number of underlying shares held under equity derivatives	Total	Approximate percentage of the Company's total issued share capital*
QU Qiuping	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 shares of the Company was 6,036,035,086 as at 31 December 2020.

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 second interim dividend for the year ended 31 December 2019 in form of scrip dividend:

Name or category of participants	Date of grant of share options	Number of outstanding option before the allotment of scrip dividend	Exercise price per share option before the allotment of scrip dividend	Adjusted number of outstanding option after the allotment of scrip dividend	Adjusted exercise price per share option after the allotment of scrip dividend
QU Qiuping	1 November 2018	500,251	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
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

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 31 December 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 year ended 31 December 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 31 December 2020 and a total of 86,951 awarded shares which were vested in tranches on 19 March 2020 and 23 March 2020 pursuant to the award scheme during the year ended 31 December 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 31 December 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 year ended 31 December 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 31 December 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 year ended 31 December 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 31 December 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 year ended 31 December 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 31 December 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 Schemes” below, at no time during the year ended 31 December 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; or was the Company or any of its subsidiaries a party to any arrangement to enable the directors to acquire such rights in any other body corporate.

Shared-based Compensation Scheme

The Company operates two equity-settled share-based compensation schemes including a 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 Schemes

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

Purpose of the 2015 Share Option Scheme:

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

Participants of the 2015 Share Option Scheme:

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

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

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

As at the date of this report, the total number of shares available for issue under the 2015 Share Option Scheme was 151,968,533 shares, which represented approximately 2.52% of the issued share capital of the Company at that day.

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

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

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

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

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

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

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

The basis of determining the exercise price:

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

The remaining life of the 2015 Share Option Scheme:

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

Movements of the share options under the 2015 Share Option Scheme during the year ended 31 December 2020 are listed below:

	Number of share options									Price of Company's shares***	
Name or category of participants	At 1 January 2020	Granted during the year	Adjusted during the year	Exercised during the year	Lapsed during the year	At 31 December 2020	Date of grant of share options*	Exercise period of share options	Exercise price of share options** HK$ per share	At immediately preceding the grant date of share options HK$ per share	At immediately preceding the exercise date of share options HK$ per share
Directors											
QU Qiuping	500,251	–	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

	Number of share options									Price of Company's shares***	
Name or category of participants	At 1 January 2020	Granted during the year	Adjusted during the year	Exercised during the year	Lapsed during the year	At 31 December 2020	Date of grant of share options*	Exercise period of share options	Exercise price of share options** HK$ per share	At immediately preceding the grant date of share options HK$ per share	At immediately preceding the exercise date of share options HK$ per share
Directors											
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
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

	Number of share options									Price of Company's shares***	
Name or category of participants	At 1 January 2020	Granted during the year	Adjusted during the year	Exercised during the year	Lapsed during the year	At 31 December 2020	Date of grant of share options*	Exercise period of share options	Exercise price of share options** HK$ per share	At immediately preceding the grant date of share options HK$ per share	At immediately preceding the exercise date of share options HK$ per share
Directors											
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
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

	Number of share options									Price of Company's shares***	
Name or category of participants	At 1 January 2020	Granted during the year	Adjusted during the year	Exercised during the year	Lapsed during the year	At 31 December 2020	Date of grant of share options*	Exercise period of share options	Exercise price of share options** HK$ per share	At immediately preceding the grant date of share options HK$ per share	At immediately preceding the exercise date of share options HK$ per share
Directors											
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					
Continuous contract employees	8,106,895	–	13,884 (Note 1)	–	(655,131) (Note 2)	7,465,648	12 May 2016	8 December 2016 – 11 May 2021	4.635 (Note 1)	4.25	N/A
	7,288,362	–	12,506 (Note 1)	–	(654,069) (Note 2)	6,646,799	10 November 2017	7 June 2018 – 9 November 2022	5.002 (Note 1)	4.58	N/A
	9,344,681	–	16,582 (Note 1)	–	(370,704) (Note 2)	8,990,559	1 November 2018	28 May 2019 – 31 October 2023	2.898 (Note 1)	2.56	N/A
	6,098,059	–	10,747 (Note 1)	–	(310,532) (Note 2)	5,798,274	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	–	(1,990,436)	35,146,280					
	54,106,262	10,645,000	95,369	–	(2,744,132)	62,102,499					

* 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 cancelled or lapsed during the year ended 31 December 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.

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

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

Details of the Awarded Shares granted, lapsed and unvested during the year ended 31 December 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 year	Awarded Shares vested during the year		Number of Awarded Shares lapsed during the year	Awarded Shares unvested as at 31 December 2020	
			Number	Vesting date		Number	Vesting date
28 April 2017	1,155,351	–	1,147,866	19/03/2020	7,485	–	–
28 May 2018	4,053,475	–	1,971,575	13/5/2020	221,869	1,860,031	13/5/2021
4 April 2019	6,371,215	–	2,123,722	23/3/2020	258,719	3,988,774	Note 1
4 November 2019	7,845,000	–	2,615,000	2/1/2020	470,000	4,760,000	Note 2
24 April 2020	–	14,294,205	–	–	830,982	13,463,223	Note 3
21 May 2020	–	78,000	78,000	25/5/2020	–	–	–
10 July 2020	–	7,700,000	7,700,000	15/7/2020	–	–	–

Notes:

1. The unvested Awarded Shares outstanding as at 31 December 2020 are due vested in two batches on 23 March 2021 and 23 March 2022 respectively.
2. The unvested Awarded Shares outstanding as at 31 December 2020 are due vested in two batches on 2 January 2021 and 2 January 2022 respectively.
3. The unvested Awarded Shares outstanding as at 31 December 2020 are due vested in three batches on 24 March 2021, 24 March 2022 and 24 March 2023 respectively.

Further details of the Share Award Scheme are disclosed in note 36 to the financial statements.

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

As at 31 December 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 31 December 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.

Directors' Interests in Competing Businesses

Mr. QU Qiuping (Chairman of the Company) is an executive director, the general manager and the deputy secretary of CPC Party committee of HSCL as well as the chairman of HTIH. Mr. LIN Yong (Deputy Chairman and Chief Executive Officer of the Company) is a director and general manager of HTIH, an assistant to the general manager of HSCL, a board member and chairman of Haitong Bank and a board member of Haitong Banco de Investimento do Brasil S.A.. Mr. LI Jianguo (Deputy Chairman of the Company) is the vice chairman of HTIH and an assistant to the general manager of HSCL. Mr. SUN Tong (Executive Director of the Company) is the deputy general manager of HTIH. Mr. ZHANG Xinjun (Non-executive Director of the Company) is the chief financial officer of HSCL and a board member of Haitong Bank. HSCL competes or may compete, either directly or indirectly, with the business of the Group.

The Board considers that, having considered the facts that:

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

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

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

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

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

the Group's interest is adequately safeguarded.

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

Based on the above, as at 31 December 2020, none of the directors of the Company and their associates was considered to have interests in the businesses which compete or are likely to compete, either directly or indirectly, with the businesses of the Group.

Continuing Connected Transactions

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

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

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

	Annual caps			Actual transaction amount received/ paid by the Group for the year ended 31 December 2020 (HK$ million)
Transactions	For the financial year ended 31 December 2019 (HK$ million)	For the financial year ended 31 December 2020 (HK$ million)	For the six months ending 30 June 2021 (HK$ million)	
(1) Service transactions (Category 1 Transactions)				
(a) Income received and/or to be received from service transactions provided to member(s) of the HSCL Group (including fees and commissions received and/or to be received from the HSCL Group in respect of the underwriting by the Group)	630	665	380	32.05
(b) Expenses incurred and/or to be incurred for service transactions provided by member(s) of the HSCL Group (including fees and commissions paid and/or to be paid by the Group in respect of the underwriting by the HSCL Group)	300	330	190	71.24

Transactions	Annual caps			Actual transaction amount received/ paid by the Group for the year ended 31 December 2020 (HK$ million)
	For the financial year ended 31 December 2019 (HK$ million)	For the financial year ended 31 December 2020 (HK$ million)	For the six months ending 30 June 2021 (HK$ million)	
(2) Investment and financial transactions (Category 2 Transactions, but excluding underwriting commitments which are set out in (3) below)				
(a) Sum received and/or to be received from HSCL Group attributable to the fund investment, financial assistance and securities lending transaction	33,000	36,000	22,000	8,990.82
(b) Sum paid and/or to be paid to HSCL Group attributable to the fund investment, financial assistance and securities lending transactions	33,000	36,000	22,000	1,943.97
(c) Transaction amount attributable to principal-to-principal transactions between the Group and the HSCL Group	57,000	60,000	31,500	47.71
(3) Underwriting commitments				
(a) Amount of underwriting commitments to be provided by the Group	11,400	12,000	11,310	5,221.68
(b) Amount of underwriting commitments to be provided by the HSCL Group	5,000	6,000	4,000	–

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

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

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

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

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

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

A summary of all related party transactions undertaken by the Group during the year ended 31 December 2020 is contained in note 38 to the consolidated financial statements. All the related parties transactions described in this note, other than the Transactions, do not fall under the definition of "connected transaction" or "continuing connected transaction" under the Listing Rules.

The Company has complied with the disclosure requirements prescribed in Chapter 14A of the Listing Rules with respect to the continuing connected transactions entered into by the Group during the year ended 31 December 2020.

Disclosure Pursuant to Rule 13.21 of the Listing Rules

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 credit facility in an aggregate amount of HK$12,000,000,000 for a term of up to 36 months.

Pursuant to the terms of the Facility Agreement I, Facility Agreement II 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.

Sufficiency of Public Float

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

Corporate Governance

The Company's corporate governance principles and practices are set out in the Corporate Governance Report on pages 38 to 55 of this Annual Report.

Compliance with Relevant Laws and Regulations

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

Auditors

The financial statements for the year ended 31 December 2020 of the Company have been audited by Deloitte Touche Tohmatsu who will retire and, being eligible, offer themselves for reappointment.

On behalf of the Board

QU Qiuping
Chairman

Hong Kong, 24 March 2021

Independent Auditor's Report

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

Opinion

We have audited the consolidated financial statements of Haitong International Securities Group Limited (the "Company") and its subsidiaries (collectively referred to as "the Group") set out on pages 89 to 230 which comprise the consolidated statement of financial position as at 31 December 2020, and the consolidated statement of profit or loss, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2020, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

Basis for Opinion

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

Key Audit Matters

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

Key audit matter	How our audit addressed the key audit matter
Expected Credit Loss ("ECL") Model on advances to customers and investment securities at amortised cost ("Debt Investment Securities")	
We identified the impairment of advances to customers and Debt Investment Securities (other than the impairment of advances to customers in stage 3 as separately discussed), arising from the application of the ECL model, as a key audit matter due to the significant judgement and estimation by management to determine the ECL amount at the reporting date. As detailed in note 4 to the consolidated financial statements, the ECL measurement involves significant management judgement and estimation, with the involvement of the Group's internal expert, in (i) the selection of appropriate models and key inputs used in the ECL model, including the probability of default ("PD") and loss given default ("LGD"), (ii) the application of multiple economic scenario in the ECL model and (iii) the selection and use of reasonable and supportable forward-looking information without undue cost or effort in the ECL model to estimate the future movement of different economic drivers and how these drivers will affect each other and the correlation with the key inputs, including PD and LGD.	Our procedures in relation to the impairment of advances to customers and Debt Investment Securities including advances to customers in stage 3 in respect of which further procedures are separately outlined, arising from the application of the ECL Model included: • Understanding the Group's established credit risk policies and procedures for impairment assessment in relation to the application of ECL model under HKFRS 9, including model set up and approval and selection and application of assumptions and key inputs into the model; • Understanding the key controls over ongoing monitoring processes, including: (i) the margin call procedures for margin shortfall and actions taken by management for advances to customers in margin financing; (ii) the periodic reviews for identification of any potential delinquency in principal or interest repayment for advances to customers and Debt Investment Securities;

Key audit matter	How our audit addressed the key audit matter
The management further assesses whether there has been a significant increase in credit risk ("SICR") for exposures since initial recognition. If there has been a SICR, the Group will measure the loss allowance based on lifetime ECL rather than 12-month ECL. In assessing whether the credit risk of an asset has significantly increased, the Group also takes into account qualitative and quantitative reasonable and supportable forward-looking information available without undue cost or effort with significant judgments involved. The total gross amount of (i) advances to customers in margin financing, (ii) advances to customers for merger and acquisition activities, (iii) secured financing and (iv) debt investments classified as investment securities at amortised cost, under stages 1 and 2 as at 31 December 2020, are HK$11,509 million, HK$2,872 million, HK$639 million and HK$9,421 million less impairment charges of HK$29.9 million, HK$6.6 million, HK$0.9 million and HK$34.6 million respectively. Please see note 42 to the consolidated financial statements.	• Assessing the reasonableness and appropriateness of the management's judgement on staging criteria for determining if SICR has occurred (stage 1 or 2) or the financial asset is credit-impaired (stage 3) and the basis for classification of exposures into the 3 stages as required by HKFRS 9 and examining supporting information on a sample basis to assess the appropriateness of the classification of loan exposures as at the end of the reporting period; • Evaluating, together with our internal valuation specialists, the reasonableness and appropriateness of the ECL models and assumptions, the application of multiple economic scenario and assigned probability in the ECL model, information and parameters used in the model in establishing the forward looking factors, and the relationship between the forward looking factors and the key inputs, including PD and LGD, in the ECL model to determine the impairment loss of advances to customers and Debt Investment Securities in stage 1 or 2; and • Testing the accuracy and completeness of key data sources applied in the ECL computation on a sample basis by checking to the Group's supporting information, the relevant loan files and external data sources, as applicable.

Key audit matter	How our audit addressed the key audit matter
Impairment of advances to customers in stage 3	
We identified the impairment of advances to customers in stage 3 as a key audit matter due to the involvement of significant management judgement and estimation uncertainty in determining the ECL amount. As set out in note 42 to the consolidated financial statements, the total gross amount as at 31 December 2020 of (i) advances to customers in margin financing, (ii) advances to customers for merger and acquisition activities, (iii) secured financing and (iv) debt investments classified as investment securities amounted to HK$13,534 million, HK$3,425 million, HK$704 million and HK$10,510 million respectively, of which HK$2,025 million, HK$554 million, HK$65 million and HK$1,089 million respectively are classified as stage 3. As at 31 December 2020, an impairment allowance of HK$1,177 million, HK$186 million, HK$51 million and Nil has been provided in relation to (i) advances to customers in margin financing, (ii) advances to customers for merger and acquisition activities, (iii) secured financing and (iv) debt investments classified as investment securities under stage 3, respectively, as disclosed in note 42 to the consolidated financial statements.	Our procedures in relation to the impairment of advances to customers in stage 3 included those covered in the above key audit matter related to ECL model on advances to customers and Debt Investment Securities and the following additional procedures: • For impairment of the advances to customers and debt investment securities with unlisted collateral, our procedures included: – corroborating and challenging management's assessment and expectation of reasonably possible outcomes on the recoverability of the loans to the borrowers and the estimated fair value and future cash flows from the pledged securities against our understanding of the situations and the industries of the borrowers, guarantor or collaterals from reading public announcements and other externally available information; – Examining underlying documentation supporting the management's key estimations and inputs used in determining the present value of the estimated future cash flows, including the historical repayment records, the fair value of the listed securities and any settlement subsequent to the end of the reporting period, if any, and other information available for the creditability of those borrower;

Key audit matter	How our audit addressed the key audit matter
In assessing the lifetime ECL on individual credit-impairment financial assets classified as stage 3, the Group performed the assessment based on the Group's historical credit loss experience, adjusted for factors that are specific to the borrowers, general economic conditions at the reporting date as well as the forecast of future conditions with significant judgment involved. The Group also reviews the value of the collateral received from the customers in determining the impairment. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.	– discussing with the management the valuation of the unlisted collaterals and together with our own internal valuation specialists, where appropriate: (i) Obtaining the appraisal reports and assessing the competence and independence of the third party professional valuer and their experience in conducting valuation of similar assets; (ii) assessing whether the selection of the valuation methodology is appropriate for the collateral; and (iii) assessing the reasonableness of the assumptions, judgements and key inputs used in the valuation of the collateral by independently checking to the external data and publicly available information.

Key audit matter	How our audit addressed the key audit matter
Valuation of Level 3 financial instruments	
We identified the valuation of Level 3 financial instruments as a key audit matter due to the significance of the judgement and estimates made by management and the subjectivity in determination of Level 3 fair value given the lack of availability of market-based data. Please see note 43 to the consolidated financial statements. The total fair value of financial assets held for trading and market making activities, investment securities at FVTPL, asset acquired for financial products issued and financial products issued at fair value classified as Level 3, amounted to HK$67 million, HK$2,197 million, HK$3,149 million and HK$752 million respectively as at 31 December 2020 as disclosed in note 43 to the consolidated financial statements.	Our procedures in relation to the valuation of Level 3 financial instruments included: • Understanding the Group's valuation models for Level 3 financial instruments and the key controls over selection of valuation methods and determining the valuation of such instruments; • Discussing with management, together with our own internal valuation specialists, where necessary, on the valuation of the Level 3 financial instruments, and: (i) evaluating the appropriateness of the valuation methodologies and assumptions based on the industry knowledge; or (ii) evaluating the appropriateness of the key inputs by independently checking to the external data; or by evaluating the rationale of management's judgement on the key inputs; or by performing sensitivity analysis with reference to available market information to evaluate the reasonableness of the valuation, where appropriate. • Assessing the competence and independence of the third party specialists engaged by the Group and their experience in conducting similar valuation.

Other Information

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Deloitte Touche Tohmatsu
Certified Public Accountants

Hong Kong
24 March 2021

Consolidated Statement of Profit or Loss

For the year ended 31 December 2020

	NOTES	2020 HK$'000	2019 HK$'000
Revenue			
Commission and fee income	6	2,864,575	2,291,922
Interest income	6	2,464,585	2,941,593
Net trading and investment income	6	3,000,587	3,010,459
		8,329,747	8,243,974
Other income and gains or losses	6	(97,311)	(38,809)
		8,232,436	8,205,165
Staff costs	7	(1,564,995)	(1,380,918)
Commission expenses	10	(257,958)	(179,351)
Amortisation and depreciation	27 & 30	(252,091)	(225,566)
Operating expenses		(726,174)	(804,439)
		(2,801,218)	(2,590,274)
Finance costs	9	(2,144,511)	(3,129,773)
Profit before impairment charges and tax		3,286,707	2,485,118
Impairment charges, net of reversal	8	(986,115)	(634,489)
Profit before tax	10	2,300,592	1,850,629
Income tax expense	13	(367,715)	(299,771)
Profit for the year attributable to owners of the Company		1,932,877	1,550,858
Earnings per share attributable to owners of the Company	14		
– Basic (HK cents per share)		32.97	26.85
– Diluted (HK cents per share)		32.85	26.45

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31 December 2020

	2020 HK$'000	2019 HK$'000
Profit for the year attributable to owners of the Company	1,932,877	1,550,858
Other comprehensive expense:		
Item that will not be reclassified subsequently to profit or loss:		
Fair value changes on investments in equity instruments at fair value through other comprehensive income	(52,380)	(11,077)
Items that may be reclassified subsequently to profit or loss:		
Fair value changes on investments in debt instruments at fair value through other comprehensive income	(29,633)	(847)
Exchange differences on translating foreign operations	(30,438)	(27,100)
Other comprehensive expense for the year	(112,451)	(39,024)
Total comprehensive income for the year attributable to owners of the Company	1,820,426	1,511,834

Consolidated Statement of Financial Position

At 31 December 2020

		2020			2019		
		Current	Non-current	Total	Current	Non-current	Total
	NOTES	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
ASSETS							
Cash and cash equivalents		4,334,925	–	4,334,925	4,269,608	–	4,269,608
Cash held on behalf of customers	16	19,553,711	–	19,553,711	15,134,126	–	15,134,126
Financial assets held for trading and market making activities	17	10,590,827	–	10,590,827	28,459,878	–	28,459,878
Investment securities	18	31,499,248	15,267,263	46,766,511	19,191,146	18,389,524	37,580,670
Assets acquired for financial products issued	19	26,532,975	5,279,720	31,812,695	29,756,276	2,629,569	32,385,845
Derivative financial instruments	20	732,110	–	732,110	340,153	–	340,153
Advances to customers	21	15,980,978	231,403	16,212,381	19,469,052	1,114,087	20,583,139
Cash collateral on securities borrowed and reverse repurchase agreements	22	7,738,041	–	7,738,041	5,324,550	–	5,324,550
Accounts receivable	23	5,576,807	–	5,576,807	8,683,114	–	8,683,114
Tax recoverable		432,569	–	432,569	230,117	–	230,117
Prepayments, deposits and other receivables	24	1,047,322	59,131	1,106,453	1,687,520	75,261	1,762,781
Goodwill and other intangible assets	27	–	480,148	480,148	–	485,916	485,916
Other assets	28	–	198,051	198,051	–	103,128	103,128
Investment property	29	–	70,078	70,078	–	192,471	192,471
Property and equipment	30	–	812,208	812,208	–	706,275	706,275
Deferred tax assets		–	25,001	25,001	–	32,731	32,731
Total assets		124,019,513	22,423,003	146,442,516	132,545,540	23,728,962	156,274,502

Consolidated Statement of Financial Position

At 31 December 2020

		2020			2019		
	NOTES	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	17	4,067,271	–	4,067,271	1,945,382	–	1,945,382
Financial products issued at fair value	19	15,619,109	816,545	16,435,654	17,103,333	1,926,905	19,030,238
Derivative financial instruments	20	819,725	–	819,725	545,139	–	545,139
Cash collateral on securities lent and repurchase agreements	31	10,680,425	–	10,680,425	27,455,006	–	27,455,006
Accounts payable	32	22,921,539	–	22,921,539	19,107,219	–	19,107,219
Bank borrowings and debt securities in issue	33	44,316,967	11,568,173	55,885,140	49,664,367	8,626,979	58,291,346
Liabilities arising from consolidation of investment funds	26	5,071,585	–	5,071,585	421,238	–	421,238
Tax payable		479,154	–	479,154	559,082	–	559,082
Other payables, accruals and other liabilities	34	1,542,931	197,348	1,740,279	1,660,778	199,498	1,860,276
Deferred tax liabilities		–	24,575	24,575	–	28,995	28,995
Total liabilities		105,518,706	12,606,641	118,125,347	118,461,544	10,782,377	129,243,921
Equity							
Share capital	35			603,603			594,058
Reserves				27,007,350			26,181,078
Proposed dividends	15			706,216			255,445
Total shareholders' equity				28,317,169			27,030,581
Total liabilities and shareholders' equity				146,442,516			156,274,502
Net current assets				18,500,807			14,083,996

The associated financial statements on pages 89 to 230 were approved and authorised for issue by the board of directors on 24 March 2021 and are signed on its behalf by:

LIN Yong	POON Mo Yiu
DIRECTOR	*DIRECTOR*

Consolidated Statement of Changes in Equity

For the year ended 31 December 2020

	Attributable to owners of the Company													
	Share capital HK$'000	Share premium account[1 & 2] HK$'000	Share option reserve[1] HK$'000	Share award reserve[1] HK$'000	Shares held for employee share award scheme[1] HK$'000	Capital redemption reserve[1] HK$'000	Contributed surplus[1] HK$'000	Capital reserve[1] HK$'000	Investments revaluation reserve[1] HK$'000	Exchange reserve[1] HK$'000	Convertible bond reserve[1] HK$'000	Proposed cash/scrip dividends HK$'000	Retained profits[1] HK$'000	Total HK$'000
At 1 January 2019	578,975	18,818,321	38,313	25,926	(155,372)	5,102	21	40,383	–	(78,268)	200,471	81,056	6,247,694	25,802,622
Profit for the year	–	–	–	–	–	–	–	–	–	–	–	–	1,550,858	1,550,858
Other comprehensive expense for the year	–	–	–	–	–	–	–	–	(11,924)	(27,100)	–	–	–	(39,024)
Total comprehensive (expense) income	–	–	–	–	–	–	–	–	(11,924)	(27,100)	–	–	1,550,858	1,511,834
Recognition of equity-settled share-based payment (note 36)	–	–	15,449	33,544	–	–	–	–	–	–	–	–	–	48,993
Vesting of shares for the share award scheme	–	(2,802)	–	(24,318)	27,120	–	–	–	–	–	–	–	–	–
Purchases of shares held under the share award scheme	–	–	–	–	(78,958)	–	–	–	–	–	–	–	–	(78,958)
Redemption of convertible bond	–	–	–	–	–	–	–	–	–	–	(194,060)	–	194,060	–
Shares issued under share option scheme (notes 35 & 36)	258	7,130	(283)	–	–	–	–	–	–	–	–	–	–	7,105
2018 second interim dividend declared and settled in cash	–	–	–	–	–	–	–	–	–	–	–	(81,056)	(36)	(81,092)
2019 interim dividend declared and settled in cash and scrip (note 15)	14,825	326,562	–	–	–	–	–	–	–	–	–	–	(521,310)	(179,923)
Share awards lapsed	–	767	–	(767)	–	–	–	–	–	–	–	–	–	–
Share options lapsed	–	3,592	(3,592)	–	–	–	–	–	–	–	–	–	–	–
2019 second interim dividend declared and settled in cash and scrip (note 15)	–	–	–	–	–	–	–	–	–	–	–	255,445	(255,445)	–
At 31 December 2019	594,058	19,153,570	49,887	34,385	(207,210)	5,102	21	40,383	(11,924)	(105,368)	6,411	255,445	7,215,821	27,030,581
At 1 January 2020	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 year	–	–	–	–	–	–	–	–	–	–	–	–	1,932,877	1,932,877
Other comprehensive expense for the year	–	–	–	–	–	–	–	–	(82,013)	(30,438)	–	–	–	(112,451)
Total comprehensive (expense) income	–	–	–	–	–	–	–	–	(82,013)	(30,438)	–	–	1,932,877	1,820,426
Recognition of equity-settled share-based payment (note 36)	–	–	3,222	44,781	–	–	–	–	–	–	–	–	–	48,003
Vesting of shares for the share award scheme	–	(5,341)	–	(42,863)	48,204	–	–	–	–	–	–	–	–	–
Purchases of shares held under the share award scheme	–	–	–	–	(230,980)	–	–	–	–	–	–	–	–	(230,980)
2019 second interim dividend declared and settled in cash and scrip (note 15)	9,545	160,625	–	–	–	–	–	–	–	–	–	(255,445)	–	(85,275)
2020 interim dividend declared and settled in cash (note 15)	–	–	–	–	–	–	–	–	–	–	–	–	(265,586)	(265,586)
Share awards lapsed	–	872	–	(872)	–	–	–	–	–	–	–	–	–	–
Share options lapsed	–	2,681	(2,681)	–	–	–	–	–	–	–	–	–	–	–
Proposed 2020 second interim dividend (note 15)	–	–	–	–	–	–	–	–	–	–	–	706,216	(706,216)	–
At 31 December 2020	603,603	19,312,407	50,428	35,431	(389,986)	5,102	21	40,383	(93,937)	(135,806)	6,411	706,216	8,176,896	28,317,169

1. These reserve accounts represent the consolidated reserves other than share capital and proposed cash/scrip dividends of approximately HK$27,007 million (31 December 2019: approximately HK$26,181 million) in the consolidated statement of financial position.

2. As at 31 December 2020, the trustee of the share award scheme held 172,705,979 ordinary shares of the Company (31 December 2019: 62,273,142 shares) for the share award scheme, which was adopted by the Board of directors of the Company (the "Board") on 19 December 2014, through purchases in the open market. The trustee purchased 21,724,000, 17,675,000, 34,629,000 and 126,069,000 ordinary shares during the year ended 31 December 2015, 31 December 2018, 31 December 2019 and 31 December 2020 with total costs (including related transaction costs) of approximately HK$128 million, HK$62 million, HK$79 million and HK$231 million respectively. The amount transferred from "Shares held for employee share award scheme" to "Share premium account" represents shares vested during the current year, and amount transferred from "Share award reserve" to "Share premium account" represents cumulative equity-settled share-based payment amount recognised on awarded shares vested/lapsed during the current year. Details of the share award scheme of the Company has been disclosed in note 36 to the consolidated financial statements and should be read in conjunction with the relevant announcements of the share award scheme made by the Company.

Consolidated Statement of Cash Flows

For the year ended 31 December 2020

	2020 HK$'000	2019 HK$'000
OPERATING ACTIVITIES		
Profit before tax	2,300,592	1,850,629
Adjustments for:		
Interest income	(2,464,585)	(2,941,593)
Finance costs	2,144,511	3,129,773
Dividend income	(634,821)	(121,622)
(Gain) loss on disposal of property and equipment	(9)	12,153
Amortisation and depreciation	252,091	225,566
Impairment charges, net of reversal	986,115	634,489
Equity-settled share-based payment	48,003	48,993
Operating cash flows before movements in working capital	2,631,897	2,838,388
Increase in other assets	(94,923)	(26,832)
Decrease in advances to customers	3,416,081	3,662,559
Decrease (increase) in accounts receivable	3,097,790	(2,068,120)
Decrease (increase) in prepayments, deposits and other receivables	205,093	(268,645)
Decrease in financial assets held for trading and market making activities	17,869,051	5,854,689
Increase in investment securities	(9,289,858)	(11,447,808)
Decrease (increase) in assets acquired for financial products issued	487,296	(4,632,995)
(Increase) decrease in cash held on behalf of customers	(4,420,064)	864,165
Increase (decrease) in accounts payable	3,814,320	(789,893)
(Decrease) increase in cash collateral on securities lent and repurchase agreements	(16,774,581)	2,288,523
Increase in cash collateral on securities borrowed and reverse repurchase agreements	(2,413,895)	(643,339)
Increase (decrease) in financial liabilities held for trading and market making activities	2,121,889	(2,460,484)
(Decrease) increase in financial products issued at fair value	(2,594,584)	5,075,470
Change in derivative financial instruments (net)	(117,371)	240,053
Increase (decrease) in other payables, accruals and other liabilities	100,515	(359,637)
Increase (decrease) in liabilities arising from consolidation of investment funds (Note 3)	4,650,347	(62,543)
Cash from (used in) operations	2,689,003	(1,936,449)
Interest received	2,915,820	3,029,768
Dividend received	634,821	121,622
Interest paid	(2,357,585)	(3,001,002)
Tax paid	(646,785)	(36,498)
NET CASH FROM (USED IN) OPERATING ACTIVITIES	3,235,274	(1,822,559)

Consolidated Statement of Cash Flows

For the year ended 31 December 2020

	2020 HK$'000	2019 HK$'000
INVESTING ACTIVITIES		
Proceeds from disposal of property and equipment	22	1,514
Purchases of intangible assets	(31,947)	(33,140)
Purchases of property and equipment	(54,988)	(53,764)
Derecognition of investments accounted for using the equity method	–	154,440
NET CASH (USED IN) FROM INVESTING ACTIVITIES	(86,913)	69,050
FINANCING ACTIVITIES		
Proceeds from issuance of non-convertible notes	8,110,286	8,950,400
Proceeds from issuance of non-convertible bonds	3,096,183	8,599,465
Issuance cost of non-convertible bonds paid	(11,304)	(62,117)
Repayment of non-convertible bonds	(5,425,210)	(4,706,160)
Repayment of non-convertible notes	(9,280,137)	(12,636,856)
Redemption of convertible bonds	–	(3,866,392)
Proceeds from shares issued upon exercise of share options	–	7,105
Repayment of lease liabilities	(133,710)	(107,962)
Net proceeds for bank borrowings raised	1,142,689	3,096,778
Dividends paid to shareholders	(350,861)	(261,015)
Purchase of shares held under share award scheme	(230,980)	(78,958)
NET CASH USED IN FINANCING ACTIVITIES	(3,083,044)	(1,065,712)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	65,317	(2,819,221)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	4,269,608	7,088,829
CASH AND CASH EQUIVALENTS AT END OF YEAR	4,334,925	4,269,608
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS		
Cash and cash equivalents (Note 1)	4,334,925	4,269,608

Notes:

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

2. 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 realised in the market on a short term basis (without holding period restriction) for the purpose of maintaining sufficient liquidity. As at 31 December 2020, such financial assets held amounted to HK$4,181 million (31 December 2019: HK$1,436 million). Further details are disclosed in note 18 of the consolidated financial statements.

3. Liabilities arising from consolidation of investment funds represent interest held by third-parties in investments funds while such funds are consolidated in the Group's financial positions and financial performance as a result of assessment of criteria (as detailed in note 26). Change in such interests as disclosed in the consolidated statement of cash flows is an accounting technical adjustment and increase or decrease in such liability has no impact to the Group's cash flow management and financial position.

Disclosure in relation to the changes in liabilities arising from financing activities are detailed in note 33 to the consolidated financial statements.

1. General Information

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

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

The consolidated financial statements are presented in Hong Kong dollars ("HK$") which is the same as the functional currency of the Company, unless otherwise stated, and were approved for issue by the Board on 24 March 2021.

Certain comparatives figures have been reclassified or restated to conform with current year presentation as detailed in note 3.

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

Amendments to HKFRSs that are mandatorily effective for the current year

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

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

The application of the Amendments to References to the Conceptual Framework in HKFRS Standards and the amendments to HKFRSs in the current year has had no material impact on the Group's financial performance and positions for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

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

New and amendments to HKFRSs in issue but not yet effective

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

HKFRS 17	Insurance Contracts and the related Amendments[1]
Amendment to HKFRS 16	Covid-19-Related Rent Concessions[4]
Amendments to HKFRS 3	Reference to the Conceptual Framework[2]
Amendments to HKFRS 9, HKAS 39, HKFRS 7, HKFRS 4 and HKFRS 16	Interest Rate Benchmark Reform - Phase 2[5]
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[3]
Amendments to HKAS 1	Classification of Liabilities as Current or Non-current and related amendments to Hong Kong Interpretation 5 (2020)[1]
Amendments to HKAS 16	Property, Plant and Equipment – Proceeds before Intended Use[2]
Amendments to HKAS 37	Onerous Contracts – Cost of Fulfilling a Contract[2]
Amendments to HKFRSs	Annual Improvements to HKFRSs 2018 – 2020[2]

[1] Effective for annual periods beginning on or after 1 January 2023.

[2] Effective for annual periods beginning on or after 1 January 2022.

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

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

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

Amendments to HKFRS 9, HKAS 39, HKFRS 7, HKFRS 4 and HKFRS 16 Interest Rate Benchmark Reform – Phase 2

Amendments to HKFRS 9, HKAS 39, HKFRS 7, HKFRS 4 and HKFRS 16 Interest Rate Benchmark Reform – Phase 2 relate to the modification of financial assets, financial liabilities and lease liabilities, specific hedge accounting requirements and disclosure requirements applying HKFRS 7 Financial Instruments: Disclosures to accompany the amendments regarding modifications and hedge accounting.

- **Modification of financial assets, financial liabilities and lease liabilities.** A practical expedient is introduced for modifications required by the reform (modifications required as a direct consequence of the interest rate benchmark reform and made on an economically equivalent basis). These modifications are accounted for by updating the effective interest rate. All other modifications are accounted for using the current HKFRSs requirements. A similar practical expedient is proposed for lessee accounting applying HKFRS 16.

- **Disclosures**. The amendments require disclosures in order to allow users to understand the nature and extent of risks arising from the interest rate benchmark reform to which the Group is exposed to and how the entity manages those risks as well as the entity's progress in transitioning from interbank offered rates to alternative benchmark rates, and how the entity is managing this transition.

As at 31 December 2020, the Group has Hong Kong Interbank Offered Rate ("HIBOR") bank loans which may be subject to interest rate benchmark reform. The Group expects no significant gains or losses should the interest rate benchmark for these loans change resulting from the reform on application of the amendments.

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

3. Basis of Preparation and Significant Accounting Policies

Change in presentation of consolidated statement of profit or loss

From 2020 onwards, an additional subtotal for profit before impairment charges and tax has been included in the 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 consolidated statement of financial position

Advances to customers

To better reflect the business operations and activities of the Group 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 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 year presentation and there is no financial impact on the consolidated statement of financial position. In addition, the "Asset-backed financing to customers" has been renamed as "Secured financing" from 2020 onward.

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 year ended 31 December 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.

Basis of preparation of consolidated financial statements

The consolidated financial statements have been prepared in accordance with HKFRSs issued by the HKICPA. For the purpose of preparation of the consolidated financial statements, information is considered material if such information is reasonably expected to influence decisions made by primary users of the financial statements. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Listing Rules") and by the Hong Kong Companies Ordinance.

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

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

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

Fair value

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

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

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

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

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

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

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

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

Basis of consolidation

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

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

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

When the Group is an investor of a fund in which the Group also acts as a fund manager, the Group will determine whether it is a principal or an agent for the purpose of assessing whether the Group controls the relevant fund.

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

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

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

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

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

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

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

Loss of control of a subsidiary

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

Business combinations

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

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

Goodwill

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

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

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

Goodwill (continued)

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

Investments in associates and joint ventures

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

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

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

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

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

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

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

Revenue from contracts with customers

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

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

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

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

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

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

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

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

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

Revenue from contracts with customers (continued)

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

(1) *Brokerage*

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

(2) *Corporate finance*

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

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

(3) *Asset management*

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

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

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

Revenue from contracts with customers (continued)

Variable consideration

For contracts that contain variable consideration, such as performance and incentive fee income, the Group estimates the amount of consideration to which it will be entitled using the most likely amount.

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

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

Leases

Definition of a lease

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

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

The Group as a lessee

Allocation of consideration to components of a contract

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

Non-lease components are separated from lease component and are accounted for by applying other applicable standards.

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

Leases (continued)

The Group as a lessee (continued)

Short-term leases and leases of low-value assets

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

Right-of-use assets

The cost of right-of-use asset includes:

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

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

Right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term.

The Group presents right-of-use assets that do not meet the definition of investment property in “property and equipment”, the same line item within which the corresponding underlying assets would be presented if they were owned.

Refundable rental deposits

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

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

Leases (continued)

The Group as a lessee (continued)

Lease liabilities

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

The lease payments relevant to the Group include:

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

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

Lease modifications

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

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

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

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

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

Leases (continued)

The Group as a lessor under operating lease

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

Property and equipment (including leasehold land and building)

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

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

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

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

Ownership interests in leasehold land and building

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

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

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

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

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

Investment properties

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

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

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

Intangible assets

Intangible assets acquired separately

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

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

Intangible assets (continued)

Internally-generated intangible assets – research and development expenditure

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

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

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

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

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

Intangible assets acquired in a business combination

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

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

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

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

Derecognition of intangible assets

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

Foreign currency translation

- *Functional and presentation currency*

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

- *Transactions and balances*

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

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

- *Group companies*

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

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

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

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

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

Employee benefits

Pension scheme

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

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

Paid leave carried forward

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

Bonus and incentive plans

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

Share-based compensation expenses

Share options granted to employees

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

Share-based compensation expenses to employees are measured at the fair value at the grant date.

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

Employee benefits (continued)

Share-based compensation expenses (continued)

Share options granted to employees (continued)

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

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

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

Share award scheme to employees

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

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

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

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

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit/(loss) before tax because of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such deferred tax assets and liabilities are not recognised if the temporary difference arises from the initial recognition (other than in a business combination) of assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit. In addition, deferred tax liabilities are not recognised if the temporary difference arises from the initial recognition of goodwill.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset is realised, based on tax rate (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

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

Taxation (continued)

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

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

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

Impairment on non-financial assets

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

An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount (i.e., the higher of an asset's fair value less costs of disposal and value-in-use). The recoverable amount of tangible and intangible assets are estimated individually, when it is not possible to estimate the recoverable amount individually, the Group estimates the recoverable amount of the cash generating unit to which the asset belongs.

When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified. For the purpose of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows which are largely independent of the cash inflows from assets or group of assets (cash generating units).

Such impairment losses are recognised in the consolidated statement of profit or loss. An impairment loss other than in relation to goodwill is reversed if the circumstances and events leading to the impairment cease to exist. A reversal of an impairment loss is recognised immediately in profit or loss.

Financial instruments

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

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

Financial instruments (continued)

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

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

Financial assets

Classification and subsequent measurement of financial assets

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

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

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

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

All other financial assets are subsequently measured at FVTPL, except that upon initial recognition of an equity instrument that the Group may irrevocably elect to present subsequent changes in fair value in other comprehensive income ("OCI").

A financial asset is held for trading if:

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

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

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

Financial instruments (continued)

Financial assets (continued)

Classification and subsequent measurement of financial assets (continued)

(i) Amortised cost and interest income

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

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

(ii) Debt instruments as at FVTOCI

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

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

Financial instruments (continued)

Financial assets (continued)

Classification and subsequent measurement of financial assets (continued)

(iii) Equity instruments designated as at FVTOCI

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

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

(iv) Financial assets at FVTPL

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

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

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

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

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

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

Financial instruments (continued)

Financial assets (continued)

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

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

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

(i) Significant increase in credit risk

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

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

- an actual or expected significant deterioration in the financial instrument's external (if available) or internal credit rating;

- significant deterioration in external market indicators of credit risk, e.g. a significant increase in the credit spread, the credit default swap prices for the debtor;

- existing or forecasting adverse changes in business, financial or economic conditions that are expected to cause a significant decrease in the debtor's ability to meet its debt obligations;

- an actual or expected significant deterioration in the operating results of the debtor;

- an actual or expected significant adverse change in the regulatory, economic, or technological environment of the debtor that results in a significant decrease in the debtor's ability to meet its debt obligations.

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

Financial instruments (continued)

Financial assets (continued)

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

(i) Significant increase in credit risk (continued)

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

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

(ii) Definition of default

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

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

Financial instruments (continued)

Financial assets (continued)

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

(iii) Credit-impaired financial assets

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

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

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

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

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

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

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

(iv) Write-off policy

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

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

Financial instruments (continued)

Financial assets (continued)

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

(v) Measurement and recognition of ECL

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

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

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

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

- Past-due status; and

- External credit ratings where available.

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

Financial instruments (continued)

Financial assets (continued)

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

(v) Measurement and recognition of ECL (continued)

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

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

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

Derecognition of financial assets

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

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

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

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

Modification of financial assets

A modification of a financial asset occurs if the contractual cash flows are renegotiated or otherwise modified.

When the contractual terms of a financial asset are modified, the Group assesses whether the revised terms result in a substantial modification from original terms taking into account all relevant facts and circumstances including qualitative factors. If qualitative assessment is not conclusive, the Group considers the terms are substantially different if the discounted present value of the cash flows under the new terms, including any fees paid net of any fees received, and discounted using the original effective interest rate, is at least 10 per cent different from the discounted present value of the remaining cash flows of the original financial asset, after reducing gross carrying amount that has been written off.

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

Financial instruments (continued)

Financial assets (continued)

Modification of financial assets (continued)

For non-substantial modifications of financial assets that do not result in derecognition, the carrying amount of the relevant financial assets will be calculated at the present value of the modified contractual cash flows discounted at the financial assets' original effective interest rate. Transaction costs or fees incurred are adjusted to the carrying amount of the modified financial assets and are amortised over the remaining term. Any adjustment to the carrying amount of the financial asset is recognised in profit or loss at the date of modification.

Financial liabilities and equity

Classification as debt or equity

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

Equity instruments

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

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

Financial liabilities

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

Financial liabilities at FVTPL

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

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

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

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or

- the financial liability forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or

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

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

Financial instruments (continued)

Financial liabilities and equity (continued)

Financial liabilities at FVTPL (continued)

Financial liabilities at FVTPL are measured at fair value, with any gains or losses arising on remeasurement recognised in profit or loss. Fair value is determined in the manner described in note 43.

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

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

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

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

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

Financial liabilities at amortised cost

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

Convertible bonds

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

At the date of issue, the fair value of the liability component (including any embedded non-equity derivatives features) is estimated by measuring the fair value of similar liability that does not have an associated equity component.

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

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

Financial instruments (continued)

Financial liabilities and equity (continued)

Convertible bonds (continued)

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

Effective interest method

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

Derecognition of financial liabilities

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

Derivative financial instruments

Derivatives are initially recognised at fair value at the date when derivative contracts are entered into and are subsequently remeasured to their fair value at the end of the reporting period. The resulting gain or loss is recognised in profit or loss.

Offsetting a financial asset and a financial liability

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

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

Financial instruments (continued)

Repurchase agreements

Financial assets sold subject to agreements with a commitment to repurchase at a specific future date are not derecognised in the consolidated statement of financial position. The proceeds from selling such assets are recognised as financial liabilities and presented as "repurchase agreements" in the consolidated statement of financial position. Financial assets sold under repurchase agreements, which do not result in derecognition of the financial assets, and are classified as "financial assets at FVTPL". During the year ended 31 December 2019, repurchase agreements are initially measured at fair value and are subsequently measured at amortised cost using the effective interest method. Subsequently during the year ended 31 December 2020, the Group considers new repurchase agreements shall be designated at FVTPL (see above in respect of designation as FVTPL) to reduce the accounting mis-match and better reflect the business of the Group's trading and market making activities and financial product issuance activities, and their relationship with the Group's funding activity through repurchase agreements. As a result, the Group designated the liability arising from repurchase agreements entered during the year ended 31 December 2020 in relation to the Group's trading and market and making activities and financial product issuance activities as FVTPL and such fair value gains or loss (including any finance cost on the repurchase agreements) are recognised in net trading and investment income in the consolidated statement of profit or loss. In the second half of 2020, due to change in business model in new repurchase agreements, the Group decided to cease the designation of new liability arising from repurchase agreements.

Reverse repurchase agreements

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

4. Critical Accounting Judgements and Key Sources of Estimation Uncertainty

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

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

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

Key sources of estimation uncertainty

The application of ECL models

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

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

Incorporation of forward-looking information

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

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

Key sources of estimation uncertainty (continued)

Impairment charges of financial assets at amortised cost (continued)

Measurement of ECL

Probability of default ("PD") constitutes a key input in measuring ECL. PD is an estimate of the likelihood of default over a given time horizon, the calculation is based on reasonable and appropriate statistical rating models selected by the management with judgements. These statistical models are based on market data (where available), as well as internal data comprising both quantitative and qualitative factors which includes historical data, assumptions and expectations of future conditions. In current situation of greater economic uncertainties, the directors of the Company have taken into account of the possible worsening economic outlook into certain ECL models by adjusting the probabilities assigned to the multiple economic scenarios (e.g. normal scenario and downside scenario) set in the ECL model with reference to the publicly available information. The management gathers this information and adjust the data to reflect probability-weighted forward-looking information that is reasonable and supportable available without undue cost or effort.

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

In assessing the lifetime ECL on credit-impaired financial assets classified as stage 3, the Group performs the assessment based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors or borrowers (such as whether there is any guarantor and the financial strength of the guarantor), general economic conditions and both the current conditions at the reporting date as well as the forecast of future conditions with significant judgments involved. Moreover, the Group also reviews the value of the collateral received from the customers and other types of credit enhancement received during debt collection process in determining the impairment. Generally, the Group reviews the value of collateral depending on the particular type of the collateral received. During the course of business, the Group will receive different types of collateral for financing provided, such as listed shares, shares of unlisted companies or assets such as property, and the Group has developed valuation techniques and policies in valuing different types of collateral. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce material differences between loss estimates and actual loss experience.

Relevant information with regard to the exposure to credit risk and expected credit losses are set out in note 42 to the consolidated financial statements.

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

Key sources of estimation uncertainty (continued)

Fair value of derivatives and financial instruments

The Group selects appropriate valuation techniques for financial instruments which are classified as Level 2 and 3 investments in accordance with the Group's significant accounting policies as disclosed in note 3 to the consolidated financial statements. Note 43 to the consolidated financial statements provides detailed information about the key assumptions used in the determination of the fair value of material financial instruments.

Estimated impairment of goodwill

For goodwill arising from acquisitions in prior years, assessment performed to determine whether goodwill is impaired. This assessment requires an estimation of the value-in-use of the cash generating units to which goodwill has been allocated. The value-in-use calculation requires the Group to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate the present value. Where the actual future cash flows are less than expected, a material impairment loss may arise. As at 31 December 2020, the carrying value of goodwill amounted to HK$380,099,000 (2019: HK$380,099,000). Details of the recoverable amount calculation are disclosed in note 27 to the consolidated financial statements.

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

Critical judgements in applying accounting policies

Determination of consolidation scope of certain investments

The Group invested in certain investment funds, partnerships and private equity investments (collectively referred to as "Investments" for the purpose of this note as well as notes 25 and 26) which have been formed so that voting or similar rights may not be the dominant factor in deciding who controls these Investments, such as when any voting rights relate to administrative tasks only, and the relevant activities are directed by means of contractual arrangements.

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

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

In conducting the assessment to determine the consolidated scope, the directors of the Company consider whether the Group has power to remove or control over the party having the ability to direct the relevant activities of the Investments based on the facts and circumstances and that the Group has material exposure to variable returns of the Investments or not. Among those Investments held by the Group where the Group is directly or indirectly involved as investment manager, the Group regularly assesses and determines whether:

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

Detailed accounting policy on assessment of control are set out in "basis of consolidation" in note 3 and further details are set out in note 25 and note 26.

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

Critical judgements in applying accounting policies (continued)

Significant increase in credit risk in measurement of ECL

As explained in note 3, the Group monitors all financial assets that are subject to impairment requirements to assess whether there has been a significant increase in credit risk since initial recognition. If there has been a significant increase in credit risk, the Company will measure the loss allowance based on lifetime rather than 12m ECL. HKFRS 9 does not define what constitutes a significant increase in credit risk. In assessing whether the credit risk of an asset has significantly increased the Group takes into account qualitative and quantitative reasonable and supportable forward-looking information with significant judgments involved. Information that will be taken into account when assessing whatever there is significant increase in credit risks are set out in "Impairment of financial assets" in note 3 and note 42.

5. Segment Information

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

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

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

(a) the wealth management segment provides financial advisory services and customized investment solutions to satisfy the specific financial needs of high net worth clients. This segment offers a broad range of products and services including securities, futures and options contracts, over-the-counter products, funds, securities custodian services, and securities margin financing;

(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 financial advisory service for corporate actions such as mergers and acquisitions. In addition, this segment also provides financing solutions to the corporate clients and distributes these financing assets in secondary market;

(c) the asset management segment engages in provision of investment management services on diversified and comprehensive investment products including public funds, private funds and mandatory provident funds to individual, corporate and institutional clients;

5. Segment Information (continued)

(d) the institutional clients segment serves institutional clients globally through sales and trading of both equity and fixed income products, financing, structuring products, offering risk management solutions and providing research advisory. It is also an active player in equity derivative products creation and trading. This segment is supported by the award-winning equity research team that specializes in listed equities in Asian financial markets; and

(e) the investment segment invests in various financial instruments, primarily on listed equities, investment funds and private equity investments, to explore investment opportunities with reasonable returns.

During the current year, the Group revisited the clients' classification amongst wealth management segment and institutional client segment. The commission and fee income recognised in respective segments for the current year follows the current classification for high net worth clients and institutional clients. Consequently, comparative information for the year ended 31 December 2019 on segment revenue and segment profit has been restated to conform the current year's presentation.

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

For the year ended 31 December 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	714,296	1,317,065	370,651	462,563	–	2,864,575
Interest income	1,279,773	601,614	–	563,818	19,380	2,464,585
Net trading and investment income	–	–	–	1,175,534	1,825,053	3,000,587
Segment revenue	1,994,069	1,918,679	370,651	2,201,915	1,844,433	8,329,747
Other income and gains (losses)	15,319	2,811	–	2,332	(117,773)[1]	(97,311)
	2,009,388	1,921,490	370,651	2,204,247	1,726,660	8,232,436
Segment expenses	(1,052,848)	(823,112)	(207,109)	(1,763,098)	(1,099,562)	(4,945,729)
Profit before impairment charges and tax	956,540	1,098,378	163,542	441,149	627,098	3,286,707
Impairment charges, net of reversal	(380,649)	(177,705)	–	(427,761)	–	(986,115)
Profit before tax	575,891	920,673	163,542	13,388	627,098	2,300,592
Income tax expense						(367,715)
Profit for the year						1,932,877
Amortisation and depreciation	(77,985)	(23,216)	(7,136)	(139,734)	(4,020)	(252,091)
Finance costs	(318,843)	(254,860)	–	(748,131)	(822,677)	(2,144,511)

5. Segment Information (continued)

For the year ended 31 December 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	614,542	974,561	309,115	393,704	–	2,291,922
Interest income	1,473,377	553,497	–	897,153	17,566	2,941,593
Net trading and investment income	–	–	–	2,038,611	971,848	3,010,459
Segment revenue	2,087,919	1,528,058	309,115	3,329,468	989,414	8,243,974
Other income and (losses) gains	(8,526)	3,554	–	1,145	(34,982) [1]	(38,809)
	2,079,393	1,531,612	309,115	3,330,613	954,432	8,205,165
Segment expenses	(1,149,740)	(739,447)	(181,695)	(2,809,748)	(839,417)	(5,720,047)
Profit before impairment charges and tax	929,653	792,165	127,420	520,865	115,015	2,485,118
Impairment charges, net of reversal	(557,784)	(43,828)	–	(35,150)	2,273	(634,489)
Profit before tax	371,869	748,337	127,420	485,715	117,288	1,850,629
Income tax expense						(299,771)
Profit for the year						1,550,858
Amortisation and depreciation	(68,534)	(13,864)	(4,883)	(135,163)	(3,122)	(225,566)
Finance costs	(491,964)	(229,387)	–	(1,708,203)	(700,219)	(3,129,773)

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

The accounting policies of the operating segments are the same as the Group's accounting policies described in note 3. Segment result represents the profit earned by each segment without allocation of income tax expenses.

6. Revenue and Other Income and Gains or Losses

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

	2020 HK$'000	2019 HK$'000
Revenue		
Commission and fee income (note (i)):		
Commission on brokerage (note (ii))	913,265	659,296
Commission on underwriting and placing	1,114,145	781,741
Financial advisory and consultancy fee income	202,920	192,820
Asset management fee and performance fee income	370,651	309,115
Handling, custodian and service fee income (note (ii))	263,594	348,950
	2,864,575	2,291,922
Interest income:		
Interest income from advances to customers		
– margin financing	1,023,115	1,176,251
– merger and acquisition financing	202,846	320,660
– secured financing	164,375	269,505
Interest income from investment securities at amortised cost	763,979	765,595
Interest income from reverse repurchase agreements	109,400	64,793
Interest income from bank deposits and others	200,870	344,789
	2,464,585	2,941,593
Net trading and investment income:		
Net trading income on fixed income, currency and commodities, and equity derivatives	569,381	1,269,930
Net trading income on financial products	606,153	768,681
Net investment gain on financial assets/liabilities at FVTPL	1,825,053	971,848
	3,000,587	3,010,459
	8,329,747	8,243,974
Other income and gains or losses		
Others (note (iii))	(97,311)	(38,809)

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

Notes:

(i) Commission and fee income is the only revenue arising from HKFRS 15, while interest income and net trading and investment income are under the scope of HKFRS 9. Included in revenue, revenue arising from contract with customers recognised at a point in time and over time were HK$2,399,862,000 (2019: HK$1,867,490,000) and HK$464,713,000 (2019: HK$424,432,000) respectively.

(ii) Amounts of commission on brokerage of HK$331,284,000 (2019: HK$241,945,000) and handling, custodian and service fee income of HK$131,279,000 (2019: HK$151,759,000) have been included in institutional clients segment and the remaining amount of each category has been included in wealth management segment.

(iii) Included in other income and gains or losses is the net loss on remeasurement of the liability in relation to the share of consolidated investment funds attributable to third-party unit/shareholders of loss of HK$126 million (2019: loss of HK$40 million).

Details of the Group's interest in consolidated investment funds are disclosed in note 26 to the consolidated financial statements.

7. Staff Costs

	2020 HK$'000	2019 HK$'000
Salaries, incentives, bonuses and allowances	1,474,145	1,299,356
Share-based compensation expense (note 36)	48,003	48,993
Pension scheme contributions (net)	42,847	32,569
	1,564,995	1,380,918

8. Impairment Charges, Net of Reversal

	2020 HK$'000	2019 HK$'000
Net impairment charges on:		
Advances to customers		
– margin financing	331,816	532,277
– merger and acquisition financing	148,618	35,037
– secured financing	474,243	50,198
Investment securities at amortised cost	20,909	1,079
Accounts receivable and others	10,529	15,898
	986,115	634,489

9. Finance Costs

	2020 HK$'000	2019 HK$'000
Bank loans and overdrafts	1,245,410	1,355,303
Debt securities in issue:		
– Convertible bonds	2,116	142,162
– Non-convertible bonds	468,808	489,784
– Non-convertible notes	188,056	351,370
Interest on lease liabilities	11,713	9,241
Repurchase agreements and others (note)	228,408	781,913
	2,144,511	3,129,773

Note: For the year ended 31 December 2019, included in the "finance costs - repurchase agreements and others" of HK$782 million was the finance costs arising from repurchase agreements of HK$759 million. During the current year, the Group considers that repurchases agreements in relation to the Group's trading and market making activities and financial product issuance activities shall be designated at fair value through profit or loss to reduce the accounting mis-match and better reflect the business model of these activities. Consequently, expenses amounted to HK$228 million arising from the Group's relevant repurchase agreements entered during the year ended 31 December 2020 are presented in "net trading and investment income" in the consolidated statement of profit or loss. Accounting policy in respect of repurchase agreements are detailed in note 3.

Details of the Group's bank borrowings and debt securities in issue are disclosed in note 33.

10. Profit Before Tax

Profit before tax has been arrived at after charging/(crediting):

	2020 HK$'000	2019 HK$'000
Auditor's remuneration:		
Statutory audit fee	5,450	5,450
Non-statutory audit service fee	770	2,401
(Gain) loss on disposal of property and equipment	(9)	12,153
Commission expenses:		
Commission to accounts executives	221,526	149,418
Other commission expenses	36,432	29,933
Depreciation and amortisation:		
Depreciation on property and equipment (other than right-of-use assets)	79,243	93,645
Depreciation of right-of-use assets	135,133	111,306
Amortisation of intangible assets	37,715	20,615

11. Directors' and Chief Executive's Emoluments

Directors' remuneration for the year is as follows:

	2020 HK$'000	2019 HK$'000
Fees:		
Executive directors	300	300
Non-executive directors	400	400
Independent non-executive directors	1,100	1,100
	1,800	1,800
Other emoluments:		
Executive directors:		
Salaries and allowances	12,372	12,372
Bonuses (note (a))	36,900	36,900
Pension scheme contributions	563	528
	49,835	49,800
	51,635	51,600

Note:

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

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

Independent non-executive directors

For the year ended 31 December 2020

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

For the year ended 31 December 2019

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

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

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

Executive directors and non-executive directors

For the year ended 31 December 2020

	Fees HK$'000	Salaries and allowances HK$'000	Bonuses HK$'000	Pension Scheme contributions HK$'000	Total remuneration HK$'000
Executive directors:					
Lin Yong (notes a & b)	–	4,320	16,000	216	20,536
Li Jianguo (note a)	300	–	–	15	315
Poon Mo Yiu (note a)	–	3,096	6,300	155	9,551
Sun Jianfeng (note a)	–	2,478	7,300	124	9,902
Sun Tong (note a)	–	2,478	7,300	53	9,831
	300	12,372	36,900	563	50,135
Non-executive directors:					
Qu Qiuping (note c)	–	–	–	–	–
Cheng Chi Ming, Brian (note c)	200	–	–	–	200
Wang Meijuan (notes c & d)	–	–	–	–	–
Chan William (note c)	200	–	–	–	200
Zhang Xinjun (note c)	–	–	–	–	–
	400	–	–	–	400
	700	12,372	36,900	563	50,535

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

Executive directors and non-executive directors (continued)

For the year ended 31 December 2019

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

Notes:

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

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

(c) The non-executive directors' emoluments shown above were for their services as directors of the Company. Except for the director fees waived by Mr. Qu Qiuping, Ms. Wang Meijuan and Mr. Zhang Xinjun during the year ended 31 December 2020 (2019: Mr. Qu Qiuping, Ms. Wang Meijuan and Mr. Zhang Xinjun), there was no arrangement under which a director waived or agreed to waive any remuneration during the current year.

(d) Ms. Wang Meijuan retired as a non-executive director with effect on 29 May 2020.

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

Amortisation of fair value of share options granted to directors

During the years ended 31 December 2020 and 31 December 2019, certain directors of the Company were granted share options for their services to the Group. Details of the share option scheme are disclosed in note 36 of the consolidated financial statements. The fair value of such options was determined on the date of grant and recognised in the consolidated statement of profit or loss as an expense over the vesting period while there was no actual cash payment made to the directors. The amount of amortisation of fair value of share option as recognised in the consolidated statement of profit or loss is as below:

	2020 HK$'000	2019 HK$'000
Executive Directors:		
Lin Yong	275	1,394
Li Jianguo	61	232
Poon Mo Yiu	107	542
Sun Jianfeng	184	930
Sun Tong	184	775
Non-executive directors:		
Qu Qiuping	153	521
Cheng Chi Ming, Brian	46	232
Wang Meijuan *(retired on 29 May 2020)*	–	232
Chan William	46	232
Zhang Xinjun	61	668
Independent non-executive directors:		
Tsui Hing Chuen, William	46	232
Lau Wai Piu	46	232
Wei Kuo-chiang	46	232
Wan Kam To	46	232
Liu Yan	46	232

12. Five Highest Paid Employees

The five highest paid employees during the current year and prior year included one (2019: two) director(s), details of each director's remuneration are set out in note 11 above.

The total remuneration of four non-directors for the year ended 31 December 2020 and three non-directors for the year ended 31 December 2019 was as follows.

	2020 HK$'000	2019 HK$'000
Salaries, incentives, bonuses and allowances	74,299	51,962
Share-based compensation expense	195	1,022
Pension scheme contributions (net)	565	445
	75,059	53,429

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

	2020 Number of individuals	2019 Number of individuals
HK$11,000,001 to HK$11,500,000	1	–
HK$13,500,001 to HK$14,000,000	–	1
HK$15,000,001 to HK$15,500,000	–	–
HK$15,500,001 to HK$16,000,000	–	–
HK$16,500,001 to HK$17,000,000	1	–
HK$17,000,001 to HK$17,500,000	–	1
HK$22,000,001 to HK$22,500,000	1	1
HK$24,500,001 to HK$25,000,000	1	–
	4	3

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

13. Income Tax Expense

	2020 HK$'000	2019 HK$'000
Current taxation:		
– Hong Kong	357,948	311,464
– Other jurisdictions	26,162	2,254
	384,110	313,718
(Over) under provision in prior years:		
– Hong Kong	(19,705)	4,768
Deferred tax:		
– Current year and prior year	3,310	(18,715)
	367,715	299,771

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

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

The tax charge for the year can be reconciled to "profit before tax" per the consolidated statement of profit or loss as follows:

	2020 HK$'000	2019 HK$'000
Profit before tax	2,300,592	1,850,629
Taxation at income tax rate of 16.5%	379,598	305,354
(Over) under provision in respect of prior years	(19,705)	4,768
Tax effect of expenses not deductible for tax purpose	96,151	205,560
Tax effect of income not taxable for tax purpose	(279,837)	(177,854)
Tax effect of utilisation of estimated tax losses previously not recognised	(88,512)	(64,525)
Tax effect of estimated tax losses not recognised	272,671	36,310
Tax effect of recognition of deferred tax previously not recognised	7,781	(10,608)
Effect of different tax rates of subsidiaries operating in other jurisdictions	(432)	766
Income tax expense	367,715	299,771

13. Income Tax Expense (continued)

The Group has estimated tax losses of approximately HK$3,502 million as at 31 December 2020 (31 December 2019: HK$2,384 million), out of which HK$3,339 million (31 December 2019: HK$2,222 million) can be carried forward indefinitely for offsetting against future taxable profits of the respective companies in which the losses arose. These estimated tax losses have no expiry date but are subject to the approval of tax authorities. The remaining portion of HK$163 million will expire in 2025 to 2037 (31 December 2019: HK$162 million will expire in 2024 to 2037). Meanwhile, tax losses of HK$73 million have been recognised as deferred tax assets as at 31 December 2020 (31 December 2019: HK$70 million).

Deferred tax assets of HK$608 million (31 December 2019: HK$423 million) have not been recognised in respect of the tax losses as it is not probable that sufficient future taxable profits will be available in the subsidiaries in which the losses arose against which the unused tax losses can be utilised in the near future.

14. Earnings Per Share

Basic earnings per share

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

	2020	2019
Earnings		
Profit for the year attributable to owners of the Company (HK$'000)	1,932,877	1,550,858
Number of shares		
Weighted average number of ordinary shares in issue less shares held for the share award scheme (in thousands) (note (a))	5,861,815	5,776,737
Basic earnings per share (HK cents per share)	32.97	26.85

14. Earnings Per Share (continued)

Diluted earnings per share

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

	2020	2019
Earnings		
Profit for the year attributable to owners of the Company (HK$'000)	1,932,877	1,550,858
Effect of dilutive potential ordinary shares		
– Interest on convertible bonds (net of tax) (HK$'000) (note (b))	1,767	123,644
Earnings for the purpose of diluted earnings per share (HK$'000)	1,934,644	1,674,502
Number of shares		
Weighted average number of ordinary shares in issue less shares held for the share award scheme (in thousands) (note (a))	5,861,815	5,776,737
Effect of dilutive potential ordinary shares:		
– Convertible bonds (in thousands) (note (b))	21,781	550,874
– Share options (in thousands) (note (c))	699	10
– Share awards (in thousands)	5,051	3,334
Weighted average number of ordinary shares for the purpose of diluted earnings per share (in thousands)	5,889,346	6,330,955
Diluted earnings per share (HK cents per share)	32.85	26.45

14. Earnings Per Share (continued)

Diluted earnings per share (continued)

Notes:

(a) As at 31 December 2020, the trustee of the share award scheme held 172,705,979 ordinary shares of the Company (31 December 2019: 62,273,142 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$390 million (31 December 2019: HK$207 million).

Details of the share award scheme and the movement of awarded shares of the Company have been disclosed in note 36 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 33.

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 31 December 2020, the convertible bonds issued in 2016 that remain outstanding are convertible into ordinary shares of the Company at a conversion price of HK$5.55 (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 first issue with the adjustment if there is any conversion of the convertible bonds into ordinary shares during the year. The net profit is adjusted to eliminate the relevant interest expense less the tax effect.

(c) The computation of diluted earnings per share assumed the exercise of the Company's outstanding share options with the exercise price lower than the average market price during the years ended 31 December 2020 and 2019 and with the adjustment for the share options lapsed or exercised during the years.

15. Dividends

	2020 HK$'000	2019 HK$'000
Interim dividend paid		
– HK4.4 cents (2019: HK9 cents) per ordinary share	265,586	521,310
Proposed second interim dividend		
– HK11.7 cents (2019: HK4.3 cents) per ordinary share	706,216	255,445
	971,802	776,755

At a meeting of the Board held on 23 August 2019, the Board declared an interim dividend of HK9 cents per share in cash for the six months ended 30 June 2019. The shareholders are given the option to receive the interim dividend in new shares in lieu of cash. The interim dividend was paid on 25 October 2019, with an approximate total of HK$179,923,000 cash dividend paid to shareholders and 148,254,725 shares were issued in scrip form with an approximate amount of HK$341,387,000.

At a meeting of the Board held on 24 March 2020, the Board declared a second interim dividend of HK4.3 cents per share in cash for the year ended 31 December 2019. 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 was paid on 21 September 2020, with an approximate total of HK$265,586,000 cash dividend paid to the shareholders.

At a meeting of the Board held on 24 March 2021, the Board declared a second interim dividend of HK11.7 cents per share in cash for the year ended 31 December 2020 to shareholders whose names appear on the register of members of the Company on 16 April 2021. The second interim dividend is expected to be paid on or about 28 April 2021. The overall amount of cash dividends under distribution will be calculated according to such actual number of shares of the Company in issue on the record date for the cash dividend distribution.

16. Cash Held on Behalf of Customers

The Group maintains segregated accounts with authorized institutions to hold clients' monies arising from its normal course of business. The Group has classified the clients' monies as cash held on behalf of customers under the current assets section of the consolidated statement of financial position and recognised the corresponding accounts payable (note 32) to respective clients on the grounds that it is liable for any loss or misappropriation of clients' monies. The cash held on behalf of customers is restricted and governed by the Securities and Futures (Client Money) Rules under the Hong Kong Securities and Futures Ordinance ("HKSFO").

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

	2020 HK$'000	2019 HK$'000
Financial assets held for trading and market making activities – at fair value		
Listed equity investments	1,060,830	1,748,246
Exchange traded funds	65,908	151,404
Listed preference shares	1,749	3,280
Listed debt investments	8,955,509	25,956,217
Unlisted debt investments	506,831	600,731
	10,590,827	28,459,878
Financial liabilities held for trading and market making activities – at fair value		
Listed equity investments (note (i))	167,972	191,272
Exchange traded funds (note (i))	–	22,922
Listed debt investments (note (i))	3,890,821	1,654,878
Listed preference shares (note (i))	8,349	55,127
Unlisted debt investments (note (i))	129	21,183
	4,067,271	1,945,382

Details of disclosure for fair value measurement are set out in note 43.

Note:

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

18. Investment Securities

	2020 HK$'000	2019 HK$'000
Investment securities measured at:		
– Fair value through profit or loss	35,946,111	26,099,341
– Fair value through other comprehensive income	344,683	920,246
– Amortised cost (note (vii))	10,475,717	10,561,083
	46,766,511	37,580,670
Less: Non-current portion (note (iv))	(15,267,263)	(18,389,524)
Current portion	31,499,248	19,191,146

Details of disclosure for fair value measurements are set out in note 43.

Investment securities at fair value through profit or loss (note (vi))

	2020 HK$'000	2019 HK$'000
Listed equity investments	3,625,574	2,200,493
Exchange traded funds	87,269	406,867
Listed debt investments	–	1,292,434
Unlisted partnership investments (note (v))	1,608,351	1,295,951
Unlisted equity investments	740,359	346,717
Unlisted debt investments	3,326,017	2,863,987
Unlisted investment funds (notes (ii) and (iii))	15,367,658	10,396,154
Consolidated investment funds (notes (i) and (vi))	11,190,883	7,296,738
	35,946,111	26,099,341
Less: Non-current portion (note (iv))	(12,793,985)	(17,032,056)
Current portion	23,152,126	9,067,285

18. Investment Securities (continued)

Investment securities measured at fair value through other comprehensive income

	2020 HK$'000	2019 HK$'000
Listed equity investments	284,838	151,676
Listed debt investments	59,845	768,570
	344,683	920,246
Less: Non-current portion (note (iv))	(344,683)	(213,169)
Current portion	–	707,077

Investment securities measured at amortised cost (note (vii))

	2020 HK$'000	2019 HK$'000
Unlisted debt investments	10,510,350	10,574,807
Less: Impairment allowance	(34,633)	(13,724)
	10,475,717	10,561,083
Less: Non-current portion (note (iv))	(2,128,595)	(1,144,299)
Current portion	8,347,122	9,416,784

Notes:

(i) Investment securities at fair value through profit or loss includes certain investment funds that are consolidated into the consolidated financial statements of the Group (note 26).

As at 31 December 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 "fair value measurements of financial instruments"(note 43) of the consolidated financial statements.

Included in the consolidated investment funds of HK$11,191 million (31 December 2019: HK$7,297 million) is interests held by third-party unit/shareholders of HK$ 5,072 million (31 December 2019: HK$421 million). These interests are beneficially held by third-party unit/shareholders and the gain or loss arising from these third party interests have no impact to the net assets, net profit and leverage ratio of the Group. Instead, these interests are consolidated as a result of assessment of criteria under note 26 and the accounting policy as detailed in note 3.

18. Investment Securities (continued)

Notes: (continued)

(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$15,368 million (31 December 2019: HK$10,396 million) in the consolidated statement of financial position represents the Group's maximum exposure.

(iii) The Group held certain unlisted investment funds amounted to HK$8,333 million (31 December 2019: HK$7,250 million) and these investment funds shall be classified as "investments accounted for using the equity method" given the Group held over 30% (31 December 2019: over 30%) of the non-participating shares of these funds and also the Group held 50% of the management shares in these unlisted investment funds, and management shareholders are empowered to make all the key financing and operating decisions in the Funds and require unanimous consent of the parties sharing control. The directors of the Company considered that these investment funds shall be measured at fair value through profit or loss instead of applying the equity method as the principal activity of the subsidiary holding these funds is investment holding, and therefore qualified as "venture capital organisation" as detailed in note 3. There is no unfilled capital commitment on these unlisted investment funds as at 31 December 2020 and 31 December 2019 respectively and the fair values represent the maximum exposure on respective reporting dates.

(iv) As at 31 December 2020 and 31 December 2019, included in the non-current portion of investment securities 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.

(v) As at 31 December 2020, the unfilled capital commitment to the partnerships were HK$456 million (31 December 2019: HK$450 million).

(vi) As part of the liquidity and cash management of the Group, the Group invested into highly liquid investments for the purpose of maintaining sufficient cash and financial assets that are readily convertible into cash 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 and corporations. As at 31 December 2020, such financial assets held amounted to HK$4,181 million (31 December 2019: HK$1,436 million).

(vii) Included in investment securities at amortised cost are gross carrying amount of HK$10,510 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 Investment Committee of the Group based on the latest status of these securities, and the latest announced or available information about the issuers and the underlying collateral held.

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

	2020 HK$'000	2019 HK$'000
Assets – acquired for financial products issued		
Listed equity investments, at fair value (note (ii))	3,408,390	1,438,796
Listed debt investments, at fair value (note (ii))	9,465,212	18,905,357
Unlisted equity investments, at fair value (notes (i) & (ii))	401,261	560,048
Unlisted partnership investments, at fair value (notes (i) & (ii))	15,504	207,049
Unlisted debt investments, at fair value (note (ii))	4,849,750	1,556,038
Unlisted investment funds, at fair value (notes (i) & (ii))	1,530,528	3,272,753
Unlisted financial products, at fair value (notes (ii) & (iv))	7,268,672	6,445,804
Consolidated investment fund, at fair value (notes (ii) and (v))	4,873,378	–
	31,812,695	32,385,845
Less: Non-current portion	(5,279,720)	(2,629,569)
Current portion	26,532,975	29,756,276
Liabilities – Financial products issued at fair value		
Unlisted issued financial products, at fair value (note (iii))	16,435,654	18,998,315
Listed equity investments, at fair value	–	31,923
	16,435,654	19,030,238
Less: Non-current portion	(816,545)	(1,926,905)
Current portion	15,619,109	17,103,333

Details of disclosure for fair value measurements are set out in note 43.

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

Notes:

(i) As at 31 December 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$1,947 million (31 December 2019: HK$4,040 million) in the consolidated statement of financial position represents the Group's maximum exposure.

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

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

(iii) As at 31 December 2020 and 31 December 2019, financial products issued at fair value are generally issued in the form of notes or 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 consolidated financial statements of the Group (note 26).

As at 31 December 2020, the investments held by consolidated investment fund are listed and unlisted debt investments of HK$4,873 million (2019: Nil).

20. Derivative Financial Instruments

	2020 HK$'000	2019 HK$'000
Assets		
Swaps	280,539	188,328
Forward foreign currency exchange contracts	12,076	71,959
Listed futures/options/warrants	414,717	52,990
Callable bull/bear contracts	4,741	8,133
Unlisted options	20,037	18,743
	732,110	340,153
Liabilities		
Swaps	6,131	68,162
Forward foreign currency exchange contracts	27,645	26,676
Listed futures/options/warrants	571,433	197,195
Callable bull/bear contracts	190,398	208,343
Unlisted options	24,118	44,763
	819,725	545,139

21. Advances to Customers

	2020 HK$'000	2019 HK$'000
Advances to customers:		
– Margin financing	12,327,279	12,629,847
– Merger and acquisition financing	3,232,843	2,827,958
– Secured financing	652,259	5,125,334
	16,212,381	20,583,139
Less: Non-current portion	(231,403)	(1,114,087)
Current portion	15,980,978	19,469,052

21. Advances to Customers (continued)

Margin financing

	2020 HK$'000	2019 HK$'000
Margin financing	13,534,090	13,504,901
Less: Impairment allowance	(1,206,811)	(875,054)
	12,327,279	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 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 31 December 2020, margin financing of HK$12,327 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$72,753 million (31 December 2019: HK$51,549 million). In determining the allowances for credit impaired loans to margin clients for the current year, 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, taking into account factors including subsequent settlements, executable settlement plans and restructuring arrangements, and other types of credit enhancements in assessing the expected credit loss.

As at 31 December 2020 and 31 December 2019, included in the margin financing is a margin loan to an independent customer of gross amount of HK$602,080,000 (2019: HK$602,810,000) with impairment of HK$576,094,000 (2019: HK$426,732,000). One of the major pledged stock of this loan was suspended for trading since the second half of 2018 and was under a debt and financial restructuring process during the year ended 31 December 2019. During the current year, the relevant listed company was ordered to be wound up by the High Court of Hong Kong and the stock was delisted in December 2020. The impairment provision as at 31 December 2020 represents the difference between gross loan amount and the fair value of other listed stocks pledged to the Group as at 31 December 2020 and the directors of the Company consider that the impairment provision for the current year and prior year are appropriate.

Details of credit risk profile disclosure are set out in "credit risk and impairment assessment" in note 42.

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.

21. Advances to Customers (continued)

Merger and acquisition financing

	2020 HK$'000	2019 HK$'000
Merger and acquisition financing	3,425,331	2,871,828
Less: Impairment allowance	(192,488)	(43,870)
	3,232,843	2,827,958
Less: Non-current portion	(231,403)	(157,907)
Current portion	3,001,440	2,670,051

Included in merger and acquisition financing are HK$3,425 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 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 31 December 2020, there were two past due merger and acquisition financing (31 December 2019: one).

As at 31 December 2020, there was a past due merger and acquisition financing with a gross and carrying amount of HK$197 million and HK$118 million (31 December 2019: 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 due date in 2021 for the principal 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 force sale value) and the credit protection structure. In the opinion of the directors of the Company, the impairment provision for the current year and prior year are appropriate.

21. Advances to Customers (continued)

Merger and acquisition financing (continued)

As at 31 December 2020, there was another past due merger and acquisition financing with gross and carrying amounts of HK$356 million and HK$249 million (31 December 2019: HK$326 million and HK$325 million) respectively that was advanced to a company listed in PRC and HK for its acquisition in the overseas. The loan was matured and the principal and the accrued interest were not repaid as at 31 December 2020. In assessing impairment, the management considered a number of factors including the financial status of the borrower and the status of enforcement proceedings in the PRC. In the opinion of the directors, the impairment provision for the current year is appropriate.

Details of credit risk profile disclosure are set out in "credit risk and impairment assessment" in note 42.

Secured financing

	2020 HK$'000	2019 HK$'000
Secured financing	703,887	5,148,506
Less: Impairment allowance	(51,628)	(23,172)
	652,259	5,125,334
Less: Non-current portion	–	(956,180)
Current portion	652,259	4,169,154

Included in secured financing are HK$704 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 from the reporting date and credit limits are set for borrowers.

Collateral held includes equity instruments and/or investment portfolio held by borrowers, etc. Regular reviews on these secured financing are conducted by the Risk Management Department and the Credit 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 31 December 2020 and 31 December 2019, there was one past due secured financing.

21. Advances to Customers (continued)

Secured financing (continued)

During the year ended 31 December 2020, collaterals of a syndicated loan that the Group participated was 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. Subsequently the syndicated loan was disposed to an independent third party at a discount. The syndicated loan was derecognised with a final impairment provision of HK$436 million recognised in the consolidated statement of profit or loss.

Details of credit risk profile disclosure are set out in "credit risk and impairment assessment" in note 42.

22. Cash Collateral on Securities Borrowed and Reverse Repurchase Agreements

	2020 HK$'000	2019 HK$'000
Cash collateral on securities borrowed	677,009	337,640
Reverse repurchase agreements	7,061,032	4,986,910
	7,738,041	5,324,550
Reverse repurchases agreements		
Analysed by collateral type:		
Equities	418,684	237,300
Bonds	6,642,356	4,749,615
	7,061,040	4,986,915
Less: Impairment allowance	(8)	(5)
	7,061,032	4,986,910
Analysed by market:		
Inter-bank market	7,061,032	4,986,910
Analysed for reporting purposes:		
Current	7,061,032	4,986,910

22. Cash Collateral on Securities Borrowed and Reverse Repurchase Agreements (continued)

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

As at 31 December 2020, the fair value of the collateral in respect of reverse repurchase agreements was HK$9,101 million (31 December 2019: HK$6,213 million).

23. Accounts Receivable

	2020 HK$'000	2019 HK$'000
Accounts receivable from:		
– Clients	1,302,022	924,685
– Brokers, dealers and clearing houses	3,086,401	6,347,099
– Clients for subscription of new shares in IPO	562,717	5,611
– Immediate holding company (note (i))	400,941	947,640
– Others (note (ii))	224,726	458,079
	5,576,807	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 year, 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 31 December 2020 amounted to US$51,408,000 (equivalent to HK$398,518,000), 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. As at 1 January 2019, accounts receivable from contracts with customers amounted to HK$401,453,000.

Details of impairment assessment for current year are set out in "credit risk and impairment assessment" in note 42.

23. Accounts Receivable (continued)

The following is an ageing analysis of the accounts receivable based on trade date/invoice date at the reporting date:

	2020 HK$'000	2019 HK$'000
Between 0 and 3 months	5,543,367	8,519,010
Between 4 and 6 months	16,349	148,472
Between 7 and 12 months	5,749	3,988
Over 1 year	11,342	11,644
	5,576,807	8,683,114

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 31 December 2020, the settlement dates are in the range of 2 to 7 days.

Normal settlement terms of accounts receivable from wealth management, corporate finance and asset management 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 which the Group holds as custodian are sufficient to cover the amounts due to the Group.

24. Prepayments, Deposits and Other Receivables

	2020 HK$'000	2019 HK$'000
Prepayments, deposits and other receivables (note)	1,106,453	1,762,781
Less: Non-current portion	(59,131)	(75,261)
Current portion	1,047,322	1,687,520

Note: Included in the amount of prepayments, deposits and other receivables are the interest receivable of HK$738 million (31 December 2019: HK$1,190 million) from bank deposits, financing to customers and debt securities which are receivable within one year.

25. Interests in Unconsolidated Investments

The Group invested in certain investment funds, partnerships and private equity investments (collectively referred to as the "Investments" for the purpose of notes 4, 25 and 26) with primary objectives for capital appreciation, investment gains and selling in the near future for profit. Pursuant to subscription agreements or equivalent documents, the beneficial interests held by the Group in these Investments are in the form of interests which primarily provide the Group with the share of returns from the Investments but not any decision making power nor any voting right to involve in and control the daily operation.

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

Among those Investments held by the Group where the Group is directly or indirectly involve 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 may remove the Group as a fund manager; and
- the investment interests held together with its remuneration from servicing and managing these investment funds create significant exposure to variability of returns in these Investments.

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

The Group classified its interests in Investments as investment securities and assets acquired for financial products issued in notes 18 and 19.

26. Interests in Consolidated Investment

The Group had consolidated certain Investments in accordance with the criteria set out in note 25. Especially for those investment funds where the Group is 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.

For the year ended 31 December 2020, investment returns of the Group related to interests held by third-party unit/shareholders of loss of HK$126 million (year ended 2019: loss of HK$40 million) in consolidated Investments are included in other income and gains or losses in the consolidated statement of profit or loss and the interests held by third-party unit holders/shareholders amounted to HK$5,072 million (31 December 2019: HK$421 million) as at 31 December 2020. Such amount is recognised as "liabilities arising from consolidation of investment funds" in the consolidated statement of financial position.

27. Goodwill and Other Intangible Assets

	2020 HK$'000	2019 HK$'000
Goodwill	380,099	380,099
Other intangible assets	100,049	105,817
	480,148	485,916

Goodwill

(a) Carrying value/movement

	2020 HK$'000	2019 HK$'000
Cost – As at 1 January 2019, 31 December 2019, 1 January 2020 and 31 December 2020	380,099	380,099

Particulars regarding impairment testing on goodwill are disclosed in note (b) below.

27. Goodwill and Other Intangible Assets (continued)

Goodwill (continued)

(b) *Impairment testing on goodwill*

For the purpose of impairment testing, goodwill set out in note (a) above is acquired through business combinations in prior years as follows:

- A listed company on the Tokyo Stock Exchange in 2015 ("Entity A");
- An India incorporated entity in 2016 ("Entity B");
- A US incorporated entity in 2018 ("Entity C");
- A UK incorporated entity in 2018 ("Entity D");
- Other immaterial acquisition of businesses in 2006 ("Entity E");
- Other immaterial acquisition of business in 2007 ("Entity F"); and
- Other immaterial acquisition of business in 2017 ("Entity G").

The carrying amount of goodwill arising from the business combination of Entity A to G has been allocated to each of the cash generating units ("CGUs") for impairment testing as follows:

	2020 HK$'000	2019 HK$'000
Wealth Management – Entity E	854	854
Asset Management – Entity F	9,000	9,000
Institutional Clients		
– Entity A	147,843	147,843
– Entity B	60,763	60,763
– Entity D	26,849	26,849
	235,455	235,455
Corporate Finance – Entity C	129,265	129,265
Singapore foreign exchange business – Entity G	5,525	5,525
	380,099	380,099

During the years ended 31 December 2020 and 31 December 2019, management of the Group determined that there are no impairments of any of its CGUs containing goodwill as the recoverable amounts exceed their respective carrying amounts.

The directors of the Company consider the acquisition of Entity E, F and G and the goodwill allocated to the respective CGUs are not material to the consolidated financial statements. The basis of the recoverable amounts of the Institutional Clients CGU and Corporate Finance CGU that with material amount of goodwill allocated and their major underlying assumptions are summarised below:

27. Goodwill and Other Intangible Assets (continued)

Goodwill (continued)

(b) Impairment testing on goodwill (continued)

(i) Institutional Clients – Entities A, B and D

Entity A

In 2015, the Group has acquired the entire issued share capital of the entity from independent third parties, which is engaged in providing pan-Asia equity research, analysis and sales advice for the benefit of institutional and investing clients, to enrich and support the business of institutional clients of the Group. The directors of the Company determined that the institutional clients segment is expected to benefit from the synergies of the combination. Goodwill acquired through this business combination has been allocated to the CGU of "Institutional Clients", which is a reportable segment, for impairment testing.

Entity B

In 2016, the Group has acquired the entire issued share capital of the entity from Haitong Bank, S.A. (a fellow subsidiary), which is engaged in institutional equities business and investment banking business, to enrich and support the business of institutional clients of the Group. The directors of the Company determined that the Institutional Clients Segment is expected to benefit from the synergies of the combination. Goodwill acquired through this business combination has been allocated to the CGU of "Institutional Clients", which is a reportable segment, for impairment testing.

Entity D

In 2018, the Group has acquired entire issued share capital of the entity from Haitong Bank, S.A. that the entity was mainly supporting the equity sales, sales, trading and transacting in the fixed income markets of Haitong Bank, S.A. before the acquisition by the Group.

The Group believes that the acquisition will bring synergies to the Group by enriching its equity sales coverage, fixed income, commodities and currency products offering, and serving global institutional clients with comprehensive financial products and services under Institutional Clients segment as its integral component.

The directors of the Company determined that the Institutional Clients segment is expected to benefit from the synergies of the acquisition of Entity A, B and D. Goodwill acquired through these business combinations has been allocated to the CGU of "Institutional Clients", which is a reportable segment, for impairment testing.

The recoverable amount of Institutional Clients segment has been determined based on value in-use calculation using cash flow projections covering a five-year period approved by the management.

The discount rate applied to the cash flow projections is 16.5% (2019: 15.5%) which is determined based on past performance, the management's expectations for the market development and future business plan. The discount rate used reflects specific risk relating to Institutional Clients and taken into account the risk of business uncertainties in foreseeable future.

27. Goodwill and Other Intangible Assets (continued)

Goodwill (continued)

(b) Impairment testing on goodwill (continued)

(ii) Corporate Finance – Entities C

Entity C

In 2018, the Group has acquired entire issued share capital of the entity from Haitong Bank, S.A that the entity was mainly supporting the corporate finance and capital market business of Haitong Bank, S.A. before the acquisition by the Group.

The Group believes that the acquisition will bring synergies to the Group by enriching its equity capital markets origination as well as cross-border mergers and acquisitions under Corporate Finance segment as its integral component for better serving global clients with more comprehensive financial servicing network to cover the world's major capital markets. The directors of the Company determined that Corporate Finance segment is expected to benefit from the synergies of the acquisition. Goodwill acquired through this business combinations has been allocated to the CGU of "Corporate Finance", which is a reportable segment, for impairment testing.

The recoverable amount of Entity C has been determined based on value-in-use calculation using cash flow projections covering a five-year period approved by senior management. The discount rate applied to the cash flow projections is 15.5% (2019: 15.5%) which is determined based on past performance, the management's expectations for the market development and future business plan. The discount rate used reflects specific risk relating to Entity C and taken into account the risk of business uncertainties in foreseeable future.

The management believes that any reasonably possible changes in any of these assumptions would not cause the carrying amount of Wealth Management, Asset Management, Institutional Clients, Corporate Finance and Singapore foreign exchange business to exceed their recoverable amount respectively.

27. Goodwill and Other Intangible Assets (continued)

Other intangible assets

(a) Carrying value/movement

	Trading rights and licenses HK$'000	System and infrastructure HK$'000	Customer relationship HK$'000	Total HK$'000
Cost				
At 1 January 2019	11,133	71,057	45,584	127,774
Additions	–	33,140	–	33,140
At 31 December 2019 and 1 January 2020	11,133	104,197	45,584	160,914
Additions	–	31,947	–	31,947
At 31 December 2020	11,133	136,144	45,584	192,861
Amortisation				
At 1 January 2019	3,522	12,211	18,749	34,482
Charge for the year	–	14,902	5,713	20,615
At 31 December 2019	3,522	27,113	24,462	55,097
Charge for the year	–	32,005	5,710	37,715
At 31 December 2020	3,522	59,118	30,172	92,812
Carrying values				
At 31 December 2020	7,611	77,026	15,412	100,049
At 31 December 2019	7,611	77,084	21,122	105,817

Other than the trading rights and licenses, and system and infrastructure, which have indefinite useful lives and useful life of 3 years respectively, the intangible asset of customer relationship is amortised over the expected useful life of 15 years.

28. Other Assets

	2020 HK$'000	2019 HK$'000
At cost:		
Deposits with the Stock Exchange:		
– Compensation fund	650	650
– Fidelity fund	1,036	350
– Mainland Securities and Settlement Deposit	78,594	36,747
Dealers' deposit with Hong Kong Securities and Futures Commission ("SFC")	200	200
Stamp duty deposits	500	500
Contributions to The Central Clearing and Settlement System Guarantee Fund	93,541	35,537
Admission fees paid to Hong Kong Securities Clearing Company Limited	300	300
Reserve fund with The SEHK Options Clearing House Limited	4,371	10,611
Deposits with HKFE Clearing Corporation Limited in contribution to the reserve fund	6,745	9,264
Cost of membership for a seat at The Chinese Gold and Silver Exchange Society	486	486
Others	11,628	8,483
	198,051	103,128

29. Investment Property

	HK$'000
Fair value	
At 1 January 2019	231,539
Transfer to property and equipment	(39,068)
At 31 December 2019 and 1 January 2020	192,471
Transfer to property and equipment	(122,393)
At 31 December 2020	70,078

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.

29. Investment Property (continued)

In determining the fair value of the relevant properties, management determine appropriate valuation techniques and inputs for fair value measurements. The Group engages third party qualified valuers to perform the valuation. The management works closely with the qualified external valuers to establish the appropriate valuation techniques and inputs to the model.

The fair value of the Group's investment properties as at 31 December 2020 and 31 December 2019 were arrived at on the basis of a valuation carried out on the respective dates by Colliers International (Hong Kong) Limited, independent qualified professional valuers not connected to the Group.

In estimating the fair value of the properties, the highest and best use of the properties is their current use.

The fair value of properties, which are all classified as level 3 fair value hierarchy, was determined based on market approach, by comparing recent arms-length sales of similar interests located in the surrounding area.

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

Investment properties held by the Group	Fair value hierarchy as defined in note 3	Valuation techniques and key inputs	Significant unobservable inputs	Relationship of unobservable inputs to fair value
At 31 December 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

30. Property and Equipment

	Leasehold land and buildings HK$'000	Leasehold improvements HK$'000	Furniture, fixtures and equipment HK$'000	Computer hardware and equipment HK$'000	Total HK$'000
31 December 2020					
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	142,941	–	–	–	142,941
Additions – Others	19	5,717	7,203	42,049	54,988
Disposals	–	–	(6)	(7)	(13)
Depreciation	(149,371)	(20,403)	(6,329)	(38,273)	(214,376)
At 31 December 2020, net of accumulated depreciation	709,706	29,254	22,534	50,714	812,208
At 31 December 2020					
Cost	963,851	146,113	92,067	576,973	1,779,004
Accumulated depreciation	(254,145)	(116,859)	(69,533)	(526,259)	(966,796)
Net carrying values	709,706	29,254	22,534	50,714	812,208

30. Property and Equipment (continued)

	Leasehold land and buildings HK$'000	Leasehold improvements HK$'000	Furniture, fixtures and equipment HK$'000	Computer hardware and equipment HK$'000	Total HK$'000
31 December 2019					
At 1 January 2019					
Cost	476,145	111,079	77,210	532,501	1,196,935
Accumulated depreciation	(8,014)	(78,216)	(57,899)	(428,604)	(572,733)
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	207,859	–	–	–	207,859
Additions – Others	690	29,772	8,206	15,096	53,764
Disposals	–	(455)	(546)	(12,666)	(13,667)
Depreciation	(122,024)	(18,240)	(5,305)	(59,382)	(204,951)
At 31 December 2019, net of accumulated depreciation	593,724	43,940	21,666	46,945	706,275
At 31 December 2019					
Cost	698,498	140,396	84,870	534,931	1,458,695
Accumulated depreciation	(104,774)	(96,456)	(63,204)	(487,986)	(752,420)
Net carrying values	593,724	43,940	21,666	46,945	706,275

Notes:

(i) As at 31 December 2020, included in the carrying amount of leasehold land and buildings is right-of-use assets of HK$307,595,000 (as at 1 January 2020: HK$299,787,000).

(ii) For the year ended 31 December 2020, the total cash outflow for leases amounts to HK$133,710,000.

For both years, the Group leases various offices for its operations. Lease contracts are entered into for fixed term of 2 years to 15 years, but may have extension options. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. In determining the lease term and assessing the length of the non-cancellable period, the Group applies the definition of a contract and determines the period for which the contract is enforceable.

31. Cash Collateral on Securities Lent and Repurchase Agreements

	2020 HK$'000	2019 HK$'000
Cash collateral on securities lent	1,580,139	1,077,440
Repurchase agreements	9,100,286	26,377,566
	10,680,425	27,455,006
Repurchase agreements		
Analysed by collateral type:		
Equities	4,782,353	1,581,894
Bonds	4,317,933	24,795,672
	9,100,286	26,377,566
Analysed by market:		
Inter-bank market	9,100,286	26,377,566
Analysed for reporting purposes:		
Current	9,100,286	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 consolidated financial statements but regarded as "collateral" for the liabilities because the Group retains substantially all the risks and rewards of these securities.

As at 31 December 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$11,308 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.

32. Accounts Payable

	2020 HK$'000	2019 HK$'000
Accounts payable to:		
– Clients	20,007,326	16,593,685
– Brokers, dealers and clearing houses	1,208,756	1,483,844
– Others	1,705,457	1,029,690
	22,921,539	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 31 December 2020 (31 December 2019: 0.001%), all the accounts payable are non-interest bearing.

Accounts payable to clients also include those payables placed in segregated accounts with authorized institutions of HK$19,553,711,000 (31 December 2019: HK$15,134,126,000), HKFE Clearing Corporation Limited, the SEHK Options Clearing House Limited and other futures dealers totalling HK$701,543,000 (31 December 2019: HK$1,170,453,000).

33. Bank Borrowings and Debt Securities in Issue

	2020 HK$'000	2019 HK$'000
Debt securities in issue		
Non-current		
Convertible bonds (notes (a))	–	123,269
Non-convertible bonds (note (b))	11,568,173	8,503,710
Total non-current debt securities in issue	11,568,173	8,626,979
Current		
Convertible bonds (note (a))	125,385	–
Non-convertible bonds (note (b))	–	5,437,305
Non-convertible notes (note (c))	6,175,976	7,354,145
Total current debt securities in issue	6,301,361	12,791,450
Total debt securities in issue	17,869,534	21,418,429
Bank borrowings		
Secured borrowing		
– Bank loans (notes (d), (e) and (f))	949,087	–
Unsecured borrowing		
– Bank loans (notes (e), (f) and (g))	37,066,519	36,872,917
Total bank borrowings	38,015,606	36,872,917
Total bank borrowings and debt securities in issue	55,885,140	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 31 December 2020, the number of outstanding share convertible under the convertible bonds issued in 2016 is 22,342,342 (31 December 2019: 21,342,512) with principal amount of HK$124 million (31 December 2019: HK$124 million). Please refer to the Company's announcement on 25 October 2019 for details of the redemption.

As at 31 December 2020, the conversion prices of convertible bonds issued by the Company in 2016 is HK$5.55 per share (31 December 2019: HK$5.81 per share). No convertible bonds issued by the Company in 2016 were converted during current year and prior year.

33. Bank Borrowings and Debt Securities in Issue (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 with a maturity period of 5.5 years 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.

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 full 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.

(c) During the year ended 31 December 2020, the Company has issued medium term notes under the Company's Medium Term Note Programme (the "MTN Programme") in principal amount totalling HK$8,135 million with a maturity period of 1 year and repaid several medium term notes of principal amount totalling HK$9,250 million. As at 31 December 2020, the outstanding balances of HK$6,176 million (31 December 2019: HK$7,354 million) represent the unsecured and unguaranteed non-convertible notes.

(d) As at 31 December 2020, bank loans of HK$949 million were secured by the listed shares (held by the Group as security for advances to customers in margin financing with the customers' consent) of HK$4,934 million at fair value held by the Group.

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

(f) Bank loans are repayable on demand or within 1 year. As at 31 December 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.

(g) Bank loans are classified as current liabilities for the purpose of presentation in these consolidated financial statements as the bank loans are drawn under revolving credit facilities (including syndicated loan facilities) with repayment dates being less than 12 months from 31 December 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 31 December 2020, HK$26,100 million (31 December 2019: HK$26,104 million) bank loans are drawn under revolving credit facilities with respective original tenor of more than 12 months, while they are classified current liabilities for the purpose of disclosure in these consolidated financial statements.

33. Bank Borrowings and Debt Securities in Issue (continued)

The table below details changes in the Group's bank borrowings and debt securities in issue arising from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are those for which cash flows were, or future cash flows will be, classified in the Group's consolidated statement of cash flows from financing activities. Interest payments in relation to below liabilities are included in other payables, accruals and other liabilities and presented in operating cash flow.

	Dividend payable HK$'000	Convertible bonds HK$'000	Non-convertible bonds HK$'000	Non-convertible notes HK$'000	Bank loans and other borrowing HK$'000	Total HK$'000
31 December 2020						
At 1 January 2020	–	123,269	13,941,015	7,354,145	36,872,917	58,291,346
Financing cash flows	(350,861)	–	(2,340,331)	(1,169,851)	1,142,689	(2,718,354)
Dividend declared	521,031	–	–	–	–	521,031
Settled in scrip dividend	(170,170)	–	–	–	–	(170,170)
Foreign exchange translation	–	–	(57,347)	(23,043)	–	(80,390)
Other changes	–	2,116	24,836	14,725	–	41,677
At 31 December 2020	–	125,385	11,568,173	6,175,976	38,015,606	55,885,140
31 December 2019						
At 1 January 2019	–	3,933,350	10,138,605	10,975,672	33,776,139	58,823,766
Financing cash flows	(261,015)	(3,866,392)	3,831,188	(3,686,456)	3,096,778	(885,897)
Dividend declared	602,366	–	–	–	–	602,366
Settled in scrip dividend	(341,387)	–	–	–	–	(341,387)
Foreign exchange translation	–	–	(63,098)	23,884	–	(39,214)
Other changes	36	56,311	34,320	41,045	–	131,712
At 31 December 2019	–	123,269	13,941,015	7,354,145	36,872,917	58,291,346

34. Other Payables, Accruals and Other Liabilities

	2020 HK$'000	2019 HK$'000
Other payables, accruals and other liabilities	1,740,279	1,860,276
Less: Non-current portion	(197,348)	(199,498)
Current portion	1,542,931	1,660,778

Notes:

(i) Other payables are non-interest bearing.

(ii) As at 31 December 2020, included in other payables, accruals and other liabilities is lease liabilities of HK$320,077,000 (31 December 2019: HK$310,846,000).

	2020 HK$'000	2019 HK$'000
Lease liabilities payable:		
Within one year	122,729	111,348
Within a period of more than one year but not more than two years	62,267	131,608
Within a period of more than two years but not more than five years	43,618	55,799
More than five years	91,463	12,091
	320,077	310,846

The table below details changes in the Group's lease liabilities arising from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are those for which cash flows were, or future cash flows will be, classified in the Group's statement of cash flows as cash flows from financing activities. Interest payments in relation to lease liabilities are presented in operating cash flow.

	Lease liabilities HK$'000
At 1 January 2019	210,949
Financing cash flow	(107,962)
New leases entered/other changes	207,859
At 31 December 2019 and 1 January 2020	310,846
Financing cash flow	(133,710)
New leases entered/other changes	142,941
At 31 December 2020	320,077

35. Share Capital

	2020 HK$'000	2019 HK$'000
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 options	2,582,759	258
Scrip dividend issued – 2019 interim dividend (note 15)	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 15)	95,451,214	9,545
As at 31 December 2020	6,036,035,086	603,603

36. Share Option/Award Scheme

2015 Share option scheme

The shareholders of the Company approved the adoption of a new share option scheme (the "2015 Share Option Scheme") on 8 June 2015 (the "Adoption Date"). The 2015 Share Option Scheme was also approved by the shareholders of HSCL, the holding company of Haitong International Holdings Limited, the controlling shareholder of the Company, and Listing Committee of The Stock Exchange of Hong Kong Limited on 8 June 2015 and 12 June 2015 respectively. A summary of the principal terms of the 2015 Share Option Scheme, as disclosed in accordance with the Listing Rules, is set out as follows:

The 2015 Share Option Scheme was adopted to attract, retain and motivate talented employees to strive towards long term performance targets set by the Group and to provide them with an incentive to work better for the interest of the Group. Under the 2015 Share Option Scheme, share options could be granted to any full time or part-time employee, executive and non-executive (whether independent or not) directors of the Group, who, in the absolute opinion of the Board, have contributed to the Company or the Group.

The maximum number of shares of the Company (the "Shares") which may be issued upon exercise of all options to be granted under the 2015 Share Option Scheme and any other share option schemes shall not in aggregate exceed 212,924,439 shares, representing approximately 10% of the issued shares of the Company as at 30 November 2014, being the date of tentative approval of the 2015 Share Option Scheme by the management of the Company.

In respect of the period of 12 months from the Adoption Date and for each of the subsequent periods of 12 months from the previous anniversary of the Adoption Date (each of those 12-months periods is hereinafter referred to as a "Scheme Year"), the total number of shares of the Company which may be issued upon exercise of the options granted in each Scheme Year shall not exceed 21,292,444 shares (the "Annual Limit"). The Company may from time to time seek approval of its shareholders and the approval of the shareholders of HSCL (so long as the Company is a subsidiary of HSCL under the Listing Rules) in respective general meetings to renew the Scheme Limit and/or the Annual Limit such that the total number of shares of the Company in respect of which options may be granted by directors of the Company under the 2015 Share Option Scheme (i) in respect of the Scheme Limit, shall not exceed 10% of the issued share capital of the Company as at the date of approval of the refreshment; and (ii) in respect of the Annual Limit, shall not exceed 1% of the issued share capital of the Company as at the date of approval of the refreshment. Options previously granted under the 2015 Share Option Scheme and any other share option schemes of the Company (including those outstanding, cancelled, lapsed or exercised options) will not be counted for the purpose of calculating such limits as refreshed.

Notwithstanding the aforesaid in previous paragraph, the maximum number of shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the 2015 Share Option Scheme and any other share option schemes of the Company shall not exceed 30% (or such higher percentage as may be allowed under the Listing Rules) of the total number of shares in issue from time to time.

36. Share Option/Award Scheme (continued)

2015 Share option scheme (continued)

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

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

The offer of a grant of share options may be accepted within 28 days from the date of the offer upon payment of a consideration of HK$1 by the grantee. The exercise period of the share options granted is determinable by the directors of the Company and notified by the directors of the Company to each participant as being the period during which an option may be exercised, and in any event such period of time shall not exceed a period of 5 years, commencing on the Offer Date and expire on the last day of such period. The 2015 Share Option Scheme does not stipulate any performance target which needs to be achieved by the participant who accepts the offer of share options (the "Grantee") before the share options can be exercised. In order to sustain a long-term employment relationship between the Company and the Grantee(s), grantees must hold their share options for a holding period of not less than 6 months from the date of acceptance of the offer by the Grantee, before the share options can be exercised.

The exercise price of the share options is determinable by the directors, and shall be at least the highest of (i) the price equal to 110% of the closing price of the Company's shares as stated in the Stock Exchange's daily quotations sheet on the offer date; (ii) the average closing price of the Company's shares as stated in the Stock Exchange's daily quotations sheets for the 5 trading days immediately preceding the offer date; and (iii) the nominal value of the Company's shares. Share options do not confer rights on the holders to dividends or to vote at shareholders' meetings.

On 31 May 2019, the Company granted 10,645,000 share options at the exercise price of HK$2.56 per share to its directors and employees under the 2015 Share Option Scheme with a total of 10,645,000 share options being accepted. The exercise period of the share options is from 27 December 2019 to 30 May 2024. All the share options granted have a vesting period of 6 months from the date of acceptance. The closing price of the Company's shares on the date of grant was HK$2.33 per share.

36. Share Option/Award Scheme (continued)

2015 Share option scheme (continued)

The estimated fair values of the options granted under 2015 Share Option Scheme on the grant date on 31 May 2019 is approximately HK$5.7 million, which was calculated using the Binomial Option Pricing model with the key inputs into the model as disclosed below.

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

Expected volatility was determined using the historical volatility of the Company's share price over the previous 5 years at the grant date.

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 year ended 31 December 2020, the Group has recognised an equity-settled share-based payment of HK$3,222,000 (2019: HK$15,449,000) for the share options under the 2015 Share Option Scheme in the consolidated statement of profit or loss.

36. 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 Weighted average exercise price HK$ per share	2020 Number of options '000	2019 Weighted average exercise price HK$ per share	2019 Number of options '000
At beginning of the year	3.728	54,106	4.031	46,717
Granted and accepted during the year	1.727	10,645	2.56	10,645
Adjusted during the year (note)	3.717	95	3.737	28
Forfeited during the year	3.95	(2,744)	4.238	(3,284)
At end of the year	3.369	62,102	3.728	54,106

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

31 December 2020 Number of options '000	Exercise price HK$ per share (note)	Exercise period
12,611	4.635	8 December 2016 – 11 May 2021
11,078	5.002	7 June 2018 – 9 November 2022
17,610	2.898	28 May 2019 – 31 October 2023
10,158	2.554	27 December 2019 – 30 May 2024
10,645	1.727	25 December 2020 – 28 May 2025
62,102		

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.

36. Share Option/Award Scheme (continued)

2015 Share option scheme (continued)

As at 31 December 2020, the Company had 62,102,499 (2019: 54,106,262) share options outstanding under the 2015 Share Option Scheme, which represented approximately 1.03% (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 62,102,499 (2019: 54,106,262) additional ordinary shares of the Company and additional share capital of HK$6,210,000 (2019: HK$5,411,000) and share premium of HK$203,016,000 (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 or directors ("Selected Participants") for their contributions to the Group and to attract suitable personnel for further development of the Group.

Pursuant to the Scheme, the ordinary shares of HK$0.1 each in the capital of the Company will be acquired by the trustee at the cost of the Company and will be held in trust for the Selected Participants before vesting. The total number of shares granted under the Scheme shall be limited to 10% of the total issued share capital of the Company as at 19 December 2014 (the "Adoption Date") or such other percentage as determined by the Board from time to time.

No award of the shares shall be granted to any single Selected Participant which would result in the maximum number of awarded shares under the Scheme in the 12-month period up to and including the date of such grant representing in aggregate over 1% of the issued share capital of the Company as at the Adoption Date.

The Board has delegated the power and authority to the Administration Committee to handle operational matters of the Scheme but all major decisions in relation to the Scheme shall be made by the Board unless expressly provided for in the Scheme rules pursuant to the Scheme or the Board resolves to delegate such power to the Administration Committee.

Pursuant to the Scheme rules, the Board may, from time to time, at its absolute discretion and subject to such terms and conditions as it may think fit (including the basis of eligibility of each Participant determined by the Board and recommended by the Remuneration Committee from time to time) select any participant for participation in the Scheme as a Selected Participant and determine the number of awarded shares, upon the recommendation of the Remuneration Committee.

36. Share Option/Award Scheme (continued)

Share award scheme (continued)

After the selection of the Selected Participant(s) and the determination of the number of awarded shares by the Board, the Administration Committee shall inform the trustee accordingly. The Administration Committee shall also inform the Selected Participant(s) by award notice. Provided that the respective Selected Participant(s) has (have) executed the relevant acceptance form(s) and returned the same together with a counterpart of the award notice(s) to the trustee through the Company within the period prescribed in the award notice(s), the Company shall during the award period pay or cause to be paid to the trustee for purchasing the awarded shares ("Reference Amount").

After receiving the Reference Amount, the Trustee shall apply the same towards the purchase of awarded shares in the market through a broker at the prevailing market price on the Stock Exchange pursuant to the Scheme Rules and the Company would recognise as treasury shares in the consolidated statement of changes in equity.

The Administration Committee shall conduct a review of the performance conditions (if any) in relation to each Selected Participant at least once in each financial year during the award period if the award period is more than 12 months or once only during the award period if the award period is less than 12 months. The awarded shares will be vested if the Selected Participant is able to meet the relevant service conditions during the relevant period, or lapsed if the Selected Participant is unable to meet the relevant service conditions during the relevant period.

A Selected Participant shall not exercise or direct the trustee to exercise and the trustee shall not exercise the voting rights in respect of any awarded shares held under the trust.

36. Share Option/Award Scheme (continued)

Share award scheme (continued)

Details of the awarded shares granted and unvested as at 31 December 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 (j))	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	979,004	1,860,031	note (c)	32,108,000
11 January 2019	134,000	134,000	–	–	note (d)	351,000
25 March 2019	6,848,366	2,123,722	735,870	3,988,774	note (e)	21,024,000
29 October 2019	8,175,000	2,615,000	800,000	4,760,000	note (f)	18,557,000
25 March 2020	14,294,205	–	830,982	13,463,223	note (g)	28,731,000
8 May 2020	78,000	78,000	–	–	note (h)	138,000
3 July 2020	7,700,000	7,700,000	–	–	note (i)	16,016,000

For the shares granted, the fair value of the shares were measured at the market price of the Company's shares. For the year ended 31 December 2020, the Group has recognised an equity-settled share-based payment of HK$ 44,781,000 (31 December 2019: HK$33,544,000) for the Scheme in consolidated statement of profit or loss.

As at 31 December 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 year ended 31 December 2019, 29,820 and 2,133,343 awarded shares granted on 11 March 2016 were lapsed and vested respectively.

As at 31 December 2020, the Company did not have any awarded shares granted on 10 March 2017 which were outstanding under the Scheme (2019: 1,155,351 awarded shares). During the current year, 7,485 (2019: 134,573) and 1,147,866 (2019: 1,259,541) awarded shares granted on 10 March 2017 were lapsed and vested respectively.

As at 31 December 2020, the Company had 1,860,031 (2019: 4,053,475) awarded shares granted on 11 May 2018 which were outstanding under the Scheme. During the current year, 221,869 (2019: 585,522) and 1,971,575 (2019: 2,199,883) awarded shares granted on 11 May 2018 were lapsed and vested respectively.

As at 31 December 2020 and 31 December 2019, the Company did not have any 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.

36. Share Option/Award Scheme (continued)

Share award scheme (continued)

As at 31 December 2020, the Company had 3,988,774 (2019: 6,371,215) awarded shares granted on 25 March 2019 which were outstanding under the Scheme. During the current year, 258,719 (2019: 477,151) and 2,123,722 awarded shares granted on 25 March 2019 were lapsed and vested respectively.

As at 31 December 2020, the Company had 4,760,000 (2019: 7,845,000) awarded shares granted on 29 October 2019 which were outstanding under the Scheme. During the current year, 470,000 (2019: 330,000) and 2,615,000 awarded shares granted on 29 October 2019 were lapsed and vested respectively.

As at 31 December 2020, the Company had 13,463,223 awarded shares granted on 25 March 2020 which were outstanding under the Scheme. During the current year, 830,982 awarded shares granted on 25 March 2020 were lapsed.

As at 31 December 2020, the Company had no awarded shares granted on 8 May 2020 which were outstanding under the Scheme. During the current year, all 78,000 awarded shares granted on 8 May 2020 were vested.

As at 31 December 2020, the Company had no awarded shares granted on 3 July 2020 which were outstanding under the Scheme. During the current year, all 7,700,000 awarded shares granted on 3 July 2020 were vested.

Notes:

(a) Pursuant to the agreed terms, the vesting date of one-third of the awarded shares granted on 11 March 2016 was on 15 March 2017 while the vesting date of another one-third of awarded shares granted on 11 March 2016 would be on 15 March 2018 and the vesting date for the remaining would be on 15 March 2019.

(b) Pursuant to the agreed terms, the vesting date of one-third of the awarded shares granted on 10 March 2017 was on 19 March 2018 while the vesting date of another one-third of awarded shares granted on 10 March 2017 would be on 19 March 2019 and the vesting date for the remaining would be on 19 March 2020.

(c) Pursuant to the agreed terms, the vesting date of one-third of the awarded shares granted on 11 May 2018 was on 13 May 2019 while the vesting date of another one-third of awarded shares granted on 11 May 2018 would be on 13 May 2020 and the vesting date for the remaining would be on 13 May 2021.

(d) Pursuant to the agreed terms, the vesting date of all the awarded shares granted on 11 January 2019 was on 18 January 2019.

(e) Pursuant to the agreed terms, the vesting date of one-third of the awarded shares granted on 25 March 2019 was on 23 March 2020 while the vesting date of another one-third of awarded shares granted on 25 March 2019 would be on 23 March 2021 and the vesting date for the remaining would be on 23 March 2022.

(f) Pursuant to the agreed terms, the vesting date of one-third of the awarded shares granted on 29 October 2019 was on 2 January 2020 while the vesting date of another one-third of awarded shares granted on 29 October 2019 would be on 2 January 2021 and the vesting date for the remaining would be on 2 January 2022.

(g) Pursuant to the agreed terms, the vesting date of one-third of the awarded shares granted on 25 March 2020 was on 24 March 2021 while the vesting date of another one-third of awarded 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 awarded shares granted on 8 May 2020 was on 25 May 2020.

(i) Pursuant to the agreed terms, the vesting date of all the awarded shares granted on 3 July 2020 was on 15 July 2020.

(j) Awarded Shares would lapse prior to their vesting date as a result of staff separations. Pursuant to the agreement, the lapsed shares would be held by the trustee which is subject to the approval from Administration Committee for re-selection of any Selected Participant. The lapsed Awarded Shares were transferred out from share award reserve to share premium as disclosed in the consolidated statement of changes in equity.

36. Share Option/Award Scheme (continued)

Share award scheme (continued)

Movements of shares held under the Scheme during the 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 year	230,980	126,069,000	78,958	34,629,000
Vested and transferred out during the year	(48,204)	(15,636,163)	(27,120)	(5,726,767)
At 31 December	389,986	172,705,979	207,210	62,273,142

37. Commitments and Contingencies

(a) Capital commitments

	2020 HK$'000	2019 HK$'000
Contracted, but not provided for:		
Computer equipment	10,176	11,613
Others	614	12,050
	10,790	23,663

(b) Contingent liabilities

The Group may become, or has become, a subject of litigation or arbitration in relation to its normal course of business. Any situation will be reviewed in conjunction with the Group's legal advisors. The Group considers that the eventual impact on the consolidated financial statements in terms of possible outflow of economic benefits will not be significant.

38. Related Party Transactions

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

(a) On 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$4,451,000 (2019: HK$666,000) and HK$1,109,000 (2019: HK$467,000) respectively for the current year in accordance with terms of the master services agreements.

(ii) Income from investment management and advisory services amounted to HK$14,317,000 (2019: HK$19,057,000) for provision of investment management service and investment advisory service to Haitong Securities Co., Ltd. (the ultimate holding company of the Company), its subsidiaries and fellow subsidiaries and expenses related to referral fee amounted to HK$1,356,000 was paid to Haitong Securities Co., Ltd. The fee is charged in accordance with the relevant investment management agreement or investment advisory agreement or relevant agreement.

(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 year, income received from Haitong Bank in connection to such services amounted to EUR587,000 (equivalent to HK$5,228,000) (2019: EUR829,000 (equivalent to HK$7,227,000)) and expenses paid by this subsidiary in connection to such services amounted to EUR5,323,000 (equivalent to HK$49,705,000) (2019: EUR6,531,000 (equivalent to HK$56,859,000)). The relevant income and expense are based on the agreement entered by this subsidiary and Haitong Bank.

(iv) During the current and prior years, Haitong Bank provided financial advisory service for the Group's financing activities, the Group paid financial advisory fee of US$2.5 million (equivalent to HK$19.48 million) (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 year, amortisation of the financial advisory fee paid amounted to HK$18,444,000 (2019: HK$11,987,000), which was recognised in the consolidated statement of profit or loss as part of the interest expense.

38. Related Party Transactions (continued)

(a) (continued)

(v) 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 applicable accounting standard. During the current year, amortisation of the underwriting commission paid amounted to HK$628,000 (2019: HK$182,000), which was recognised in the consolidated statement of profit or loss as part of the interest expense.

(vi) During the current year and prior year, the Group provided underwriting and sponsoring services to subsidiaries of Haitong Securities Co., Limited for their corporate finance activities including H-share listing and issuance of debt securities. The relevant underwriting commission recognised during the current year amounted to HK$8,052,000 (2019: HK$9,943,000). In addition, financial advisory income amounted to HK$467,000 was recognised during the prior year. The commission and financial advisory income were recognised in accordance with relevant agreements entered between the Group and each of the subsidiaries of Haitong Securities Co., Limited.

(vii) During the current year, the Company entered intercompany unsecured loan arrangements (chargeable at US Dollar LIBOR + 1.25%) with Haitong International Holdings Limited (the immediate holding company). As at 31 December 2020, the outstanding principal amount of unsecured loan due from Haitong International Holdings Limited amounted to US$51,408,000 (equivalent to approximately HK$398,518,000) and there is no outstanding unsecured loan due from the Company. Interest income and interest expense amounted to US$1,827,000 (equivalent to HK$14,181,000) and US$1,376,000 (equivalent to HK$10,698,000) were recognised in the consolidated statement of profit or loss.

(viii) During the prior year and the year ended 31 December 2018, Haitong Securities Co., Limited and Haitong International Holdings Limited acquired financial products (including notes and total return swap contract) issued by the Group. All these financial products matured during the year ended 31 December 2019, and payment of US$212,000 (equivalent to HK$1,658,000) calculated under the relevant subscription agreements was made by the Group to Haitong Securities Co., Limited and Haitong International Holdings Limited. Such amount was recognised within "net trading income on financial products" in note 6.

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

	2020 HK$'000	2019 HK$'000
Salaries, incentives, bonuses and allowances	65,427	87,858
Share-based compensation expense	1,646	10,107
Pension scheme contributions (net)	1,137	1,124
Total compensation of key management personnel	68,210	99,089

39. Statement of Financial Position and Reserves Movement of the Company

(a) Statement of financial position of the Company

	2020			2019		
	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	34,896	–	34,896	26,073	–	26,073
Tax recoverable	63,444	–	63,444	93,362	–	93,362
Prepayments, deposits and other receivables	211,786	53,708	265,494	278,412	75,261	353,673
Amount due from a related company	398,518	–	398,518	30	–	30
Amounts due from subsidiaries	73,683,698	27,630,149	101,313,847	107,542,267	23,832,349	131,374,616
Property and equipment	–	121,230	121,230	–	166,266	166,266
Deferred tax assets	–	1,393	1,393	–	517	517
Investment in subsidiaries	–	2,106,186	2,106,186	–	2,167,239	2,167,239
Total assets	74,392,342	29,912,666	104,305,008	107,940,144	26,241,632	134,181,776
LIABILITIES AND EQUITY						
Liabilities						
Bank borrowings and debt securities in issue	43,251,361	11,568,173	54,819,534	44,222,062	8,626,979	52,849,041
Tax payable	40,974	–	40,974	9,460	–	9,460
Other payables and accruals and other liabilities	1,089,963	36,014	1,125,977	1,057,970	–	1,057,970
Amounts due to subsidiaries	26,356,015	–	26,356,015	59,986,266	–	59,986,266
Total liabilities	70,738,313	11,604,187	82,342,500	105,275,758	8,626,979	113,902,737
Equity						
Share capital (note 35)			603,603			594,058
Reserves (note 39(b))			20,652,689			19,429,536
Proposed dividends (note 15)			706,216			255,445
Total equity			21,962,508			20,279,039
Total liabilities and equity			104,305,008			134,181,776
Net current assets			3,654,029			2,664,386

39. Statement of Financial Position and Reserves Movement of the Company (continued)

(b) Reserves movement of the Company

The amounts of the Group's reserves and the movements therein for the current year and prior year are presented in the consolidated statement of changes in equity.

The amounts of the Company's reserves and its movements are as follows:

	Share premium account HK$'000	Share option reserve HK$'000	Share award reserve HK$'000	Shares held for employee share award scheme HK$'000	Capital redemption reserve HK$'000	Contributed surplus HK$'000	Convertible bond reserve HK$'000	Retained profits HK$'000	Total HK$'000
At 1 January 2019	18,817,121	38,313	25,926	(155,372)	5,102	2,697	200,471	580,758	19,515,016
Profit and total comprehensive income for the year	–	–	–	–	–	–	–	386,500	386,500
Exchange reserve	–	–	–	–	–	–	–	1,367	1,367
Recognition of equity-settled share based Payment	–	15,449	33,544	–	–	–	–	–	48,993
Vesting of shares for the share award scheme	(2,802)	–	(24,318)	27,120	–	–	–	–	–
Purchases of shares held under the share award Scheme	–	–	–	(78,958)	–	–	–	–	(78,958)
Redemption under convertible bond	–	–	–	–	–	–	(194,060)	194,060	–
Shares issued under share option scheme	7,130	(283)	–	–	–	–	–	–	6,847
Share awards lapsed	767	–	(767)	–	–	–	–	–	–
Share options lapsed	3,592	(3,592)	–	–	–	–	–	–	–
2018 second interim dividend declared and settled in cash	–	–	–	–	–	–	–	(36)	(36)
2019 interim dividend declared and settled in cash and scrip (note 15)	326,562	–	–	–	–	–	–	(521,310)	(194,748)
2019 second interim dividend declared and settled in cash and scrip (note 15)	–	–	–	–	–	–	–	(255,445)	(255,445)
At 31 December 2019	19,152,370	49,887	34,385	(207,210)	5,102	2,697	6,411	385,894	19,429,536
At 1 January 2020	19,152,370	49,887	34,385	(207,210)	5,102	2,697	6,411	385,894	19,429,536
Profit and total comprehensive income for the year	–	–	–	–	–	–	–	2,223,211	2,223,211
Exchange reserve	–	–	–	–	–	–	–	(5,904)	(5,904)
Recognition of equity-settled share based payment	–	3,222	44,781	–	–	–	–	–	48,003
Vesting of shares for the share award scheme	(5,341)	–	(42,863)	48,204	–	–	–	–	–
Purchases of shares held under the share award Scheme	–	–	–	(230,980)	–	–	–	–	(230,980)
Share awards lapsed	872	–	(872)	–	–	–	–	–	–
Share options lapsed	2,681	(2,681)	–	–	–	–	–	–	–
2019 second interim dividend declared and settled in cash and scrip (note 15)	160,625	–	–	–	–	–	–	–	160,625
2020 interim dividend declared and settled in cash (note 15)	–	–	–	–	–	–	–	(265,586)	(265,586)
Proposed 2020 second interim dividend (note 15)	–	–	–	–	–	–	–	(706,216)	(706,216)
At 31 December 2020	19,311,207	50,428	35,431	(389,986)	5,102	2,697	6,411	1,631,399	20,652,689

39. Statement of Financial Position and Reserves Movement of the Company (continued)

(b) Reserves movement of the Company (continued)

The contributed surplus of the Group arose in 1996 as a result of the group reorganisation in preparation for the listing of the Company and represented the difference between the nominal value of the share capital issued by the Company and the aggregate net asset value of the subsidiaries acquired at the date of acquisition. Under the Companies Act 1981 of Bermuda (as amended), the Company may make distributions to its members out of the contributed surplus provided certain conditions are met.

The share option reserve of the Group comprises the fair value of share options granted which are yet to be exercised, as further explained in the accounting policy for share-based payment transactions in note 3 to the consolidated financial statements.

The consolidated profit and total comprehensive income attributable to equity holders of the Company for the year ended 31 December 2020 includes a profit and total comprehensive income of HK$2,223,211,000 (2019: profit and total comprehensive income of HK$386,500,000) which has been dealt with in the financial statements of the Company.

40. Investment in Subsidiaries

	2020 HK$'000	2019 HK$'000
Unlisted shares, at cost	105,377	105,377
Deemed contribution	2,000,809	2,061,862
	2,106,186	2,167,239

The deemed contribution represents the imputed interest on non-current interest free loan to subsidiaries calculated with reference to HKAS 39 "Financial instruments: Recognition and measurement" in the prior years.

40. Investment in Subsidiaries (continued)

The particulars of principal subsidiaries that are body corporates as at 31 December 2020 are as follows:

Name	Place of incorporation/ registration and operations	Paid-up register capital	Percentage of equity attributable to the Company		Principal activities
			Direct %	Indirect %	
Haitong International (UK) Limited	England and Wales	GBP8,334,563	–	100 (2019:100)	Brokerage, equity research and research sales
Haitong International Asset Management (HK) Limited	Hong Kong	HK$20,000,000	–	100 (2019:100)	Provision of assets management services
Haitong International Asset Management Limited	Hong Kong	HK$13,000,000	–	100 (2019:100)	Provision of assets management services
Haitong International Capital (HK) Limited	Hong Kong	HK$10,000,000	–	100 (2019:100)	Corporate finance
Haitong International Capital Limited	Hong Kong	HK$20,000,000	–	100 (2019:100)	Provision of corporate financial advisory services
Haitong International Futures Limited	Hong Kong	HK$400,000,000	–	100 (2019:100)	Futures and options brokerage and trading
Haitong International Financial Products Limited	Hong Kong	HK$50,000,000	–	100 (2019:100)	Market-making in financial instruments
Haitong International Financial Solutions Limited	Hong Kong	HK$1,000,000	–	100 (2019:100)	Provision of financial solutions
Haitong International Investment Managers Limited	Hong Kong	HK$47,000,000	–	100 (2019:100)	Provision of asset management services
Haitong International (Japan) K.K. (note a)	Japan	Yen10,000,000	–	100 (2019: 100)	Asian equity research

40. Investment in Subsidiaries (continued)

Name	Place of incorporation/ registration and operations	Paid-up register capital	Percentage of equity attributable to the Company Direct %	Percentage of equity attributable to the Company Indirect %	Principal activities
Haitong International Research Limited	Hong Kong	HK$1,000,000	–	100 (2019:100)	Provision of research services
Haitong International Securities (Australia) Pty Ltd	Australia	AU$1,380,435	–	100 (2019: 100)	Brokerage services
Haitong International Securities (USA) Inc.	United States	US$12,654,319	–	100 (2019:100)	Equity research, sales & trading and fixed income sales & trading, equity market making and investment banking
Haitong International Securities Company Limited	Hong Kong	HK$11,500,000,000	–	100 (2019:100)	Securities brokerage and margin financing
Haitong International Securities Group (Singapore) Pte. Ltd.	Singapore	SG$730,550,721	–	100 (2019:100)	Investment holding
Haitong International Securities Nominees Limited	Hong Kong	HK$2	–	100 (2019:100)	Provision of nominee and custodian services
Haitong Securities India Private Limited	India	INR260,732,520	–	100 (2019: 100)	Institutional stock broking and investment banking

Note:

(a) The company was renamed from Haitong International Japaninvest K.K. to Haitong International (Japan) K.K. with effect from 22 May 2020.

40. Investment in Subsidiaries (continued)

In addition, the following consolidated investment funds are also subsidiaries for the purpose of Appendix 16 of the Listing Rules. These consolidated investment funds are not body corporates and therefore do not have any paid-up register capital.

Name	Place of incorporation/ registration and operations	Percentage of equity attributable to the Company Direct %	 Indirect %	Principal activities
Haitong Smart Portfolio Fund S.P. (note a)	Cayman Islands	–	– (2019: 100)	Fund investment
Haitong International Innovation Fund SPC (consists of SP I to SP V)	Cayman Islands	–	100 (2019: 100)	Private equity investment
Haitong International Innovation Fund SPC (SP VII) (note b)	Cayman Islands	–	– (2019: 100)	Private equity investment
Haitong Select China Offshore Real Estate Bond Fund S.P.	Cayman Islands	–	69 (2019: –)	Bond investment

Notes:

(a) During the year ended 31 December 2020, the Group redeemed all units held in the fund through redemption in species.

(b) During the year ended 31 December 2020, the Group entered into a sale and purchase agreement with an independent third party under which the Group agreed to sell all units held in the fund to the purchaser.

The table above lists out the subsidiaries (within the definition as defined under the Listing Rules) of the Group which, in the opinion of the directors of the Company, principally affected the results or assets of the Group. At the end of the reporting period, the Company has other subsidiaries that are not material to the Group. To give details of other subsidiaries would, in the opinion of the directors of the Company, result in particulars of excessive length.

Debt securities issued by subsidiaries

As at 31 December 2020, none of the subsidiaries of the Company issued any debt securities while guaranteed bonds issued in 2015 by Haitong International Finance 2015 Limited with principal amount of US$700 million as at 31 December 2019 were redeemed during the year. Details of debt securities in issue are set out in note 33.

Significant restrictions

Cash and cash equivalents held by subsidiaries in the Mainland China are subject to exchange control restrictions. The carrying amount of these restricted assets in the consolidated financial statements at 31 December 2020 was approximately of HK$38 million (31 December 2019: HK$35.3 million).

41. Capital Management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern and to maintain healthy capital ratios in order to support its business and maximise shareholder value.

The Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders or raise funds in equity capital market or debt capital market. No changes were made in the objectives, policies or processes during the year.

The Group is not subject to any externally imposed capital requirements except for certain subsidiaries in Hong Kong engaged in regulated activities as defined under the HKSFO. In addition, certain overseas subsidiaries are also subject to externally purposed capital requirements by overseas regulatory bodies, such as the Monetary Authority of Singapore, the UK Financial Conduct Authority and the United States Financial Industry Regulatory Authority.

During the current year and prior year, all aforementioned subsidiaries complied with all capital requirements imposed by respective regulatory bodies.

The Group monitors capital using a leverage ratio, which is calculated by total assets excluding accounts payable to clients and clients for subscription of new shares in IPO divided by the total shareholders' equity.

The leverage ratios as at the end of the reporting period were as follows:

	2020 HK$'000	2019 HK$'000
Total assets	146,442,516	156,274,502
Less: Accounts payable to clients (note 32)	(20,007,326)	(16,593,685)
Less: Clients for subscription of new shares in IPO (note 23)	(562,717)	(5,611)
	125,872,473	139,675,206
Shareholders' equity	28,317,169	27,030,581
Leverage ratio (times)	4.45	5.17

42. Financial Risk Management

The Group's major financial instruments include investment securities, advances to customers, financial assets/liabilities held for trading and market making activities, assets acquired for financial products issued, derivative financial instruments, accounts receivable, cash collateral on securities borrowed and reverse repurchase agreements, cash and cash equivalents, cash collateral on securities lent and repurchase agreements, financial products issued at fair value, deposits and other receivables, accounts payable, liabilities arising from consolidation of investment funds, other payables and other liabilities, bank borrowings and debt securities in issue.

The risks associated with these financial instruments include market risk (price risk, currency risk and interest rate risk), credit risk and liquidity risk. The policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in economic environment. Market risk comprises three types of risks: price risk, currency risk and interest rate risk.

The Group's exposures to market risk include price risk, currency risk and interest rate risk.

Price risk

Price risk is the risk that the fair values of equity investments, debt instruments, exchange traded funds, fund and partnership investments and derivatives decrease as a result of changes in the levels of equity indexes and the values of individual investment.

The Group is exposed to price risk mostly arising from equity investments, fund investments, and derivative financial instruments that are classified as financial assets/liabilities held for trading and market making activities, and investment securities measured at FVTPL. Majority of the Group's equity investments and exchange traded funds are listed on the Stock Exchange and respective overseas stock exchanges, while the unlisted investment funds are traded in the over-the-counter markets.

The Group has established a risk management mechanism led by the Board and the Executive Committee through its 2 sub-committees, the Investment Committee and the Risk Management Committee.

In addition, the Group's exposures are closely monitored by other relevant internal control units, including the Risk Management Department, the Compliance Department and the Internal Audit Department.

Listed equity investments (including exchange traded funds)

The table below summarises the impact of changes in the Hong Kong Hang Seng Index and other relevant indexes on the Group's profit after tax for the year and on the investments revaluation reserve. The analysis is based on the assumption that the equity index had changed by 10% with all other variables held constant and all the listed equity instruments move according to the historical correlation with the index.

42. Financial Risk Management (continued)

Market risk (continued)

Price risk (continued)

Listed equity investments (including exchange traded funds) (continued)

The directors of the Company consider the Group's exposure to price risk arising from the listed equity investments acquired for the issued financial products presented in assets acquired financial products issued can be offset against the Group's exposure to price risk arising from the issued financial products presented in financial products issued at fair value and therefore excluded from the analysis below.

Hong Kong Hang Seng Index and other relevant indexes

	2020	
	Net impact on profit after tax HK$'000	Impact on the investments revaluation reserve in equity HK$'000
Increase by 10%	506,923	28,484
Decrease by 10%	(506,923)	(28,484)

Hong Kong Hang Seng Index and other relevant indexes

	2019	
	Net impact on profit after tax HK$'000	Impact on the investments revaluation reserve in equity HK$'000
Increase by 10%	471,222	15,168
Decrease by 10%	(471,222)	(15,168)

Unlisted fund, unlisted equity and partnership investments

The directors of the Company consider the Group's exposure to price risk arising from the unlisted fund, unlisted equity and partnership investments as well as unlisted financial products acquired for the issued financial products presented in assets acquired for financial products issued can be offset against the Group's exposure to price risk arising from the issued financial products presented in financial products issued at fair value.

The fair value of unlisted fund, unlisted equity and partnership investments as well as unlisted financial products depend on the valuation of the respective investments or underlying investments. If the unit price increased/decreased by 5%, profit after tax for the year would be subject to an estimated HK$752,069,000 increase/decrease (2019: HK$609,796,000 increase/decrease).

42. Financial Risk Management (continued)

Market risk (continued)

Price risk (continued)

Derivative financial instruments – held for trading

The fair value of derivative financial instruments held for trading depends on the underlying investment portfolio or linked index. If the fair value of the underlying investment portfolio or linked index increased/decreased by 5%, the fair value of derivative financial instruments held for trading and profit after tax would be subject to an estimated HK$3,658,000 decrease/increase (2019: HK$8,558,000 decrease/increase).

Debt securities measured at fair value

For sensitivity analysis purpose of debt securities, if the prices of debt securities (measured at fair value) had been 2% higher/lower, the profit after tax for the year ended 31 December 2020 would have increased/decreased by approximately HK$259,473,000 (2019: HK$492,820,000), the investments revaluation reserve in consolidated statement of profit or loss and other comprehensive income would be subject to an estimated HK$1,197,000 increase/decrease (2019: HK$15,371,000).

In opinion of the management, the sensitivity analysis is unrepresentative of the price risk as the year end exposure does not reflect the exposure during the year.

Currency risk

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate as a result of changes in foreign exchange rates.

The Group’s foreign currency risk arises principally from the Group’s transactions and borrowings denominated in currencies other than Hong Kong dollars (“HKD”).

The majority of the Group’s assets and liabilities are denominated in HKD, Euro (“EUR”), Singapore dollars (“SGD”), United States dollars (“USD”) and Renminbi (“RMB”). The directors do not expect significant foreign exchange risk arising from USD denominated monetary items in view of the Hong Kong dollar pegged system to the USD.

At 31 December 2020, if EUR strengthened/weakened against HKD by 5% with all other variables including tax rate being constant, profit after tax for the year would have been HK$31,443,000 (2019: HK$22,567,000) higher/lower.

At 31 December 2020, if SGD strengthened/weakened against HKD by 5% with all other variables including tax rate being constant, profit after tax for the year would have been HK$16,463,000 (2019: HK$16,197,000) higher/lower.

At 31 December 2020, if RMB strengthened/weakened against HKD by 5% with all other variables including tax rate being constant, profit after tax for the year would have been HK$109,021,000 (2019: HK$104,705,000) higher/lower.

In the opinion of the management, the sensitivity analysis is unrepresentative of the inherent foreign currency risk as the year end exposure does not reflect the exposure during the year.

42. Financial Risk Management (continued)

Market risk (continued)

Interest rate risk

Fair value interest rate risk

The Group's fair value interest rate risk relates primarily to investments in preference shares, debt securities and unlisted financial products within investment securities measured at FVTPL, and financial assets/liabilities held for trading and market making activities all carried at fixed interest rates. However, the directors of the Company consider the Group's exposure to interest risk arising from the listed and unlisted debt investments acquired for the issued financial products presented in assets acquired for financial products issued can be offset against the Group's exposure to interest risk arising from the issued financial products presented in financial products issued at fair value.

For the year ended 31 December 2020, the total interest income under effective interest method from financial assets that are measured at amortised cost or at FVTOCI amounts to HK$2,464,585,000 (2019: HK$2,941,593,000). For year ended 31 December 2020, the interest expense on financial liabilities measured at amortised cost and lease liabilities amounts to HK$2,144,511,000 (2019: HK$3,129,773,000).

The Group's fair value interest rate risk exposure is summarised as follows:

	2020 HK$'000	2019 HK$'000
Financial assets held for trading and market making activities	9,464,089	26,560,228
Investment securities at FVTPL	13,003,564	4,681,152
Assets acquired for financial products issued	2,559,437	–
Financial liabilities held for trading and market making activities	(3,899,299)	(1,731,188)
Financial products issued at fair value	(3,031,042)	(1,542,155)
Investment securities at FVTOCI	59,845	768,570
	18,156,594	28,736,607

At 31 December 2020, if market interest rates had been 25 basis points (2019: 25 basis points) higher/lower with all other variables held constant, profit after tax for the year would have decreased/increased by HK$75,187,000 (2019: HK$58,383,000), the investments revaluation reserve in equity would have decreased/increased by HK$186,000 (2019: HK$1,921,000).

In the opinion of the management, the sensitivity analysis is unrepresentative of the fair value interest rate risk as the year end exposure does not reflect the exposure during the year.

42. Financial Risk Management (continued)

Market risk (continued)

Interest rate risk (continued)

Cash flow interest rate

The Group's cash flow interest rate risk relates primarily to the bank deposits, advances to customers, investment securities (measured at amortised cost), debt securities in issue and bank borrowings.

The Group's exposure to interest rate risk arising from the interest-bearing assets can be offset against the Group's interest-bearing liabilities. Management actively monitors the Group's net interest rate exposure through setting limits on the level of mismatch of interest rate re-pricing and duration gap and aims at maintaining an interest rate spread, such that the Group is always in a net interest-bearing asset position and derives net interest income. The Group's cash flow interest rate risk is mainly due to the fluctuation of HIBOR.

The Group's cash flow interest rate risk exposure arises on positions with the following carrying values:

	2020 HK$'000	2019 HK$'000
Advances to customers – margin financing	12,327,279	12,629,847
Advances to customers – merger and acquisition financing	1,046,465	329,471
Advances to customers – secured financing	–	1,282,345
Investment securities (measured at amortised cost)	3,257,313	2,509,388
Cash held on behalf of customers	9,782,289	5,019,281
Cash and cash equivalents	4,258,665	4,252,530
Bank borrowings	(37,899,087)	(36,867,917)
Debt securities in issue	(821,723)	(395,417)
	(8,048,799)	(11,240,472)

At 31 December 2020, if market interest rates had been 25 basis points (2019: 25 basis points) higher/lower with all other variables held constant, profit after tax for the year would have decreased/increased by HK$16,802,000 (2019: HK$23,464,000). In the opinion of the management, the sensitivity analysis is unrepresentative of the cash flow interest rate risk as the year end exposure does not reflect the exposure during the year.

42. Financial Risk Management (continued)

Credit risk and impairment assessment

As at 31 December 2020, the Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge an obligation by the counterparties is arising from the carrying amount of the respective recognised financial assets as stated in the consolidated statement of financial position.

The Group's credit risk exposure are primarily attributable to investment securities (measured at amortised cost), financial products issued at fair value, advances to customers, debt instruments at FVTOCI, accounts receivable, cash and cash equivalents and cash collateral on securities borrowed and reverse repurchase agreements. The Group's maximum exposure to the credit risk arising from the default of the counterparty equal to the carrying amounts of these financial assets in the consolidated statement of financial position.

In order to manage the credit risk, the Credit Committee of the Group has appointed a group of authorised persons who are charged with the responsibility of approving credit limits of advances to customers and credit risk monitoring of advances to customers. The Investment Committee is responsible for subscription approval and risk monitoring of investment securities.

For margin lending, the Group adopts a proprietary developed credit scoring framework which is approved by the Credit Committee for calculating applicable margin ratios for individual stocks at acceptable collateral. The acceptable share list will be updated and approved quarterly and/or when deemed necessary by a working group consisted of Risk Management Department and relevant business units and support functions. The Credit Committee also prescribes the maximum margin limits on both Group level and individual account level for margin lending against a single client (or a group of connected margin clients) and/or a single stock from time to time to avoid over-concentration of risk.

The Risk Management Department of the Group is responsible for overall monitoring of the credit risk of its customers. It will closely monitor the financial position of the debtors and guarantors and for the loans with collateral pledged to the Group. The deficiency reports and customers' account portfolios are monitored on a daily basis to ensure that sufficient collateral are received to maintain an acceptable loan to collateral value ratio. Accounts with margin deficit are subject to margin calls, failure to meet margin calls may result in forced liquidation of part or all positions of the account.

For advances to customers and investment securities, prior to the lending of a loan and subscription of securities, the Credit Committee or the Investment Committee will review the financial strength, purpose of the borrowing or issuance, repayment ability of the borrower or issuer to ensure that the borrower or issuer has sound financial repayment ability. The Group assesses the credit profile of each individual debtor or issuer by analysing many factors that influence the default probability, including (but not limited to) the counterparty's financial profile, business prospects and management, macroeconomic development, industrial and sovereign risk, and historical performance. The Credit Committee and the Investment Committee hold meeting from time to time as the chairpersons consider appropriate and review from time to time the financial conditions of the borrowers, the guarantors or the issuers.

For the Group's issued financial products and investments in debt securities, the Investment Committee, the Credit Committee, the Risk Management Department and respective business units of the Group assess the financial performance of the holders and issuers to ensure that the holders and issuers can satisfy the repayment of the principal and interest as they fall due. Failure to repay may result in collateral liquidation and/or legal actions against the holders and issuers.

42. Financial Risk Management (continued)

Credit risk and impairment assessment (continued)

The Group has set portfolio size and single issuer limits to control the Group's exposure to the credit risk.

The Group also monitors the credit rating and market news of the issuers of respective equity, debts, derivatives and unlisted financial products as well as the holders of unlisted financial products issued by the Group of respective equity, debts and derivatives as well for any indication of potential credit deterioration. For those financial products issued by the Group, the directors will also maintain a regular communication with the holders and assess the performance of the underlying investments to evaluate if there is any indication of potential credit deterioration.

For other credit exposures such as accounts and other receivables, derivative financial instruments and cash and cash equivalents, the Group ensures that the exposures are limited to reputable counterparties, such as the financial institutions, brokers, dealers or clearing houses, which are governed by regulators including the Hong Kong Monetary Authority, the Hong Kong Securities and Futures Commission and other overseas regulators. The risk of default in repayment is considered to be minimal by the directors.

Other than concentration of credit risk on liquid funds which are deposited with several banks with high credit ratings, the Group does not have any other significant concentrations of credit risk.

The management is confident in its ability to continue to control and sustain minimal exposure of credit risk arising from below major recognised financial assets as stated in the consolidated statement of financial position.

- For accounts receivable, approximately HK$3,066,928,000 (2019: HK$2,698,034,000) was receivables from clients arising from dealing in securities, which normally had a delivery-against payment settlement term of 2 days.

  There is no concentration of credit risk with respect to the receivables, as the Group has a large number of clients who are internationally dispersed. Most of the accounts and other receivables from clients with overdue more than 30 days are fully secured by listed securities with market value significantly higher than the carrying amount.

- Advances to customers in margin financing are backed by collateral. The Group only accepts collateral in the form of cash and liquid stocks. Concentration risk of advances to customers in margin financing is managed by reference to individual customers. The aggregate credit exposure in relation to the ten largest outstanding customers, including corporate entities and individuals at 31 December 2020 was HK$ 5,964 million (31 December 2019: HK$5,481 million) which were secured by collateral.

- Loans and debt securities classified as advances to customers and investment securities (measured at amortised cost) are either secured or guaranteed. Concentration risk of loans and debt securities is managed by reference to individual borrowers and issuers. The aggregate credit exposure in relation to the ten largest outstanding loans borrowers and issuers of debt securities at 31 December 2020 was HK$10,885 million (31 December 2019: HK$12,326 million). There was no recent history of individual impairment allowance recognised for these ten largest parties.

42. Financial Risk Management (continued)

Credit risk and impairment assessment (continued)

- For stock-pledged repurchase and stock-acquired resale business, management conducts strict due diligence and project review procedures, and control the credit risk relating to the business through monitoring the market conditions, closing the position and other approaches. The directors of the Company focus on the investment diversification for credit-class fixed income securities investments and closely follow up the operation condition of counterparties and their credit ratings changes. Majorities of the above-mentioned businesses were entered with the counterparties with credit rating of Baa2 or above issued by Moody's or BBB or above issued by Standards & Poor's.

- Majority of cash and cash equivalents are deposited in reputable large commercial banks with credit rating of Baa2 or above issued by Moody's or BBB or above issued by Standards & Poor's.

The Group's internal credit risk grading assessment comprises the following categories:

Internal credit rating	Description	Accounts receivable	Other financial assets/other items
Low risk	The counterparty has a low risk of default and does not have any past-due amounts	Lifetime ECL – not credit-impaired	12-month ECL
Watch list	The counterparty has past due amounts but the payment has not been past due for 5 days (advance to customers in margin financing: no shortfall)	Lifetime ECL – not credit-impaired	12-month ECL
Doubtful	There have been significant increases in credit risk since initial recognition through information developed internally or external resources or payments have been overdue for more than 30 days (advance to customers in margin financing: shortfall outstanding between 1 and 30 days)	Lifetime ECL – not credit-impaired	Lifetime ECL – not credit-impaired
Loss	There is evidence indicating the asset is credit-impaired or payment has been overdue for more than 90 days (advance to customers in margin financing: shortfall outstanding for over 30 days)	Lifetime ECL – credit-impaired	Lifetime ECL – credit-impaired
Write-off	There is evidence indicating that the debtor is in severe financial difficulty and the Group has no realistic prospect of recovery	Amount is written off	Amount is written off

42. Financial Risk Management (continued)

Credit risk and impairment assessment (continued)

The tables below detail the credit risk exposures of the Group's financial assets, which are subject to ECL assessment:

	Note	External credit rating	Internal credit rating	12-month or lifetime ECL	2020 Gross carrying amount		2019 Gross carrying amount	
					HK$'000	HK$'000	HK$'000	HK$'000
Advances to customers – margin financing	21	N/A	Low risk	12-month ECL	9,574,790		8,333,263	
			Watch list	12-month ECL	1,458,949		2,958,832	
			Doubtful	Lifetime ECL (not credit impaired)	475,565		352,152	
			Loss	Credit-impaired	2,024,786	13,534,090	1,860,654	13,504,901
Advances to customers – merger and acquisition financing	21	N/A	Low risk	12-month ECL	2,794,032		2,348,265	
			Watch list	12-month ECL	77,521		326,179	
			Doubtful	Lifetime ECL (not credit impaired)	–		–	
			Loss	Credit-impaired	553,778	3,425,331	197,384	2,871,828
Advances to customers – secured financing	21	N/A	Low risk	12-month ECL	478,936		5,065,393	
			Watch list	12-month ECL	159,687		9,000	
			Doubtful	Lifetime ECL (not credit impaired)	–		–	
			Loss	Credit-impaired	65,264	703,887	74,113	5,148,506
Investment securities (measured at amortised cost)	18	N/A	Low risk	12-month ECL	8,602,253		7,665,757	
			Watch list	12-month ECL	338,927		2,909,050	
			Doubtful	Lifetime ECL (not credit impaired)	480,000		–	
			Loss	Credit-impaired	1,089,170	10,510,350	–	10,574,807
Debt instruments at FVTOCI (note)	18	Above Baa3 (Moody)/ BBB- (S & P)	N/A	12-month ECL	59,845			768,570
Cash collateral on securities borrowed and reverse repurchase agreements (note)	22	Above Baa2 (Moody)/BBB (S & P)	N/A	12-month ECL	7,738,788			5,324,893
Cash and cash equivalents (note)		Above Baa2 (Moody)/ BBB (S & P)	N/A	12-month ECL	4,335,005			4,629,654
Cash held on behalf of customers (note)	16	Above Baa2 (Moody)/ BBB (S & P)	N/A	12-month ECL	19,555,006			15,134,943
Accounts receivable (note)	23	N/A	Low risk	12-month ECL	5,603,157			8,738,831

Note: The directors of the Company consider the impacts of the ECL are immaterial to the Group and no reconciliation of gross carrying amount and impairment allowances have been prepared.

42. Financial Risk Management (continued)

Credit risk and impairment assessment (continued)

The estimated loss rates for each class of financial assets are estimated based on historical observed default rates over the expected life of the respective class of financial assets and are adjusted for forward-looking information that is available without undue cost or effort, including macroeconomic data such as GDP growth, unemployment and benchmark interest rates. The identification of internal credit rating for individual financial assets is regularly reviewed by management to ensure relevant information about specific financial assets is updated.

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

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

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

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

42. Financial Risk Management (continued)

Credit risk and impairment assessment (continued)

Movement in the allowances for impairment that has been recognised for advances to customers – margin financing are as follows:

31 December 2020

	Stage 1 12-month ECL HK$'000	Stage 2 Lifetime ECL HK$'000	Stage 3 Lifetime ECL HK$'000	Total HK$'000
As at 1 January 2020	30,541	33,991	810,522	875,054
Changes due to financial instruments recognised as at 1 January 2020:				
– Net remeasurement of ECL without transfer of stage (note iii)	(2,258)	–	250,108	247,850
– Repayments (note iv)	(157)	–	–	(157)
– Transfer from/to 12-month ECL to/from lifetime ECL (note i)	20,973	(33,987)	13,014	–
– Net remeasurement of ECL arising from transfer of stage (notes i and iii)	(19,868)	3	103,297	83,432
– De-recognition	–	–	(59)	(59)
New lending (note ii)	691	–	–	691
As at 31 December 2020	29,922	7	1,176,882	1,206,811

31 December 2019

	Stage 1 12-month ECL HK$'000	Stage 2 Lifetime ECL HK$'000	Stage 3 Lifetime ECL HK$'000	Total HK$'000
As at 1 January 2019	28,649	31,475	555,238	615,362
Changes due to financial instruments recognised as at 1 January 2019:				
– Net remeasurement of ECL without transfer of stage	814	7,866	300,639	309,319
– Repayments	(423)	(619)	(22,179)	(23,221)
– Transfer from/to 12-month ECL to/from lifetime ECL	(202)	(25,521)	25,723	–
– Net remeasurement of ECL arising from transfer of stage	(1,277)	20,790	223,686	243,199
– De-recognition	–	–	(272,585)	(272,585)
New lending	2,980	–	–	2,980
As at 31 December 2019	30,541	33,991	810,522	875,054

42. Financial Risk Management (continued)

Credit risk and impairment assessment (continued)

Notes:

(i) Financial assets with a gross carrying amount of HK$554 million were assessed as stages 1 and 2 in prior year but becoming credit-impaired during the current year due to the decrease in fair value of the pledged listed securities which has resulted in a shortfall and triggered the margin calls for additional collateral to maintain an acceptable loan to collateral value ratio. These borrowers failed to meet the margin calls and were outstanding for more than 30 days. Accordingly, ECL in stage 1 and 2 of HK$13 million was transferred to stage 3. Additional impairment allowance of HK$103 million was made under lifetime ECL in respect of these assets. Additional disclosure for the stage 3 exposure and individual assessment are detailed in footnote (iii) in this note.

(ii) Impairment allowance of HK$1 million made under 12m ECL is in relating to newly recognised financial assets with gross amount of HK$1,795 million. During the current year, these advances to customers in margin financing had no significant increase in credit risk since initial recognition and were not assessed to be credit-impaired.

(iii) As at 31 December 2020, advances to margin clients with gross carrying amount of HK$2,025 million were assessed as credit-impaired. In determining the allowances for credit-impaired advances to customers in margin financing, the management of the Group also takes into account shortfall by comparing the fair value of securities pledged as collateral, other types of credit enhancement (e.g. additional collaterals and guarantee), status of enforcement proceedings and the outstanding balance of loan to margin clients individually taking into account subsequent settlement or executable settlement plan and restructuring arrangements. In the opinion of the directors of the Company, the impairment provisions for both years are appropriate.

(iv) During the current year, loans with gross carrying amounts of HK$60 million were repaid (with a corresponding reversals of impairment).

Movement in the allowances for impairment that has been recognised for investment securities (measured at amortised cost) are as follows:

31 December 2020

	Stage 1 12-month ECL HK$’000	Stage 2 Lifetime ECL HK$’000	Stage 3 Lifetime ECL (note iii) HK$’000	Total HK$’000
As at 1 January 2020	13,724	–	–	13,724
Change due to financial instruments recognised as at 1 January 2020:				
– Transfer from/to 12m ECL to/from lifetime ECL	(226)	226	–	–
– Net remeasurement of ECL arising from transfer of stage	–	9,286	–	9,286
– Net remeasurement of ECL	10,253	–	–	10,253
– Repayments (note i)	(845)	–	–	(845)
New investment (note ii)	2,215	–	–	2,215
As at 31 December 2020	25,121	9,512	–	34,633

42. Financial Risk Management (continued)

Credit risk and impairment assessment (continued)

31 December 2019

	Stage 1 12-month ECL HK$'000	Stage 2 Lifetime ECL HK$'000	Stage 3 Lifetime ECL HK$'000	Total HK$'000
As at 1 January 2019	12,645	–	–	12,645
Change due to financial instruments recognised as at 1 January 2019:				
– Net remeasurement of ECL	(3,994)	–	–	(3,994)
– Repayments	(905)	–	–	(905)
New investment	5,978	–	–	5,978
As at 31 December 2019	13,724	–	–	13,724

Notes:

(i) During the current year, impairment allowance of HK$1 million was reversed due to repayment of financial assets with a gross carrying amount of HK$1,700 million.

(ii) Impairment allowance of HK$2 million made under 12m ECL is in relation to newly recognised financial assets with gross amount of HK$1,914 million. During the current year, these investment securities (measured at amortised cost) had no significant increase in credit risk since initial recognition and were not assessed to be credit-impaired. In the opinion of the directors of the Company, the impairment provisions for both years are appropriate.

(iii) During the year, an investment security with the gross carrying amount of HK$1,089 million (31 December 2019: HK$1,094 million) was transferred to Stage 3 from Stage 1 due to maturity of this security with no repayment as at 31 December 2020. This security relates to a property development project in the overseas by a Hong Kong listed company and the relevant property development project was pledged to the Group. In assessing the impairment provision as at 31 December 2020, the Group evaluated the fair value of collaterals held. Based on the valuation performed by an independent professional valuer under the market approach with reference to recent transaction prices of lands comparable in the nearby development with the major adjustments on the location, the value is higher than the outstanding gross carrying amount. Therefore the directors of the Company considered no provision shall be made against this security as at 31 December 2020.

42. Financial Risk Management (continued)

Credit risk and impairment assessment (continued)

Movement in the allowances for impairment that has been recognised for advances to customers – merger and acquisition financing are as follows:

31 December 2020

	Stage 1 12-month ECL HK$'000	Stage 2 Lifetime ECL HK$'000	Stage 3 Lifetime ECL HK$'000	Total HK$'000
As at 1 January 2020	4,393	–	39,477	43,870
Changes due to financial instruments recognised as at 1 January 2020:				
– Transfer from/to 12m ECL to/from lifetime ECL (note iii)	(1,287)	–	1,287	–
– Net remeasurement of ECL without transfer of stage (note iii)	2,830	–	39,477	42,307
– Net remeasurement of ECL arising from transfer of stage (note iii)	–	–	105,631	105,631
– Repayments (note i)	(1,461)	–	–	(1,461)
New lending (note ii)	2,141	–	–	2,141
As at 31 December 2020	6,616	–	185,872	192,488

42. Financial Risk Management (continued)

Credit risk and impairment assessment (continued)

31 December 2019

	Stage 1 12-month ECL HK$'000	Stage 2 Lifetime ECL HK$'000	Stage 3 Lifetime ECL HK$'000	Total HK$'000
As at 1 January 2019	8,833	–	–	8,833
Changes due to financial instruments recognised as at 1 January 2019:				
– Transfer from/to 12m ECL to/from lifetime ECL	(2,726)	–	2,726	–
– Net remeasurement of ECL without transfer of stage	(1,638)	–	–	(1,638)
– Net remeasurement of ECL arising from transfer of stage	–	–	36,751	36,751
– Repayments	(2,908)	–	–	(2,908)
New lending	2,832	–	–	2,832
As at 31 December 2019	4,393	–	39,477	43,870

Notes:

(i) During the current year, impairment allowance of HK$1 million was reversed due to repayment of financial assets with a gross carrying amount of HK$689 million.

(ii) Impairment allowance of HK$2 million made under 12m ECL is in relation to newly recognised financial assets with gross amount of HK$993 million. During the current year, these advances to customers for merger and acquisition financing had no significant increase in credit risk since initial recognition and were not assessed to be credit-impaired.

(iii) As at 31 December 2020, there were no past due advances to customers for merger and acquisition financing, except for two loans with gross carrying amount of HK$553 million. A loan with gross carrying amount of HK$197 million that was advanced to an external party for its property development project in the PRC with the due date in 2021 for the principal but with delay of interest repayment for more than 90 days that was assessed as credit-impaired in both prior and current years end. An additional re-measurement of impairment allowance of HK$39 million was made under lifetime ECL (credit impaired) by the management during the current year since there was a decrease in recoverable amount of the collateral at its force sale value as determined by an independent professional valuer.

As at 31 December 2020, another loan with gross carrying amount of HK$356 million to an external party for its acquisition in the overseas which was matured while the principal and the accrued interest were not repaid as at 31 December 2020. The loan with gross carrying amount of HK$356 million was assessed as credit-impaired and corresponding ECL in stage 1 of HK$1 million was transferred to stage 3 during the current year. An impairment charge of HK$106 million was recognised during the year ended 31 December 2020, which represents the difference between the outstanding balance and expected recoverable amount from enforcement proceedings in the PRC.

42. Financial Risk Management (continued)

Credit risk and impairment assessment (continued)

Movement in the allowances for impairment that has been recognised for advances to customers – secured financing are as follows:

31 December 2020

	Stage 1 12-month ECL HK$'000	Stage 2 Lifetime ECL HK$'000	Stage 3 Lifetime ECL HK$'000	Total HK$'000
As at 1 January 2020	12,313	–	10,859	23,172
Changes due to financial instruments recognised as at 1 January 2020:				
– Net remeasurement of ECL without transfer of stage (note iv)	(449)	–	49,843	49,394
– Transfer from/to 12-month ECL to/from lifetime ECL (note i)	(1,468)	–	1,468	–
– Net remeasurement of ECL arising from transfer of stage (note i)	–	–	635,028	635,028
– Repayments (notes i and ii)	(10,223)	–	(200,664)	(210,887)
– De-recognition (note i)	–	–	(445,787)	(445,787)
New lending (note iii)	708	–	–	708
As at 31 December 2020	881	–	50,747	51,628

42. Financial Risk Management (continued)

Credit risk and impairment assessment (continued)

31 December 2019

	Stage 1 12-month ECL HK$'000	Stage 2 Lifetime ECL HK$'000	Stage 3 Lifetime ECL HK$'000	Total HK$'000
As at 1 January 2019	6,499	992	101,508	108,999
Changes due to financial instruments recognised as at 1 January 2019:				
– Net remeasurement of ECL without transfer of stage	(1,643)	–	–	(1,643)
– Transfer from/to 12-month ECL to/from lifetime ECL	(69)	–	69	–
– Net remeasurement of ECL arising from transfer of stage	–	–	10,790	10,790
– Repayments and de-recognition	(4,516)	(992)	(101,508)	(107,016)
New lending	12,042	–	–	12,042
As at 31 December 2019	12,313	–	10,859	23,172

Notes:

(i) A loan with a gross carrying amount of HK$1,074 million were assessed as becoming credit-impaired which was assessed as stage 1 in prior year. Accordingly, ECL in stage 1 of HK$1.5 million was transferred to stage 3 during the current year. After disposal of the collaterals held regarding this advance, the gross outstanding balance amounted to HK$636 million. A net impairment provision of HK$435 million was made under lifetime ECL, which represents the impairment allowance of HK$635 million minus the repayment amount of HK$200 million from disposal of the loan at discount to an independent third party.

(ii) During the current year, loans with gross carrying amounts of HK$3,736 million in stage 1 were repaid and corresponding allowance of HK$10 million was reversed.

(iii) Impairment allowance of HK$1 million made under 12m ECL is in relation to newly recognised financial assets with gross amount of HK$452 million. During the current year, these advances to customers had no significant increase in credit risk since initial recognition and were not assessed to be credit-impaired.

(iv) In determining the allowance of credit-impaired advances to customers, the management considered the creditworthiness and status of the borrower and the present value of estimated future cash flows from the enforcement proceeding.

42. Financial Risk Management (continued)

Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting obligations associated with its financial liabilities. As part of the measures to safeguard liquidity, the Group has maintained substantial long term and other stand-by banking facilities, diversifying the funding sources and spacing out the maturity dates.

A number of the Group's activities in Hong Kong and overseas are subject to various statutory liquidity requirements as prescribed by respective regulators.

The Group has also put in place a monitoring system to ensure that it maintains adequate liquid capital to fund its business commitments and to comply with relevant liquid capital requirements imposed by respective regulators.

As at 31 December 2020, the Group has available unutilised overdrafts, and short and medium term bank loan facilities of approximately HK$29,133 million (31 December 2019: HK$27,327 million).

The table below presents the cash flows payable by the Group under non-derivative financial liabilities held for managing liquidity risk by remaining contractual maturities at the reporting date.

The amounts disclosed in the table are the contractual undiscounted cash flows. The table includes both interest and principal cash flows. In addition, the following table details the Group's liquidity analysis for its derivative financial instruments. The tables have been drawn up based on the undiscounted contractual net cash (inflows) and outflows on derivative instruments that settle on a net basis. When the amount payable is not fixed, the amount disclosed has been determined by reference to the projected interest rates as illustrated by the yield curves existing at the end of the reporting period. The liquidity analysis for the Group's derivative financial instruments are not prepared based on the contractual settlement dates as the management consider that the settlement dates are not essential for an understanding of the timing of the cash flows of derivatives that are held-for-trading.

42. Financial Risk Management (continued)

Liquidity risk (continued)

Liquidity table

	Repayable on demand or less than 3 months HK$'000	Over 3 months to 1 year HK$'000	Over 1 year to 5 years HK$'000	Over 5 years HK$'000	Total HK$'000
31 December 2020					
Convertible bonds issued	–	127,137	–	–	127,137
Non-convertible bonds issued	172,969	172,969	12,648,520	–	12,994,458
Non-convertible notes issued	1,562,013	4,720,667	–	–	6,282,680
Bank borrowings (note)	37,943,373	181,658	–	–	38,125,031
Cash collateral on securities lent and repurchase agreements	10,579,167	101,258	–	–	10,680,425
Accounts payable	22,921,539	–	–	–	22,921,539
Financial liabilities held for trading and market making activities	4,067,271	–	–	–	4,067,271
Financial products issued at fair value	15,619,109	–	816,545	–	16,435,654
Other payables and accruals	1,420,202	–	–	–	1,420,202
Liabilities arising from consolidation of investment funds	5,071,585	–	–	–	5,071,585
Derivative financial instruments – net settlement	819,725	–	–	–	819,725
Lease liabilities	43,844	89,049	124,791	111,883	369,567
	100,220,797	5,392,738	13,589,856	111,883	119,315,274

42. Financial Risk Management (continued)

Liquidity risk (continued)

Liquidity table (continued)

	Repayable on demand or less than 3 months HK$'000	Over 3 months to 1 year HK$'000	Over 1 year to 5 years HK$'000	Over 5 years HK$'000	Total HK$'000
31 December 2019					
Convertible bonds issued	–	–	127,137	–	127,137
Non-convertible bonds issued	242,314	5,715,108	9,735,588	–	15,693,010
Non-convertible notes issued	1,033,458	6,526,322	–	–	7,559,780
Bank borrowings (note)	36,996,641	–	–	–	36,996,641
Cash collateral on securities lent and repurchase agreements	25,917,108	1,537,898	–	–	27,455,006
Accounts payable	20,184,659	–	–	–	20,184,659
Financial liabilities held for trading and market making activities	1,945,382	–	–	–	1,945,382
Financial products issued at fair value	17,103,333	–	1,926,905	–	19,030,238
Other payables and accruals	1,490,778	–	–	–	1,490,778
Liabilities arising from consolidation of investment funds	421,238	–	–	–	421,238
Derivative financial instruments – net settlement	545,139	–	–	–	545,139
Lease liabilities	46,905	130,271	192,261	12,635	382,072
	105,926,955	13,909,599	11,981,891	12,635	131,831,080

Note: Bank loans with a repayment on demand clause are included in the 'repayable on demand or less than 3 months' time band in the maturity analysis. As at 31 December 2020, the aggregate undiscounted principal amounts of these bank loans amounted to HK$11,799 million (31 December 2019: HK$10,764 million). Taking into account the Group's financial position, the directors do not believe that it is probable that the banks will exercise their discretionary rights to demand immediate repayment. The directors believe that such bank loans will be repaid within 1 month after the end of the reporting period (2019: within one month). At that time, the aggregate principal and interest cash outflows will amount to HK$11,810 million (31 December 2019: HK$10,796 million).

Stock borrowing and lending arrangement

Under the normal course of business, the Group may enter into stock borrowing and lending arrangements with other financial institutions and its customers. Equity securities may be borrowed from the other financial institutions and lent to its customers or for the Group's proprietary short selling activity.

During the process, the Group receives cash collateral from the customers and also places cash collateral in other financial institutions as collateral.

	2020 HK$'000	2019 HK$'000
Equity securities borrowed from external financial institutions	652,747	324,754
Equity securities lent to counterparties and customers	1,554,486	1,015,164
Cash collateral received from counterparties and customers	1,579,058	1,077,230
Cash collateral held by financial institutions	673,989	335,499

43. Fair Value Measurements of Financial Instruments

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

As at 31 December 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:

	2020		2019	
	Carrying amount HK$'000	Fair value HK$'000	Carrying amount HK$'000	Fair value HK$'000
Convertible bonds (note ii)	125,385	123,658	123,269	125,500
Non-convertible bonds (note ii)	11,568,173	12,049,864	13,941,015	14,120,630
Non-convertible notes (note i)	6,175,976	6,193,321	7,354,145	7,265,192

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 provided by brokers/financial institution.

These convertible bonds, non-convertible bonds and non-convertible notes are classified under Level 2 (as defined in note 3 above) in the fair value hierarchy.

Financial assets and financial liabilities that are measured at fair value on a recurring basis

Valuation control framework

Fair values are subject to a control framework established by the Risk Management Department and the Finance Department of the Group to ensure that they are determined and/or validated independently from front-line business units acquiring/incurring these financial assets or financial liabilities.

For all financial assets and financial liabilities where fair values are determined by reference to externally quoted prices or observable pricing inputs to models, independent price determination and/or verification is adopted. In circumstances where direct observation of a traded price is not possible, the Group will seek alternative market information to validate the fair value of relevant financial asset or financial liability, with greater weight given to information that is considered to be more relevant and reliable.

For fair values determined using a valuation model, the control framework may include, as applicable, development or validation independently of (i) the logic within valuation models; (ii) the inputs to those models; (iii) any adjustments required outside the valuation models; and (iv) where possible, model outputs. Valuation models are subject to independent assessment before being adopted and will re-assess on a regular basis.

Independent determination and/or verification on the fair values adopted and independent assessment on the valuation models are responsible by the Risk Management Department while the Finance Department is responsible for establishing the accounting policies governing valuation, and is responsible for ensuring compliance with relevant accounting standards.

43. Fair Value Measurements of Financial Instruments (continued)

Financial assets and financial liabilities that are measured at fair value on a recurring basis (continued)

Fair value hierarchy and valuation technique of financial assets and financial liabilities other than financial assets and financial liabilities relating to financial product issuance

An analysis of the fair value and the valuation techniques of financial assets/liabilities held for trading and market making activities, investment securities at fair value (through profit or loss, or through other comprehensive income) and derivative financial instruments are as follows:

Assets – at 31 December 2020

	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	1,060,830	–	–	1,060,830
– Exchange traded funds	65,908	–	–	65,908
– Listed preference shares	–	1,749	–	1,749
– Listed debt investments	–	8,952,985	2,524	8,955,509
– Unlisted debt investments	–	489,237	17,594	506,831
	1,126,738	9,443,971	20,118	10,590,827
Investment securities at fair value (through profit or loss and through other comprehensive income)				
– Listed equity investments	3,725,751	184,661	–	3,910,412
– Exchange traded funds	87,269	–	–	87,269
– Listed debt investments	–	59,845	–	59,845
– Unlisted partnership investments	–	37,092	1,571,259	1,608,351
– Unlisted equity investments	–	641,114	99,245	740,359
– Unlisted debt investments	–	3,096,710	229,307	3,326,017
– Unlisted investment funds	–	15,367,658	–	15,367,658
– Consolidated investment funds (Note 4)	1,186,668	9,706,943	297,272	11,190,883
	4,999,688	29,094,023	2,197,083	36,290,794
Derivative financial assets				
– Swaps	–	280,539	–	280,539
– Forward foreign currency exchange contracts	–	12,076	–	12,076
– Listed futures/options/warrants	9,640	405,077	–	414,717
– Callable bull/bear contracts	–	4,741	–	4,741
– Unlisted options	–	20,037	–	20,037
	9,640	722,470	–	732,110
Total	6,136,066	39,260,464	2,217,201	47,613,731

43. Fair Value Measurements of Financial Instruments (continued)

Financial assets and financial liabilities that are measured at fair value on a recurring basis (continued)

Fair value hierarchy and valuation technique of financial assets and financial liabilities other than financial assets and financial liabilities relating to financial product issuance (continued)

Assets – at 31 December 2019

	Level 1 HK$'000 (Note 1)	Level 2 HK$'000 (Note 2)	Level 3 HK$'000 (Note 3)	Total HK$'000
Financial assets held for trading and market making activities				
– Listed equity investments	1,748,246	–	–	1,748,246
– Exchange traded funds	151,404	–	–	151,404
– Listed preference shares	–	3,280	–	3,280
– Listed debt investments	–	25,634,824	321,393	25,956,217
– Unlisted debt investments	–	583,396	17,335	600,731
	1,899,650	26,221,500	338,728	28,459,878
Investment securities at fair value (through profit or loss and through other comprehensive income)				
– Listed equity investments	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

43. Fair Value Measurements of Financial Instruments (continued)

Financial assets and financial liabilities that are measured at fair value on a recurring basis (continued)

Fair value hierarchy and valuation technique of financial assets and financial liabilities other than financial assets and financial liabilities relating to financial product issuance (continued)

Liabilities – at 31 December 2020

	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	167,972	–	–	167,972
– Listed preference shares	–	8,349	–	8,349
– Listed debt investments	–	3,890,821	–	3,890,821
– Unlisted debt investments	–	129	–	129
	167,972	3,899,299	–	4,067,271
Derivative financial liabilities				
– Swaps	–	6,131	–	6,131
– Forward foreign currency exchange contracts	–	27,645	–	27,645
– Listed futures/options/warrants	11,013	560,420	–	571,433
– Callable bull/bear contracts	–	190,398	–	190,398
– Unlisted options	–	24,118	–	24,118
	11,013	808,712	–	819,725
Total	178,985	4,708,011	–	4,886,996

43. Fair Value Measurements of Financial Instruments (continued)

Financial assets and financial liabilities that are measured at fair value on a recurring basis (continued)

Fair value hierarchy and valuation technique of financial assets and financial liabilities other than financial assets and financial liabilities relating to financial product issuance (continued)

Liabilities – at 31 December 2019

	Level 1 HK$'000 (Note 1)	Level 2 HK$'000 (Note 2)	Level 3 HK$'000 (Note 3)	Total HK$'000
Financial liabilities held for trading and market making activities				
– Listed equity investments	191,272	–	–	191,272
– Exchange traded funds	22,922	–	–	22,922
– Listed preference shares	–	55,127	–	55,127
– Listed debt investments	–	1,654,878	–	1,654,878
– Unlisted debt investments	–	21,183	–	21,183
	214,194	1,731,188	–	1,945,382
Derivative financial liabilities				
– Swaps	–	68,162	–	68,162
– Forward foreign currency exchange contracts	–	26,676	–	26,676
– Listed futures/options/warrants	–	197,195	–	197,195
– Callable bull/bear contracts	–	208,343	–	208,343
– Unlisted options	–	44,763	–	44,763
	–	545,139	–	545,139
Total	214,194	2,276,327	–	2,490,521

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 31 December 2020, the investments held by consolidated investment funds as disclosed in note 18(i) are HK$11.2 billion (2019: HK$7.3 billion), which include (i) listed equity investments of HK$1,187 million (2019: HK$1,351 million) classified as level 1, (ii) listed equity investments of HK$29 million (2019: HK$Nil), listed and unlisted debt investments of HK$9,678 million (2019: HK$525 million) collectively classified as level 2; as at 31 December 2019, level 2 investments also include unlisted equity of HK$127 million and unlisted fund investments of HK$4,735 million, (iii) unlisted equity investments of HK$147 million (2019: HK$380 million), unlisted fund investments of HK$99 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$1,187 million, HK$9,707 million and HK$297 million (2019: HK$1,351 million, HK$5,387 million and HK$559 million) respectively.

43. Fair Value Measurements of Financial Instruments (continued)

Financial assets and financial liabilities that are measured at fair value on a recurring basis (continued)

Fair value hierarchy and valuation technique of financial assets and financial liabilities relating to financial product issuance

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

The outstanding balance of HK$16,436 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$31,813 million (2019: HK$32,386 million) and short hedging position is Nil (2019: HK$32 million).

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

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

As at 31 December 2020

	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	3,408,390	–	–	3,408,390
– Listed debt investments	–	6,962,532	2,502,680	9,465,212
– Unlisted equity investments	–	–	401,261	401,261
– Unlisted partnership investments	–	–	15,504	15,504
– Unlisted debt investments	–	4,849,750	–	4,849,750
– Unlisted investment funds	–	1,510,847	19,681	1,530,528
– Unlisted financial products	–	7,058,690	209,982	7,268,672
– Consolidated investment funds (Note 4)	–	4,873,378	–	4,873,378
	3,408,390	25,255,197	3,149,108	31,812,695
Financial products issued at fair value				
– Unlisted issued financial products	–	15,683,730	751,924	16,435,654
Net position as of 31 December 2020	3,408,390	9,571,467	2,397,184	15,377,041

43. Fair Value Measurements of Financial Instruments (continued)

Financial assets and financial liabilities that are measured at fair value on a recurring basis (continued)

Fair value hierarchy and valuation technique of financial assets and financial liabilities relating to financial product issuance (continued)

As at 31 December 2019

	Level 1 HK$'000 (Note 1)	Level 2 HK$'000 (Note 2)	Level 3 HK$'000 (Note 3)	Total HK$'000
Assets acquired for financial products issued at fair value				
– Listed equity investments	1,438,796	–	–	1,438,796
– Listed debt investments	–	18,905,357	–	18,905,357
– Unlisted equity investments	–	179,738	380,310	560,048
– Unlisted partnership investments	–	191,481	15,568	207,049
– Unlisted debt investments	–	1,556,038	–	1,556,038
– Unlisted investment funds	–	3,272,753	–	3,272,753
– Unlisted financial products	–	6,445,804	–	6,445,804
	1,438,796	30,551,171	395,878	32,385,845
Financial products issued at fair value				
– Unlisted issued financial products	–	18,602,437	395,878	18,998,315
– Listed equity investments	31,923	–	–	31,923
	31,923	18,602,437	395,878	19,030,238
Net position as of 31 December 2019	1,406,873	11,948,734	–	13,355,607

Notes:

(1) The fair values of financial instruments traded in active markets are based on quoted market prices at the end of the reporting period.

(2) The fair values of financial instruments that are mainly traded in over-the-counter are determined by using market observable broker quotes or valuation techniques with observable market data as key parameter inputs without management judgment.

(3) The fair values are determined by using valuation techniques with one or more of the significant inputs not based on observable market data. Information on Level 3 fair value measurements are further detailed below.

(4) As at 31 December 2020, the investments held by consolidated investment funds under level 2 are listed and unlisted debt investments of HK$4,873 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.

43. Fair Value Measurements of Financial Instruments (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:

31 December 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$'000	Assets acquired for financial products issued HK$'000	Financial products issued at fair value HK$'000
Opening balance	2,655,454	395,878	(395,878)
Addition (note i)	480,870	–	–
Transfer into Level 3 (note ii)	280,906	4,083,657	(1,716,681)
Transfer into Level 2 (note iii)	(220,109)	–	–
Disposal	(421,752)	–	–
Total (losses) gains in profit or loss (note v)	(558,168)	(1,330,427)	1,360,635
Closing balance	2,217,201	3,149,108	(751,924)

43. Fair Value Measurements of Financial Instruments (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$'000	Assets acquired for financial products issued HK$'000	Financial products issued at fair value HK$'000
Opening balance	1,671,833	362,566	(341,688)
Addition (note i)	200,852	–	–
Transfer into Level 3 (note ii)	1,245,839	27,019	(27,019)
Derecognition due to deconsolidation of an investment fund (note iv)	(193,853)	–	–
Disposal	(187,957)	–	–
Total (losses) gains in profit or loss (note v)	(81,260)	6,293	(27,171)
Closing balance	2,655,454	395,878	(395,878)

Notes:

(i) For the year ended 31 December 2020, addition represents additional capital call to private equity funds of HK$89 million (2019: HK$57 million) and purchase of a debt investment amounting to HK$184 million (2019: 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. For the year ended 31 December 2020, addition also includes purchase of an unlisted equity investment amounting to HK$208 million where the fair value is determined based on significant unobservable inputs in particular the pricing multiple of comparable companies used to determine the estimated equity value.

(ii) For the year ended 31 December 2020, private equity investments amounted to HK$186 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 2020, unlisted and listed debt investments amounted to HK$4,179 million (2019: HK$367 million) were transferred from Level 2 to Level 3 category. The reasons for the transfer is due to the fair value being determined with reference to the recent transaction price or market observable broker/financial institution quotes 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 of HK$1,717 million (2019: HK$27 million) were transferred into level 3 category with reference to the transfer of the underlying investments.

(iii) For the year ended 31 December 2020, the fair value of an equity investment of HK$133 million was determined with reference to observable inputs including recent transaction price as the equity investment was disposed subsequently in February 2021. Thus, the investment was transferred from Level 3 to Level 2 category. Another equity investment of HK$29 million was determined with reference to quoted market price with liquidity adjustment and unlisted debt investment of HK$58 million was determined with reference to broker quotes were transferred from Level 3 to Level 2 categories. During the prior year, the fair value of the these investments were determined with reference to unobservable inputs including pricing multiples of market comparable companies used to determine the estimated value.

(iv) During 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.

(v) Of the total gains or losses for the year included in profit or loss, losses of HK$413 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.

43. Fair Value Measurements of Financial Instruments (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 31 December		Valuation techniques and key inputs	Significant unobservable inputs	Relationship of unobservable inputs to fair value
	2020 HK$'000	2019 HK$'000			
Financial assets other than financial assets relating to financial product issuance					
Debt investments	249,425	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	246,520	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	The higher the pricing multiples, the higher the fair value
				Discount rate for lack of marketability	The higher the discount rate, the lower the fair value
Unlisted partnerships investments/Unlisted investment funds	1,721,256	1,475,493	Net asset value of the unlisted equity investments which are the deemed resale price of investments provided by the external counterparties	Net assets value	The higher the net assets value, the higher the fair value
	2,217,201	2,655,454			
Financial assets and financial liabilities relating to product issuance					
Asset acquired for financial products issued					
Debt investments	2,712,662	–	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	401,261	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 investments/Unlisted investment fund	35,185	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
	3,149,108	395,878			

43. Fair Value Measurements of Financial Instruments (continued)

Information about Level 3 fair value measurements (continued)

	Fair value as at 31 December 2020 HK$'000	Fair value as at 31 December 2019 HK$'000	Valuation techniques and key inputs	Significant unobservable inputs	Relationship of unobservable inputs to fair value
Financial products issued at fair value					
Unlisted financial products	751,924	395,878	The return of the financial products issued is linked to equity investments, partnership investment or investment fund, which are valued with directly reference to its hedging assets	Net asset value of its hedging assets	The higher the net assets value, the higher the fair value

44. Financial Assets and Financial Liabilities Offsetting

The disclosures set out in the tables below include financial assets and financial liabilities that:

- are offset in the Group's consolidated statement of financial position; or
- are subject to an enforceable master netting arrangement or similar agreement that covers similar financial instruments, irrespective of whether they are offset in the Group's consolidated statement of financial position.

Under the agreement of continuous net settlement made between the Group and Hong Kong Securities Clearing Company Limited ("HKSCC"), Clearing Participant of China Securities Depository and Clearing Corporation Limited ("CSDC") and brokers, the Group has a legally enforceable right to set off the money obligation receivable and payable with HKSCC, CSDC and brokers on the same settlement date and the Group intends to set off on a net basis.

In addition, the Group has a legally enforceable right to set off the accounts receivable and payable with brokerage clients that are due to be settled on the same date and the Group intends to settle these balances on a net basis.

Except for balances which are due to be settled on the same date which is being offset, amounts due from/to HKSCC, CSDC, brokers and brokerage clients that are not to be settled on the same date, financial collateral including cash and securities received by the Group, deposits placed with HKSCC, CSDC and brokers do not meet the criteria for offsetting in the consolidated statement of financial position since the right of set-off of the recognised amounts is only enforceable following an event of default.

44. Financial Assets and Financial Liabilities Offsetting (continued)

As at 31 December 2020

	Gross amounts of recognised financial assets (liabilities) after impairment HK$'000	Gross amounts of recognised financial (liabilities) assets set off in the consolidated statement of financial position HK$'000	Net amounts of financial (liabilities) assets presented in the consolidated statement of financial position HK$'000	Related amounts not set off in the consolidated statement of financial position: Financial instruments HK$'000	Related amounts not set off in the consolidated statement of financial position: Collateral received HK$'000	Net amount HK$'000
Financial assets						
Accounts receivable from clients, brokers, dealers and clearing houses	10,957,798	(5,380,991)	5,576,807	(179,140)	(1,120,278)	4,277,389
Deposits placed with clearing houses	198,051	–	198,051	–	–	198,051
Advances to customers – margin financing	12,327,279	–	12,327,279	(383,548)	(11,101,897)	1,402,132
Cash collateral on securities borrowed and reverse repurchase agreements	7,738,041	–	7,738,041	(480,791)	(7,257,250)	–
Financial liabilities						
Accounts payable to clients, brokers, dealers and clearing houses	(28,302,530)	5,380,991	(22,921,539)	582,688	–	(22,338,851)
Financial liabilities held for trading and market making activities	(4,067,271)	–	(4,067,271)	–	4,067,271	–
Cash collateral on securities lent and repurchase agreements	(10,680,425)	–	(10,680,425)	480,791	10,199,634	–

44. Financial Assets and Financial Liabilities Offsetting (continued)

As at 31 December 2019

	Gross amounts of recognised financial assets (liabilities) after impairment HK$'000	Gross amounts of recognised financial (liabilities) assets set off in the consolidated statement of financial position HK$'000	Net amounts of financial (liabilities) assets presented in the consolidated statement of financial position HK$'000	Related amounts not set off in the consolidated statement of financial position		
				Financial instruments HK$'000	Collateral received HK$'000	Net amount HK$'000
Financial assets						
Accounts receivable from clients, brokers, dealers and clearing houses	14,547,967	(5,864,853)	8,683,114	(124,584)	(1,635,995)	6,922,535
Deposits placed with clearing houses	103,128	–	103,128	–	–	103,128
Advances to customers – margin financing	12,629,847	–	12,629,847	(92,509)	(11,437,832)	1,099,506
Cash collateral on securities borrowed and reverse repurchase agreements	5,324,550	–	5,324,550	(674,488)	(4,650,062)	–
Financial liabilities						
Accounts payable to clients, brokers, dealers and clearing houses	(24,972,072)	5,864,853	(19,107,219)	217,093	–	(18,890,126)
Financial liabilities held for trading and market making activities	(1,945,382)	–	(1,945,382)	–	1,945,382	–
Cash collateral on securities lent and repurchase agreements	(27,455,006)	–	(27,455,006)	674,488	26,780,518	–

45. Transfer of Financial Assets

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

Financial assets sold under repurchase agreement

Transferred financial assets that do not qualify for derecognition include bonds and equities held by counterparties as collateral under repurchase agreements, and the Group has determined that if the Group retains substantially all the risks and rewards of these bonds and 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 31 to the consolidated financial statements.

Five Years Financial Summary

	31/12/2020 HK$'000	31/12/2019 HK$'000	31/12/2018 HK$'000	31/12/2017 HK$'000	31/12/2016 HK$'000
RESULTS					
REVENUE	8,329,747	8,243,974	6,328,782	7,195,021	5,350,817
OPERATING PROFIT	2,300,592	1,850,629	1,406,453	3,101,512	2,020,131
Share of (loss) profit of investments accounted for using the equity method	–	–	(226,869)	470,727	(27,658)
PROFIT BEFORE TAX	2,300,592	1,850,629	1,179,584	3,572,239	1,992,473
Income tax expense	(367,715)	(299,771)	(156,746)	(543,551)	(312,248)
PROFIT FOR THE YEAR	1,932,877	1,550,858	1,022,838	3,028,688	1,680,225
ASSETS AND LIABILITIES:					
TOTAL ASSETS	146,442,516	156,274,502	151,181,085	130,223,838	131,505,248
TOTAL LIABILITIES	(118,125,347)	(129,243,921)	(125,370,748)	(104,855,959)	(109,056,224)
SHAREHOLDERS' FUNDS	28,317,169	27,030,581	25,810,337	25,367,879	22,449,024

Corporate Information

General Information

Board of Directors

Executive Directors

LIN Yong	*Deputy Chairman and Chief Executive Officer*
LI Jianguo	*Deputy Chairman*
POON Mo Yiu	
SUN Jianfeng	
SUN Tong	

Non-executive Directors

QU Qiuping	*Chairman*
CHENG Chi Ming Brian	
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
Registered Public Interest Entity Auditors

Legal Adviser in Hong Kong

Woo, Kwan, Lee & Lo

Legal Adviser on Bermuda Law

Conyers Dill & Pearman

Place of Incorporation

Bermuda

Registered Office

Clarendon House
2 Church Street
Hamilton HM 11
Bermuda

Principal Place of Business

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

Principal Share Registrar and Transfer Office

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

海通國際
HAITONG

Haitong International Securities Group Limited
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