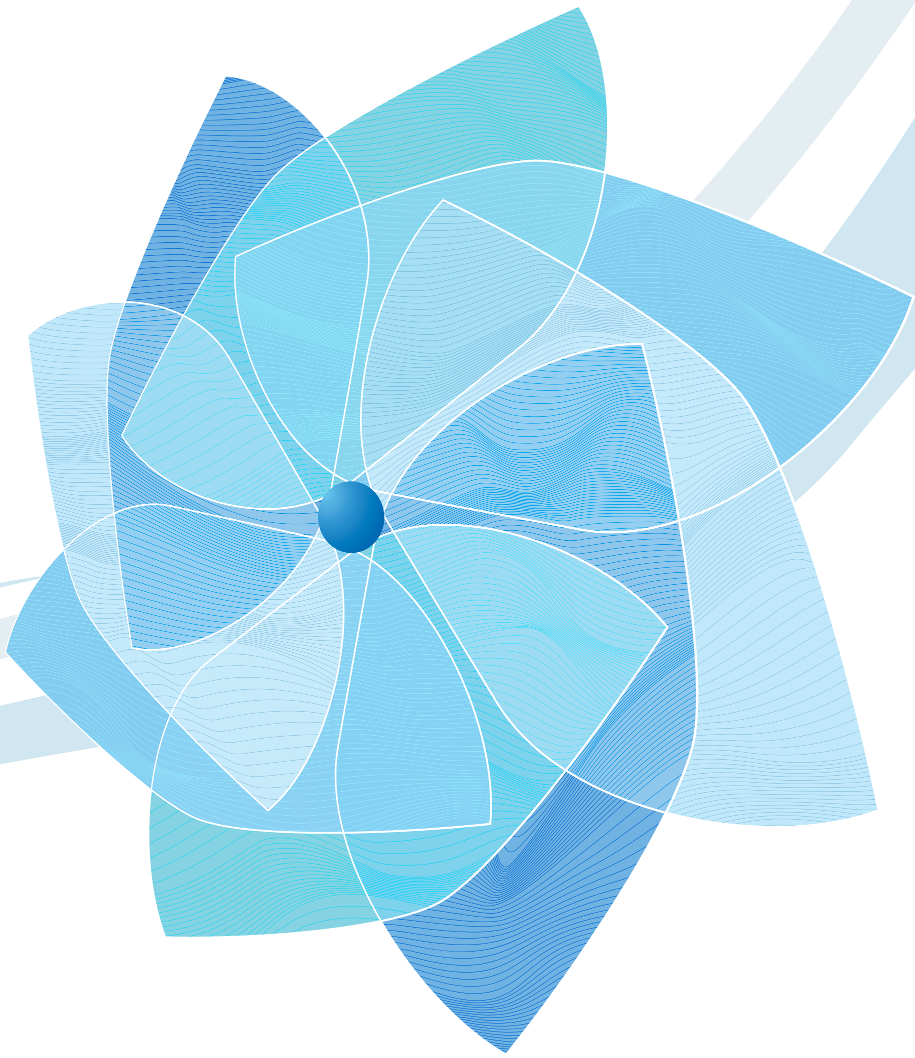
海通國際
HAITONG

Stock Code : 665.HK



Pioneering with Convergence

Annual Report 2021

Pioneering with Convergence

The sun makes the wind blow. As long as the sun shines, there will be winds on the earth. With just a few blades, a wind turbine requires a minimum wind speed to start generating a steady stream of energy.

The cover design chosen for this year's annual report depicts a wind turbine, its blades represent each core business segment of Haitong International that collaborate effectively together on the same concentric axis of the Group's strategy, the convergence created will generate power to support its long-term stable and sustainable development.

Wind energy is an important source of clean energy. The design concept is in line with Haitong International's ESG and sustainable financing commitment, and its determination to become an international leading green investment bank.

Contents

Financial Highlights

Results

	For the year ended 31 December 2021	2020	Percentage change Increase/(Decrease)
Revenue *(HK$'000)*	**5,252,184**	8,329,747	(37)
— Commission and fee income	**3,257,464**	2,864,575	14
— Interest income	**1,741,000**	2,464,585	(29)
— Net trading and investment income	**253,720**	3,000,587	(92)
Profit before impairment charges and tax *(HK$'000)*	**1,523,666**	3,286,707	(54)
Net Profit Attributable to Shareholders *(HK$'000)*	**300,826**	1,932,877	(84)
Per share			
Basic Earnings Per Share *(HK Cents)*	**5.10**	32.97	(85)
Diluted Earnings Per Share *(HK Cents)*	**5.10**	32.85	(84)

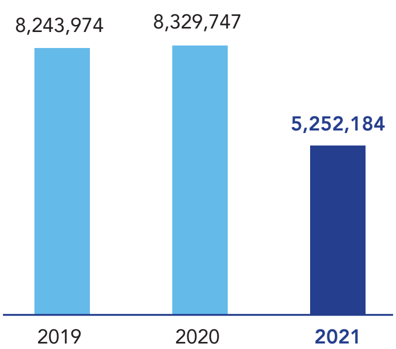
Financial Position

	31.12.2021	31.12.2020	Percentage change Increase/(Decrease)
Shareholders' Funds *(HK$'000)*	**27,526,445**	28,317,169	(3)
Total Assets *(HK$'000)*	**104,991,595**	146,442,516	(28)
Number of Shares in Issue *(Note)*	**6,037,785,086**	6,036,035,086	–
NAV Per Share *(HK$)*	**4.56**	4.69	(3)

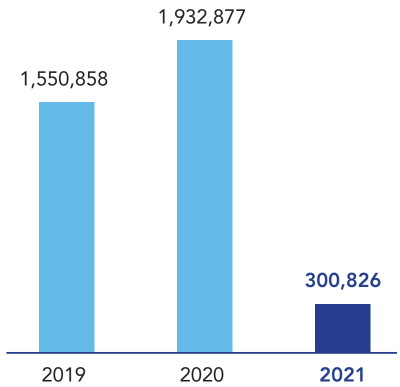
Note:

Certain equity rights conferred on share option holders were exercised during the year. Hence, the total number of shares of the company was increased to 6,037,785,086 as at 31 December 2021.

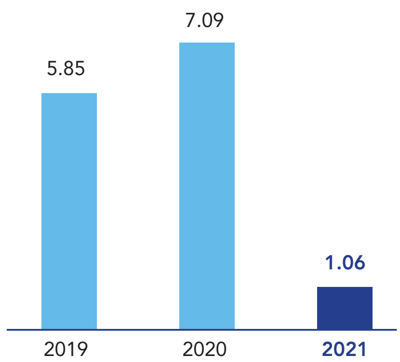
Revenue
(HK$'000)



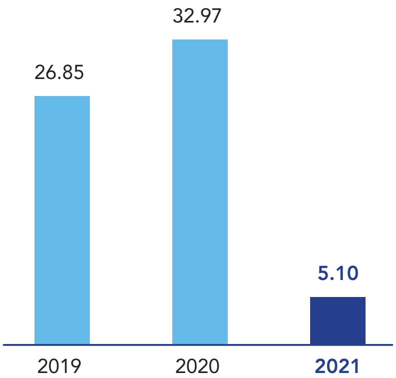
Net Profit Attributable to Shareholders
(HK$'000)



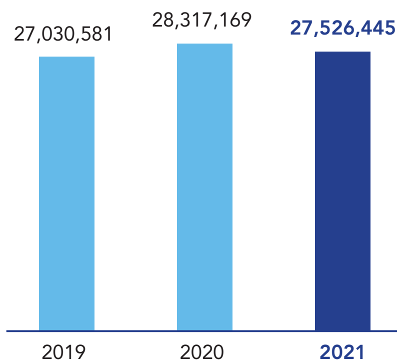
Return on Shareholders' Funds
(%)



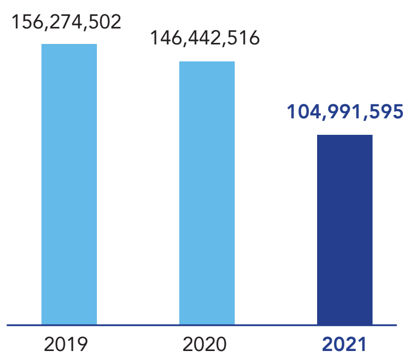
Basic Earnings per Share
(HK Cents)



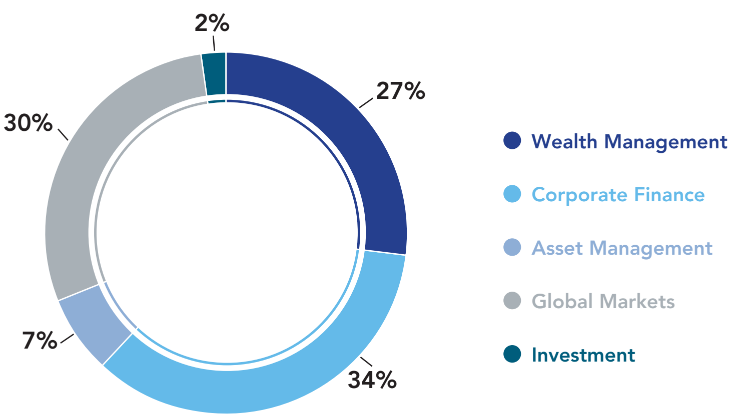
Shareholders' Funds
(HK$'000)



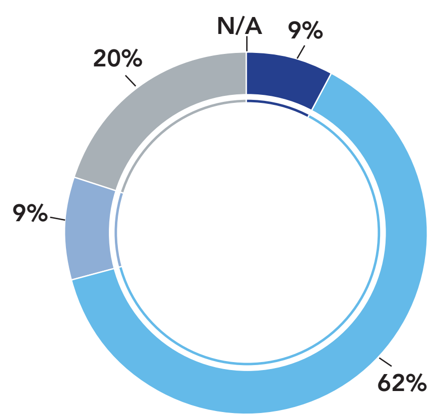
Total Assets
(HK$'000)



Analysis of 2021 Revenue
(For the year ended 31 December 2021)



Analysis of 2021 Profit
(For the year ended 31 December 2021)



Overseas Footprints

U.S. – New York

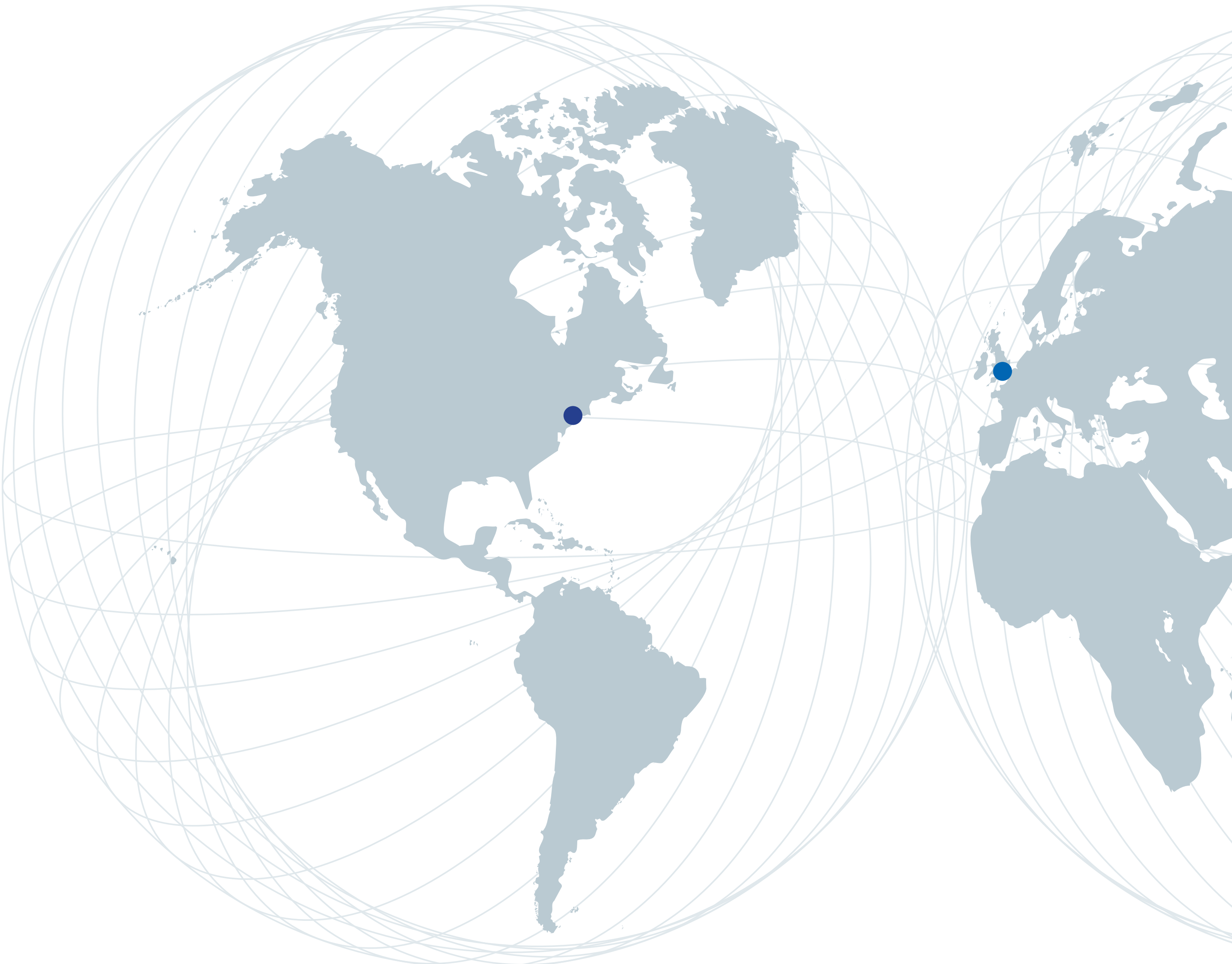
Mainly engaged in corporate finance, equity sales and trading

- Completed 5 US equity financing projects including 4 IPOs and 1 equity follow-on.

UK – London

Mainly engaged in equity sales and trading, fixed income sales and trading and corporate finance

- Further enhanced fixed income sales and trading business in both primary and secondary markets.
- Participated in Group's successful launch of the world's first ESG focused Asia ex-Japan high yield corporate USD bond ETF (TAHY) in September 2021.



India – Mumbai

Mainly engaged in cash equities and corporate finance

- Completed IPO project for the first pure play analytics company listing in India's stock market in November 2021; completed another 4 equity financing projects.

Singapore

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

- Successfully obtained the Securities and Derivatives Clearing Membership from the Singapore Exchange (SGX) and became a depository agent of The Central Depository (Pte) Limited in March 2021, being the first Chinese non-bank financial institution with a full suite of memberships with SGX.
- Further expanded equity sales and trading business, and partnered with Bank of Singapore to provide equity research services for its private banking clients.

Japan – Tokyo

Mainly engaged in equity research and corporate finance

- Equity research team ranked No.2 for Best International Brokerages category in the Asiamoney Brokers Poll 2021, and topped the list in 8 further categories from Small/Mid-Caps, Consumer, Real Estate to Software & Internet, etc.

Australia – Sydney

Mainly engaged in equity sales and trading by using algorithmic trading platform

- Developed an industry-leading algorithmic equity trading platform with AI capabilities.

Major Awards in 2021

January 2021

Asia Asset Management Best of the Best Awards
China Bonds, Offshore (3 Years)

MPF Ratings
MPF Ratings Bronze
Consistent Performer (5 years) — Equity (Global)

The Asset Triple A Sustainable Capital Markets Country & Regional Awards
Best Equity Deal (China Offshore)
Best IPO (China Offshore)
Best Sustainability Bond (Regional)
Best Green Bond (Regional)

May 2021

The Asset Triple A Sustainable Investing Awards
Most Innovative ETF (Hong Kong) —
Haitong MSCI China A ESG ETF

FinanceAsia Country Awards
Best Broker (Hong Kong —
Chinese Financial Institutions)

Refinitiv Lipper Fund Awards
Hong Kong Pension Funds Awards —
Equity Global (5 Years)
Hong Kong Pension Funds Awards —
Equity Hong Kong (5 Years)

March 2021

HKEX ETF Awards
Top Market Maker —
ETP Turnover
Top Participating Dealer —
ETF Creation & Redemption

IESGB ESG Achievement Awards
The Outstanding ESG
Fund / ETF — Platinum

Insights & Mandate Professional Investment Awards
Performance Award — Global Equity (10 Years)
Best ESG Manager (Hong Kong)
Most Innovative Product (Hong Kong)

June 2021

Human Resources Online Asia Recruitment Awards
Best Employer Brand Development — Silver

September 2021

HR Asia Best Companies to Work for in Asia
Best Companies to Work for in Asia (Hong Kong Edition)

Asiamoney Best Securities Houses Awards
Securities House of the Year (Hong Kong)

Asiamoney China Corporate & Investment Banking Awards
Best for Cross Border ECM

Asia Risk Awards
Market Maker of the Year

HK ESG Reporting Awards (HERA)
Excellence in ESG Governance — Grand Award
Carbon Neutral Award — Commendation

November 2021

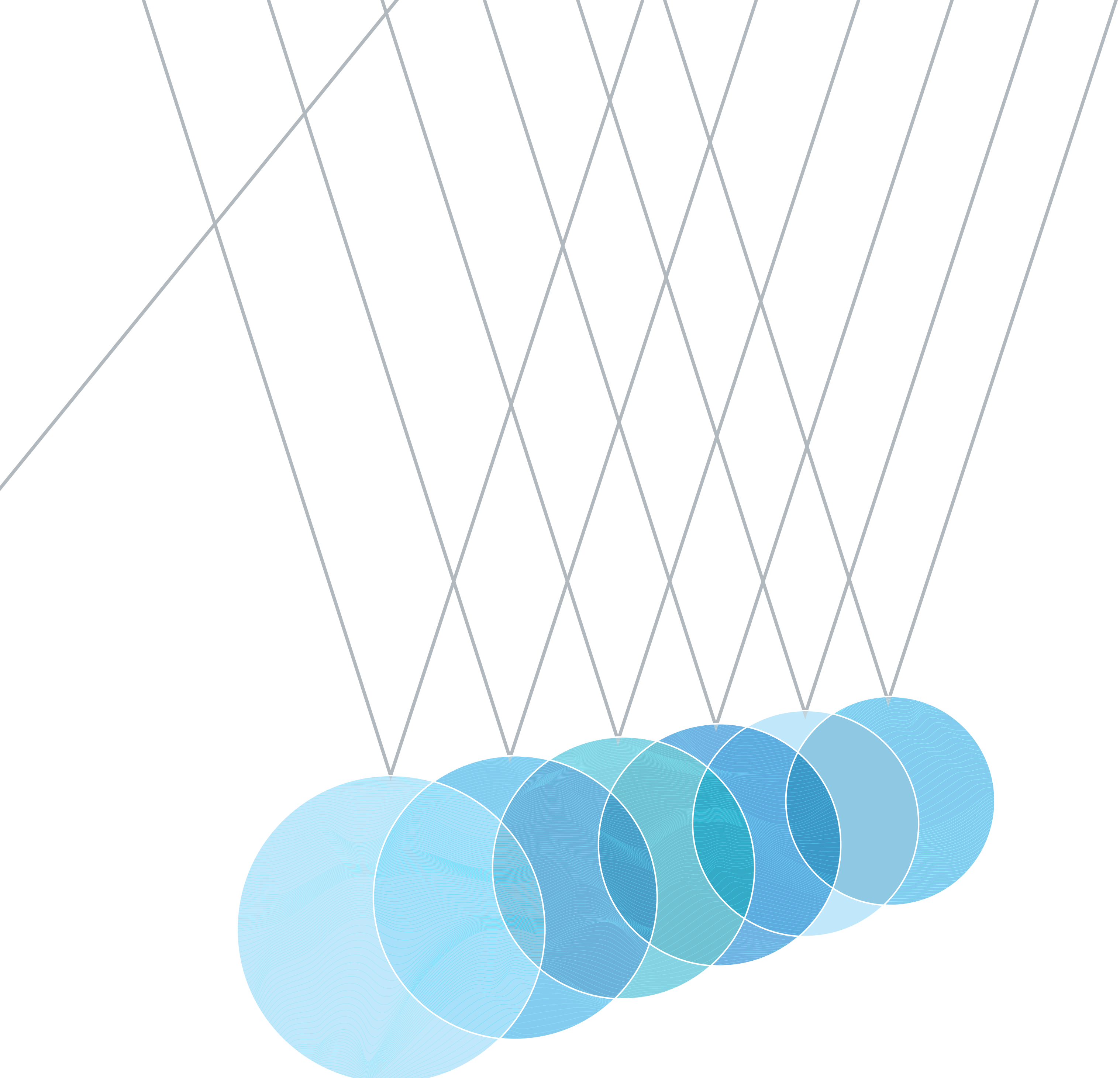
Bloomberg Businessweek ESG Leading Enterprise Awards
Theme Award — ESG Investing

December 2021

HKQAA Green and Sustainable Finance Award
Outstanding Award for Green and Sustainable Bond Lead Manager (China Real Estate Industry) — Largest Amount of Green Bonds

The Rhythm of Success

On the premise of stringent risk control, Haitong International further enhanced cross-border and cross-departmental synergies, to complete a well-rounded investment banking service cycle and strengthen its core competitiveness.



Chairman's Statement

LI Jun
Chairman

Economic, Market and Business Review

In 2021, the global economy recovered as the impact of the pandemic faded gradually. Improving economic fundamentals and loosening monetary policies pushed up global asset prices, but disruptions to the global supply chains, insufficient production capacity of commodities, and structural imbalance in the labour market had driven European and US inflation to multi-decade high, forcing central banks to readjust their monetary policies. The unpredictable and continued spread of coronavirus mutations alongside ever changing geopolitical situations caused great uncertainty in the global economy and financial markets, and intensified the volatility of asset prices in the second half of 2021.

Under the complex and fluctuating international environment, alongside the internal pressure of shrinking domestic demand, supply shocks, and weakening expectations, the Chinese government remained persistent on its major policy reforms to open up, to transform and upgrade, to achieve "common prosperity", in order to balance between efficiency and equality and to promote sustainable development of the economy and society. In 2021, as a good start to its 14th Five-Year plan, China achieved a growth rate of 8.1% in real terms. Total foreign trade volume surpassed US$6 trillion for the first time, and GDP per capita exceeded US$12,000, close to the level of high-income economy as defined by the World Bank. However, as a result of the impact of tightening policies on the real estate sector and the base effect, among multiple other factors, China's economic growth slowed significantly; the Chinese real estate market noticeably cooled down in the second half of the year as developers faced tight liquidity, with some even defaulting, weakening investor and consumer confidence.

Hong Kong's economy emerged from a two-year recession in 2021, with GDP growth reaching 6.4% and in foreign trade volumes registering double-digit growth. Albeit hard hit by the pandemic on the recovery of the tourism industry, domestic consumption remained stable, supported by fiscal relief packages of the Hong Kong SAR government. The unemployment rate fell from 6.8% to 3.7%. However, the performance of the Hong Kong financial market was far from satisfactory after being impacted by global market volatility, changing international landscape, slowing growth of the Chinese economy, defaults of mainland Chinese real estate developers, and tightened regulatory policies imposed across various industries. The Hang Seng Index fell by 13.6% for the year, and in particular, the Hang Seng Tech Index fell by 33% for the year, being the worst underperformer among global indices. The bond market was also hit hard by defaults of some Chinese issuers. The ICE BofA Asian Dollar High Yield Corporate China Issuer Index plunged 34% from its peak. Investor confidence was fragile.

Against the backdrop of the complex global situation and turbulent market environment, Haitong International had taken proactive measures and maintained a stable business model. In 2021, Haitong International persisted on its operational strategy of "reducing risk by lowering leverage", which was laid out in early 2020, and implemented various measures to reduce risky assets, improve asset quality, and enhance asset structure. Total assets decreased by HK$41.5 billion or 28% from 2020 to HK$105.0 billion as of December 2021. Leverage ratio decreased from 4.45 times as of December 2020 to 3.33 times as of December 2021, being the lowest since 2012. The Group successfully mitigated its exposure to market risks.

On the premise of stringent risk control, Haitong International strives to upgrade various businesses through adhering to the transformation strategy of "diversifying income streams and asset risks, enriching product offerings, and professionalizing its team". As such, the Group continuously enhanced its revenue structure, expanded income sources, and elevated the value-added of products and services, and achieved notable progress in different areas while sustained its leading position in the industry. In the ECM front, Haitong International ranked No. 2 in the Hong Kong market in terms of number of projects. The Group completed 10 equity financing projects in the U.S. and India, strengthening its capability and presence in the overseas markets. In the DCM front, the Group ranked No. 2 in the Asia (ex-Japan) high yield corporate bond market league table in terms of number of underwriting projects completed. Recognised for its strong project execution capability, the Group was awarded by Asiamoney China Corporate & Investment Banking Awards as the "Best for Cross Border ECM" in 2021. Asset management business has built on the Group's well established core competitiveness and influence in the ESG field. Following the launch of the first ESG-themed A-share ETF in the Hong Kong market in 2020, the Group co-launched the world's first ESG focused Asia ex-Japan high yield corporate USD bond ETF in Europe in 2021, attracting strong interests from foreign investors with a boost in AUM size. Private wealth management business focused on transforming from the traditional retail business to private banking, and established global family office business during the year, to provide one-stop services and solutions to its ultra high net wealth clients. Equity research team won first place in 15 categories in the Asiamoney Brokers Poll 2021.

Though facing fierce competition in the market, Haitong International emphasises on "profit for purpose" and social responsibility. In addition to the co-launch of the world's first ESG-focused Asia ex-Japan high yield corporate USD bond ETF, the Group also participated in the underwriting of 40 green and sustainable bonds reached to a total of US$11 billion, increased 267% from that in 2020, making itself a forerunner in the green bond underwriting market among Chinese financial institutions. During the year, the Group collaborated with the China-UK Climate and Environmental Information Disclosure Pilot Working Group to publish the first report to provide technical guidance to achieve carbon neutrality for Chinese financial institutions; signed Memorandum of Understanding (MoU) with the Hong Kong Quality Assurance Agency to jointly promote the development of sustainable finance; and named by HR Asia as the "Best Company to Work for in Asia" for the fourth consecutive year. With an outstanding performance in sustainable finance and ESG practices, Haitong International was upgraded to "A" level in ESG rating by MSCI in 2021, and was included into the FTSE4Good Index by FTSE Russell, becoming one of the leaders in ESG practices among global investment banks.

Future Prospects

Looking into 2022, global economic outlook remains highly uncertain. The financial market is already fragile with a disrupted global supply chains, high inflation, and tightening monetary policies by major central banks. Coupled with recent Russia-Ukraine conflict, global economic recovery might be hindered by the risk of stagflation and shortages of energy and commodities. Against the backdrop of these events, global economic prospects might diverge. Robust household consumption and corporate investments will support US economic recovery, but high inflation may force the Federal Reserve to accelerate the tightening of its monetary policy, threatening financial market stability. Europe's struggle with energy supply shortages will be exacerbated by the Russia-Ukraine conflict, weakening investor and consumer confidence and affecting the recovery of the European economy. With the acceleration in the tightening of monetary policy by central banks of developed economies, as well as rising risk aversion in the financial markets, emerging markets might face massive capital outflow, causing significant fluctuations in foreign exchange rates and prices of local stocks and bonds.

Amid the complex and risky environment, the Chinese economy will unavoidably face greater challenges and uncertainties in 2022. Although stabilising growth is a challenging task, China is expected to achieve reasonable economic growth and a steady improvement in growth quality, due to flexible fiscal and monetary policy, as well as a policy balance between short-term economic stability and long-term sustainable growth. The implementation of the 14th Five-Year plan, the goals of achieving peak carbon emissions in 2030 and carbon neutrality in 2060, and the launch of the Regional Comprehensive Economic Partnership (RCEP), will profoundly impact China's economy. All these factors will transform and upgrade China's economy to higher quality, while maintaining stable economic growth.

As a highly open international financial and trade centre, Hong Kong's financial market is extremely vulnerable to the tightening of monetary policies by European and US central banks, tightening of global liquidity, global inflationary pressures, and volatility in international financial markets. The market risks involved cannot be underestimated. The slowdown of China's economic growth, sluggish real estate market, defaults of Chinese bond issuers, and tightened regulation in certain industries will all be critical factors affecting Hong Kong stock and bond markets in 2022. Since the beginning of 2022, Hong Kong has experienced a rapid spread of the coronavirus variant, slowing down economic activities and impacting normal operations of businesses and consumer spending, which may have an extended effect on local economy.

As the pandemic is gradually brought under control and with social and business activities returning to normal, domestic consumption and investment activities are expected to recover in the second half of 2022. Timely fiscal relief measures rolled-out by the Hong Kong SAR government should support economic stability. With the launch of connecting schemes such as the Southbound Trading under Bond Connect and Cross-boundary Wealth Management Connect Scheme, and secondary listings of Chinese enterprises listed overseas, investment and financing deals in Hong Kong are expected to remain active. In the meantime, the introduction of the Northern Metropolis Development Strategy by the Hong Kong SAR government will improve welfare and assist with Hong Kong's integration into the Guangdong-Hong Kong-Macao Greater Bay Area, boosting long term development prospect.

Surrounded by the highly uncertain macroeconomic and market environment, Haitong International will persevere with its strategic plan to complete a full line of investment banking services centered around its core competitiveness. The Group will enhance its business model by strengthening international footprint and increasing cross-border and cross-departmental synergies. The Group will strictly control risks and try its best to capture business opportunities. Standing by its ESG philosophy and sustainable finance principles, the Group aims to become the world-renowned investment bank that possesses global competitiveness, systematic importance, and worldwide influence.

LI Jun
Chairman

Hong Kong, 28 March 2022

CEO's Review

LIN Yong *JP*
Deputy Chairman and CEO

In 2021, against the backdrop of the global pandemic and volatile financial markets, Haitong International stayed firm, shielded by a sturdy risk management framework, and persisted on its strategic transformation in building a solid fee based business platform with well-rounded investment banking services that generate diversified streams of revenue inflow for long term sustainability. The Group fully supported a steady and robust development of all core businesses, striving to be one of the best information, transactional and capital intermediaries.

Throughout the year, Haitong International adhered to a steady business strategy, strictly controlled risks, further reduced the scale of risk assets, and actively mitigated market risks. After continuous efforts, the Group's fee based business strategy is starting to see positive results with a diversified fee income stream and light-weighted balance sheet with low leverage, established a strong foundation towards strengthening its core businesses to complete and upgrade a well-rounded investment banking services cycle, capture market opportunities and enhance stability and sustainability of profits.

Business Review and Analysis

In 2021, Haitong International achieved an income of HK$5,252 million with a net profit of HK$301 million, among which fee income was at its record high of HK$3,257 million, a remarkable achievement showing an ever stronger revenue stream. Profit attributable to shareholders of the Company decreased by approximately 84% in 2021, mainly driven by the downward fluctuations in the market that took place in the fourth quarter of 2021 that caused a decline of valuations of certain investment funds held by the Group. Nevertheless, the aggregated total of fee income and interest income of HK$4,998 million was able to cover all costs of the Group with excess. This is an indicator that we have established a sustainable business model and operational structure for stable revenue inflow.

Total of fee income and interest income of
HK$4,998 million
covered total costs with excess

Fee income of
HK$3,257 million
achieved record high

The Group's total assets were
HK$105.0 billion
28% lower than the position as at 31 December 2020

Leverage ratio was
3.33 times
being the lowest since 2012

The Group started to see success from the continuous enhancement of the structure of balance sheet, resulted with a lighter weight yet higher quality assets portfolio. As at 31 December 2021, the Group's total assets were HK$105 billion, 28% lower than the position as at 31 December 2020. Leverage ratio was 3.33 times as at 31 December 2021, decreased from 4.45 times as at 31 December 2020, being the lowest since 2012.

Business achievements

Crafting a well-rounded investment banking business model

In 2021, Haitong International's investment banking team has strived to provide an all-rounded financial services covering full life cycle of enterprises. We have devoted significant effort in the equity and debt capital markets, broadened the presence and participation of capital raising activities, and proactively captured the opportunities of home coming listings of Chinese enterprises in Hong Kong. In 2021, the Group completed 39 IPO projects in Hong Kong, ranked No. 2 among all financial institutions in terms of number of projects. We participated in 6 of the top 10 IPOs (in terms of fundraising amount) in Hong Kong during 2021. Moreover, we were the sponsor of 8 IPOs, ranked No. 4 among Hong Kong investment banks. These IPOs included JD Logistics, which was named as "the Best IPO in Asia in 2021" by FinanceAsia, and SenseTime, the first listed AI company in Asia.

Our investment banking team also built presence in foreign markets during the year. In 2021, the Group completed a total of 10 equity financing projects in the United States and India, and provided advisory services to clients including local enterprises. These achievements exhibited the Group's recognition in the overseas markets.

On the DCM front, the team upheld on the Group's ESG commitment, completed 40 green and sustainable bond issuances during the year, with total financing amount exceeded US$11 billion, doubled from 2020 in terms of both number of projects and financing amount, being a forerunner among Chinese financial institutions in the ESG sphere. In the Asian (ex-Japan) G3 high-yield corporate bond market, we ranked No. 2 in terms of number of projects among financial institutions worldwide.

In 2021, the Group completed

39
IPO Project in Hong Kong

Ranked
No.2
among all Hong Kong financial institutions in terms of number of projects

40
green and sustainable bond issuances

Total financing amount of green bond issuances exceeded
US$11 billion

Cash equities business achieved an aggregated trading volume of over

HK$640

billion

The yearly turnover of Warrant and CBBCs ranked

No.2

in the Hong Kong market

The Group aims at providing comprehensive and customised investment banking services for enterprises in different stages of development through its interconnected worldwide network and a synergised business model. During the year, our loan capital markets team and mergers and acquisitions team took the lead to identify and nurture potential clients and opportunities, reinforcing the network and synergies between our teams and clients from early stages by offering one-stop investment banking services across global financial markets.

Advanced capability in global markets execution

After years of hard work, the Group has established a full cycle of trading, research, and sales platform for institutional clients worldwide that is able to provide comprehensive products and risk management solutions. Headquartered in Hong Kong with a global reach, the Group possesses an advantage to bring worldwide institutional investors into the uprising Chinese investments market through offering insightful financial solutions and advisory. In March 2021, Haitong International's subsidiary in Singapore was admitted as a securities and derivatives clearing member of the Singapore Exchange (SGX) and a depository agent of The Central Depository (Pte) Limited, successfully obtained a full suite of memberships at the SGX. Such membership has undoubtedly sustained our footprint in Singapore, allowing us to widen the scope of services with integrated settlement, clearing and custody services to our institutional clients from the Greater China region and the rest of the world in an efficient and convenient way.

During the year, the Group's cash equities business achieved an aggregated trading volume of over HK$640 billion, 23% higher than 2020, in global stock markets including Hong Kong, mainland China, the United States, India, and Japan. Among which, a prominent growth of market share was noted in Hong Kong. The success was also contributed by the Group's strong equity research foundation. In 2021, our equity research team had covered around 1,400 worldwide stocks, displaying a growing influence of our insights and outlook on overseas financial markets. Our equity research team topped among 15 best overall and individual categories in Asiamoney Brokers Poll 2021.

Our equity derivatives team had accomplished a notable standing in Hong Kong after years of persistence. During the year, the team had launched 4,469 warrants and CBBCs, nearly 50% higher than that in 2020, ranked No. 2 in the Hong Kong market in terms of trading volume, and being the only Chinese financial institution among the top five standing in the market.

Distinctive asset management strategy backed by forward looking vision

Surrounded within the investment banking circle, Haitong International's asset management team interlinked the services and product platforms of investment banking, trading, and private wealth management teams, and embedded the Group's ESG commitment, to strengthen its investment and research capabilities to establish unique and distinctive investment strategies. The Group also welcomed top talents and expertise in the industry during the year to bring in experienced knowledge and innovative vision to enhance both internal and external strategies. Asset management fee and performance fee income both increased in 2021, with assets under management (AUM) at HK$54 billion as at the end of the year.

Backed by a well-established platform, the team had extended its innovation and exploration of new products offerings in the European and American ESG markets. In September 2021, our asset management team partnered with a British asset manager to launch the world's first ESG focused Asia ex Japan high yield corporate USD bond ETF. This ESG ETF was also the Group's first listed fund in Europe and first UCITS bond fund. As of December 2021, the AUM of the fund had already exceeded US$200 million, which was eight times larger than the size since its debut.

Transformation and upgrades of private wealth management services

Aligned with the Group's commitment to complete a full cycle of investment banking services, our private wealth management team spared no effort to build and upgrade product and service level to meet the demands of our entrepreneurial clients, allowing our high net worth clients to enjoy a complete chain of services within the investment banking spectrum offering traditional equities and bonds trading, private equity investment, investments advisory, equity research and ESG investments. During the year, the team focused on expanding the varieties of fund and bond products, and developing customised wealth planning services in view to achieve higher fee income.

Capitalising on our strong presence in Hong Kong and Singapore, and a strong network with our high net worth clients, the Group officially established global family office service in August 2021, offering bespoke one-stop financial services and solutions of private wealth management, investment banking, global markets and asset management, to ultra-high net worth clients and external asset managers.

In preparation to offer world class private wealth management services as renowned private banks in the market, the Group has engaged in upgrading its operational systems to offer an artificially intelligent and digitalised platform to meet real-time demands of customers.

Stronger Connection of Information Technology and Global Operating Systems

In recent years, we have ride on the rapid advancement in information technology, and took the chance to improve our own information technology and global operational systems to empower the support of all businesses through an innovative, digitalised and automated platform. The global technology and operations team has been continuously integrating external and internal resources to upgrade the Group's infrastructure and systems to boost operational effectiveness and efficiencies while also improving customer experiences.

Building on the Group's determination and beliefs in information technology, the Group's internal operational systems and database have been continuously enhanced. Despite the challenges brought by the pandemic and remote work arrangements in the past two years, the Group maintained its operational efficiencies in its transaction, settlement, valuation, and risk management monitoring around the clock to ensure all businesses and functions operated without disruptions.

Risk Management

We always consider risk management at highest priority. Standing on the risk appetite of "stable to prudent", we have reviewed our businesses and global offices within the risk management framework with three lines of defense to proactively identify, prudently assess, and effectively respond to risk events.

Amid the impact of the global economy and market volatility as imposed by the pandemic in 2021, the Group, with a macro view on the long term horizon, proactively managed the structure of balance sheet, lowered leverage and funding needs, enhanced its assets portfolio to ensure that the Group maintained a high level of resiliency against market events. In March 2021, we incorporated climate change risk into our risk management policy framework that laid a solid foundation for the Group's ESG risk management. Despite the challenges brought by the global economy, we maintained a standing of a "BBB" rating from Standard and Poor's and a "Baa2" rating from Moody's with a steady outlook. The Group is also at its best standing in recent years in terms of the three indicators of risk, capital and liquidity.

ESG Pioneer

We have always been striving to integrate our beliefs in environmental, social and corporate governance philosophy into every part of our businesses and operations. Taking on a unique role of being an information and capital intermediary in investment, financing, financial advisory and equity research, the Group is determined to become one of the world's renowned leading green investment bankers focusing on sustainable finance. Starting from the first quarter of 2021, we have voluntarily disclosed our quarterly results to tighten the communication with stakeholders, investors and the public with more transparency on the Group's financial information and corporate governance.

The Group's outstanding achievement in ESG and sustainable finance was also recognised by the public. In 2021, the Group was granted an upgrade of ESG rating to "A" level by the internationally recognised index agency, MSCI. We have also been included to the FTSE4Good Index by FTSE Russell of the London Stock Exchange, marking a milestone with high recognition by global financial institutions and investment community in the ESG sphere.

As a leading Chinese financial institution in the ESG field, we have actively promoted our thought leadership to enhance the knowledge and implementation of ESG in the financial industry and market as a whole. We are also a reference point of sustainable finance and carbon neutrality to the Hong Kong market and Chinese financial institutions. In 2021, the Group partnered with China-UK Climate and Environmental Information Disclosure Pilot Working Group and jointly published "*Chinese Financial Institutions' Route to Achieving Carbon Neutrality*" Report, as well as jointly published "*Hong Kong: the International Financial Center for the Future*" with the One Country Two Systems Research Institute, advocating to develop Hong Kong as a sustainable financial centre and ESG investment hub in the world.

The Group also fulfilled its social responsibility through various contributions to the Hong Kong society, including the continuous participation in the "Financial Industry Recruitment Scheme for Tomorrow" launched by the Hong Kong Financial Services Development Council, and the "New Graduates-New Opportunities Scheme" by the Hong Kong Chinese Enterprises Association to open opportunities for the current graduates in this uncertain time. Moreover, we are devoted to support local sports development in Hong Kong to groom young athletes and strengthen social cohesion, as evidenced by our long-term sponsorship to the Hong Kong Windsurfing Association. We successfully debuted the first Haitong International Victoria Harbour Windsurfing Race and resumed the Hong Kong Windsurfing Champion Race after two years. We were also the only Chinese financial institution in sponsoring the "Well Dunk!" Basketball league and training scheme run by InspiringHK Sports Foundation in 2021.

For details of our performance and assessment on ESG, please refer to the electronic version of the ESG Report 2021 published in conjunction with our annual report.

Prospect

Looking into 2022, the world is far from optimistic as surrounded by a mist of uncertainties. The volatility of financial markets is likely to remain high with an expediting inflation expectations and tightening of monetary policies by the central banks of different countries, all of which are bearing unforeseen factors in terms of speed and magnitude of changes. The rate hike and tapering of the Federal Reserve in 2022 may trigger capital outflows from the emerging markets, inducing debt or currency crisis in certain economies. The Russia-Ukraine conflict has further increased the complexity and variability of the global geopolitical situation. Changes in assets prices and the sanctions imposed by the United States and Europe on Russia may further damage certain financial institutions, adding on uncertainties to the global financial markets. In contrast, China's economic fundamentals remain stable with a relatively flexible fiscal and monetary policies and a basic equilibrium of balance of international payments, all of which contributed to shielding the country's resilience against global market volatilities. However, China is also facing internal challenges, such as the weakening domestic demands and real estate sector, rising credit risk and employment pressure, all of which cannot be overlooked. Hong Kong, nevertheless, will face an unpredictable outlook and challenges with dual pressure coming from the global financial markets, and the slowdown of China's economic growth, on top of the unsettling pandemic control in the city.

Facing headwinds of the unforeseen global market events, Haitong International will keep a clear head to carry out responsive actions and strategic plans in an objective, prudent, and forward-looking mindset. The Group will operate in a stable business model, maintain a "stable to prudent" risk appetite, adhere to its commitment on "reducing risk by lowering leverage" principles to make judgements, capture opportunities, respond to market changes and challenges. The Group will continue to pursue on its commitment to develop a diversified and strong fee based business platform, unite all businesses to act as a whole, create synergies among investment banking, asset management, private wealth management and global markets, to become an integrated, well-rounded investment bank. The Group, as a role model of Chinese financial institutions, will continue to build on its existing global network, strengthen internal businesses cooperation, and commit on its ESG and sustainable finance strategies to reach the goal of carbon neutrality by 2025.

In 2022, Haitong International will continue to live up to its core values of being "courageous, sincere and innovative". Based in Hong Kong with a global vision, the Group will be engaged in grasping market opportunities to achieve sustainable finance and long term growth, alongside with a strict adherence to compliance and risk management framework, to become a leading investment bank of the world.

LIN Yong *JP*
Deputy Chairman and CEO

Hong Kong, 28 March 2022

Company Profile

Company Introduction

Haitong International Securities Group Limited ("Haitong International"; Stock Code: 665.HK) is an international financial institution with established presence in Hong Kong and a rapidly expanding network across the globe. It strives to serve as a bridge linking up the Chinese and overseas capital markets. The parent company of Haitong International is Haitong Securities Co. Ltd ("Haitong Securities", Stock Code: 600837.SH; 6837.HK).

Haitong International is well positioned to serve corporate, institutional, as well as high-net worth clients worldwide. Its well-established financial services platform provides a full spectrum of financial offerings including private wealth management, corporate finance, asset management, global markets (key businesses include sales and trading of both equity and fixed income products, prime brokerage and risk management solutions, and research advisory) and investment businesses. Haitong International possesses a sound risk management system that is in line with international standards. The company has been assigned a "Baa2" long-term issuer rating by Moody's and a "BBB" long-term credit rating by Standard and Poor's. Haitong International is also a high performer in terms of ESG and corporate governance. It has been assigned "A" in ESG rating by MSCI and included in the FTSE4Good Index by FTSE Russell.

Haitong International has a global financial servicing network covering the world's major capital markets including Hong Kong, Singapore, New York, London, Tokyo, Mumbai and Sydney, thereby making it to be a world-class Chinese financial institution with international competitiveness, systemic importance and brand influence.

Milestones

2010	Successfully acquired Taifook Securities, the largest local brokerage firm in HK, and renamed as "Haitong International Securities Group Limited". Became the first Chinese broker to acquire Hong Kong-listed broker
2012	Became the first Chinese broker to obtain RQFII, QFII and RQFLP qualifications, also the only Chinese institution in 2012 which held all three qualifications Launched Haitong China RMB Income Fund — one of the first RQFII funds in Hong Kong
2013	Reinforced capital intermediary role and investment business, developed new business lines targeting at institutional clients and high net worth clients. Fixed Income, Currency and Commodities (FICC), Leveraged and Acquisition Finance and Equity Derivatives businesses were established
2014	Accelerated overseas expansion by establishing Haitong International's first overseas subsidiary in Singapore. Haitong International (Singapore) was admitted by the Singapore Exchange Limited ("SGX") as a Trading Member in the same year Obtained Standard & Poor's BBB long-term credit rating and A-2 short-term credit rating
2015	Acquired Japaninvest and established a business network covering major international finance centers including New York, London, Singapore and Tokyo etc. Included in Hang Seng Composite LargeCap & MidCap index
2016	Completed the acquisition of Haitong India and extended full rollout in Singapore, Japan, India, U.K, USA and Australia Commenced the CBBCs issuance business and listed stock options market making business. Became the only Chinese securities firm among all warrants issuers approved by HKEX

2017

Became the first Chinese financial services provider in Hong Kong with proprietary electronic trading platform

Assigned Baa2 long-term issuer and Prime-2 short-term issuer ratings by Moody's

2018

Completed the acquisition of US and UK businesses from Haitong Bank and began worldwide investment banking business

Completed first IPO deal in US, also became the first Chinese market maker in NASDAQ

2019

Became the accredited Issue Manager for Mainboard listings in SGX, also obtained the Capital Market Service License from the Monetary Authority of Singapore, making Haitong International one of the Chinese financial institutions with most comprehensive investment banking business coverage in Singapore

2020

Obtained Australian Financial Services Licence issued by the Australian Securities and Investments Commission, making Haitong International the first Chinese securities firm to obtain such license through direct application

Published the first ESG Statement to pledge for carbon neutrality by the end of 2025, becoming the first Hong Kong financial institution to make such commitment for carbon neutrality

2021

Admitted as a Securities and Derivatives Clearing Member of the SGX, making Haitong International the first among Chinese financial institutions to obtain full suite of memberships at SGX

Became the first Hong Kong-listed Chinese IB to voluntarily disclose quarterly results

MSCI ESG rating upgraded to 'A'

Included in the FTSE4Good Index by FTSE Russell

Core Competitiveness

1. Reputable brand

Since its establishment, Haitong International has always been committed to becoming a world-class Chinese investment bank with global competitiveness, possessing influential brand name and systematic importance to the financial services industry. Based in Hong Kong with global reach, the Group is proud to be a preeminent financial services provider in Hong Kong with solid business foundation.

The Group is determined to provide comprehensive and reliable financial services for clients through pursuing on our core values of "courageous, sincere and innovative". Over the years, we have accumulated a solid customer base and won deep trusts from our clients and partners with a reputable brand name, advanced management philosophy, and excellent service quality. This is a valuable advantage of the Group in providing a complete range of investment banking services to our corporate and entrepreneurial clients, accompanying them in the long term horizon.

2. Forward looking global footprint

As a Chinese investment bank, Haitong International endeavours to bridge between the Chinese and overseas capital markets. Since 2014, Haitong International has accelerated in establishing its global footprints and worldwide financial services network covering major capital markets around the world across Hong Kong, Singapore, New York, London, Tokyo, Mumbai and Sydney.

In addition to the breadth of global presence, Haitong International also pursues to deepen local market participation through its overseas offices. The Group is one of the few Chinese institutions with a full suite of licenses, standing out as a market participant who is permitted to conduct comprehensive corporate financing activities in Hong Kong, Singapore, India, and the United States.

3. Forerunner in ESG and sustainable finance

Benchmarked against the best practices of ESG and standards from leading institutions and corporations, Haitong International has established its ESG committee in 2020, embedding the ESG philosophy into all fields of businesses and operations. The Group has pledged for zero carbon emission by the end of 2025 in its ESG Statement, also being the first Chinese financial institution to commit in setting a time limit to achieve carbon neutrality. Starting from the first quarter of 2021, the Group has voluntarily begun to disclose its quarterly results in view to tighten the communication with its stakeholders, investors and the public for a transparent corporate governance and financial information disclosure.

The Group has also gained recognition on its outstanding performance in sustainable finance and ESG practices. In 2021, MSCI, a world-class provider of indexes, raised the Group's ESG rating to "A" level, marking the Group as one of the top ESG participants among financial institutions worldwide. In the same year, the Group has also been included to the FTSE4Good Index by FTSE Russell of the London Stock Exchange.

4. Deeply bonded corporate client base

With outstanding business performance and in the spirit of "customers first", Haitong International has been accumulating its clients and sustaining long-term relationship with corporates including large multinational corporations, leading enterprises across various industries and innovative start-ups.

The Group has always acted as one integrated service provider with a comprehensive business segmentation, providing a complete suite of investment banking services to clients and corporations in all stages of development effectively and efficiently to satisfy their various financing and investment demands.

5. Backed by a strong parent

Haitong Securities, the parent of Haitong International, is a well-established and renowned leading securities firm in China. It is also one of the very first Chinese securities companies permitted by China Securities Regulatory Commission to establish a subsidiary in Hong Kong. This brings pioneering advantages for the Group to develop its business in Hong Kong and overseas markets.

As one of the important overseas platforms for Haitong Securities and benefited from the solid customer base and valuable knowledge and experience in the investment banking industry, Haitong International has steadily implemented its business development strategies and built overseas services network in devotion to bridge between the China and overseas capital markets

6. Globally renowned research capabilities

Haitong International's research team aims at providing clients with professional, in-depth and timely research and advisory services with global insights. In 2019, as a pioneer among Chinese securities houses, the Group's in-house equity research team has fully connected with the parent's research network in China, covering more than thousands of stocks across the major financial markets including the Greater China Region, Japan, the United States, India and South Korea, issuing research reports loaded with compelling insights and in-depth viewpoints about onshore and offshore markets.

The Group's research team currently covers 7 segments across Healthcare, Internet & Software, Technology Hardware & Equipment, Intelligent Manufacturing & Machinery, Finance, Consumer and Energy & Materials. The team has won a number of analyst awards granted by global major institutions, and is well-recognised by clients in different markets. The recognition also brings invitations from leading overseas financial institutions to become their research partners, deepening their clients' knowledge into the China investment market.

7. Experienced management together with high-caliber teams

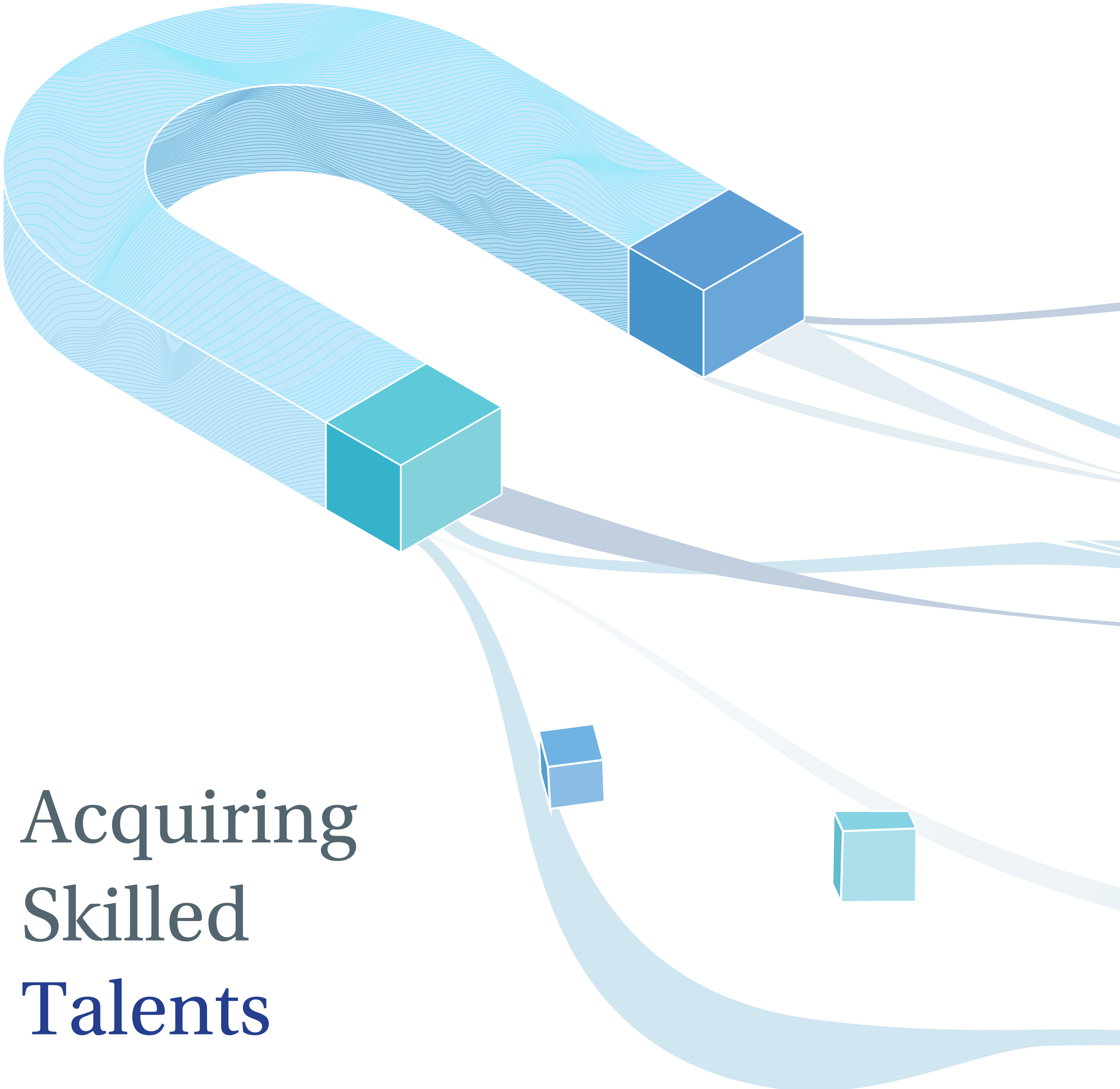
Our senior management are comprised of industry leaders and top talents with ample of industry experiences and financial market acumen, laying solid foundations for the Group's internationalisation strategy and execution. The Group's senior management members had served reputable Chinese and foreign financial institutions, as well as actively assumed a number of public office roles and served as adjunct professors in institutes of higher education, making great contributions to the development of the Hong Kong financial market and nourishing financial talents.

The Group treasures its employees as the most valuable resource as the backbone to support the Group in building a sound and sustainable platform. Throughout the years, Haitong International has endlessly allocated a large amount of resources to attract potential graduates and experienced professionals. We also continuously provide professional trainings and well-developed staff promotion mechanism and incentive schemes that align with the industry practices.

8. Robust risk management

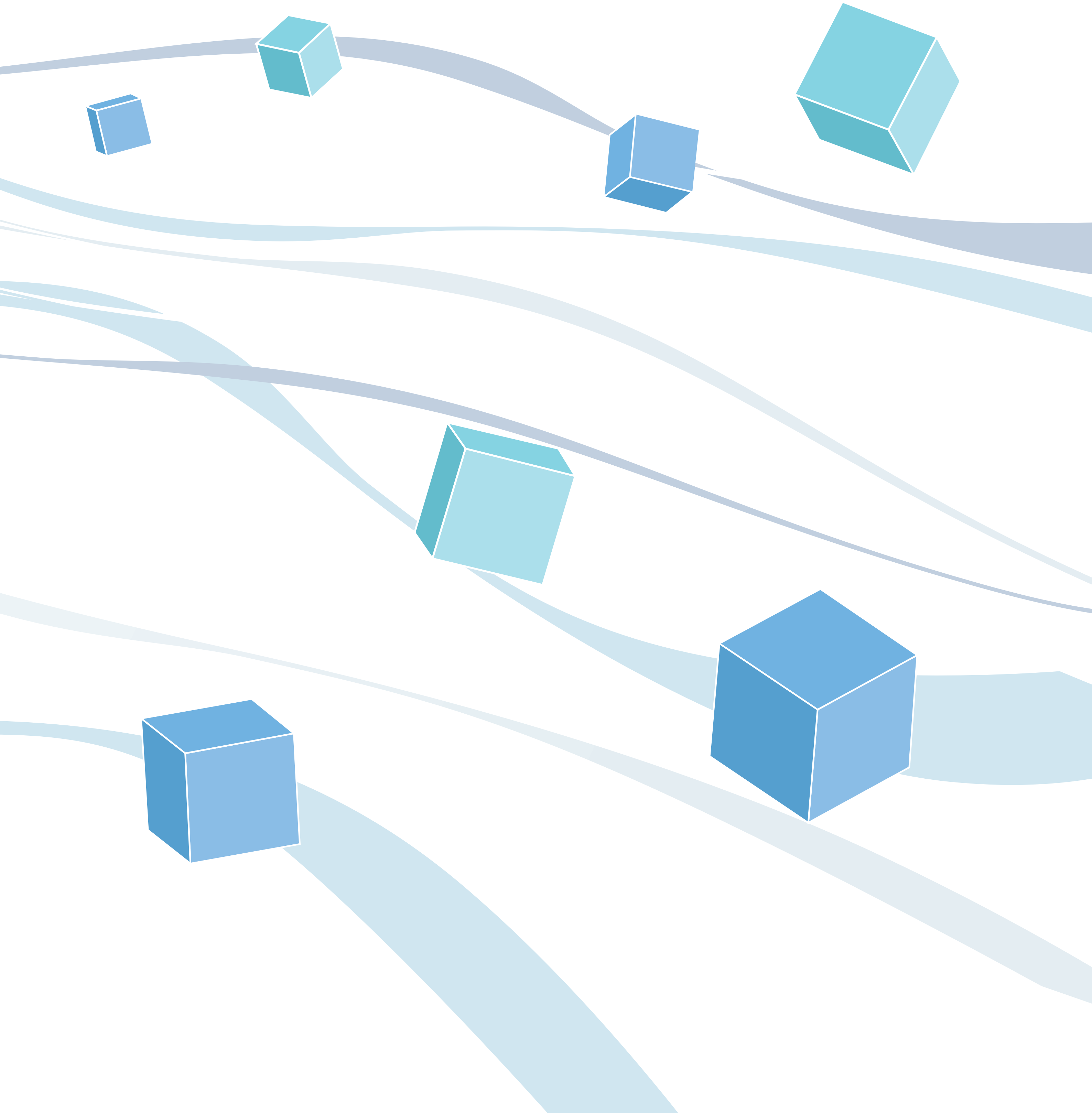
Haitong International has stood on the "stable to prudent" risk appetite and possess a sound risk management regime and a comprehensive framework that aligns with international standards. To support the Group's business development and timely address the latest regulatory updates and changes, the Group has been managing risks proactively through boosting its well-established risk assessment and monitoring system, ensuring all businesses are developing with stability.

Haitong International's key risk indicators are currently at their best level of recent years, displaying a higher resistance to various risk events, forming a stronger protection to the Group to implement its mid-to-long term strategies and capture market opportunities.



Acquiring Skilled Talents

Haitong International has always treasured its employees as its core resource. The Group continues to invest in human resources and strengthen the acquisition and cultivation of talents, with the aim of building a professional team to match the Group's strategic development objectives.



Management Discussion and Analysis

Group Strategy and Operations

In 2021, global economy is heading towards recovery. However, the global economy is still riding under turbulences from the unsettling Covid-19 pandemic, disruptions of global supply chain, soaring commodity prices, rising inflation expectations in the European and American markets, shifting in direction of monetary policy of major central banks such as the Federal Reserve, and a complex geopolitical environment. Against the backdrop of these events, Hong Kong, as one of the major financial centre of the world, has been impacted significantly. Facing market challenges from various perspectives, Haitong International has been adhering to its stable operational strategy, and holding on to the principle of "reducing risk by lowering leverage" to pursue on its long term development and enrich its fee income, promote market-oriented operations, welcome worldwide talents on board, and diversify its asset risks. Meanwhile, the Group has aimed at crafting a unified and transparent business and management model, integrating all internal parties to solidarity in establishing a well-rounded investment banking service platform to cover all stages of developments of our clients.

Looking ahead, the Group will focus on mid-to-long term development to establish a sustainable operation based on the progress made on transformation of fee income businesses. Facing magnified market fluctuations, substantial adjustments in the Hong Kong equity market, and the frequent defaults of China high yield bonds, Haitong International will adhere onto its principles of "reducing risk by lowering leverage" in becoming a leading investment bank of the world through enhancing revenue structure, attaining higher market shares, and sustaining a steady and affirmed operation, to generate long-term value for clients, shareholders, employees and the society.

Review and Analysis of Principal Businesses

Wealth Management

Segment business nature

The wealth management segment provides financial advisory services and customised 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, discretionary account management services, securities custodian services, and securities margin financing.

Macroeconomic environment

Despite macroeconomic challenges in 2021 and stricter industry regulations, Hong Kong private wealth management industry remained to grow steadily. The uprising size of wealth of Chinese enterprises and individuals was the major growth driver for private wealth management business in Hong Kong. During the year, the roll-out of Cross-boundary Wealth Management Connect Scheme further sustained Hong Kong as an offshore private wealth management centre, a major advantage for the development of local private wealth management business.

In June 2021, InvestHK set up a dedicated team to promote the development of Hong Kong family office business, further reinforcing Hong Kong as a major competitor to Singapore, another wealth management center in the Asian Pacific region for family office business. In addition, as ESG investment has become a spotlight in the industry, creating more ESG investment products and elevating clients' understanding to ESG products and investment strategy is crucial to the Hong Kong private banking circle and the expansion of assets under management scale.

Business Review and Analysis

The Group was committed to the transformation of private wealth management business. Leveraging on the Group's advantages of a well-built platform in investment banking, trading, research, asset management and product research and development, the Group upgraded its private wealth management business model tailored for entrepreneurial clients during the year.

Our private wealth management team has been staying ahead of the market trend and maintaining close ties with all other business segments. It continuously enriched the range of products offered with a focus on bonds, funds and private equities, aiming to provide our entrepreneurial clients a vast variety of investment products and services such as private equities, discretionary accounts, and funds-of-funds ("FOF"). Meanwhile, this segment also focused on acquiring higher quality client assets through carefully assessing and offering margin financing to potential clients, to manage risks effectively. Commission and fee income generated from the private wealth management segment for the year was HK$501 million, while interest income was HK$908 million.

In August 2021, realising the advantageous position of our Singapore office and a clear client niche, the Group has set up its own global family office business for the ultra-high net worth clients and external asset managers, to satisfy clients' financing and investment needs throughout their various stages of development, nourishing their family wealth.

During the year, the Group successfully built a strong team of professional private wealth managers through active recruitment and internal training, building a powerhouse for business expansions and acquisition of high net worth clients with top notch personalised services. Riding on the strong trend towards digitalisation in wealth management, the team eyed on an integrated online and offline service model, and partnered with Avaloq, a leading wealth management system provider in the world, to upgrade its wealth management system and platform that are also used by top private banks around the world, offering our high net worth and entrepreneurial clients an access to the world's best private wealth management experience.

On top of the business transformation and upgrades in progress, we took steps to reach our customers and tighten our ties through offering premium and tailored services and products, such as officially established WeChat official account, and hosted by-invitation-only events to share on macroeconomic outlook and analysis, boosting customer loyalty and brand recognition from customers.

Prospect for 2022

Our private wealth management team will grasp all potential growth opportunities with its transformed and upgraded business model, deepening ties with our investment banking, global markets and asset management teams to explore on global investment opportunities. The team will strive to provide personalised and one-stop private wealth management services to meet the unique demands of our high net worth and ultra-high net worth clients, bringing in high quality and stable client assets inflow, integrating the private wealth management business into the Group's full cycle of investment banking services.

The team will also expand on the range of products and services, such as preparing to launch the external assets management ("EAM") and employee stock option plan ("ESOP") services, focusing on high quality margin financing to acquire top tier client assets, as well as enriching over-the-counter product offerings. The private wealth management team will leverage on its presence in Hong Kong, Macau and Singapore to mobilise resources and generate synergies in terms of policies, products and talents. Meanwhile, the team will continue to elevate its operating efficiencies, manage costs, reinforce risk management and optimise income structure for a solid basis to generate long term revenue inflow.

Corporate Finance

Segment business nature

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 the secondary market.

Macroeconomic environment

In the midst of numerous prolonged geopolitical events, regulatory changes, and market speculation on rate hikes and expected tapering by the Federal Reserve, the Hong Kong IPO market was relatively quiet in the second and fourth quarter in 2021. During the year, a total of 97 IPOs were listed in Hong Kong with a total fund raising amount of HK$331.44 billion, in which both number of IPOs and total fund raising amount decreased from 2020. Among Hong Kong IPOs in 2021, 90% (or 87 of them) were mainly Chinese enterprises. However, there was still a strong momentum of secondary listing of Chinese enterprises in Hong Kong. In 2021, there were 8 home coming listing in Hong Kong, and occupied half of the top 10 IPOs in terms of fund raising amount.

The Chinese USD bond market experienced violent shocks in 2021, with frequent default of bonds issued by the Chinese real estate conglomerates, pushing the default rate at its highest point in recent years. Corresponded to the sharp decline in the secondary market, the scale of new issuance in the primary market has also significantly shrunken with market sentiment in fragility.

Business Review and Analysis

As a leading Chinese investment bank in Hong Kong, Haitong International had ride on its competitive advantages and achieved outstanding results in 2021. During the year, this business segment achieved fee income of HK$1,782 million, 35% higher year-on-year, among which the underwriting and placing commission was HK$1,462 million, increased by 31% year-on-year. In addition, financial advisory and consultancy fee income also reached HK$320 million, a significant growth of 58% from prior year.

As at 31 December 2021, the Group completed 39 IPOs in Hong Kong, ranked No. 2 among all financial institutions in terms of number of projects. The Group acted as a sponsor for 8 IPOs in Hong Kong, ranked No. 4 among all financial institutions in terms of number of projects. In terms of number of equity financing underwriting projects (including IPOs, secondary placings, block trades, and rights issue), the Group completed 47 projects and ranked No. 3 among all investment banks.

Highlight IPOs sponsored by Haitong International in 2021 are as follows:

IPO Name	Fund raised (US$)	Highlights
JD Logistics (2618.HK)	3.64 billion	The largest player in China's integrated supply chain logistics market; received over 700 times of oversubscription under HK public offering; named as the "Best IPO in Asia in 2021" by FinanceAsia
Medlive (2192.HK)	624 million	The largest online professional physician platform in China; received nearly 600 times of oversubscription under HK public offering
Gushengtang (2273.HK)	104 million	The first listed TCM healthcare service provider in Hong Kong
SenseTime (0020.HK)	850 million	Asia's largest artificial intelligence software company and China's largest computer visual software provider; named as the first listed AI company in Hong Kong

Internationally, Haitong International completed 5 U.S. equity financing projects including 4 IPOs and 1 equity follow-on as Joint Bookrunner. In India, the team completed 5 corporate financing projects for local enterprises, gaining execution experiences and market standing of the Group in the Southeast Asian market.

In 2021, Haitong International ranked No. 2 among financial institutions worldwide in Asia (ex-Japan) G3 High Yield Corporate bond market in terms of number of issuance. The Group also took an active role to participate in offshore green bond issuances, and completed 40 green and sustainable bond issuance projects with financing amount over US$11 billion. Both number of projects and financing amount doubled from that in the previous year, representing the Group's leading position among Chinese investment banks in terms of number of issuance of green bonds.

During the year, the DCM team also served as an exclusive financial advisor and completed a dual tranche USD bond extension project amounting to almost US$1 billion in less than 2 months, being the fastest debt restructuring project for Chinese enterprises. This is another proven track record of the Group in making contributions to the real economy through preventing and resolving risk events.

Haitong International continued to complete the full suite of investment banking services with diversified fee income streams. During the year, our mergers and acquisitions team leveraged on the global network in Hong Kong, the United States, Singapore, and the United Kingdom, as well as the Group's market expertise in the industry, and provided cross-border mergers and acquisitions advisory services for investors across sectors such as healthcare, advanced manufacturing, consumer and new energy industries. The loan capital markets team also identified potential clients and opportunities to provide financial services since their early stages, while also extending its services to global fund houses to boost financial advisory and consultancy fee income.

Prospect for 2022

Facing the high uncertainty in global macroeconomic environment and an uprising volatility in the financial market, issuances in the primary markets of global equities and bonds are likely to be negatively impacted in 2022. The Hong Kong equity market has continuously fell sharply in the beginning of 2022, driving the Hang Seng Index to hit a new low in nearly a decade. The frequent defaults of China high yield bond has already deteriorated investors' confidence. All of these events are hitting hard on the issuance and underwriting activities of stocks and bonds in Hong Kong. In this aspect, the Group will take precautionary measures to expand its vision, explore on new business ideas and capture opportunities to diversify and sustain its fee income stream.

In 2022, Haitong International will continue to capture the opportunities driven by the expedited home-coming listing of Chinese corporations in Hong Kong, the US and Hong Kong SPAC projects, as well as riding on the accelerating growth of enterprises in the Greater China Region with IPO potentials. The Group possess an in-depth market experience and brand recognition in the industry, and will deepen its presence on client coverage and project participation, with an aim to further broaden its horizon, sustain its leadership position, and contribute to the real economy. The investment banking team will also continue in expanding the business in overseas markets to gain recognition across markets through participating in more local transactions and projects.

In view to support Hong Kong to become a green financial hub in Asia, the Group will continue to practice green finance, encourage and support companies in issuing green bonds and other innovative green financial products. Meanwhile, the DCM team will focus on the opportunities brought by the asset securitisation business, strengthen the cooperation with the mergers and acquisitions team, and private wealth management team, to bring in top-tier clients alongside with higher quality client assets to support the development and growth of the Group's capital intermediary business focusing on bond issuances.

In addition, following with the completion of building a full suite of investment banking services, Haitong International is expected to expand on more areas of financial services including financial advisory, mergers and acquisitions, and financing in the secondary market, providing clients with comprehensive services and products, and generating a diversified yet sustainable fee income structure to bring the Group to new heights.

Asset Management

Segment Business Nature

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.

Macroeconomic environment

In 2021, against the backdrop of sharp market volatility and geopolitical uncertainties, Hong Kong remained as a leading asset management hub, with foreign and Chinese financial institutions providing a rich spectrum of products to investors around the world who are looking for diversified and world-class asset management services. Moreover, the China economy was growing steadily with a stable growth of individual and corporate wealth, alongside with a further opening to foreign investors. In October 2021, the Cross-Boundary Wealth Management Connect Scheme was officially launched, further widened the room of growth for Hong Kong asset management business.

ESG investment has shifted from being a market buzzword to a new benchmark in the asset management industry. In August 2021, the Securities & Futures Commission of Hong Kong ("SFC") published the amendment to the Code of Conduct for Fund Managers, requiring fund managers to consider climate-related risks and make appropriate disclosures to investors in their investment management process. As key asset holders in the China and Asia Pacific region are beginning to follow this global trend, asset managers that integrate ESG investment ideas, strategies and management process will undoubtedly establish a competitive advantage.

Business Review and Analysis

In 2021, Haitong International's asset management team welcomed a number of market top talents and expertise into the team, augmented the team's investment and research capabilities, consolidated market changes and matched with customer needs, and provided customised global asset management solutions. The team devoted to raise the level of standard of professional distribution channel, and expanded towards the northbound investment business in China. In order to properly balance the funds' structure in facing the constant market changes, the team had consistently adjusted the types and proportion of asset classes in a timely manner. As at 31 December 2021, Haitong International's assets under management was approximately HK$54 billion, while the total asset management fee and performance fee income increased to HK$384 million.

Our asset management team continued to optimize its product lines during the year, greatly improving and increasing the number of funds and size of assets under management. The team continuously promoted product innovation and integrated the Group's ESG investment philosophy. In September 2021, the Group, together with a UK-based asset manager, jointly launched the world's first ESG focused Asia ex-Japan corporate high yield USD bond ETF (TAHY). This is also the first Asian credit bond ETF listed in Europe and the first UCITS fund of Haitong International. Since its debut, the fund was well-sought after by global institutional investors and the fund size has since grown rapidly. By the end of 2021, the size of the fund exceeded US$200 million, 8 times larger than its debut. In the China and Hong Kong cross-border business spectrum, the Haitong Asian High Yield Bond Fund was successfully included to the Mutual Recognition of Funds (Northbound) in USD class, allowing domestic residents in Mainland China to allocate their investment in US dollar denominated assets.

With remarkable product structure and investment management, a number of our funds achieved good performances during the year, and won recognised awards in the industry. Among which, Insights & Mandate awarded Haitong International "Best ESG Manager", "Most Innovative Product for the Year (ETF) — Haitong MSCI China A Share ESG ETF" and "Global Equity (10 Years) Investment Performance — Haitong Global Diversification Fund" in 2021.

Prospect for 2022

Facing ongoing fluctuations in the financial market, maintaining the quality of assets under management and stabilising fee income inflow will be key focuses. Haitong International's asset management team will reinforce on its investment and research capabilities, integrate itself within the full suite of investment banking services, and establish on the Group's unique one-stop financial services provision platform. The asset management team will also partner internally with the investment banking team and global markets team in realising business and operational synergies to boost the size of assets under management, as well as fee income.

In 2022, the team will focus on strengthening flagship products to build a distinctive market position. Responding to market demands and the uprising market interests on public funds, integrating and embedding the Group's ESG investment philosophy and position, the team will focus on introducing innovate products. The team will also search for opportunities in Southeast Asian and overseas markets to extend its reach to a wider customer base. In terms of investment portfolio, the team will upgrade the overall asset management business model to a whole new level innovatively and professionally.

Global Markets

Segment Business Nature

The global markets segment provides a vast range of financial services to a diverse group of institutional clients, such as investment funds, sovereign funds, insurance companies and financial institutions, globally. This segment offers sales and trading of both equity and fixed income products, prime brokerage and risk management solutions, and 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.

Macroeconomic environment

In 2021, the global capital markets were even more turbulent than in 2020, and many countries have adopted quantitative easing policies under the pandemic, causing an capital influx to the European and American stock markets. Hong Kong, as a market that has been dependent on foreign capital, suffered from the capital outflow since mid-2021, albeit the support from China. Coupled with the new regulations of different countries, the Hong Kong market inevitably endured the pressure. During the year, the Hang Seng Index dropped 14%, whereas Hang Seng Tech Index plummeted over 33%, being the worst underperformer among global indices.

The average daily turnover of Hong Kong stock market was HK$166.7 billion, up 29% from the HK$129.5 billion in 2020. The average daily turnover of derivative warrants in the Stock Exchange of Hong Kong was HK$11.2 billion, up 23% from HK$9.1 billion in 2020.

Business Review and Analysis

Haitong International always strives to satisfy customers' demands. With synergies generated from the various business segments, we have built an all-rounded trading platform for institutional clients worldwide. Bringing on the advantageous positioning of facing the global markets from Hong Kong, the team successfully acquired a number of top-tier institutional clients around the world during the year. In 2021, global markets segment achieved fee income of HK$591 million, a growth of 28% from 2020. The Group successfully launched 4,469 listed warrants and CBBCs in The Stock Exchange of Hong Kong Limited during the year, almost 50% more than the issuances in 2020, ranked No. 2 in the market in terms of turnover of derivatives products.

During the year, the global markets team exerted substantial effort in expanding fee income streams. Back to its origin as an intermediary, the team focused on upgrading its fixed income business towards sales and trading of fixed income securities and fixed income products in the primary and secondary market with an aim to generate fee income.

Globally, the Group has deepened and explored internationally, and built stronger trading platforms in Hong Kong, Singapore and New York. In March 2021, following official admission as a securities and derivatives clearing member of the Singapore Exchange (SGX) and a depository agent of The Central Depository (Pte) Limited, the Group possessed a full suite of memberships in the SGX, further expanding the scope of services in the Singapore market.

The Group has a well-rounded research team that provides research and investment analysis covering macroeconomic viewpoint, market strategies, stocks, assets allocation, and commodities, to list a few. The Group has been allocating resources to gear up the team's research capabilities for in-depth analysis with global vision across markets and multi-angle viewpoints. In 2021, the team covered almost 1,400 listed companies across seven segments in Mainland China, Hong Kong, the United States, Japan, and India.

In 2021, our research team was awarded by authoritative institutions around the world. The team topped among 15 best overall and individual categories in Asiamoney Brokers Poll 2021. Throughout the year, our equity research team also provided investors with their research insights through issuing industry reports, hosting large-scale forums and seminars, and providing investors with insights on spotlight areas such as ESG investment, high-end manufacturing, healthcare, and technology and hardware.

Prospect for 2022

In 2022, amid the Russia-Ukraine conflict and rate hikes by the Federal Reserve, global capital markets are expected to remain volatile. The Hong Kong equity market has already entered a bearish phase, and trading volume may further shrink in the future, posing a severe challenge to growth of fee income such as brokerage commissions.

As an important part of the Group's full-cycled investment banking services, the global markets team has a vital role in being proactive, pursue on its potential, expand its vision, to connect institutional investors and financial enterprises, the primary and secondary markets, listed companies and private companies and to exert utmost effort in capturing higher market shares in the Hong Kong stock market.

As the China A-share market is already the second largest stock market after the United States, Haitong International, being a well-established participant in the Chinese financial market, will strive to provide overseas investors with easy access to A shares, market information, company researches and trading insights in order to meet their financial needs.

The global markets team will devote more resources to the prime brokerage business and provide foreign investors with comprehensive services. Built on the commitment to improve profits with proper risk management control, the equity derivatives trading business will focus on providing more risk management and yield enhancement products. The fixed incomes securities business will also focus on acting as a trading and information intermediary, in order to sustain fee income.

Investment

Segment Business Nature

The investment segment invests in various financial instruments and holds majority of investment securities of the Group. Investments held by this segment include primarily investment funds, listed and unlisted debt and equities, and private equities. This segment aims at acquiring investments that generate a reasonable yield within a robust risk management mechanism.

Macroeconomic environment

In 2021, the China stock market indices (including A-shares and the Hong Kong stock market) started the year with a surge but fell since the second quarter of the year, as multiple industries were affected by the roll-out of regulatory policies. Hong Kong stocks experienced a drop of more than 20% during the second half of 2021, with the Hang Seng Index fell by 14%, and the Hang Seng Tech Index fell by 33% in 2021, respectively.

In the second half of 2021, the global economy was under turmoil from the unsettling pandemic situations, global supply chain shortages, and higher inflation expectations. In the bond market, most Chinese bonds recorded negative returns as influenced by the uncertain developments and outlook from the continuous defaulting events among the real estate conglomerates in China. Chinese high yield bonds and Asian high yield bonds experienced downturn since second quarter of 2021. ICE BofA Asian Dollar High Yield Corporate China Issuer Index dropped by 34% from the highest point by end of 2021.

Business Review and Analysis

In the face of the expansive fluctuations in assets prices, the Group had adhered to its risk management policies, and targeted on mid-to-long term investment returns. Our investment team, with a forward-looking macroeconomic viewpoint to effectively mitigate risk exposures, actively redeemed certain investment funds, and reduced the scale of both equities and bonds investments.

The Group's private equity investments focused on investment opportunities in sectors such as medical and healthcare, new energy, TMT and artificial intelligence. The private equity investment team partnered with investment banking team and global markets team in bringing investment opportunities to institutional investors, as well as high net worth clients, completed the full investment banking services to assist clients to adequately allocate their resources. During the year, the private equity investment team participated in, directly or indirectly, different investments, among which over 10 projects were successfully listed. Average return on investments of the Group's private equity investments achieved over 20%.

Prospect for 2022

At the beginning of 2022, global equities were in shock from the shift in the Federal Reserve's monetary policy and the Russia-Ukraine conflict. China A-shares, Hong Kong stocks, and Chinese stocks listed in the overseas markets all faced a sharp drop. The Hang Seng Index fell to its lowest in the past decade. In the meantime, the frequent default events among the Chinese dollar bonds has continued to push bond prices to a low point, weakening investors' confidence.

Amid the volatile financial markets, the Group's investment team will continue to enhance its investment portfolio through adhering strictly to its risk management policy framework, and applying the principle of investing sustainably and responsibly when making investment decisions for long term and stable returns.

Our investment team will carefully select superior private equity projects, as well as equity and bond investments opportunities, alongside to identify projects and companies that have high potential. The team will partner with investment banking team, private wealth management team, loan capital markets team, and asset management team in offering a comprehensive set of services to institutional and high net worth clients, promoting the brand of Haitong International.

Financial Review

Analysis of Financial Statements

In the first half of 2021, China's economic recovery was strong with a steady performance in the financial market. However, in the second half of the year, investors' confidence experienced a hard hit from various factors such as slowing demand, tightening supervision, falling rate of GDP growth and weakening real estate market. The Hong Kong stock market took off with robust growth in the first half of the year, yet facing strong headwinds in the second half. The Hong Kong stock market hit a 32-month high of over 31,000 points in February 2021, but closed at 23,000 points by the end of the year, fell by 24% from its high point. The Hang Seng Tech Index also reached the highest mark in February 2021, but since then dropped 48% by the end of the year. ICE BofA Asian Dollar High Yield Corporate China Issuer Index reached historical high in May 2021, but fell by 34% from the high point by the end of 2021.

The Group, being a key player of the financial services industry in the China and Hong Kong markets, inevitably moved along with the overall market. Despite the challenges, the Group had persevered on its determination on strengthening fee income across all business segments, enhanced quality of interest bearing assets and reviewed constantly on the Group's risk management policies, and improved the cost structure with decrease in total costs to reinforce its resiliency to market disturbances. The results of such strategic repositioning can be noted in various aspects of the financial performances and changes to the statement of financial position in 2021.

During 2021, the Group recorded net profit after tax of HK$301 million, with summary as follows:

	2021 **HK$'000**	2020 HK$'000	+/-%
Commission and fee income	**3,257,464**	2,864,575	+14
Interest income	**1,741,000**	2,464,585	-29
Net trading and investment income	**253,720**	3,000,587	-92
Revenue	**5,252,184**	8,329,747	-37
Other income and gains or losses	**35,166**	158,697	-78
Total revenue	**5,287,350**	8,488,444	-38
Total costs	**3,763,684**	5,201,737	-28
Profit before impairment charges and tax	**1,523,666**	3,286,707	-54
Profit for the year attributable to the owners of the Company	**300,826**	1,932,877	-84
Key metrics:			
— Basic earnings per share (HK cents per share)	**5.10**	32.97	-85
— Diluted earnings per share (HK cents per share)	**5.10**	32.85	-84
— Cost to revenue ratio (%)	**72**	62	+10
— Cost to core revenue[1] ratio (%)	**75**	98	-23
— Return on shareholders' funds (%)	**1.06**	7.09	-6.03

Note 1: The Group defines core revenue as the aggregate of commission and fee income, and interest income.

- Commission and fee income amounted to HK$3,257 million, being the historical high figure, mainly attributed by the stronger underwriting and placing income from the active equity capital markets in Hong Kong, as well as a notable increase in financial advisory and consultancy fee income mainly driven by deal structuring income generated from the Loan Capital Markets team, on top of the higher fee income from other types of financial advisory services. Asset management fee and performance fee also reached a high mark of HK$384 million. Brokerage commission income was supported by the stronger institutional client trading yet impacted by the temporary shortfall from the transformation of wealth management segment.

- Interest income was HK$1,741 million for 2021, decreased 29% from HK$2,465 million in 2020, corresponded to the decreasing interest bearing assets in 2021.

- Net trading and investment income was of HK$254 million, mainly driven by the acute fluctuation of the stock and bond markets in China and Hong Kong during the second half of 2021.

- Total costs decreased by 28% year-on-year to HK$3,764 million, in which the Group achieved cost savings on majority of expense categories through effective cost control measures to improve expense efficiencies for business developments.

- Finance costs was HK$1,107 million, decreased by 48% from 2020 as funding liabilities decreased corresponded to lessened funding needs. The Group had also captured the opportunities in the time of low interest rate environment to decrease the overall cost of funding.

- Total fee and interest income net of total costs (total commission and fee income plus interest income less total costs) standalone amounted to HK$1,235 million in 2021, significantly higher than the HK$127 million in 2020, indicating the Group's core income (defined as aggregated amount of fee and commission income, and interest income) remained robust alongside with lower costs, despite the market disturbances experienced especially in the latter half of the year.

Summary of balance sheet as at 31 December 2021 and 31 December 2020 is as follows:

	31 December 2021 HK$'000	31 December 2020 HK$'000	+/-%
Assets:			
— Current assets	**92,601,905**	124,019,513	-25
— Non-current assets	**12,389,690**	22,423,003	-45
Total assets	**104,991,595**	146,442,516	-28
Liabilities:			
— Current liabilities	**63,000,629**	105,518,706	-40
— Non-current liabilities	**14,464,521**	12,606,641	+15
Total liabilities	**77,465,150**	118,125,347	-34
Net assets	**27,526,445**	28,317,169	-3
Key metrics:			
— Net current assets	**29,601,276**	18,500,807	+60
— Funding liabilities[2]	**46,811,954**	64,985,426	-28
— Net assets value per share (HK$)	**4.56**	4.69	-3
— Debt-to-equity ratio[3]	**1.70**	2.29	-26
— Leverage ratio[4]	**3.33**	4.45	-25

Note 2: The Group defines funding liabilities as the aggregated amount of repurchase agreements, bank borrowings, and debt securities in issue.

Note 3: Debt-to-equity ratio equals funding liabilities divided by total shareholders' equity (or net assets).

Note 4: Leverage ratio equals total assets excluding accounts payable to clients and accounts receivables from clients for subscription of new shares in IPO divided by shareholders' equity.

- Total assets as of December 2021 were HK$105.0 billion, decreased by 28% or HK$41.5 billion from 2020, with decrease noted across the major categories of financial assets, consistent with the Group's initiative to refine the balance sheet through reducing the size of assets portfolio.

- Net current assets as of December 2021 were HK$29.6 billion, increased by 60% from 2020, reflecting a more liquid asset portfolio.

- Total liabilities as of December 2021 were HK$77.5 billion, decreased by 34% or HK$40.7 billion from 2020, in which all types of liabilities reported decreases.

- Funding liabilities amounted to HK$46.8 billion as of December 2021, decreased by 28% or HK$18.2 billion from 2020, due to an enhanced funding structure and lessened funding needs to support a smaller, but a more liquid assets portfolio.

- Leverage ratio decreased to 3.33 times as of December 2021 from 4.45 times as of December 2020, being the lowest since 2012.

Overview of Financial Performance

Revenue

Revenue of the Group for 2021 was HK$5,252 million, decreased 37% from HK$8,330 million in 2020 mainly driven by lower net trading and investment income, partially offset by the increase in commission and fee income.

Commission and fee income

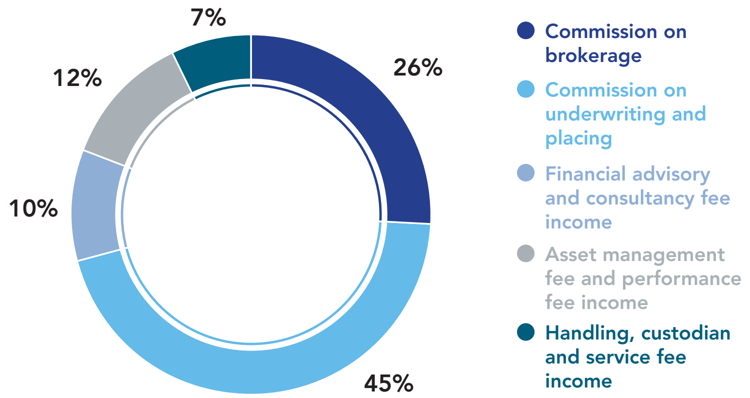
Commission and fee income was HK$3,257 million for 2021, 14% higher than HK$2,865 million for 2020. The Group saw positive results from its strategic focus on strengthening fee based businesses. Commission and fee income in 2021 was at record high, with year-on-year increase in commission on underwriting and placing, asset management fee and performance fee income, and financial advisory and consultancy fee income. Commission on brokerage was supported by the active trading demand from institutional clients, yet temporarily offset by the transition of wealth management business from traditional retail brokerage to private wealth management that offers well rounded services for high net worth clients.

The table below presents fee income by types:

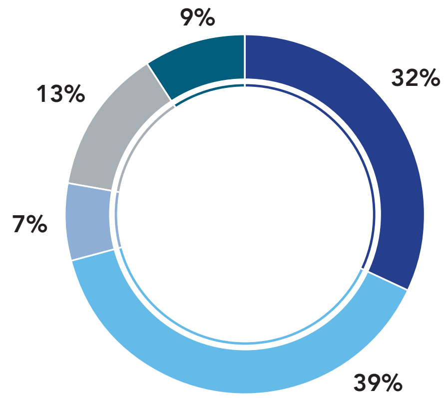
	2021 HK$'000	2020 HK$'000	+/-%
Commission on brokerage	**839,162**	913,265	-8
Commission on underwriting and placing	**1,461,896**	1,114,145	+31
Financial advisory and consultancy fee income	**319,728**	202,920	+58
Asset management fee and performance fee income	**384,380**	370,651	+4
Handling, custodian and service fee income	**252,298**	263,594	-4
Commission and fee income	**3,257,464**	2,864,575	+14

Below chart shows the composition of the Group's commission and fee income in 2021 and 2020:

Composition of commission and fee income in 2021



Composition of commission and fee income in 2020



Underwriting and placing commission was HK$1,462 million, increased 31% year-on-year, and attributed 45% of total commission and fee income in 2021, up from the 39% in 2020. Underwriting and placing commission was mainly generated from investment banking business. Capturing the opportunities from the active equity capital markets during the time of home-coming listings of Chinese firms, the Group, being one of the market leaders in the industry, had participated in 6 of the top 10 IPOs (in terms of fundraising amounts) deals in Hong Kong in 2021.

Financial advisory and consultancy fee income was HK$320 million, 58% higher than 2020, mainly driven by the Loan Capital Markets team which has begun to realise positive results with notable deal structuring fee income generated from various clients and fund houses during the year. The Group had also gained global recognition on its financial advisory services, as evidenced with participation of IPO deals and advisory projects in the US and India for both local and Chinese clients.

Asset management fee and performance fee income was HK$384 million, increased 4% from 2020, with increment in both management fees and performance fees during the year.

Commission on brokerage of HK$839 million in 2021 included commission income from dealing in securities, futures and over-the-counter products (mainly bonds and financial products), generated from the global markets and wealth management segments. During the year, global markets segment, supported by the synergised team of cash equities sales and trading, achieved a higher brokerage commission, representing 55% of total commission on brokerage (increased from the 36% in 2020). The year-on-year increase in brokerage commission had surpassed the increase of the Hong Kong stock market turnover in 2021 as compared to 2020. However, the increase was partially offset by the lower brokerage commission income from the temporary shortfall in retail clients trading due to the transitional period of wealth management business transformation to private wealth management focusing on high net worth clients for expansive streams of income.

Interest income

Interest income for 2021 was HK$1,741 million, decreased by 29% from HK$2,465 million in 2020, mainly driven by the decrease of all types of interest bearing assets.

In 2021, the Group focused on improving asset qualities, and all business segments refocused their financing objectives to structure transactions in ways to acquire and retain those carrying higher quality assets and liquidity. Consequently, the Group did not actively expand its interest bearing assets portfolio (including advances to customers and investment securities measured at amortised cost) during the year. Coincided with the slower market sentiments in Hong Kong during the second half of 2021, financing activities, in particular margin financing, had decreased towards the end of 2021.

The below table presents the outstanding balance of interest bearing assets as of the end of the respective years and their corresponding interest income:

	2021 **HK$'000**	2020 HK$'000	+/-%
Margin financing:			
— Outstanding balance as of the end of the year	**9,160,201**	12,327,279	-26
— Interest income during the year	**810,435**	1,023,115	-21
Term financing:			
— Outstanding balance as of the end of the year	**2,927,596**	3,885,102	-25
— Interest income during the year	**242,849**	367,221	-34
Investment securities measured at amortised cost:			
— Outstanding balance as of the end of the year	**7,054,332**	10,475,717	-33
— Interest income during the year	**571,224**	763,979	-25
Reverse repurchase agreements:			
— Outstanding balance as of the end of the year	**4,745,788**	7,061,032	-33
— Interest income during the year	**48,231**	109,400	-56
Interest bearing assets:			
— Outstanding balance as of the end of the year	**23,887,917**	33,749,130	-29
— Interest income during the year[5]	**1,672,739**	2,263,715	-26

Note 5: Interest income from interest bearing assets excludes interest income from bank deposits and others (2021: HK$68,261,000; 2020: HK$200,870,000).

Interest income from margin financing was HK$810 million in 2021, accounted for 47% (2020: 42%) of the Group's total interest income, and was 21% less than 2020. The decrease was relative to the lower margin financing balance, which decreased by 26% from 2020 to HK$9.2 billion as of December 2021 due to credit enhancements along with the transformation of wealth management segment to attract inflows of stable and high quality client assets, as well as impacted by the slower market trading activities in Hong Kong in the second half of 2021. Average interest rate from margin financing of the Group remained stable in 2021 as compared to 2020.

Interest income from term financing was HK$243 million in 2021, 34% lower than 2020. Balance of term financing as of December 2021 decreased by 25% from 2020 to HK$2.9 billion as the Group did not actively expand non-margin financing businesses. Average interest rates remained relatively stable during the year.

Interest income from investment securities measured at amortised costs was HK$571 million, 25% less than 2020. Investment securities measured at amortised cost as of December 2021 was HK$7.1 billion, decreased by 33% from HK$10.5 billion as of December 2020, as the Group did not actively acquire this asset class during the year.

Interest income from reverse repurchase agreements were mainly driven by client demands and market interest rates that fluctuates constantly. In 2021, interest income from reverse repurchase agreements was HK$48 million, decreased by 56% from 2020, corresponded to the lower outstanding balance of reverse repurchase agreements of HK$4.7 billion as of December 2021, 33% lower than the HK$7.1 billion as of December 2020. Reverse repurchase agreements were majority collateralized by fixed income securities in both 2021 and 2020.

For details of the Group's credit risk management, please refer to the risk management section of Corporate Governance Report.

Net trading and investment income

Net trading and investment income was HK$254 million for 2021, mainly comprised of net income from financial assets held for trading and market making activities, net income on financial products, and net loss from investment securities measured at fair value.

In 2021, the China and Hong Kong bond and equity markets experienced acute movements, with significant downward adjustments during most of the second half of the year. As a key player in the China and Hong Kong financial markets, the Group was inevitably affected by the substantial market volatility. However, the Group managed to maintain positive returns from financial assets held for trading and market making activities and financial products.

The table below presents net trading and investment income by nature:

	2021 HK$'000	2020 HK$'000	+/-%
Net income from financial assets held for trading and market making activities	**365,226**	569,381	-36
Net trading income on financial products	**530,973**	606,153	-12
Net (loss)/gain from investment securities at fair value	**(642,479)**	1,825,053	N/A
	253,720	3,000,587	-92

Net income from financial assets held for trading and market making activities was mainly driven by market value changes on the equity and fixed income securities that the Group held for trading and market making purposes. During the year, the Group had actively reduced the inventory of equity and fixed income securities in developing the business into sales and trading of fixed income securities and fixed income products in the primary and secondary markets for fee income. As a result, a lower trading income from this portfolio was reported.

Net trading income on financial products remained relatively stable in 2021 as compared to 2020. Investment securities measured at fair value through profit or loss mainly consisted of investment funds, fund-of-funds, private equity funds and private equity investments, and listed equities. In the first half of 2021, the China and Hong Kong financial markets generally performed well with views of recovery of major economies. However, in the second half of 2021, the Hong Kong equity and bond markets had experienced a downward movement in response to various market events, affecting investors sentiments. The Group's remained proactively managing its investment portfolio to mitigate the impact from market events on financial performances. Furthermore, the Group's portfolio of private equity funds and private equity investments saw positive returns in 2021.

Total Costs

The Group's total costs were primarily composed of staff costs, finance costs and operating expenses for regular business activities. Total costs for 2021 were HK$3,764 million, 28% less than HK$5,202 million in 2020. During the year, all major cost types decreased with the Group's effort in cost control to improve cost efficiencies yet supporting business developments that are fundamental for future growth.

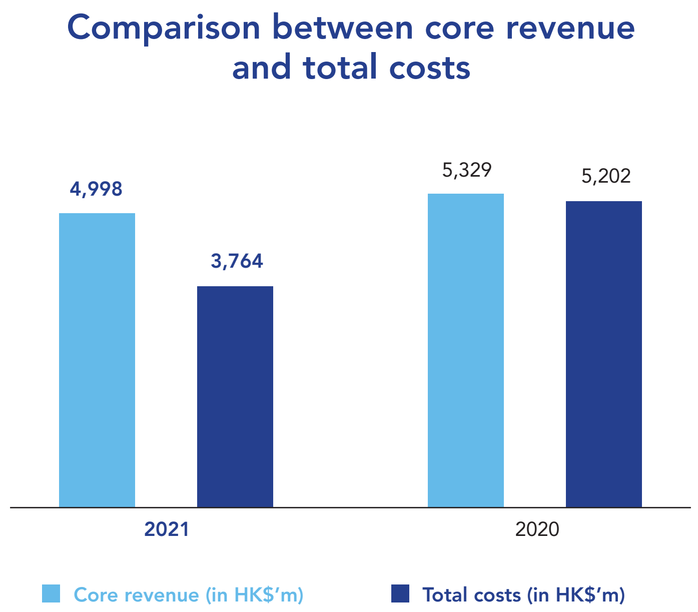
The table below presents total costs by type:

	2021 HK$'000	2020 HK$'000	+/-%
Staff costs	1,316,396	1,564,995	-16
Commission expenses	107,562	257,958	-58
Finance costs	1,106,837	2,144,511	-48
Operating expenses:			
— Amortisation and depreciation	284,080	252,091	+13
— Information technology related expenses	245,669	234,060	+5
— Other operating expenses	703,140	748,122	-6
Total costs	3,763,684	5,201,737	-28
Key metrics:			
— Total costs to revenue ratio (%)	72	62	+10
— Total costs to core revenue ratio (%)	75	98	-23

Total costs to revenue ratio was 72% in 2021, higher than the 62% in 2020 mainly driven by the lower revenue as impacted by the decrease in net trading and investment income.

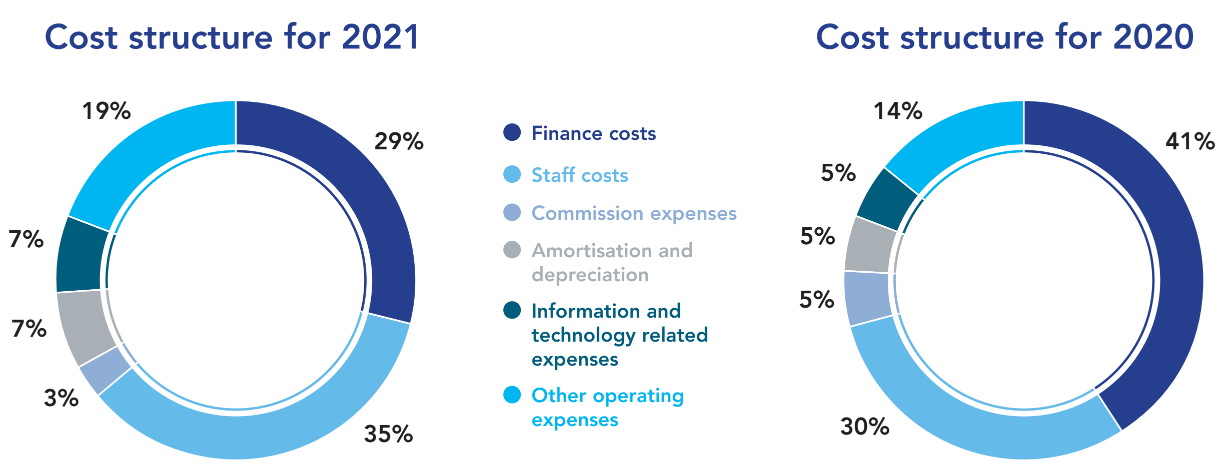
In terms of core revenue (defined as commission and fee income and interest income), total costs were at 75% to core revenue in 2021 as compared to 98% in 2020. Core revenue in excess of total costs was HK$1,235 million in 2021, which was almost 10 times higher than the HK$127 million in 2020, indicating the Group's success in cost reductions with an evolving cost structure that aligned with business developments to effectively generate fee and interest income flow.

Below graphs compare the Group's core revenue and total costs in 2021 and 2020:



The Group had spared significant effort in enhancing the cost structure to ensure resources were allocated effectively in achieving the Group's long term strategic goals. The Group's total costs in 2021 were more proportionately balanced among staff costs, finance costs, and operating expenses, demonstrating the Group's commitment to enhance internal operational structure, empower human resources developments, and optimise funding sources to sustain an everlasting platform for business developments.

Below chart shows the Group's cost structure in 2021 and 2020:



Finance costs

Finance costs in 2021 were HK$1,107 million, almost halved from 2020. Decrease in finance costs was mainly driven by the lower overall funding demand as a result of a light-weighted and strengthened balance sheet. Total funding liabilities (determined as bank borrowings, debt securities in issue, and repurchase agreements) decreased by 28% to HK$46.8 billion as of December 2021 from HK$65.0 billion as of December 2020. The Group had tapped on various funding sources to seize the opportunity in lowering finance costs during the time of low interest rate environment.

Finance costs from bank borrowings (comprised of bank loans and overdrafts) were HK$544 million in 2021, 56% less than the HK$1,245 million in 2020, as the need for bank borrowings decreased with reduced assets size and alignment of maturities between assets and liabilities. The Group's cost of funding from bank borrowings were mainly based on a spread plus the Hong Kong Interbank Offered Rate ("HIBOR"), which fluctuates intermittently, but a general declining trend was observed during the year.

Finance costs from non-convertible bonds and notes and convertible bonds, amounted to HK$495 million in 2021, decreased by 25% from HK$659 million in 2020 as the Group had issued several non-convertible notes (issued under the Group's medium term note programme) bearing lower interest rates, in replacement of those with higher interest rates previously issued. In 2021, the Group had issued medium term notes in principal amount totaling HK$13,156 million and repaid several medium term notes in principal amount totaling HK$12,518 million. The coupon rates of these medium term notes were fixed yet determined based on the market interest rates and liquidity of the market at times of issuances. The average coupon rate of these new issuances was lower than the average coupon rate of those repaid during 2021. Furthermore, the Group issued a US$300 million bond in May 2021 bearing a fixed interest rate of 2.125% with a maturity of 5 years, being the lowest interest rate among the USD bonds issued by the Group so far.

The table below presents finance costs by type:

	2021 HK$'000	2020 HK$'000	+/-%
Finance costs for funding liabilities:			
— bank loans and overdrafts	**544,417**	1,245,410	-56
— convertible bonds	**1,752**	2,116	-17
— non-convertible bonds	**393,701**	468,808	-16
— non-convertible notes	**99,289**	188,056	-47
— repurchase agreements and others	**56,349**	228,408	-75
	1,095,508	2,132,798	-49
Interest on lease liabilities[6]	**11,329**	11,713	-3
Finance costs	**1,106,837**	2,144,511	-48

Note 6: Interest on lease liabilities arise from the leasing transactions that are accounted for as right-of-use assets in accordance with HKFRS 16 "Leases".

Staff costs

Staff costs were determined by various factors, including headcount, segmental financial performances, business activities, structure of compensation schemes that matched to the labour market of the industry, as well as the Group's financial performance as a whole.

During the year, the Group placed significant effort in reinforcing top tier teams across the business segments based on its goal in building a powerhouse of all streams of income, as well as to improve overall staff welfare. Corporate finance segment continuously enhanced its compensation packages in times of the vigorous competition of bankers globally. Wealth management segment restructured the compensation scheme to salesperson from commission based to fixed salaries and incentives to align with industry practices. Asset management segment welcomed a number of market's top talents for strategic expansion on the Group's presence and competitiveness in markets worldwide. Global markets segment nourished its award winning equities research team, and expanded its equity sales and trading teams in striving to capture higher market share and standing. On top of the various strategic actions for businesses, the Group nevertheless enhanced its overall human resources strategies in order to align with industry practices to retain and recruit talents and professionals.

In 2021, total staff costs were HK$1,316 million, 16% lower than HK$1,565 million in 2020 mainly driven by various factors including headcount movements, and financial performances of the businesses and the Group as a whole. As of December 2021, there were 1,225 employees with the Group, decreased by 10% from the 1,355 employees as of December 2020.

Operating expenses

Information technology related expenses increased by 5% during 2021 from 2020 reflecting the Group's beliefs on the importance of digitisation and artificial intelligence in the financial services industry. During the year, the Group has been continuously developing and strengthening trading platforms to clients, internal data maintenance, and operational systems to achieve higher performances for effective data management and swift execution processes. Aggregated information technology related expenses (including relevant staff costs, amortisation and depreciation on software and equipment), accounted for 16% (2020: 14%) of total operating expenses of the Group for 2021.

Amortisation and depreciation increased by 13% in 2021 as compared to 2020 was due to increased expenditure on information technology software and equipment as described above, as well as the higher depreciation of right-to-use assets on the office leases entered in the second half of 2020 and transfer of investment properties (measured at fair value) to property and equipment (measured at cost less depreciation) in the first half of 2021.

Other operating expenses mainly consisted of spending for regular business operations and general administrative matters. In the time of the pandemic, the Group imposed cost control measures and monitoring to enhance operational efficiencies while effectively allocated resources to support business developments. Other operating costs in 2021 were HK$703 million, 6% less than 2020 mainly driven by the lower general administrative expenses as a result of cost control measures to limit non-direct business development spending. Business travelling activities were maintained at a minimal level due to the travel restrictions imposed across countries during the pandemic, but was supplemented by higher marketing and promotion expenses to sustain the Group's presence in the market.

Impairment Charges

Impairment charges included provision for credit losses on advances to customers, investment securities measured at amortised cost, and accounts receivables and others under the impairment framework and methodology established by the Group in accordance to HKFRS 9 "Financial Instruments". The Group has maintained a transparent impairment provisioning policy when reviewing its credit exposures, aiming at recognising impairment provision on risk assets in the most cautious way and prior to substantial credit deterioration of these assets.

The table below presents impairment charges (net of reversal):

	2021 HK$'000	2020 HK$'000	+/-%
Impairment charge (net of reversal):			
— margin financing	562,271	331,816	+69
— non-margin financing	238,250	654,299	-64
	800,521	986,115	-19

Impairment charges made during 2021 were assessed on individual and collective basis. In 2021, the additional impairment charges on individual credit exposures were wholly on credit exposures carried from prior years.

In 2021, the Group made an individual impairment charges of HK$553 million against several independent margin clients with net carrying amount of HK$210 million as at 31 December 2021 due to the decrease in the market value of the listed shares pledged to the Group. When assessing credit exposures to margin clients, the Group takes into account the fair value of securities pledged as collateral and outstanding balance of the credit exposure, other credit enhancements, and also considering factors that may influence the expected loss that the Group may expose to.

The Group made individual impairment charges in 2021 totaling of HK$258 million for three term financing exposures. During 2020, the Group made impairment charges of HK$629 million on several term financing credit exposures. When assessing credit exposures to term financing, the Group considers a number of factors including the creditworthiness and status of the borrower, recoverable amount of the collateral, as well as any factors and events that may impact the recoverable amount of the Group.

The Group adopted a consistent application and assessment of information based on the Group's risk management policies.

Analysis by Business Segments

The table below presents the Group's business segments results:

	2021 HK$'000	2020 HK$'000	+/-%
Wealth management:			
— Segment revenue	**1,408,920**	1,994,069	-29
— Segment profit before tax	**171,649**	575,891	-70
— Segment margin (%)	**12**	29	-17
Corporate finance:			
— Segment revenue	**1,787,736**	1,319,173	+36
— Segment profit before tax	**1,248,288**	827,609	+51
— Segment margin (%)	**70**	63	+7
Asset management:			
— Segment revenue	**384,380**	370,651	+4
— Segment profit before tax	**185,676**	163,542	+14
— Segment margin (%)	**48**	44	+4
Global markets:			
— Segment revenue	**1,571,927**	1,890,596	-17
— Segment profit before tax	**411,153**	5,388	+>100
— Segment margin (%)	**26**	–	+26
Investment:			
— Segment revenue	**99,221**	2,755,258	-96
— Segment (loss)/profit before tax	**(1,293,621)**	728,162	N/A
— Segment margin (%)	**N/A**	26	N/A
Total:			
— Segment revenue	**5,252,184**	8,329,747	-37
— Segment profit before tax	**723,145**	2,300,592	-69
— Segment margin (%)	**14**	28	-14

Segment revenue primarily reflects the results of the respective segments from their business activities and returns from assets held by the respective segments. Segment profit (or loss) before tax also includes segment expenses incurred for revenue generating business activities, as well as allocation of the Group's overall costs.

During the year, the Group had redefined its key business activities of previously-known institutional clients segment, aiming at providing equity sales and trading, fixed income sales and trading, derivative sales and trading, prime brokerage and equity research services to institutional clients globally and facilitating client transactions across different asset classes in financial markets worldwide. Therefore, the "Institutional clients" segment has been renamed as "Global markets" segment, with corresponding reclassification of certain types of revenue and expenses that better reflect the management's view of these segments.

Wealth management segment

During 2021, this segment was undergoing a strategic repositioning for its aim to become a well-rounded, well-recognised private wealth manager for entrepreneurs, concentrated on constructing a strong base in terms of asset qualities, clientele, and branding for long term sustainable growth. This segment focused in boosting its quality of margin lending through offering preferential interest rates with an aim to acquire high quality underlying assets for better risk management and leverage; strategically restructured its retail brokerage business to tailor for client behaviours and needs; offered the Group's asset management funds and fixed income products; leveraged on the Group's expertise in private equity to expand clients' investments portfolios. This segment also invested heavily on its research and developments on new product and service offerings, in which to complete the service cycle to cover client needs in every perspective.

The table below presents wealth management segment operating results:

	2021 HK$'000	2020 HK$'000	+/-%
Commission and fee income	**500,946**	714,296	-30
Interest income	**907,974**	1,279,773	-29
Segment revenue	**1,408,920**	1,994,069	-29
Other income and gains	**24,673**	52,892	-53
	1,433,593	2,046,961	-30
Segment expenses	**(687,337)**	(1,090,421)	-37
Profit before impairment charges and tax	**746,256**	956,540	-22
Impairment charges, net of reversal	**(574,607)**	(380,649)	+51
Segment profit before tax	**171,649**	575,891	-70
Segment margin (%)	**12**	29	-17

Revenue from this segment composes of commission and fee income (mainly driven by brokerage commission, and handling, custodian and service fee income), as well as interest income from margin financing and bank deposits on client money. Commission and fee income decreased by 30% year-on-year to HK$501 million in 2021, and interest income decreased by 29% year-on-year to HK$908 million in 2021 mainly driven by the decrease in margin financing balance, which was HK$9,160 million as of December 2021, 26% lower than the HK$12,327 million as of December 2020. The decrease in both commission and fee income, and interest income was a result of multiple factors including the temporary impact from business transformation from traditional retail brokerage and financing towards pursuing private wealth management that offers well rounded and tailored financial services to high net worth clients for extensive types of fee income accompanied by stable and high quality of client assets inflow. This segment's margin financing activities was also inevitably impacted by the overall slower market trading activities in Hong Kong during the second half of 2021.

Segment expenses were HK$687 million in 2021, decreased 37% year-on-year from lower finance costs. Commission expenses decreased notably as compared to 2020 as this segment had completed the restructuring of remuneration scheme to salespersons from commission expenses to fixed salary and incentives in early of 2021. All other costs, including staff costs and other operating expenses decreased during the year as a resemblance to the financial performance that was temporarily impacted by the business transformation.

Impairment charges recognised in this segment for 2021 was mainly on legacy credit exposures from margin clients that this segment entails. Further details on the Group's impairment provisioning policy are stated in the above section.

Corporate finance segment

The Group has once again maintained its leadership position in Hong Kong in 2021 through having completed 39 IPO deals in Hong Kong, ranked No. 2 in the Hong Kong IPO league table both in terms of number of deals participated and underwriting amount. The Group participated in 6 IPO deals out of the top 10 largest IPO deals in Hong Kong in 2021 as announced by the Hong Kong Stock Exchange. In debt capital markets, the Group ranked No. 2 in the Asia (ex-Japan) G3 high yield bond league among financial institutions worldwide in terms of number of issuances. Adhering to the Group's commitment to sustainable finance, the team completed a total of 40 green and sustainable bond issuances (as compared to 13 issuances in 2020) with an aggregated amount of US$11.3 billion, being the forerunner of the green bond market among Chinese investment banks.

This segment also expanded to other sources of fee based businesses. During the year, the segment's Loan Capital Markets team kick-started various projects with sizable clients and reputable fund houses with realised fee income and securing upcoming opportunities for the investment banking team. In 2021, financial advisory and consultancy fee generated from the Loan Capital Markets team had doubled from that in 2020.

2021 was an encouraging year in terms of global expansion of this segment. Grasping on the Group's well-built global network, the team accomplished various deals across countries and industries. During the year, the team completed 4 IPOs and 1 equity follow-on as Joint Bookrunner in the United States, and acted as financial advisors to 5 local enterprises in India. The clients were spread across diversified industries including pharmaceutical, retail, technology, financial services and fintech.

During the year, the Group had reclassified interest income from financial assets measured at amortised cost (including investment securities measured at amortised cost and term financing) held by corporate finance segment to investment segment to better reflect the management view that these assets form part of the investment portfolio held by the Group.

The table below presents corporate finance segment operating results:

	2021 HK$'000	2020 HK$'000	+/-%
Commission and fee income	**1,781,624**	1,317,065	+35
Interest income	**6,112**	2,108	+>100
Segment revenue	**1,787,736**	1,319,173	+36
Other income and gains	**2,876**	3,611	-20
	1,790,612	1,322,784	+35
Segment expenses	**(541,939)**	(494,506)	+10
Profit before impairment charges and tax	**1,248,673**	828,278	+51
Impairment charges, net of reversal	**(385)**	(669)	-42
Segment profit before tax	**1,248,288**	827,609	+51
Segment margin (%)	**70**	63	+7

Commission and fee income from this segment consists of underwriting and placing commission, and financial advisory and sponsor fees.

The below table presents commission and fee income of this segment:

	2021 HK$'000	2020 HK$'000	+/-%
Underwriting and placing commission:			
— Debt capital markets	**503,115**	484,319	+4
— Equity capital markets	**958,781**	629,826	+52
Financial advisory and consultancy fee income	**319,728**	202,920	+58
	1,781,624	1,317,065	+35

Echoed with its apparent performance in the industry, this segment achieved commission and fee income of HK$1,782 million in 2021, 35% higher than 2020, mainly from the higher underwriting and placing fee income from the equity capital markets. The Loan Capital Markets team, established on offering financing solutions by bridging lenders and borrowers without resorting to the Group's financial resources, had contributed to a higher financial advisory and consultancy fee income. Financial advisory and consultancy fee income was HK$320 million in 2021, increased by HK$117 million from 2020, within which the Loan Capital Markets team contributed almost half of the increment.

Segment expenses were HK$542 million in 2021, increased by 10% from 2020 mainly driven by higher staff costs and operating expenses for business developments and global expansion, partially offset by the lower finance costs.

Asset management segment

In 2021, this segment established a star team through appointing a number of industry's top talents and experts to take part of the dominant role in promoting the Group's asset management brand and increasing the scale of both internal and external strategies. The team continuously invested on its research and developments, aiming to bring innovative products to the market. During the year, the team co-launched the world's first Asia ex-Japan high yield corporate US dollar bond ESG UCITS ETF on the London Stock Exchange with a London-based asset manager and ETF provider. Also being the Group's first UCITS ETF ever introduced to the market, it attracted significant reception from institutional investors.

The table below presents asset management segment operating results:

	2021 HK$'000	2020 HK$'000	+/-%
Commission and fee income	384,380	370,651	+4
Other income and gains or losses	70	4	+>100
	384,450	370,655	+4
Segment expenses	(198,774)	(207,113)	-4
Segment profit before tax	185,676	163,542	+14
Segment margin (%)	48	44	+4

Commission and fee income from this segment composed of asset management fee and performance fee income from the numerous funds managed by the team. Segment expenses mainly composed of staff costs and operating expenses, which remained relatively stable year-on-year. As of December 2021, assets under management ("AUM") managed by this team was HK$54.0 billion (as of December 2020: HK$60.8 billion).

Global markets segment

During the year, the Group redefined the key business activities of this segment (as detailed above), which was renamed as "Global markets" segment. In response to the re-definition, the Group reclassified interest income from financial assets measured at amortised cost (including investment securities measured at amortised cost and term financing) held by this segment to investment segment to better reflect the management view that these assets form part of the investment portfolio held by the Group.

Cash equities sales and trading business, cultivated to provide one-stop services from data analytics, corporate access, and high and low touch trade channels, had an encouraging year. The team successfully captured a higher market share in the Hong Kong stock market, with an increase in trading volume of Hong Kong equities that surpassed the increase in market turnover as compared to 2020, achieved higher brokerage commission income during the year. The team was also backed by the Group's award winning equity researchers, who issued research reports that covered a vast majority of equities listed in major financial markets. In respect of trading and market making activities, the equity derivatives trading desk had promoted its trading activities in the Hong Kong market, and achieved a rank of No. 2 in terms of warrants and CBBCs turnover in 2021, with number of issuances significantly more than in 2020.

To align with the Group's determination on fee based businesses, this segment has begun transforming its fixed income business to focus on sales and trading of fixed income securities and fixed income products in the primary and secondary markets, striving to generate fee income through intermediary services. Under this refined business model, this segment had progressively reduced the fixed income securities held as inventory during the year.

The table below presents global markets segment operating results:

	2021 HK$'000	2020 HK$'000	+/-%
Commission and fee income	590,514	462,563	+28
Interest income	85,214	252,499	-66
Net trading income:			
— Net income from financial assets held for trading and market making activities	365,226	569,381	-36
— Net trading income on financial products	530,973	606,153	-12
Segment revenue	1,571,927	1,890,596	-17
Other income and gains	20,930	60,709	-66
	1,592,857	1,951,305	-18
Segment expenses	(1,182,715)	(1,518,156)	-22
Profit before impairment charges and tax	410,142	433,149	-5
Impairment charges, net of reversal	1,011	(427,761)	N/A
Segment profit before tax	411,153	5,388	+>100
Segment margin (%)	26	–	+26

This segment generates revenues from various sources. Commission and fee income from this segment was HK$591 million in 2021 increased 28% from 2020 corresponded to the higher equities trading activities across global equities markets during the year. Interest income of HK$85 million in 2021 was 66% lower than 2020. Net trading income on financial assets held for trading and market making activities was HK$365 million, 36% lower than 2020, mainly due to the reduction of fixed income securities inventory in developing the platform for sales and trading of fixed income securities and fixed income products in the primary and secondary markets.

Segment expenses of HK$1,183 million in 2021 was 22% lower than 2020, mainly due to a significantly lower finance costs with lessened funding needs and low market interest rates. Changes in staff costs were corresponded to the segmental performance in general. Impairment charges of this segment in 2021 was minimal as the credit exposure of this segment had significantly reduced and the business was mainly fee income driven. No single significantly impaired credit exposure attributable to this segment that requires impairment provision had been identified.

Investment segment

Investment segment holds investments of various financial instruments, primarily on listed and unlisted debt and equities, investment funds, and private equities. The Group's private equity funds and private equity investments stretched across industries including technology, media and telecommunications ("TMT"), consumer, logistics, artificial intelligence, pharmaceutical, and education sectors. Financial results include realised gains from project disposals, dividend distribution and fair value movements.

Against the backdrop of market movements experienced in the second half of 2021, the Group focused on reviewing and improving the quality of investment portfolio, and exited a number of investment funds.

During the year, the Group reclassified interest income from financial assets measured at amortised cost (including investment securities measured at amortised cost and term financing) held by corporate finance segment and global markets segment to investment segment to better reflect the management view that these assets form part of the investment portfolio held by the Group.

The table below presents investment segment operating results:

	2021 HK$'000	2020 HK$'000	+/-%
Interest income	741,700	930,205	-20
Net (loss)/gain from investment securities at fair value	(642,479)	1,825,053	N/A
Segment revenue	99,221	2,755,258	-96
Other income and (losses)/gains	(13,383)	41,481	N/A
	85,838	2,796,739	-97
Segment expenses	(1,152,919)	(1,891,541)	-39
Profit before impairment charges and tax	(1,067,081)	905,198	N/A
Impairment charges, net of reversal	(226,540)	(177,036)	+28
Segment (loss)/profit before tax	(1,293,621)	728,162	N/A
Segment margin (%)	N/A	26	N/A

This segment's revenue was mainly driven by fair value changes of the investment securities held, which include investment funds, fund-of-funds, private equity funds and private equity investments, and listed equities. The net loss in 2021 was mainly driven by continuous fall in the China and Hong Kong bond and equity markets, impacting the valuations of investment funds. However, the impact was partially buffered by the positive returns from the Group's listed equities investments, private equity funds and private equity investments.

Segment expenses were HK$1,153 million in 2021, decreased by 39% from 2020 due to lower finance costs, staff costs, and operating expenses.

Assets and Liabilities

In 2021, the Group took a strategic initiative to refine the size and composition of the balance sheet in supporting the development of various fee income streams and optimising the funding structure for efficient leverage. The Group has been aiming to maintain a liquid balance sheet consisted of high quality assets with stronger resistance to market fluctuations, and that are backed by a well utilised funding portfolio.

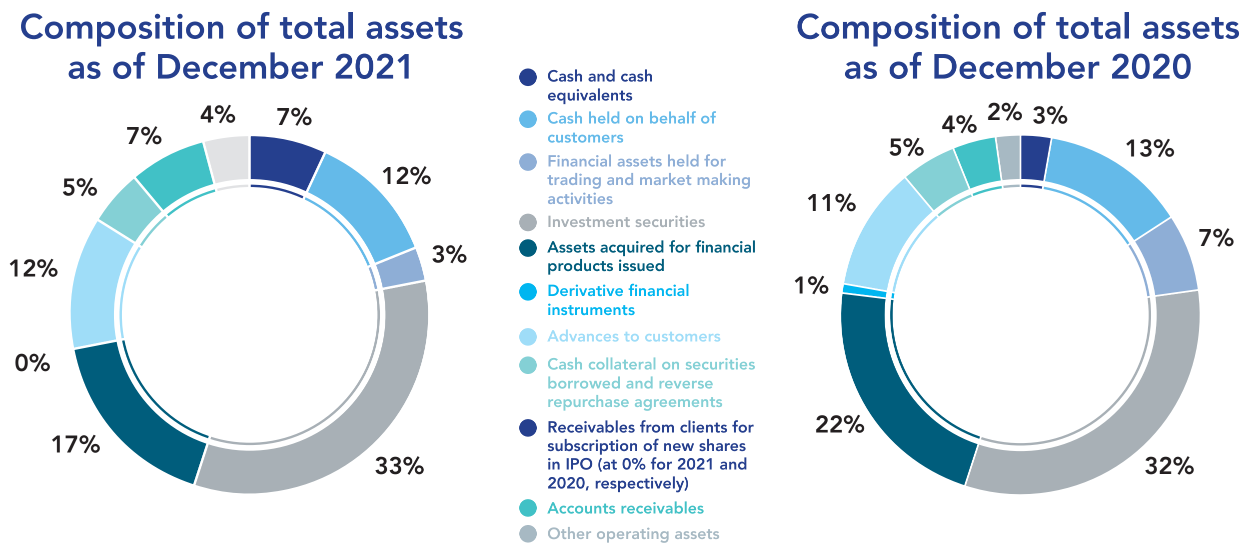
Assets

The table below presents details of total assets:

	31 December 2021 HK$'000	31 December 2020 HK$'000	+/-%
Cash and cash equivalents	**7,106,485**	4,334,925	+64
Cash held on behalf of customers	**12,820,396**	19,553,711	-34
Financial assets held for trading and market making activities	**3,265,941**	10,590,827	-69
Investment securities	**35,206,503**	46,766,511	-25
Assets acquired for financial products issued	**17,553,645**	31,812,695	-45
Derivative financial instruments	**106,239**	732,110	-85
Advances to customers	**12,087,797**	16,212,381	-25
Cash collateral on securities borrowed and reverse repurchase agreements	**4,799,467**	7,738,041	-38
Receivables from clients for subscription of new shares in IPO	**–**	562,717	-100
Accounts receivable	**8,027,400**	5,014,090	+60
Other operating assets[7]	**4,017,722**	3,124,508	+29
Total assets	**104,991,595**	146,442,516	-28

Note 7: Other operating assets are comprised of tax recoverable, prepayments, deposits and other receivables, goodwill and other intangible assets, other assets, investment property, property and equipment, and deferred tax assets.

Below chart presets the Group's composition of assets as of December 2021 and 2020:



Financial assets held for trading and market making activities, investment securities, and derivative financial instruments

As of December 2021, financial assets held by business segments for the purpose of generating revenue and returns (including financial assets held for trading and market making activities, investment securities, and derivative financial instruments) were HK$38.6 billion, decreased by 34% or HK$19.5 billion from HK$58.1 billion as of December 2020.

Financial assets held for trading and market making activities were mainly consisted of equities and fixed income securities held, which reduced by HK$7.3 billion or 69% from 2020 to HK$3.3 billion as of December 2021. The significant decrease in balance was driven by the reduction in fixed income securities held as inventory while transiting to the focus on sales and trading of fixed income securities and fixed income products in the primary and secondary markets.

Investment securities (measured at fair value and at amortised cost) were HK$35.2 billion as of December 2021, decreased by HK$11.6 billion or 25% from 2020, as the Group exited from several fund investments during the year, partially offset by the positive returns from private equity investments. Investment securities measured at amortised cost, all of which were secured, were HK$7.1 billion as of December 2021, decreased by HK$3.4 billion from 2020. As of December 2021, the Group held highly liquid investments of HK$5.2 billion (as of December 2020: HK$4.2 billion) being preferred class of several investment funds carrying a fixed rate of return.

The table below presents details of financial assets held by business segments for revenue and returns:

	31 December 2021 HK$'000	31 December 2020 HK$'000	+/-%
Financial assets held for trading and market making activities	**3,265,941**	10,590,827	-69
Investment securities	**35,206,503**	46,766,511	-25
Derivative financial instruments	**106,239**	732,110	-85
Financial assets held by business segments for revenue and returns	**38,578,683**	58,089,448	-34
Proportion to total assets (%)	**37**	40	-3

Assets acquired for financial products issued

Assets acquired for financial products issued was HK$17.6 billion, accounted for 17% of total assets as of December 2021. The balance decreased by 45% from 2020 as a number of projects matured during the year without extensions.

Advances to customers

Advances to customers (net of impairment allowance) were HK$12.1 billion as of December 2021, decreased by 25% from HK$16.2 billion as of December 2020. The Group's advances to customers primarily consisted of margin financing of HK$9.2 billion as of 2021, being 76% of advances to customers (as of December 2020: HK$12.3 billion, 76% of advances to customers). The remaining part was term financing, which the Group had not actively expanded during the year in view of building a platform to expand the inflow of high quality margin financing as part of the future developments. All types of advances to customers decreased in 2021 as compared to 2020 as a result of credit enhancements, temporary effect from the transition of wealth management segment that had forgone a certain amount of margin financing from retail clients, as well as slower market trading activities towards the end of 2021.

Accumulated impairment allowance as of December 2021 was HK$1,212 million (as of December 2020: HK$1,451 million) and was 9.1% to gross advances to customers as of 2021 (as of December 2020: 8.2%).

The below table presents details of advances to customers:

	31 December 2021 HK$'000	31 December 2020 HK$'000	+/-%
Gross advances to customers:			
— Margin financing	**9,925,118**	13,534,090	-27
— Term financing	**3,374,834**	4,129,218	-18
	13,299,952	17,663,308	-25
Impairment allowance	**(1,212,155)**	(1,450,927)	-16
Advances to customers	**12,087,797**	16,212,381	-25
Proportion to total assets (%)	**12**	11	+1
Impairment allowance to gross advances to customers (%)	**9.1**	8.2	+0.9

Cash collateral on securities borrowed and reverse repurchase agreements
Cash collateral on securities borrowed and reverse repurchase agreements were mainly market and clients driven. The balance fluctuated during the year based on client demands and the periods of holding were short term in nature. As of December 2021, reverse repurchase agreements were HK$4.7 billion, decreased by HK$2.3 billion or 33% from 2020, within which mainly consisted of fixed income securities as underlying collateral.

Accounts receivables and other operating assets
Accounts receivables of HK$8.0 billion as at 31 December 2021 (HK$5.0 billion as at 31 December 2020) mainly comprised of receivables from clients, brokers, dealers and clearing houses arising from clients initiated trading activities. These balances were short-term in nature, and fluctuated throughout the year as influenced by client behaviours. Other operating assets comprised of assets such as receivables, prepayments and deposits, and fixed assets that the Group maintained for operating purposes.

Liabilities

The table below presents details of total liabilities:

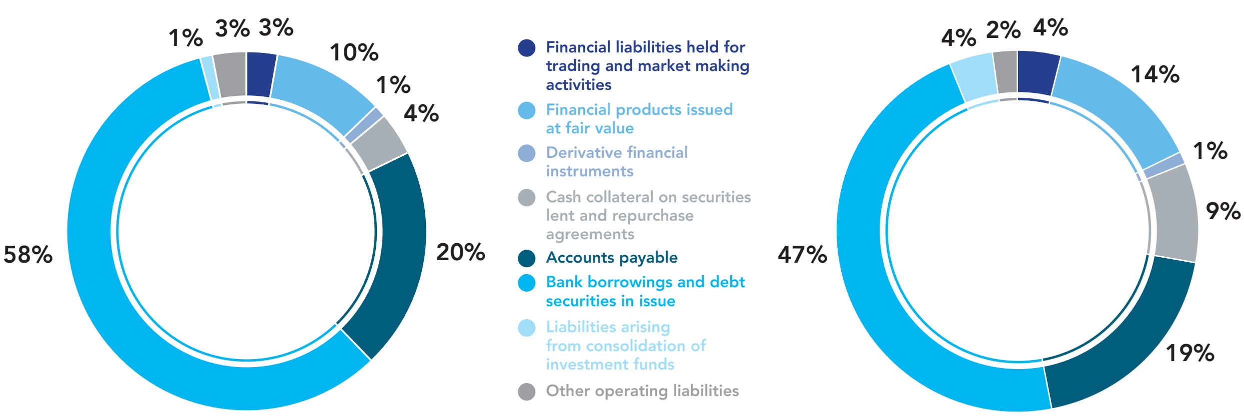
	31 December 2021 HK$'000	31 December 2020 HK$'000	+/-%
Financial liabilities held for trading and market making activities	**2,385,995**	4,067,271	-41
Financial products issued at fair value	**7,769,780**	16,435,654	-53
Derivative financial instruments	**320,368**	819,725	-61
Cash collateral on securities lent and repurchase agreements	**3,077,400**	10,680,425	-71
Accounts payable	**15,725,062**	22,921,539	-31
Bank borrowings and debt securities in issue	**44,817,991**	55,885,140	-20
Liabilities arising from consolidation of investment funds	**975,190**	5,071,585	-81
Other operating liabilities[8]	**2,393,364**	2,244,008	+7
Total liabilities	**77,465,150**	118,125,347	-34

Note 8: Other liabilities are comprised of tax payable, other payables, accruals and other liabilities, and deferred tax liabilities.

Below chart presets the Group's composition of total liabilities as at 31 December 2021 and 31 December 2020:

Composition of total liabilities as at 31 December 2021

Composition of total liabilities as at 31 December 2020



Financial liabilities held for trading and market making activities, and derivative financial instruments

As of December 2021, financial liabilities held for trading and market making activities were HK$2.4 billion and derivative financial liabilities were HK$320 million, aggregating to HK$2.7 billion as of December 2021, almost halved from the HK$4.9 billion as of December 2020. Financial liabilities held for trading and market making activities were mainly comprised of listed debt instruments for short selling purposes.

Financial products issued at fair value

Financial products issued at fair value was HK$7.8 billion as of December 2021, decreased by HK$8.7 billion or 53% from 2020. The decrease was mainly due to a number of projects matured during the year without renewal, and corresponded to the decrease in assets acquired for financial products issued.

Funding liabilities

The Group defines its funding liabilities as an aggregate of bank borrowings, debt securities in issue, and repurchase agreements. Funding liabilities are maintained for the purposes to acquire assets, to conduct business activities for revenues and returns, as well as to support the Group's overall operations.

The below table presents the components of the Group's funding liabilities:

	31 December 2021 HK$'000	31 December 2020 HK$'000	+/-%
Repurchase agreements	**1,993,963**	9,100,286	-78
Secured bank borrowings	**78,290**	949,087	-92
Unsecured bank borrowings	**23,925,963**	37,066,519	-35
Convertible bonds	**–**	125,385	-100
Non-convertible bonds	**13,983,988**	11,568,173	+21
Non-convertible notes	**6,829,750**	6,175,976	+11
Total funding liabilities	**46,811,954**	64,985,426	-28
Proportion to total liabilities (%)	**60**	55	+5

For finance costs of the respective types of funding liabilities, please refer to the section above.

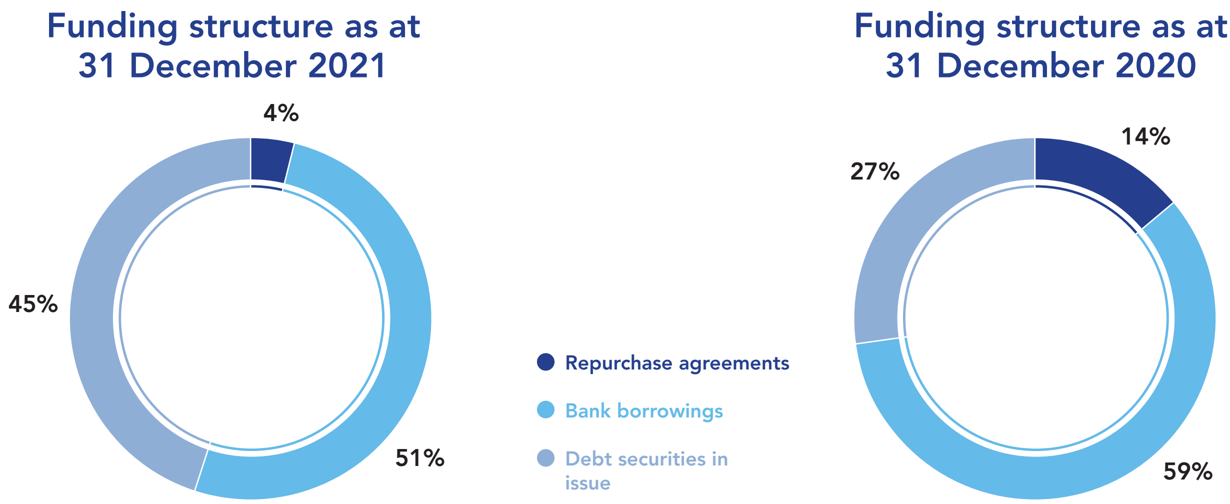
Bank borrowings mainly comprised of bank loans and syndicated loans that are revolving in nature with tenor of not more than 36 months, and are mainly based on HIBOR plus a spread. As of December 2021, total bank borrowings were HK$24.0 billion, decreased by 37% or HK$14.0 billion from 2020, which was a result of lessened funding needs from reduced total assets, and transformation of various businesses targeting on fee income. The Group had also taken the initiative to reduce its syndicated loan facilities to HK$24.0 billion as of December 2021 from the HK$39.8 billion as of December 2020 to partially reduce the facilities that were identified in excess as a result of the balance sheet refinement.

Debt securities in issue represents convertible bonds, non-convertible bonds, and medium term notes bearing fixed interest rates that are dependent at a certain level on the market interest rates at point of issuance. As of December 2021, debt securities in issue amounted to HK$20.8 billion, increased by HK$2.9 billion or 16% from 2020, mainly due to the issuance of a USD bond in Hong Kong in May 2021 of US$300 million due in May 2026, carrying an interest rate of 2.125% per annum, being the lowest interest rate among the USD bonds issued by the Group so far. Medium term notes remained relatively stable as of December 2021 at HK$6.8 billion (as of December 2020: HK$6.2 billion), within which the Group had repaid a number of medium term notes with principal amount of HK$12.5 billion and replaced by new issuances with principal amount of HK$13.2 billion in order to seize the opportunity of the low interest rates environment persisted during the year. The Group had redeemed all convertible bonds issued in 2016 during the year.

Repurchase agreements as of December 2021 amounted to HK$2.0 billion, decreased by HK$7.1 billion or 78% from 2020, corresponding to the decreased inventory of equities and fixed income securities held for trading and market making. As of December 2021, repurchase agreements were 54% collateralised by equities (as of December 2020: 53%) and 46% collateralised by bonds (as of December 2020: 47%).

The Group has strived to achieve an optimal funding structure to efficiently support the Group's business activities and assets acquisitions. During 2021, the Group's funding structure was equally proportioned between bank borrowings and debt securities issued, a shift from the structure in 2020 that was dominated by bank borrowings and repurchase agreements.

Below graph shows the Group's funding structure as at 31 December 2021 and as at 31 December 2020:



Capital Structure and Regulatory Capital

As at 31 December 2021, total issued share capital of the Group was HK$603.778 million (as at 31 December 2020: HK$603.603 million), comprising of 6,037,785,086 shares of HK$0.10 each (as at 31 December 2020: 6,036,035,086 shares of HK$0.10 each).

The table below presents details of share capital and issued shares:

	31 December 2021	31 December 2020	+/-%
Issued share capital (HK$'000)	603,778	603,603	–
Number of issued shares	6,037,785,086	6,036,035,086	–

Increase in issued share capital during the year was due to new shares issued as a result of exercise of share option by option holders. Details of movement of share capital during the year are disclosed in note 35 of the audited 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, the United State Financial Industry Regulated Authority, and the Australian Securities & Investments Commission. 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.

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 2021. 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, funds raised from the capital markets, and transactional financing. The Group regularly monitors financial assets and liabilities through various aspects, including but not limited to their compositions, maturities, rate of returns, extent of exposures, and currencies, to ensure sufficient cash holdings and various types of funding are readily available to support the strategic focus while maintained within the risk appetite of the Group.

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. During 2021, the Group successfully renewed US$5 billion Medium Term Note Programme and made drawdowns of HK$4,396 million and US$1,128 million. Moreover, in May 2021, the Group has issued US$ denominated US$300 million 5-year bond maturing in 2026.

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 managed at a relatively secured level throughout the period.

As at 31 December 2021, the Group's cash and cash equivalents amounted to HK$7,106 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$27,134 million as at 31 December 2021 (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 2021, the Group employed a total of 1,225 permanent employees (31 December 2020: 1,355).

The Group determines employees' remuneration based on various factors, including job nature, labour market trends and practices, external economic environment, as well as employee's experiences, qualifications, and capabilities. The Group's remuneration framework has a strong linkage between pay and performance. Base salaries, discretionary incentives and bonuses are reviewed on an annual basis by making references to the prevailing practices of the labour market, business strategic focus, financial results of business segments and the Group as a whole, and employees' performances and their fulfillment of compliance requirements. Annual reviews are conducted to reward employees for their contributions over the year, and to retain and inspire talents and professionals to continue in creating values for the Group. Share options and share awards are also granted to employees in recognising their contributions. Other benefits offered by the Group include employer voluntary contributions to the mandatory provident fund scheme, various Group insurance schemes, and medical check-up plans.

The Group views employees as an invaluable asset and is committed to promote continuous learning and developing environment. The Group provides a comprehensive range of staff training and development programs, including extensive professional training for licensed persons; training sponsorship scheme to encourage staffs 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.

In hope to mitigate the impact on the labour market during the time of the pandemic, the Group has offered various flexible work measures and support to employees globally. The Group has also introduced additional job opportunities, such as to assist fresh graduates in Hong Kong to enter the job market during this uncertain time.

Material acquisitions and disposals

For the year ended 31 December 2021, the Group had no material acquisition and disposal of subsidiaries, associated companies and joint ventures.

Significant investments held

The Group did not hold any significant investment with value greater than 5% of its total assets as at 31 December 2021.

Charges on group's assets

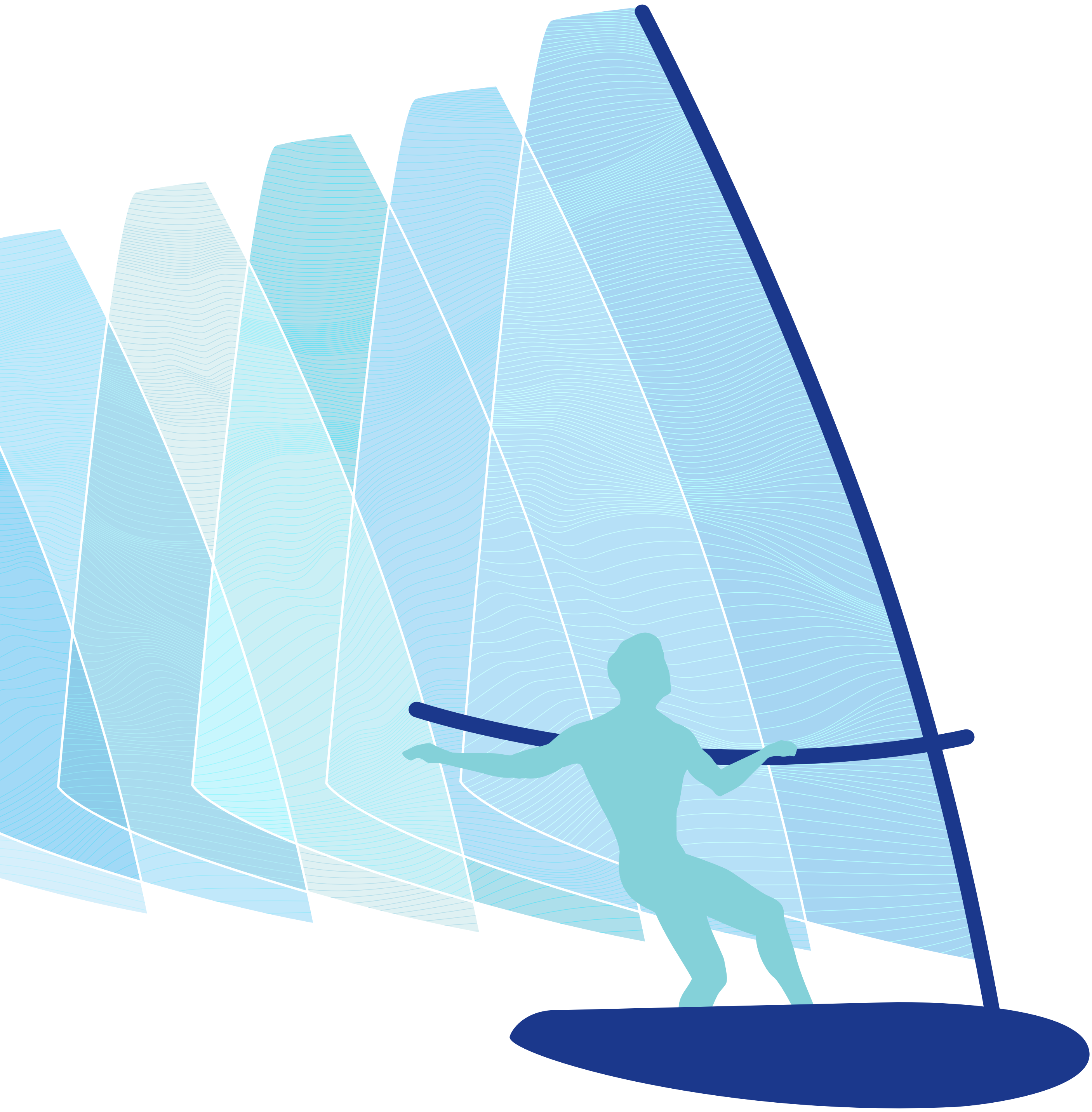
No asset of the Group was subject to any charge as at 31 December 2021 and 2020, respectively (except for "collateral" relating to repurchase agreements as set out in note 31 to the consolidated financial statements).

Capital commitments, other commitments and contingent liabilities

Details of commitments and contingencies of the Group are set out in note 37 to the consolidated financial statements.

Leading with Integrity

By adhering to the corporate core values of being "courageous, sincere and innovative", Haitong International continues to make steady progress in diversifying income streams and asset risks, professionalizing its team, and enriching product offerings.



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 2021, 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 the audit committee (the "Audit Committee"), the executive committee (the "Executive Committee"), the nomination committee (the "Nomination Committee"), the remuneration committee (the "Remuneration Committee"), the risk committee (the "Risk Committee") and the strategic development committee (the "Strategic Development Committee") of the Company (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 meetings, respective Board Committee meetings and general meetings held during the year ended 31 December 2021:

	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								
LI Jun (appointed on 19 October 2021)	1/1	n/a	n/a	n/a	n/a	n/a	n/a	0/1
QU Qiuping (resigned on 19 October 2021)	3/3	n/a	n/a	1/1	1/1	n/a	1/1	2/2
Deputy Chairman, Chief Executive Officer and Executive Director								
LIN Yong	4/4	n/a	12/12	n/a	n/a	n/a	1/1	3/3
Deputy Chairman and Executive Director								
LI Jianguo	4/4	n/a	n/a	n/a	n/a	n/a	1/1	3/3
Executive Directors								
POON Mo Yiu	4/4	n/a	12/12	n/a	n/a	n/a	n/a	3/3
SUN Jianfeng	4/4	n/a	12/12	n/a	n/a	n/a	n/a	3/3
SUN Tong	4/4	n/a	12/12	n/a	n/a	n/a	n/a	3/3
Non-executive Directors								
CHENG Chi Ming Brian	3/4	n/a	n/a	n/a	1/1	n/a	1/1	3/3
ZHANG Xinjun	4/4	4/4	n/a	n/a	n/a	n/a	1/1	3/3
William CHAN (resigned on 28 May 2021)	2/2	n/a	n/a	n/a	n/a	1/1	1/1	2/2
Independent Non-executive Directors								
WAN Kam To	4/4	4/4	n/a	n/a	n/a	1/1	n/a	3/3
LIU Swee Long Michael (appointed on 28 May 2021)	2/2	n/a	n/a	n/a	n/a	1/1	n/a	1/1
ZHANG Huaqiao (appointed on 28 May 2021)	2/2	2/2	n/a	n/a	n/a	1/1	n/a	0/1
LEE Man Yuen Margaret (appointed on 25 August 2021)	1/1	n/a	n/a	n/a	n/a	n/a	n/a	1/1
TSUI Hing Chuen William (retired on 28 May 2021)	1/2	2/2	n/a	1/1	1/1	n/a	n/a	0/1
LAU Wai Piu (retired on 28 May 2021)	2/2	2/2	n/a	1/1	1/1	1/1	n/a	1/1
WEI Kuo-chiang (retired on 28 May 2021)	2/2	n/a	n/a	n/a	1/1	1/1	n/a	1/1
LIU Yan (resigned on 25 August 2021)	3/3	n/a	n/a	1/1	n/a	n/a	n/a	2/2
Other Executive Committee Members								
SHI Ping	n/a	n/a	12/12	n/a	n/a	n/a	n/a	n/a
JI Qingyu	n/a	n/a	12/12	n/a	n/a	n/a	n/a	n/a
HUANG Zheng	n/a	n/a	12/12	n/a	n/a	n/a	n/a	n/a
YANG Jianxin	n/a	n/a	10/10	n/a	n/a	n/a	n/a	n/a
CHEN Xuan	n/a	n/a	9/10	n/a	n/a	n/a	n/a	n/a
Average attendance:	96%	100%	99%	100%	100%	100%	100%	92%

The Board

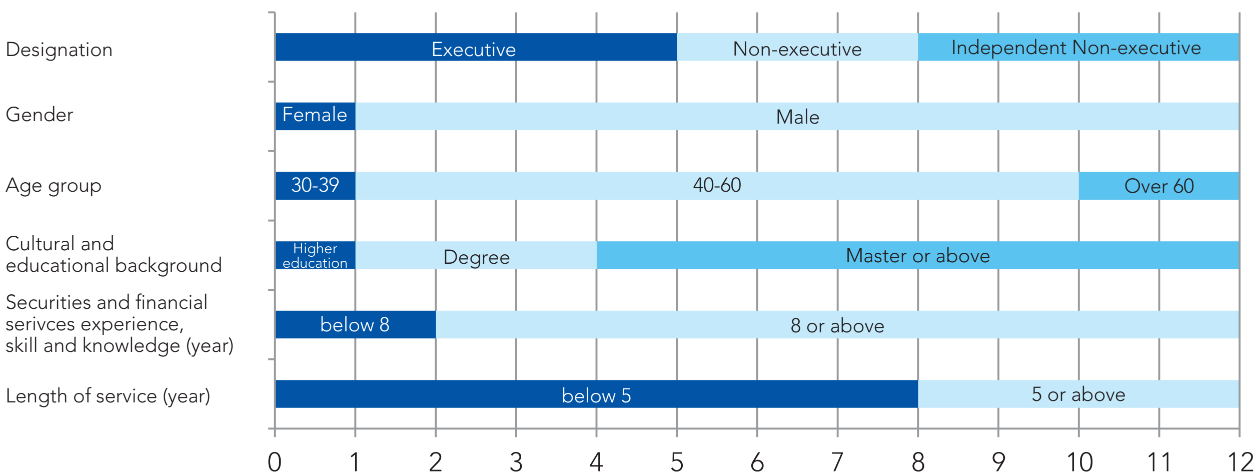
Composition

The Board currently comprises a total of 12 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; 3 non-executive Directors, namely Mr. LI Jun (Chairman), Mr. CHENG Chi Ming Brian and Mr. ZHANG Xinjun; and 4 independent non-executive Directors, namely Mr. WAN Kam To, Mr. LIU Swee Long Michael, Mr. ZHANG Huaqiao and Ms. LEE Man Yuen Margaret. Biographical details of the Directors as of the date of this report are set out in the "Board of Directors" section in pages 98 to 102 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. As at 31 December 2021, 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 and in any event not less than 3 days before 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 96%.

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. LI Jun 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 are appointed for a specific term of maximum 3 years subject to the retirement and re-election provisions in the new bye-laws of the Company (the "New Bye-laws").

Throughout the year ended 31 December 2021, the Company complied with the requirements of the Listing Rules relating to the appointment of independent non-executive Directors representing at least one-third of the Board 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/her 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 2021.

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. 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 2021 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		
LI Jun	✓	✓
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	✓	✓
Independent Non-executive Directors		
WAN Kam To	✓	✓
LIU Swee Long Michael	✓	✓
ZHANG Huaqiao	✓	✓
LEE Man Yuen Margaret	✓	✓

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 2021. 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 103 to 124 of this Annual Report.

Board Committees

Audit Committee

The Audit Committee is currently composed of 2 independent non-executive Directors, namely Messrs. WAN Kam To (Chairman of the Audit Committee) and ZHANG Huaqiao 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 quarterly, interim and annual financial statements of the Group before their submission to the Board for approval. It will also review the effectiveness of the internal control system of the Group. The Audit Committee has reviewed the accounting principles and practices adopted by the Group and the consolidated results for the year ended 31 December 2021 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 2021, the Audit Committee met on 4 occasions with the presence of the external auditor and discharged its responsibilities to review the quarterly, interim and annual results and the effectiveness of the internal control system of the Group. The work performed by the Audit Committee for the year ended 31 December 2021 included reviews of the following:

- the directors' report and the consolidated financial statements for the year ended 31 December 2020 of the Group, with a recommendation to the Board for approval;
- the consolidated financial statements for the 3 months ended 31 March 2021, the 6 months ended 30 June 2021 and the 9 months ended 30 September 2021 of the Group, with recommendation to the Board for approval;
- the audit fees for the year ended 31 December 2021 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 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; and
- the adequacy of the provision for bad debts.

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. LI Jun (Chairman of the Nomination Committee) and 2 independent non-executive Directors, namely Mr. LIU Swee Long Michael and Ms. LEE Man Yuen Margaret. 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 to the Board in respect of the appointment or re-appointment and the succession plan of Directors, including but not limited to the Chairman and the CEO; assessing the independence of the independent non-executive Directors as set out in Rule 3.13 of the Listing Rules; and reviewing the Board Diversity Policy, as appropriate, and review the measurable objectives that the Board has set for implementing the Board Diversity Policy, and the progress on achieving the objectives. 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 2021, the Nomination Committee met on 1 occasion and the work performed by the Nomination Committee included reviews of the followings:

- assess the independence of the independent non-executive Directors;
- the structure, size and composition of the Board (including the skills, knowledge and experience of directors), with recommendations made on any proposed changes to the Board to complement the Company's corporate strategy;
- the Board's composition under Major Diversity Perspectives;
- the re-election of the retiring Directors at the 2021 AGM; and
- the proposal regarding appointment of:
  - — Mr. LI Jun as the Chairman of the Board and a non-executive Director, the chairman of the Nomination Committee and the Strategic Development Committee and a member of the Remuneration Committee;
  - — Mr. LIU Swee Long Michael as an independent non-executive Director, the chairman of the Remuneration Committee and a member of the Nomination Committee and Risk Committee;
  - — Mr. ZHANG Huaqiao as an independent non-executive Director, the chairman of the Risk Committee and a member of the Audit Committee and Remuneration Committee; and
  - — Ms. LEE Man Yuen Margaret as an independent non-executive Director and a member of the Nomination Committee.

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

The nomination policy of the Company during the year ended 31 December 2021 is set out as follows, and it is subsequently revised and adopted by the Board, with the proposal made by the Nomination Committee, on 28 March 2022.

Objective

This nomination policy is established based on the proposal made by the Nomination Committee 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 the Listing Rules 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.

According to the New Bye-laws approved by the Shareholders with effect from 22 October 2021, the power of the Board to appoint any person as a director either to fill a casual vacancy or as an addition to the Board under the abovementioned bye-law 86(2) of the New Bye-laws has been removed.

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

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

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

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

Remuneration Committee
The Remuneration Committee is currently composed of 2 independent non-executive Directors, namely Messrs. LIU Swee Long Michael (Chairman of the Remuneration Committee) and ZHANG Huaqiao and a non-executive Director, namely Mr. LI Jun. 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, while such remuneration packages are determined with reference to the remuneration benchmark in the industry and the prevailing market conditions. Details of the remuneration paid to the respective Directors are set out in 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 2021, the Remuneration Committee met on 1 occasion and the work performed by the Remuneration Committee included reviews of the following:

- the proposal for 2021 remuneration adjustment;
- the proposal for 2020 bonus distribution;
- the proposal of granting share options;
- the proposal for adjustment of annual directors' fees of Mr. LIU Swee Long Michael and Mr. ZHANG Huaqiao;
- the service agreements and/or letter of appointment in respect of the newly appointed Directors; and
- the renewal of service agreements and letter of appointment of the Directors.

Risk Committee

The Risk Committee is currently composed of 3 independent non-executive Directors, namely Messrs. ZHANG Huaqiao (Chairman of the Risk Committee), WAN Kam To and LIU Swee Long Michael. 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 2021, the Risk Committee met on 2 occasions and the work performed by the Risk Committee included reviews of the followings:

- the aggregate risk assessment report for the year ended 31 December 2020 of the Group;
- the semi-annual risk assessment report of the Group;
- the 2021 risk tolerance of the Group;
- the 2021 risk policy of the Group; and
- the risk management system of the Group.

Strategic Development Committee

The Strategic Development Committee is currently composed of 3 non-executive Directors, namely Messrs. LI Jun (Chairman of the Strategic Development Committee), CHENG Chi Ming Brian and ZHANG Xinjun and 2 executive Directors, namely Messrs. LIN Yong and LI Jianguo. The main responsibility of the Strategic Development 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. LUK Wai Yin, 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 2021, the Company Secretary has confirmed that he has taken no less than 15 hours of relevant professional training.

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, information 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 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 and prudent", emphasising 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 the 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, timely risk incidents reporting etc.

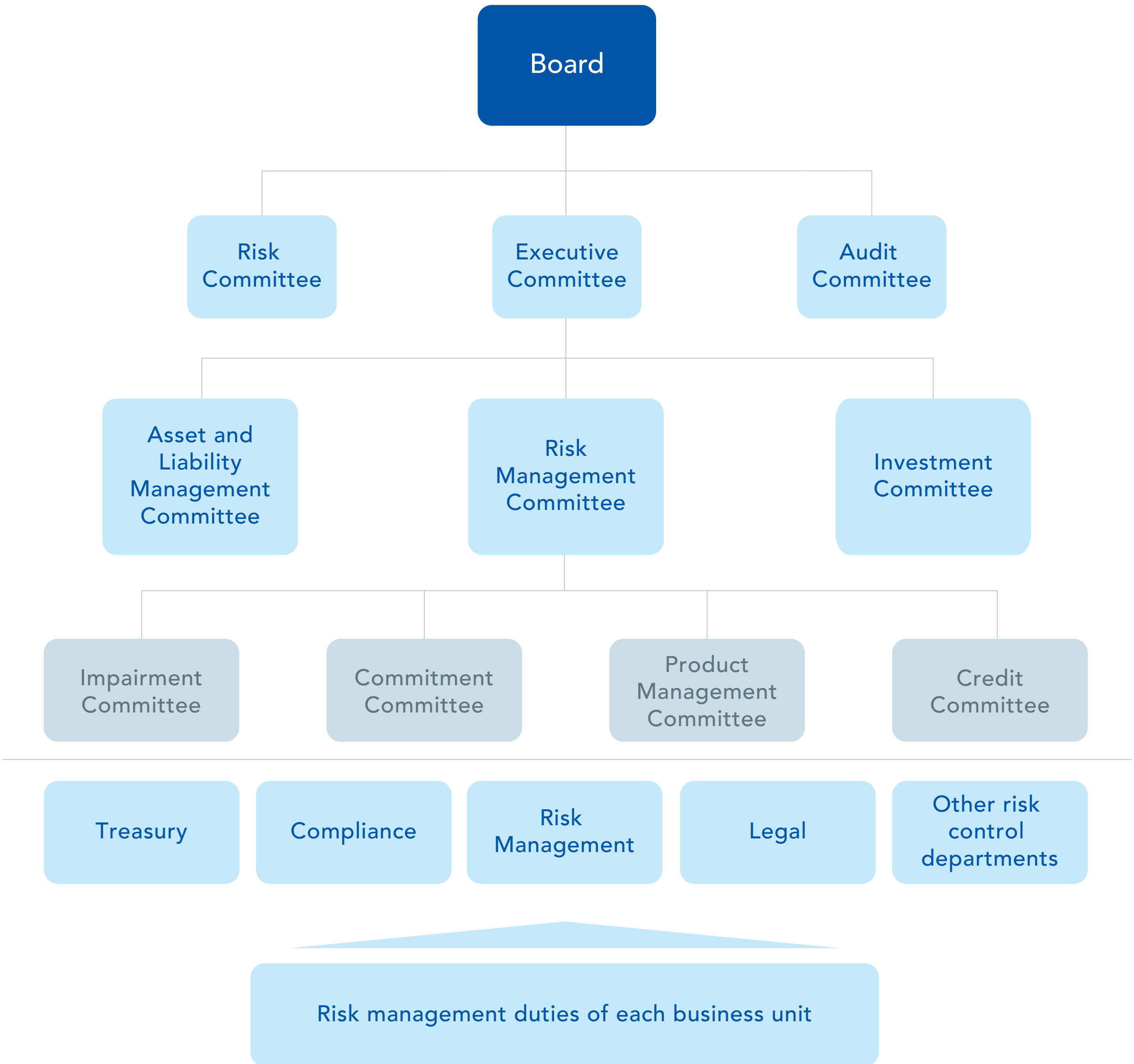
The effectiveness of the Group's risk management framework lies in its clearly-defined risk management objectives and mandates, as well as a fully-fledged risk control system with clear structures, well-defined functions, roles and responsibilities, as well as a comprehensive set of policies and procedures 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 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's Chief Risk Officer, works under the guidance of the Risk Management Committee. In line with the international practices, the department has established four functional units, namely, credit risk management, market risk management, operational risk management and group risk management 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, equal partnership and independence between business units and risk control units, 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.

The risk management structure of the Group is shown in the following chart:



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 loss of the financial assets at deep discount when market stress event happens.

Liquidity risk management constitutes an essential part of the Group's risk management function. The primary goal of our liquidity risk management framework is to ensure that the Group maintains adequate liquid capital and funding to support its business commitments and to comply with the applicable regulatory capital requirements at all times. The core components of the framework are the liquidity resources, liquidity monitor indicators and contingency funding plans. The Group maintains sufficient liquidity resources which consist of highly liquid assets, substantial long term and standby banking facilities to meet any contingent funding needs in its operations. Treasury department closely monitors the Group's cash flow as well as the liquidity profile of its assets and liabilities using various monitoring tools and conducts stress tests to quantify the group liquidity level under multiple idiosyncratic and systematic scenarios. The Group has also established contingency funding plans with the proper escalation process and action items in the event of liquidity shortfalls. Even in periods of extreme market volatility, senior managements believe that the Group's working capital has been adequate to meet its financial obligations.

Credit Risk

Credit risk refers to the risk of economic losses stemming from failure of any counterparty or any other issuer of whom the Group holds the securities or other instruments to meet their contractual obligations. The Group's credit risk primarily comes from clients' securities financing, trading in over-the-counter derivatives and underwriting commitments.

The Group's credit risk management function is independent of business units and directly reports to the Group's Chief Risk Officer. The credit risk management team is responsible for credit evaluation, monitoring and rating migration. Besides, the bonds held by the Group for investment transactions in the secondary market are also exposed to credit risks. Credit risk evaluations are therefore conducted for concentration risk of the bonds held by the Group for investment transactions.

The Group has established a "consolidated credit management mechanism" with which collateral and concentration management serves as a core framework for credit risk management. The Group's credit risk management measures are as follows:

— Establish a group-wide credit risk management framework and manage the margin limits for each tier of clients based on the Group's risk appetite;

— Evaluate creditworthiness of counterparties according to the Group's internal credit scoring model and perform credit risk exposure and collateral concentration monitoring and reporting;

— Carry out effective collateral management including refining the scope of approved securities collateral and valuation discounts from time to time;

— Review and maintain access to underwriting commitment;

— Find ways to transfer credit risks including collateral and hedge management; and

— Manage and intervene credit loss events actively to maximise recoverable amounts.

The Group has also set up an overall risk management system for securities margin business including client creditworthiness evaluation, margin ratio evaluation and management, margin call and forced-liquidation control against single client or single issuer and concentration limit management in strict compliance with the requirements of Guidelines for Securities Margin Financing Activities issued by the Securities and Futures Commission.

The Group also fulfills the underwriting commitments for its corporate finance business. Such commitments mainly cover general corporate purpose or other purposes relating to acquisition, listing or privatisation. The Group, as an underwriting commitment arranger, will sell a majority of its underwriting commitments. The underwriting activities were managed by the Group with the aforementioned internal credit risk rating and risk mitigation measures whereas the business units and the risk management department keep monitoring over existing commitments as well as the status, collaterals and financial positions of borrowers. Monitoring findings are reported to the Group's management on a monthly basis.

Market Risk

Market risk refers to the risk stemming from fluctuations of the fair value of financial instruments or future cash flows due to financial market or economic changes. The financial instruments held by the Group represent positions arising from investments or dealings for clients or the Group itself. Those financial instruments are stated at fair value with fluctuating daily average value, and the profits and losses of which are stated in the consolidated statement of profit or loss.

The Group's risk management department assesses, monitors and manages market risks with a holistic approach. Market risk management primarily covers risk measurement, limit setting and risk monitoring. The Group measures market risks with an array of methodologies mainly including VaR analysis, stress tests, sensitivity analysis and stop-loss.

Market risk mainly includes:

— Equity risk: risks derived from changes of prices and volatility of single stocks, a basket of stocks and stock indexes;

— Exchange risk: risk derived from changes of spot prices and forward prices as well as the exchange rate volatility; and

— Interest and credit spread risk; risk derived from level, gradient and curvature of yield curves, interest fluctuations and changes of credit spread.

Operational risks

Operational risk refers to the risks of loss arising from incompetent or deficient internal operations, staff, system or external events over the course of its daily operations. As defined by the Basel Committee on Banking Supervision, operational risk ranges from internal fraud, external fraud, employment practices and workplace safety, clients, products and business practice, damages to physical assets, business disruption and system failures and execution, delivery and money management. The Group manages relevant operational risks based on its well-established risk appetite.

The Group has established a set of operational risk management framework to determine operational risk management model and the roles and responsibilities taken by each stakeholder for operational risk management. To strike a balance between risks and returns, the Group has adopted the following measures to identify, manage, assess and mitigate operational risks:

— Foster a robust risk culture and train up its employees in terms of awareness, attitude and behavior toward the Group's risk management;

— Assess inherent risks and residual risks through annual risk evaluation to ensure adequate additional remedies are put in place to deal with identified deficiencies;

— Monitor and review operational risk events resulting from different businesses with proper action plans in place;

— Assess risk exposures with the use of quantitative indicators and qualitative measures based on existing risk appetite; and

— Understand and assess operational risks arising from new businesses and offerings.

The risk management committee plays a supervisory role to manage the operational risk, gives advice on risk materiality and gives guidance for proper actions. Each meeting of the risk management committee is chaired by a member of executive committee and is attended by senior management from various departments including the risk management, compliance and global technology and operations. On top of this, the internal audit department performs independent evaluations on the operational risk management framework to ensure relevant operational risks management policies and procedures are implemented effectively.

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 and pays constant attention to the regulatory environment on current business, assessing severity level and causes of identified legal and compliance risk and formulating on-going comprehensive plan to carry out remedies and refinements for mitigation and remediation.

To mitigate the relevant risks, the Group established the legal department and the compliance department. The compliance department is responsible for compliance monitoring and gives compliance advice on business plans and activities, while the legal department actively handles legal documents reviewing and vetting and also manages legal disputes.

All-round Group policies, procedures and standardised templates are implemented and updated timely with business development and regulatory rules changes. Through sound management system and procedures, the legal and compliance teams monitor and prevent 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.

Information Technology Risk

Information 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 impacts, 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 and reputation.

The Group has adopted the prudent and proactive approach to manage reputational risk. The Group has strong corporate governance emphasising integrity and ethical conduct in every business decision and activity; and takes an integrated approach to manage risks so as to minimise reputation risk.

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 rapidly changing business, operational and regulatory environment, and proactively prevent and control risks according to the Group's risk appetite and mitigate them to an acceptable level.

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 management 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.

Internal Audit

The Group's Internal Audit constitutes the third line of defense in 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 assessments, 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 geographical 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 units, 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, Group-wide internal control self-assessment exercise is conducted annually across all business, functions and locations of the Group, aiming to enhance a long-term mechanism for evaluation, feedback, and continuous improvement of its internal control system. Moreover, ad hoc reviews shall be conducted according to Group's development strategy and specific areas of concern, with continuous effort to improve risk management, internal control and corporate governance standards using a holistic approach.

Review of the Effectiveness of the Risk Management and Internal Control Systems

The Board is responsible for overseeing the risk management and internal control systems of the Group and reviewing its effectiveness and adequacy on an ongoing basis and reviewing their effectiveness at least annually. Such risk management and internal control systems are designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable and not absolute assurance against material misstatement or loss.

The Group has established procedures in handling and dissemination of inside information in an accurate and secure manner and to avoid possible mishandling of inside information within the Group.

During the year ended 31 December 2021, the Board reviewed the effectiveness of the risk management and internal control systems of the Group through meetings of the Risk Committee and the Audit Committee, covering all material controls, including financial, operational and compliance controls. The Board has also reviewed the adequacy of resources, staff qualifications and experience, training programmes and budgets of the Group's accounting, internal audit and financial reporting functions. The Board is of the view that the risk management and internal control systems of the Group are effective and adequate.

External Auditor

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

Type of Services	Fee charged For the year ended 31 December 2021 HK$'000	2020 HK$'000
Statutory audit service fee	**5,730**	5,450
Non-statutory audit service fee	**2,154**	770

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.

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 four times a year following the release of quarterly, 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 of Bermuda (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, it shall be called by notice of not less than 21 clear days and not less than 20 clear business days; and

(b) for all other general meetings (including a special general meeting), they must be called by notice of not less than 14 clear days and not less than 10 clear business days.

Constitutional Documents

With the view to enhancing corporate governance, reflecting the latest changes of the applicable laws and regulations, and clarifying the powers of the shareholders of the Company and the Board, the Company's bye-laws has been amended and the New Bye-Laws has been adopted by the shareholders of the Company at the special general meeting held on 22 October 2021. The New Bye-Laws has been posted on the Company's website and the website of the HKEx at www.hkexnews.hk.

Board of Directors

Board of Directors

Executive Directors

LIN Yong *JP*, aged 52, was appointed as an Executive Director of the Company on 23 December 2009. He has been a Deputy Chairman of the Board of Directors 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 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 ("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") (stock code: 6837) and on the Shanghai Stock Exchange (the "SSE") (stock code: 600837)) in 1996 and was a general manager of the Investment Banking Department of HSCL from 2001 to 2007. He has been appointed as an assistant to general manager of HSCL with effect from 30 December 2014 and a director and general manager of HTIH since 2007. He is responsible for the overall operation of HTIH and the business development of the Group. In 2006, Mr. LIN was named "2006 Top Ten Outstanding Young Person in Financial Sector in Shanghai" (2006年上海首屆十大金融傑出青年) and was honoured as the "2014 Shanghai Financial Industry Leader" (2014滬上金融行業領袖) in 2014. He acts as 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 Hong Kong Financial Services Development Council since 1 April 2019. He was appointed as a non-executive director of Financial Reporting Council 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, a committee member of The Chinese General Chamber of Commerce, for a term commencing from November 2020 to October 2022, a founding member of the Hong Kong Exchanges and Clearing Limited's Mainland Markets Panel since August 2021 and a member of the Hong Kong Trade Development Council for a term commencing from January 2022 to December 2023. Mr. LIN was appointed as a Justice of the Peace (JP) by the Government of the HKSAR in October 2020.

LI Jianguo, aged 59, 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 30 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 57, 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 of the Company 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 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 45, joined the Group in 2010 and was appointed as an Executive Director of the Company with effect from 1 June 2017. He is responsible for development and management of private wealth management business. He is also a member of the Executive Committee of the Company. Mr. SUN is also a director of certain 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 45, joined the Group in May 2010 and was appointed as an Executive Director of the Company with effect from 27 March 2018. He is responsible for development and management of asset management business. He is also a member of Executive Committee of the Company and a director of certain 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 Haitong Securities Co., Ltd 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

LI Jun, aged 52, was appointed as a Non-executive Director of the Company on 19 October 2021. 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. LI has master's degrees in business administration and public administration and management. He worked in the Shanghai Branch of China Pacific Insurance Co., Ltd. (中國太平洋保險公司) from July 1992 to February 2001, successively served as a section member, the deputy section chief, section chief of the import division of the overseas business department, section chief of the export division of the transportation insurance department and the section chief of business division I of import and export department. He worked in China Pacific Property Insurance Co., Ltd. (中國太平洋財產保險股份有限公司) from March 2001 to January 2003, and successively served as section chief of the office secretary division, deputy general manager of the Pudong sub-branch (in charge of the work), deputy secretary and secretary of the CPC Party branch. From January 2003 to May 2014, he worked in Shanghai Financial Services Office (上海市金融服務辦公室), and successively served as an officer, senior section member of the institution division, deputy director of the institution division II, director of the financial institution division II, and director of the local financial management division. From December 2013 to May 2014, he served as the deputy secretary-general of the management committee of China (Shanghai) Free Trade Zone (中國(上海)自由貿易試驗區管委會) (on temporary position). From May 2014 to September 2014, he served as the deputy secretary-general of the Management Committee of China (Shanghai) Free Trade Zone. From September 2014 to November 2018, he served as the deputy director of the Shanghai Financial Services Office (上海市金融服務辦公室). From November 2018 to August 2021, he served as the deputy director of the Shanghai Municipal Financial Regulatory Bureau (上海市地方金融監督管理局) and deputy director of the Shanghai Financial Affairs Bureau (上海市金融工作局). Mr. LI has served as member representative of council, chairman of the Members' Self-Discipline and Management Committee (理事會會員自律管理委員會) and member representative of ChiNext Market Stock Issuance Standardization Committee (創業板股票發行規範委員會) of Shenzhen Stock Exchange (深圳證券交易所). Mr. LI served as the chairman of the supervisory committee of the Listed Companies Association of Shanghai (上海上市公司協會) and the director of international cooperation committee of the Securities Association of China (中國證券業協會) since January 2022. Mr. LI has served as the deputy secretary of CPC Party Committee of HSCL since August 2021. He served as an executive director and the chairman of the compliance and risk control committee of the board, and the general manager of HSCL since September and October 2021 respectively, and he served as the chairman of the board of directors of HTIH since October 2021.

CHENG Chi Ming Brian, aged 39, 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 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 (stock code: 659) 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 (stock code: 923) and a non-executive director of Wai Kee Holdings Limited (stock code: 610). 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) (stock code: 1089, whose shares were listed on the Stock Exchange and was delisted on 24 December 2020). In addition, Mr. CHENG is also the chairman of Goshawk Aviation Limited, and a director of 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 46, was appointed as a Non-executive Director of the Company on 27 March 2018 and is a member of the Audit Committee and the Strategic Development Committee of the Company. Mr. ZHANG holds a postgraduate Master degree in Management from the Department of Accounting of Nankai University. He is a Senior Accountant in the People's Republic of China 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 has 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 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 been appointed as a director of Fullgoal Fund Management Co., Ltd, an affiliate of HSCL, since February 2019.

Independent Non-executive Directors

WAN Kam To, aged 69, was appointed as an Independent Non-executive Director of the Company on 19 June 2018 and is the chairman of the Audit Committee as well as the member of the Risk 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 Hong Kong Metropolitan University, a fellow member of Hong Kong Institute of Certified Public Accountants and the Association of Chartered Certified Accountants and 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 (stock code: 3319), China Resources Land Limited (stock code: 1109), Fairwood Holdings Limited (stock code: 52) and KFM Kingdom Holdings Limited (stock code: 3816). 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. (whose shares are listed on the SSE, stock code: 600007). Mr. WAN was previously an independent non-executive director of Kerry Logistics Network Limited (whose shares are listed on the Stock Exchange, stock code: 636) from November 2013 to May 2019, an independent non-executive director of Shanghai Pharmaceuticals Holding Co., Ltd. (whose shares are listed on the Stock Exchange (stock code: 2607) and on the SSE (stock code: 601607)) from June 2013 to June 2019, an independent non-executive director of Huaneng Renewable Corporation Limited (whose shares are listed on the Stock Exchange, stock code: 958) from August 2010 to June 2019, an independent non-executive director of Harbin Bank Co., Ltd. (whose shares are listed on the Stock Exchange, stock code: 6138) from October 2013 to October 2019 and an independent non-executive director of Target Insurance (Holdings) Limited (whose shares are listed on the Stock Exchange, stock code: 6161) from November 2014 to August 2021.

LIU Swee Long Michael, aged 60, was appointed as an Independent Non-executive Director of the Company on 28 May 2021 and is the chairman of the Remuneration Committee, a member of the Nomination Committee and the Risk Committee of the Company. Mr. LIU graduated from the London School of Economics and Political Science, University of London with a LLB Honour Degree in 1983. He qualified as a solicitor with Clifford Chance in London in 1986 and worked in the legal profession for over 30 years with a focus on mergers and acquisitions and capital markets. Mr. LIU retired in 2017. Previously, Mr. LIU was a partner with Latham & Watkins LLP for 6 years from 2009 during which he served as a Greater China practice co-chairman and the managing partner of Hong Kong office. From 1994 to 2008, Mr. LIU was a partner of Allen & Overy LLP during which he served as Asian corporate group head and was appointed as a member of global board of that firm. In his legal professional career from the 1980's, Mr. LIU advised on a number of high-profile projects including the establishment of the Central Clearing and Settlement System (CCASS), advise to the Hong Kong SAR Government on the merger of the stock and future exchanges and the related clearing houses under the umbrella of The Hong Kong Exchanges and Clearing Limited ("HKEx"), the initial public offerings (IPOs) of HKEx, BOC Hong Kong (Holdings) Limited, China Life Insurance Company Limited, Bank of China Limited and CITIC Securities Company Limited. Mr. LIU was previously a government-appointed director of Hong Kong Securities Clearing Company Limited, a member of Takeovers and Mergers Panel, a member of the Securities and Futures Appeals Tribunal, the chairman of Share Registrars' Disciplinary Committee of the Securities and Futures Commission, a member of the Council of the Law Society of Hong Kong and a member of Hong Kong Financial Market Cross-Industry Risk Management Committee.

ZHANG Huaqiao, aged 58, was appointed as an Independent Non-executive Director of the Company on 28 May 2021 and is the chairman of the Risk Committee, a member of the Audit Committee and the Remuneration Committee of the Company. Mr. ZHANG graduated from the Graduate School of the head office of People's Bank of China with a master's degree in economics in 1986 and from the Australian National University with a master's degree in economics in 1991. From 1986 to 1989, Mr. ZHANG was employed at the head office of the People's Bank of China and from 1999 to 2006, Mr. ZHANG worked at the Equities Department of UBS AG, Hong Kong Branch at which he first served as the head of China research and later became co-head of China research. Mr. ZHANG was the chief operating officer and an executive director from 2006 to 2008 of Shenzhen Investment Limited (stock code: 604). The shares of this company are listed on the Stock Exchange. From 2008 to 2011, he was deputy head of China Investment Banking at UBS Securities Asia Limited. Mr. ZHANG is currently an advisor at NumaEx. Mr. ZHANG is also currently an independent non-executive director of various listed companies, namely Logan Group Company Limited (stock code: 3380), Luye Pharma Group Limited (stock code: 2186), Fosun International Limited (stock code: 656), Radiance Holdings (Group) Company Limited (stock code: 9993) and Zhong An Group Limited (stock code: 672). Mr. ZHANG previously served as an independent non-executive director of China Huirong Financial Holdings Limited (stock code: 1290) from 6 October 2013 to 28 May 2021, as well as a non-executive director of Boer Power Holdings Limited (stock code: 1685) from 9 November 2011 to 6 May 2019 and China Smartpay Group Holdings Limited (stock code: 8325) from 15 September 2017 to 20 January 2020. The shares of all these companies are listed on the Stock Exchange.

LEE Man Yuen Margaret, aged 68, was appointed as an Independent Non-executive Director of the Company on 25 August 2021 and is a member of the Nomination Committee of the Company. Ms. LEE holds a Bachelor Degree of Commerce from University of Calgary. She has over 30 years of experience in banking industry. From 1987 to 2015, Ms. LEE worked at Standard Chartered Bank (Hong Kong) Limited, mainly responsible for corporate banking business. From 2016 to 2022, Ms. LEE was an independent non-executive director of Scotiabank (Hong Kong) Limited. Ms. LEE is an executive committee member of the Belt and Road Youth Foundation Limited, council member of the Hong Kong Family Planning Association and committee member of project management committee for Project Aspire, The Education University of Hong Kong.

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 2021.

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, global markets and investment. There were no significant changes in the nature of the Group's principal activities during the year ended 31 December 2021.

Business Review

The business review of the Company for the year ended 31 December 2021 is set out in the sections headed, "Chairman's Statement", "CEO's Review", "Management Discussion and Analysis" and "Corporate Governance Report" on pages 10 to 13, pages 14 to 19, pages 28 to 71 and pages 74 to 97 respectively of this Annual Report and the standalone Environmental, Social and Governance Report 2021.

Results and Dividends

The Group's profit for the year ended 31 December 2021 and the state of affairs of the Company and the Group on date are set out in the financial statements on pages 136 to 282.

The Board did not recommend the payment of a second interim dividend for the year ended 31 December 2021 (2020: HK11.7 cents per share).

Bonus Issue of Shares

The Board has recommended a bonus issue of shares (each a "Bonus Share") on the basis of one bonus share for every ten existing shares held by qualifying shareholders whose names are on the register of members of the Company on Tuesday, 14 June 2022 (the "Bonus Issue"). The Bonus Issue is subject to, among others, the Listing Committee of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") granting listing of, and permission to deal in, the Bonus Shares and the shareholders' approval at the forthcoming annual general meeting of the Company to be held on Thursday, 2 June 2022 and if all the conditions have been fulfilled, the share certificates for the Bonus Shares will be posted by ordinary post on Thursday, 23 June 2022. For details, please refer to the circular of the Company dated 27 April 2022.

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 Monday, 30 May 2022 to Thursday, 2 June 2022, both days inclusive, during which period no transfer of shares will be registered. In order to qualify for attending and voting at the annual general meeting, all completed transfer forms accompanied by the relevant share certificates must be lodged with the Company's branch share registrar and transfer office in Hong Kong, Tricor Investor Services Limited, at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong, for registration not later than 4:30 p.m. on Friday, 27 May 2022.

Closure of Register of Members for Entitlement to the Bonus Issue

The register of members of the Company will be closed from Friday, 10 June 2022 to Tuesday, 14 June 2022, both days inclusive, during which period no transfer of shares will be registered. In order to qualify for the Bonus Issue, 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 Thursday, 9 June 2022.

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 2021 and the previous 5 financial periods/years, as extracted from the audited financial statements and reclassified as appropriate, is set out on page 283 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 2021, the Group's charitable and other charitable expenditure totalled HK$1,785,676.

Reserves

Details of movements in the reserves of the Company and the Group during the year ended 31 December 2021 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 2021, 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$9,874,764,000. In addition, the Company's share premium account, in the amount of HK$19,358,833,000, 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 2021 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 2021, together with the reasons thereof, are set out in note 35 to the financial statements.

Debentures Issued

Details of bank borrowings and debt securities in issue are set out in note 33 to the financial statements.

Equity-Linked Agreements

Other than the share option schemes and convertible bonds of the Company with details as respectively disclosed in this report and note 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 of the Company (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 2021 other than as an agent for clients of the Company or its subsidiaries.

Major Customers and Suppliers

In the year ended 31 December 2021, 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 2021.

None of the directors of the Company (the "Director(s)") 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, it is therefore of no value to disclose details of the Group's suppliers.

Directors

The Directors during the year ended 31 December 2021 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:

LI Jun	(appointed on 19 October 2021)
QU Qiuping	(resigned on 19 October 2021)
CHENG Chi Ming Brian	
ZHANG Xinjun	
William CHAN	(resigned on 28 May 2021)

Independent Non-Executive Directors:

WAN Kam To	
LIU Swee Long Michael	(appointed on 28 May 2021)
ZHANG Huaqiao	(appointed on 28 May 2021)
LEE Man Yuen Margaret	(appointed on 25 August 2021)
TSUI Hing Chuen William	(retired on 28 May 2021)
LAU Wai Piu	(retired on 28 May 2021)
WEI Kuo-chiang	(retired on 28 May 2021)
LIU Yan	(resigned on 25 August 2021)

Mr. LI Jun, who has been appointed as non-executive Director with effect from 19 October 2021 and Mr. LIU Swee Long Michael, Mr. ZHANG Huaqiao and Ms. LEE Man Yuen Margaret, who have been appointed as independent non-executive Directors with effect from 28 May 2021, 28 May 2021 and 25 August 2021 respectively, shall retire from office and offer themselves for re-election at the forthcoming annual general meeting of the Company.

In addition, pursuant to bye-laws 87(1) and (2) of the New Bye-laws, Mr. SUN Jianfeng, Mr. CHENG Chi Ming Brian, Mr. ZHANG Xinjun and Mr. WAN Kam To shall retire from office by rotation at the forthcoming annual general meeting of the Company and, being eligible, offer themselves for re-election.

No Director proposed for re-election at the forthcoming annual general meeting of the Company 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 are set out on pages 98 to 102 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 2021.

Permitted Indemnity Provision

The New Bye-laws 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 2021, the interests and short positions of the Directors 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 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*
LIN Yong	Ordinary shares/ share options	9,620,817 (Note 1)	–	–	5,311,863	14,932,680	0.25
LI Jianguo	Ordinary shares/ share options	2,391,532 (Note 2)	–	–	1,153,159	3,544,691	0.06
POON Mo Yiu	Ordinary shares/ share options	3,543,495 (Note 3)	–	–	2,104,533	5,648,028	0.09
SUN Jianfeng	Ordinary shares/ share options	3,039,016 (Note 4)	–	–	3,507,671	6,546,687	0.11
SUN Tong	Ordinary shares/ share options	2,696,599 (Note 5)	–	–	3,206,984	5,903,583	0.10
CHENG Chi Ming Brian	Share options	–	–	–	1,103,159	1,103,159	0.02
ZHANG Xinjun	Ordinary shares/ share options	869,784 (Note 6)	–	–	2,206,526	3,076,310	0.05
WAN Kam To	Share options	–	–	–	751,032	751,032	0.01
LIU Swee Long Michael (appointed on 28 May 2021)	Share options	–	–	–	150,000	150,000	0.00
ZHANG Huaqiao (appointed on 28 May 2021)	Share options	–	–	–	150,000	150,000	0.00

* the total number of shares of the Company was 6,037,785,086 as at 31 December 2021.

Notes:

1. Those shares are held by Mr. LIN Yong as beneficial owner, included 1,757,049 unvested awarded shares granted by the Company pursuant to the share award scheme as at 31 December 2021 and a total of 1,181,213 awarded shares which were vested in tranches on 23 March 2021, 24 March 2021, 13 May 2021 and 30 September 2021 pursuant to the share award schemes during the year ended 31 December 2021.

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

3. Those shares are held by Mr. POON Mo Yiu as beneficial owner, included 668,409 unvested awarded shares granted by the Company pursuant to the share award scheme as at 31 December 2021 and a total of 371,691 awarded shares which were vested in tranches on 23 March 2021, 24 March 2021 and 30 September 2021 pursuant to the share award scheme during the year ended 31 December 2021.

4. Those shares are held by Mr. SUN Jianfeng as beneficial owner, included 787,597 unvested awarded shares granted by the Company pursuant to the share award scheme as at 31 December 2021 and a total of 509,413 awarded shares which were vested in tranches on 23 March 2021, 24 March 2021, 13 May 2021 and 30 September 2021 pursuant to the share award scheme during the year ended 31 December 2021.

5. Those shares are held by Mr. SUN Tong as beneficial owner, included 762,605 unvested awarded shares granted by the Company pursuant to the share award scheme as at 31 December 2021 and a total of 501,238 awarded shares which were vested in tranches on 23 March 2021, 24 March 2021, 13 May 2021 and 30 September 2021 pursuant to the share award scheme during the year ended 31 December 2021.

6. Those shares are held by Mr. ZHANG Xinjun as beneficial owner, included 67,651 awarded shares which were vested on 13 May 2021 pursuant to the share award scheme during the year ended 31 December 2021.

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 2021, none of the Directors 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 2021 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 Directors, including independent non-executive Directors, and other employees of the Group.

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"). 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 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 170,498,869 shares, which represented approximately 2.82% 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. In addition, any share options granted to a substantial shareholder of the Company or an independent non-executive Director, 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 2021 are listed below:

	Number of share options										Price of Company's shares***	
Name or category of participants	At 1 January 2021	Granted during the year	Adjusted during the year	Exercised during the year	Cancelled during the year	Lapsed during the year	At 31 December 2021	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 (resigned on 19 October 2021)	501,146	–	–	–	–	(501,146) (Note 2)	–	1 November 2018	28 May 2019 – 31 October 2023	2.898	2.56	N/A
	501,146	–	–	–	–	(501,146) (Note 2)	–	31 May 2019	27 December 2019 – 30 May 2024	2.554	2.39	N/A
	500,000	–	–	–	–	(500,000) (Note 2)	–	29 May 2020	25 December 2020 – 28 May 2025	1.727	1.55	N/A
	–	500,000	–	–	(500,000) (Note 1)	–	–	21 July 2021	17 February 2022 – 20 July 2026	2.398	2.16	N/A
LIN Yong	807,116	–	–	–	–	(807,116) (Note 3)	–	12 May 2016	8 December 2016 – 11 May 2021	4.635	4.25	N/A
	805,672	–	–	–	–	–	805,672	10 November 2017	7 June 2018 – 9 November 2022	5.002	4.58	N/A
	1,804,127	–	–	–	–	–	1,804,127	1 November 2018	28 May 2019 – 31 October 2023	2.898	2.56	N/A
	902,064	–	–	–	–	–	902,064	31 May 2019	27 December 2019 – 30 May 2024	2.554	2.39	N/A
	900,000	–	–	–	–	–	900,000	29 May 2020	25 December 2020 – 28 May 2025	1.727	1.55	N/A
	–	900,000	–	–	–	–	900,000	21 July 2021	17 February 2022 – 20 July 2026	2.398	2.16	N/A
LI Jianguo	605,334	–	–	–	–	(605,334) (Note 3)	–	12 May 2016	8 December 2016 – 11 May 2021	4.635	4.25	N/A
	302,127	–	–	–	–	–	302,127	10 November 2017	7 June 2018 – 9 November 2022	5.002	4.58	N/A
	300,689	–	–	–	–	–	300,689	1 November 2018	28 May 2019 – 31 October 2023	2.898	2.56	N/A
	150,343	–	–	–	–	–	150,343	31 May 2019	27 December 2019 – 30 May 2024	2.554	2.39	N/A
	200,000	–	–	–	–	–	200,000	29 May 2020	25 December 2020 – 28 May 2025	1.727	1.55	N/A
	–	200,000	–	–	–	–	200,000	21 July 2021	17 February 2022 – 20 July 2026	2.398	2.16	N/A
POON Mo Yiu	706,224	–	–	–	–	(706,224) (Note 3)	–	12 May 2016	8 December 2016 – 11 May 2021	4.635	4.25	N/A
	302,127	–	–	–	–	–	302,127	10 November 2017	7 June 2018 – 9 November 2022	5.002	4.58	N/A
	701,604	–	–	–	–	–	701,604	1 November 2018	28 May 2019 – 31 October 2023	2.898	2.56	N/A
	350,802	–	–	–	–	–	350,802	31 May 2019	27 December 2019 – 30 May 2024	2.554	2.39	N/A
	350,000	–	–	–	–	–	350,000	29 May 2020	25 December 2020 – 28 May 2025	1.727	1.55	N/A
	–	400,000	–	–	–	–	400,000	21 July 2021	17 February 2022 – 20 July 2026	2.398	2.16	N/A

Name or category of participants	At 1 January 2021	Granted during the year	Adjusted during the year	Exercised during the year	Cancelled during the year	Lapsed during the year	At 31 December 2021	Date of grant of share options*	Exercise period of share options	Exercise price of share options** HK$ per share	Price of Company's shares*** At immediately preceding the grant date of share options HK$ per share	Price of Company's shares*** At immediately preceding the exercise date of share options HK$ per share
Directors												
SUN Jianfeng	504,446	–	–	–	–	(504,446) (Note 3)	–	12 May 2016	8 December 2016 – 11 May 2021	4.635	4.25	N/A
	503,545	–	–	–	–	–	503,545	10 November 2017	7 June 2018 – 9 November 2022	5.002	4.58	N/A
	1,202,751	–	–	–	–	–	1,202,751	1 November 2018	28 May 2019 – 31 October 2023	2.898	2.56	N/A
	601,375	–	–	–	–	–	601,375	31 May 2019	27 December 2019 – 30 May 2024	2.554	2.39	N/A
	600,000	–	–	–	–	–	600,000	29 May 2020	25 December 2020 – 28 May 2025	1.727	1.55	N/A
	–	600,000	–	–	–	–	600,000	21 July 2021	17 February 2022 – 20 July 2026	2.398	2.16	N/A
SUN Tong	504,446	–	–	–	–	(504,446) (Note 3)	–	12 May 2016	8 December 2016 – 11 May 2021	4.635	4.25	N/A
	503,545	–	–	–	–	–	503,545	10 November 2017	7 June 2018 – 9 November 2022	5.002	4.58	N/A
	1,002,293	–	–	–	–	–	1,002,293	1 November 2018	28 May 2019 – 31 October 2023	2.898	2.56	N/A
	501,146	–	–	–	–	–	501,146	31 May 2019	27 December 2019 – 30 May 2024	2.554	2.39	N/A
	600,000	–	–	–	–	–	600,000	29 May 2020	25 December 2020 – 28 May 2025	1.727	1.55	N/A
	–	600,000	–	–	–	–	600,000	21 July 2021	17 February 2022 – 20 July 2026	2.398	2.16	N/A
CHENG Chi Ming Brian	302,664	–	–	–	–	(302,664) (Note 3)	–	12 May 2016	8 December 2016 – 11 May 2021	4.635	4.25	N/A
	302,127	–	–	–	–	–	302,127	10 November 2017	7 June 2018 – 9 November 2022	5.002	4.58	N/A
	300,689	–	–	–	–	–	300,689	1 November 2018	28 May 2019 – 31 October 2023	2.898	2.56	N/A
	150,343	–	–	–	–	–	150,343	31 May 2019	27 December 2019 – 30 May 2024	2.554	2.39	N/A
	150,000	–	–	–	–	–	150,000	29 May 2020	25 December 2020 – 28 May 2025	1.727	1.55	N/A
	–	200,000	–	–	–	–	200,000	21 July 2021	17 February 2022 – 20 July 2026	2.398	2.16	N/A
ZHANG Xinjun	504,446	–	–	–	–	(504,446) (Note 3)	–	12 May 2016	8 December 2016 – 11 May 2021	4.635	4.25	N/A
	503,545	–	–	–	–	–	503,545	10 November 2017	7 June 2018 – 9 November 2022	5.002	4.58	N/A
	1,002,293	–	–	–	–	–	1,002,293	1 November 2018	28 May 2019 – 31 October 2023	2.898	2.56	N/A
	300,688	–	–	–	–	–	300,688	31 May 2019	27 December 2019 – 30 May 2024	2.554	2.39	N/A
	200,000	–	–	–	–	–	200,000	29 May 2020	25 December 2020 – 28 May 2025	1.727	1.55	N/A
	–	200,000	–	–	–	-	200,000	21 July 2021	17 February 2022 – 20 July 2026	2.398	2.16	N/A

	Number of share options										Price of Company's shares***	
Name or category of participants	At 1 January 2021	Granted during the year	Adjusted during the year	Exercised during the year	Cancelled during the year	Lapsed during the year	At 31 December 2021	Date of grant of share options*	Exercise period of share options	Exercise price 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												
WAN Kam To	300,689	–	–	–	–	–	300,689	1 November 2018	28 May 2019 – 31 October 2023	2.898	2.56	N/A
	150,343	–	–	–	–	–	150,343	31 May 2019	27 December 2019 – 30 May 2024	2.554	2.39	N/A
	150,000	–	–	–	–	–	150,000	29 May 2020	25 December 2020 – 28 May 2025	1.727	1.55	N/A
	–	150,000	–	–	–	–	150,000	21 July 2021	17 February 2022 – 20 July 2026	2.398	2.16	N/A
LIU Swee Long Michael (appointed on 28 May 2021)	–	150,000	–	–	–	–	150,000	21 July 2021	17 February 2022 – 20 July 2026	2.398	2.16	N/A
ZHANG Huaqiao (appointed on 28 May 2021)	–	150,000	–	–	–	–	150,000	21 July 2021	17 February 2022 – 20 July 2026	2.398	2.16	N/A
William CHAN (resigned on 28 May 2021)	302,664	–	–	–	–	(302,664) (Note 3)	–	12 May 2016	8 December 2016 – 11 May 2021	4.635	4.25	N/A
	302,127	–	–	–	–	(302,127) (Note 2)	–	10 November 2017	7 June 2018 – 9 November 2022	5.002	4.58	N/A
	300,689	–	–	–	–	(300,689) (Note 2)	–	1 November 2018	28 May 2019 – 31 October 2023	2.898	2.56	N/A
	150,343	–	–	–	–	(150,343) (Note 2)	–	31 May 2019	27 December 2019 – 30 May 2024	2.554	2.39	N/A
	150,000	–	–	–	–	(150,000) (Note 2)	–	29 May 2020	25 December 2020 – 28 May 2025	1.727	1.55	N/A
TSUI Hing Chuen William (retired on 28 May 2021)	302,664	–	–	–	–	(302,664) (Note 3)	–	12 May 2016	8 December 2016 – 11 May 2021	4.635	4.25	N/A
	302,127	–	–	–	–	(302,127) (Note 2)	–	10 November 2017	7 June 2018 – 9 November 2022	5.002	4.58	N/A
	300,689	–	–	–	–	(300,689) (Note 2)	–	1 November 2018	28 May 2019 – 31 October 2023	2.898	2.56	N/A
	150,343	–	–	–	–	(150,343) (Note 2)	–	31 May 2019	27 December 2019 – 30 May 2024	2.554	2.39	N/A
	150,000	–	–	–	–	(150,000) (Note 2)	–	29 May 2020	25 December 2020 – 28 May 2025	1.727	1.55	N/A
LAU Wai Piu (retired on 28 May 2021)	302,664	–	–	–	–	(302,664) (Note 3)	–	12 May 2016	8 December 2016 – 11 May 2021	4.635	4.25	N/A
	302,127	–	–	–	–	(302,127) (Note 2)	–	10 November 2017	7 June 2018 – 9 November 2022	5.002	4.58	N/A
	300,689	–	–	–	–	(300,689) (Note 2)	–	1 November 2018	28 May 2019 – 31 October 2023	2.898	2.56	N/A
	150,343	–	–	–	–	(150,343) (Note 2)	–	31 May 2019	27 December 2019 – 30 May 2024	2.554	2.39	N/A
	150,000	–	–	(150,000)	–	–	–	29 May 2020	25 December 2020 – 28 May 2025	1.727	1.55	2.58

Name or category of participants	At 1 January 2021	Granted during the year	Adjusted during the year	Exercised during the year	Cancelled during the year	Lapsed during the year	At 31 December 2021	Date of grant of share options*	Exercise period of share options	Exercise price of share options** HK$ per share	Price of Company's shares*** At immediately preceding the grant date of share options HK$ per share	Price of Company's shares*** At immediately preceding the exercise date of share options HK$ per share
	Number of share options											
Directors												
WEI Kuo-chiang (retired on 28 May 2021)	302,664	–	–	–	–	(302,664) (Note 3)	–	12 May 2016	8 December 2016 – 11 May 2021	4.635	4.25	N/A
	302,127	–	–	–	–	(302,127) (Note 2)	–	10 November 2017	7 June 2018 – 9 November 2022	5.002	4.58	N/A
	300,689	–	–	–	–	(300,689) (Note 2)	–	1 November 2018	28 May 2019 – 31 October 2023	2.898	2.56	N/A
	150,343	–	–	–	–	(150,343) (Note 2)	–	31 May 2019	27 December 2019 – 30 May 2024	2.554	2.39	N/A
	150,000	–	–	(150,000)	–	–	–	29 May 2020	25 December 2020 – 28 May 2025	1.727	1.55	2.21
LIU Yan (resigned on 25 August 2021)	300,689	–	–	–	–	(300,689) (Note 2)	–	1 November 2018	28 May 2019 – 31 October 2023	2.898	2.56	N/A
	150,343	–	–	–	–	(150,343) (Note 2)	–	31 May 2019	27 December 2019 – 30 May 2024	2.554	2.39	N/A
	150,000	–	–	(150,000)	–	–	–	29 May 2020	25 December 2020 – 28 May 2025	1.727	1.55	2.27
	–	150,000	–	–	–	(150,000) (Note 2)	–	21 July 2021	17 February 2022 – 20 July 2026	2.398	2.16	N/A
In aggregate	26,956,219	4,200,000	–	(450,000)	(500,000)	(10,561,292)	19,644,927					
Continuous contract employees	7,465,648	–	–	–	–	(7,465,648) (Note 3)	–	12 May 2016	8 December 2016 – 11 May 2021	4.635	4.25	N/A
	6,646,799	–	–	–	–	(3,323,403) (Note 2)	3,323,396	10 November 2017	7 June 2018 – 9 November 2022	5.002	4.58	N/A
	8,990,559	–	–	–	–	(4,480,243) (Note 2)	4,510,316	1 November 2018	28 May 2019 – 31 October 2023	2.898	2.56	N/A
	5,798,274	–	–	–	–	(2,565,872) (Note 2)	3,232,402	31 May 2019	27 December 2019 – 30 May 2024	2.554	2.39	N/A
	6,245,000	–	–	(1,300,000)	–	(750,000) (Note 2)	4,195,000	29 May 2020	25 December 2020 – 28 May 2025	1.727	1.55	2.297
	–	6,445,000	–	–	(300,000) (Note 1)	(500,000) (Note 2)	5,645,000	21 July 2021	17 February 2022 – 20 July 2026	2.398	2.16	N/A
In aggregate	35,146,280	6,445,000	–	(1,300,000)	(300,000)	(19,085,166)	20,906,114					
	62,102,499	10,645,000	–	(1,750,000)	(800,000)	(29,646,458)	40,551,041					

* 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. These share options were lapsed during the year ended 31 December 2021 as a result of non-acceptance of the grant of share options.

2. These share options were lapsed during the year ended 31 December 2021 as a result of Director and/or staff resignation.

3. These share options were lapsed during the year ended 31 December 2021 as a result of expiry of exercise period.

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 Directors 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 2021 are set out below:

Date of awards	Number of Awarded Shares unvested as at 31 December 2020	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 2021	
			Number	Vesting date		Number	Vesting date
28 May 2018	1,860,031	–	1,751,618	13 May 2021	108,413	–	–
4 April 2019	3,988,774	–	1,933,971	23 March 2021	433,949	1,620,854	23 March 2022
4 November 2019	4,760,000	–	2,385,000	2 January 2021	740,000	1,635,000	2 January 2022
24 April 2020	13,463,223	–	4,359,028	24 March 2021	1,597,936	7,506,259	Note 1
31 March 2021	–	29,000,000	29,000,000	30 April 2021	–	–	–
9 July 2021	–	66,000	66,000	30 July 2021	–	–	–
7 September 2021	–	36,788,082	15,800,639	30 September 2021	187,600	20,799,843	Note 2

Notes:

1. The unvested Awarded Shares outstanding as at 31 December 2021 are due vested in two batches on 24 March 2022 and 24 March 2023 respectively.

2. The unvested Awarded Shares outstanding as at 31 December 2021 are due vested in two batches on 30 September 2022 and 30 September 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 2021, the interests and short positions of those persons (other than the Directors) 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	64.89
Haitong International Holdings Limited ("HTIH")	3,917,798,194	–	–	3,917,798,194	64.89

* the total number of shares of the Company was 6,037,785,086 as at 31 December 2021.

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 2021, no person, other than the Directors, 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. LI Jun (Chairman and non-executive Director 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, Chief Executive Officer and executive Director 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, S.A. ("Haitong Bank") and a board member of Haitong Banco de Investimento do Brasil S.A.. Mr. LI Jianguo (Deputy Chairman and executive Director of the Company) is the vice chairman of HTIH and an assistant to the general manager of HSCL. Mr. SUN Tong (executive Director) is the deputy general manager of HTIH. Mr. ZHANG Xinjun (non-executive Director) is the chief financial officer of HTIH, the chief financial officer of HSCL, a board member of Haitong Bank, a director of Haitong Investment Ireland P.L.C, which is a wholly-owned subsidiary of HTIH and a director of Fullgoal Fund Management Co., Ltd, an affiliate of HSCL. 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), Mr. LI Jun and Mr. ZHANG Xinjun (both are non-executive Directors) (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 People's Republic of China 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, 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 2021, none of the Directors 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 ("2019 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 2019 Master Agreement include, among others, brokerage 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").

On 21 April 2021, the Company has entered into a new master agreement ("2021 Master Agreement") with HSCL pursuant to which, among others, the Group agreed to engage in various services, investment and financial transactions with the HSCL Group for a term of three years from 1July 2021 to 30 June 2024. The services covered under the 2021 Master Agreement include, among others, the 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 announcements of the Company dated 17 February 2019 ("2019 Announcement") and 21 April 2021 ("2021 Announcement") and the circulars of the Company dated 24 April 2019 and 12 May 2021.

The annual caps in respect of the continuing connected transactions contemplated under the 2019 Master Agreement for the financial period from 1 January 2021 to 30 June 2021 and under the 2021 Master Agreement for the financial period from 1 July 2021 to 31 December 2021, the financial year ending 31 December 2022 and 31 December 2023 and the financial period from 1 January 2024 to 30 June 2024 and respective actual transaction amount received/paid by the Group for the financial periods ended 30 June 2021 and 31 December 2021 are shown below:

2019 Master Agreement

Transactions	Cap for the six months ended 30 June 2021 (HK$ million)	Actual transaction amount received/ paid by the Group for the six months ended 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)	380	16.92
(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)	190	34.12
(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 the HSCL Group attributable to fund investment, financial assistance and securities lending transactions	22,000	1,645.97
(b) Sum paid and/or to be paid to the HSCL Group attributable to fund investment, financial assistance and securities lending transactions	22,000	819.53
(c) Transaction amount attributable to principal-to-principal transactions between the Group and the HSCL Group	31,500	615.03
(3) Underwriting commitments		
(a) Amount of underwriting commitments to be provided by the Group	11,310	232.80
(b) Amount of underwriting commitments to be provided by the HSCL Group	4,000	–

2021 Master Agreement

Transactions	Annual caps: For the six months ended 31 December 2021 (HK$ million)	For the financial year ending 31 December 2022 (HK$ million)	For the financial year ending 31 December 2023 (HK$ million)	For the six months ending 30 June 2024 (HK$ million)	Actual transaction amount received/paid by the Group for the six months ended 31 December 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)	315	665	700	365	6.79
(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)	200	330	350	230	31.69
(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 (i) the HSCL Group attributable to financial assistance and securities lending transactions and (ii) sum received and/or to be received from the HSCL Group and/or persons connected with the HSCL Group in respect of fund investment	20,000	36,000	37,800	20,000	1,272.71
(b) Sum paid and/or to be paid to the HSCL Group attributable to fund investment, financial assistance and securities lending transactions	20,000	36,000	37,800	20,000	364.65
(c) Transaction amount attributable to principal-to-principal transactions between the Group and the HSCL Group	28,500	60,000	63,000	33,000	10.84
(3) Underwriting commitments					
(a) Amount of underwriting commitments to be provided by the Group	10,000	12,000	12,500	10,000	–
(b) Amount of underwriting commitments to be provided by the HSCL Group	9,500	10,000	10,000	9,500	–

The independent non-executive Directors 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 (Revised) "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 caps disclosed in the 2019 Announcement and 2021 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 2021 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 2021.

Disclosure Pursuant to Rule 13.21 of the Listing Rules

On 6 March 2019, the Company (as borrower) entered into a facility agreement (the "Facility Agreement I") 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 II") 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 and Facility Agreement II, 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 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 and Facility Agreement II were made on 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, 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 74 to 97 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 2021 of the Company have been audited by Deloitte Touche Tohmatsu who will retire and, being eligible, offer themselves for re-appointment.

On behalf of the Board

LI Jun
Chairman

Hong Kong, 28 March 2022

Independent Auditor's Report

Deloitte. 德勤

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

Opinion

We have audited the consolidated financial statements of Haitong International Securities Group Limited (the "Company") and its subsidiaries (collectively referred to as "the Group") set out on pages 136 to 282 which comprise the consolidated statement of financial position as at 31 December 2021, 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 2021, 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 Matters (continued)

Key audit matter	How our audit addressed the key audit matter
Impairment charges of advances to customers and investment securities at amortised cost ("Debt Investment Securities") classified at stages 1 and 2 under expected credit loss ("ECL") Model	
We identified the impairment charges of advances to customers and Debt Investment Securities (other than the impairment charges of advances to customers and Debt Investment Securities 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 experts from Risk Management Department, in (i) the selection and application of appropriate models, assumptions 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 scenarios and assigned probability in the ECL model, (iii) the determination of the criteria for significant increase in credit risk and (iv) 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 charges of advances to customers and Debt Investment Securities 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 selection and application of ECL model under HKFRS 9, including model set up and approval and selection and application of assumptions and key inputs into the ECL 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 Matters (continued)

Key audit matter	How our audit addressed the key audit matter

Impairment charges of advances to customers and investment securities at amortised cost ("Debt Investment Securities") classified at stages 1 and 2 under expected credit loss ("ECL") Model — continued

The management assesses whether there has been a significant increase in credit risk ("SICR") and credit impairment for exposures since initial recognition. If there has been a SICR and credit impairment, 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 and credit impairment, the Group 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 in term financing and (iii) Debt Investment Securities, under stages 1 and 2 as at 31 December 2021, are HK$8,617 million, HK$2,471 million and HK$3,186 million less impairment charges of HK$35 million, HK$16 million and HK$8 million respectively. Please see note 42 to the consolidated financial statements.

- Assessing the reasonableness and appropriateness of the management's judgement on establishing 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 exposures as at the end of the reporting period;

- Evaluating, together with our internal valuation specialists, the reasonableness and appropriateness of the selection and application of models, assumptions, and key inputs used in the ECL model, the application of multiple economic scenarios and assigned probability in the ECL model, information and parameters used in the model in establishing the forward looking factors, and the correlation 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 Matters (continued)

Key audit matter	How our audit addressed the key audit matter
Impairment charges of advances to customers and Debt Investment Securities in stage 3	
We identified the impairment charges of advances to customers and Debt Investment Securities 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 2021 of (i) advances to customers in margin financing, (ii) advances to customers in term financing and (iii) Debt investment Securities amounted to HK\$9,925 million, HK\$3,375 million and HK\$7,062 million respectively, of which HK\$1,308 million, HK\$904 million and HK\$3,877 million respectively are classified as Stage 3. As at 31 December 2021, an impairment allowance of HK\$730 million and HK\$431 million has been recognised in relation to (i) advances to customers in margin financing and (ii) advances to customers in term financing 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 and Debt Investment Securities 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: — corroborating and challenging management's assessment and expectation of reasonably possible outcomes on the recoverability of the loans to the borrowers including 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 expected settlement as at the end of the reporting period, if any, and other information available for the creditworthiness of those borrower;

Key Audit Matters (continued)

Key audit matter	How our audit addressed the key audit matter
Impairment charges of advances to customers and Debt Investment Securities in stage 3 — continued	
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 or guarantors such as their respective financial strength, general economic conditions at the reporting date as well as the forecast of future conditions with significant judgment involved. The Group together with third party professional valuers engaged by the Group, where necessary, also review 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 management together with the third party professional valuers engaged by the Group, if any, the valuation of the unlisted collaterals and together with our own internal valuation specialists, where appropriate: (i) Obtaining the appraisal reports and assessing the independence, competence, capabilities and objectivity of the third party professional valuers and their experience in conducting valuation of similar assets; (ii) assessing whether the selection and application 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 Matters (continued)

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 significant unobservable inputs which involved significant assumptions, 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$919 million, HK$3,768 million, HK$4,421 million and HK$545 million respectively as at 31 December 2021 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 process and models for Level 3 financial instruments and the key controls over selection of valuation methods and determining inputs for the valuation of such instruments; • Discussing with management and the third party specialists engaged by the Group, if any, 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 independence, competence, capabilities and objectivity of the third party specialists engaged by the Group and their experience in conducting similar valuation.

Key Audit Matters (continued)

Key audit matter	How our audit addressed the key audit matter

Significant disposal of units in an investment fund

As detailed in note 26 to the consolidated financial statements, the Group has disposed of approximately 66% of the junior tranche of an investment fund (the "Junior Fund Units") to six independent third party buyers for a total consideration of US$434 million (equivalent to approximately HK$3.38 billion) through separate transactions in the second half of the year of 2021. The transaction prices were determined with reference to monthly net asset value per Junior Fund Units as published by the independent administrator of this investment fund.

Contemporaneously, (i) the Group arranged loan finance totaling US$150 million (equivalent to approximately HK$1.17 billion) for two of the buyers and such loan finance (the "Loans") appears in the consolidated statement of financial position of the Group as investment securities measured at amortised cost; and (ii) the Group provided a credit term of settlement of US$38.3 million (equivalent to approximately HK$298 million) to another buyer, which appears in the consolidated statement of financial position of the Group as accounts receivable.

(The above transactions are collectively referred to as "Disposal of Junior Fund Units and Financing")

The management has assessed the background, investment experience, financial capabilities and creditworthiness of the buyers and the values of the assets and collaterals pledged by them as part of the transactions. The management determined that the buyers had the financial capacity and resources to fund the above-mentioned transactions and are bona fide third parties.

Our audit procedures in relation to the Disposal of Junior Fund Units and Financing included:

- Inquiring of management and reviewing the internal documentation provided by management to obtain an understanding of management's assessment of i) the background and structure of the transactions, ii) the information regarding the buyers and their relationship with the Group, iii) the business rationale behind the Disposal of Junior Fund Units and Financing, iv) the terms of the Loans provided by the Group, and v) the accounting conclusions reached for the risks and rewards associated with the disposed Junior Fund Units being effectively transferred and the deconsolidation of the investment fund;

- Obtaining an understanding of the Company's policies and procedures in respect of disposal of investments and provision of financing, and the relevant approval process;

- Examining relevant documentation provided by management in relation to the Disposal of Junior Fund Units and Financing to evidence appropriate authorisation and approval were made in accordance with the Company's established policies and procedures;

- Interviewing and obtaining written confirmations from the buyers of Junior Fund Units and recipients of the Loans and credit term of settlement with regards to:

  (i) the buyers' background, investment experience and relationship with the Group;

  (ii) their confirmation of independence from the Group;

  (iii) the negotiation process in relation to the Disposal of Junior Fund Units and Financing;

Key audit matter	How our audit addressed the key audit matter

Significant disposal of units in an investment fund — continued

On such basis the Group concluded that the significant risks and rewards associated with the disposed Junior Fund Units were transferred to the buyers and therefore the Group's exposure to the variable returns of the investment fund was significantly reduced leading to deconsolidation of the investment fund following a reassessment of the criteria for consolidation.

We identified the Disposal of Junior Fund Units and Financing as a key audit matter due to the following factors: (i) significance of the transactions and accounting consequence of deconsolidation of the investment fund, (ii) assessment made by management in their determination that the risks and rewards associated with the disposed Junior Fund Units had effectively been transferred and (iii) risk of such significant transactions not being properly disclosed in the consolidated financial statements. Any significant change in the determinative factors may have material impact on the balances and transactions reported in the consolidated financial statements.

(iv) their investment objectives and strategies in relation to the Junior Fund Units;

(v) their views and assessment on the pricing, terms and conditions of the Disposal of Junior Fund Units and Financing;

(vi) their acknowledgment of the source of funding for the transactions and where contemporaneous financing was provided by the Group and their acknowledgement of the relevant facts and terms; and

(vii) their confirmation that there were no side agreements or other contracts entered into in connection with the transactions that would alter the conclusion that risks and rewards were transferred.

- Performing, together with our internal specialists, independent background checks on the buyers to identify any undisclosed relationships and/or unidentified related parties;

- Examining management's underlying documentation supporting the value of the collateral, including the key estimations and inputs used in determining the present value of the estimated future cash flows and evaluating management judgment as to how this affects the transfer of risks and rewards of the Junior Fund Units;

- Examining relevant loan and charge agreements for the above-mentioned financing and seeking to identify any non-routine terms or other features that might undermine the management's conclusions that the risk and rewards of the Junior Fund Units were transferred; and

- Evaluating the appropriateness and sufficiency of disclosures in note 26 to the consolidated financial statements relating to Disposal of Junior Fund Units and Financing.

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.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements (Continued)

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 Chong Kwok Shing.

Deloitte Touche Tohmatsu
Certified Public Accountants

Hong Kong
28 March 2022

Consolidated Statement of Profit or Loss

For the year ended 31 December 2021

	NOTES	2021 HK$'000	2020 HK$'000
Revenue			
Commission and fee income	6	**3,257,464**	2,864,575
Interest income	6	**1,741,000**	2,464,585
Net trading and investment income	6	**253,720**	3,000,587
		5,252,184	8,329,747
Other income and gains or losses	6	**35,166**	158,697
		5,287,350	8,488,444
Staff costs	7	**(1,316,396)**	(1,564,995)
Commission expenses	10	**(107,562)**	(257,958)
Amortisation and depreciation	27 & 30	**(284,080)**	(252,091)
Operating expenses		**(948,809)**	(982,182)
Finance costs	9	**(1,106,837)**	(2,144,511)
		(3,763,684)	(5,201,737)
Profit before impairment charges and tax		**1,523,666**	3,286,707
Impairment charges, net of reversal	8	**(800,521)**	(986,115)
Profit before tax	10	**723,145**	2,300,592
Income tax expense	13	**(422,319)**	(367,715)
Profit for the year attributable to owners of the Company		**300,826**	1,932,877
Earnings per share attributable to owners of the Company	14		
— Basic (HK cents per share)		**5.10**	32.97
— Diluted (HK cents per share)		**5.10**	32.85

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31 December 2021

	2021 HK$'000	2020 HK$'000
Profit for the year attributable to owners of the Company	300,826	1,932,877
Other comprehensive income (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	(41,182)	(52,380)
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		
— Net fair value changes during the year	(780)	(43,436)
— Reclassification adjustment to profit or loss on disposal	31,260	13,803
Exchange differences on translating foreign operations	32,484	(30,438)
Other comprehensive income (expense) for the year	21,782	(112,451)
Total comprehensive income for the year attributable to owners of the Company	322,608	1,820,426

Consolidated Statement of Financial Position

At 31 December 2021

	NOTES	2021 Current HK$'000	2021 Non-current HK$'000	2021 Total HK$'000	2020 Current HK$'000	2020 Non-current HK$'000	2020 Total HK$'000
ASSETS							
Cash and cash equivalents		7,106,485	–	7,106,485	4,334,925	–	4,334,925
Cash held on behalf of customers	16	12,820,396	–	12,820,396	19,553,711	–	19,553,711
Financial assets held for trading and market making activities	17	3,265,941	–	3,265,941	10,590,827	–	10,590,827
Investment securities	18	25,843,187	9,363,316	35,206,503	31,499,248	15,267,263	46,766,511
Assets acquired for financial products issued	19	16,888,862	664,783	17,553,645	26,532,975	5,279,720	31,812,695
Derivative financial instruments	20	106,239	–	106,239	732,110	–	732,110
Advances to customers	21	11,461,781	626,016	12,087,797	15,980,978	231,403	16,212,381
Cash collateral on securities borrowed and reverse repurchase agreements	22	4,799,467	–	4,799,467	7,738,041	–	7,738,041
Receivable from clients for subscription of new shares in IPO	23	–	–	–	562,717	–	562,717
Accounts receivable	23	8,027,400	–	8,027,400	5,014,090	–	5,014,090
Tax recoverable		525,662	–	525,662	432,569	–	432,569
Prepayments, deposits and other receivables	24	1,756,485	39,406	1,795,891	1,047,322	59,131	1,106,453
Goodwill and other intangible assets	27	–	451,260	451,260	–	480,148	480,148
Other assets	28	–	199,664	199,664	–	198,051	198,051
Investment property	29	–	–	–	–	70,078	70,078
Property and equipment	30	–	855,159	855,159	–	812,208	812,208
Deferred tax assets		–	190,086	190,086	–	25,001	25,001
Total assets		92,601,905	12,389,690	104,991,595	124,019,513	22,423,003	146,442,516

	NOTES	2021 Current HK$'000	2021 Non-current HK$'000	2021 Total HK$'000	2020 Current HK$'000	2020 Non-current HK$'000	2020 Total HK$'000
LIABILITIES AND EQUITY							
Liabilities							
Financial liabilities held for trading and market making activities	17	2,385,995	–	2,385,995	4,067,271	–	4,067,271
Financial products issued at fair value	19	7,500,248	269,532	7,769,780	15,619,109	816,545	16,435,654
Derivative financial instruments	20	320,368	–	320,368	819,725	–	819,725
Cash collateral on securities lent and repurchase agreements	31	3,077,400	–	3,077,400	10,680,425	–	10,680,425
Accounts payable	32	15,725,062	–	15,725,062	22,921,539	–	22,921,539
Bank borrowings and debt securities in issue	33	30,834,003	13,983,988	44,817,991	44,316,967	11,568,173	55,885,140
Liabilities arising from consolidation of investment funds	26	975,190	–	975,190	5,071,585	–	5,071,585
Tax payable		691,798	–	691,798	479,154	–	479,154
Other payables, accruals and other liabilities	34	1,490,565	188,822	1,679,387	1,542,931	197,348	1,740,279
Deferred tax liabilities		–	22,179	22,179	–	24,575	24,575
Total liabilities		63,000,629	14,464,521	77,465,150	105,518,706	12,606,641	118,125,347
Equity							
Share capital	35			603,778			603,603
Reserves				26,922,667			27,007,350
Proposed dividends	15			–			706,216
Total shareholders' equity				27,526,445			28,317,169
Total liabilities and shareholders' equity				104,991,595			146,442,516
Net current assets				29,601,276			18,500,807

The associated financial statements on pages 136 to 282 were approved and authorised for issue by the board of directors on 28 March 2022 and are signed on its behalf by:

LIN Yong
DIRECTOR

POON Mo Yiu
DIRECTOR

Consolidated Statement of Changes in Equity

For the year ended 31 December 2021

	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 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
At 1 January 2021	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
Profit for the year	–	–	–	–	–	–	–	–	–	–	–	–	300,826	300,826
Other comprehensive (expense) income for the year	–	–	–	–	–	–	–	–	(10,702)	32,484	–	–	–	21,782
Total comprehensive (expense) income	–	–	–	–	–	–	–	–	(10,702)	32,484	–	–	300,826	322,608
Recognition of equity-settled share-based payment (note 36)	–	–	2,678	130,655	–	–	–	–	–	–	–	–	–	133,333
Vesting of shares for the share award scheme	–	13,455	–	(133,709)	120,254	–	–	–	–	–	–	–	–	–
Redemption of convertible bond	–	–	–	–	–	–	–	–	–	–	(6,411)	–	6,411	–
Shares issued under share option scheme (notes 35 & 36)	175	3,377	(530)	–	–	–	–	–	–	–	–	–	–	3,022
2020 second interim dividend declared and settled in cash (note 15)	–	–	–	–	–	–	–	–	–	–	–	(706,216)	(70)	(706,286)
2021 interim dividend declared and settled in cash (note 15)	–	–	–	–	–	–	–	–	–	–	–	–	(543,401)	(543,401)
Share awards lapsed	–	1,346	–	(1,346)	–	–	–	–	–	–	–	–	–	–
Share options lapsed	–	29,448	(29,448)	–	–	–	–	–	–	–	–	–	–	–
At 31 December 2021	603,778	19,360,033	23,128	31,031	(269,732)	5,102	21	40,383	(104,639)	(103,322)	–	–	7,940,662	27,526,445

1 These reserve accounts represent the consolidated reserves other than share capital and proposed dividends of approximately HK$26,923 million (31 December 2020: approximately HK$27,007 million) in the consolidated statement of financial position.

2 As at 31 December 2021, the trustee of the share award scheme held 117,409,723 ordinary shares of the Company (31 December 2020: 172,705,979 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 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 2021

	2021 HK$'000	2020 HK$'000
OPERATING ACTIVITIES		
Profit before tax	**723,145**	2,300,592
Adjustments for:		
Interest income	**(1,741,000)**	(2,464,585)
Finance costs	**1,106,837**	2,144,511
Dividend income	**(918,345)**	(634,821)
Loss (gain) on disposal of property and equipment	**26**	(9)
Amortisation and depreciation	**284,080**	252,091
Impairment charges, net of reversal	**800,521**	986,115
Equity-settled share-based payment	**133,333**	48,003
Operating cash flows before movements in working capital	**388,597**	2,631,897
Increase in other assets	**(1,613)**	(94,923)
Decrease in advances to customers	**3,295,639**	3,416,081
Decrease (increase) in receivable from clients for subscription of new share in IPO	**562,717**	(557,106)
(Increase) decrease in accounts receivable	**(3,012,243)**	3,654,896
(Increase) decrease in prepayments, deposits and other receivables	**(592,932)**	205,093
Decrease in financial assets held for trading and market making activities	**7,324,886**	17,869,051
Decrease (increase) in investment securities	**11,576,874**	(9,289,858)
Decrease in assets acquired for financial products issued	**14,400,325**	487,296
Decrease (increase) in cash held on behalf of customers	**6,733,760**	(4,420,064)
(Decrease) increase in accounts payable	**(7,196,477)**	3,814,320
Decrease in cash collateral on securities lent and repurchase agreements	**(7,603,025)**	(16,774,581)
Decrease (increase) in cash collateral on securities borrowed and reverse repurchase agreements	**2,939,196**	(2,413,895)
(Decrease) increase in financial liabilities held for trading and market making activities	**(1,681,276)**	2,121,889
Decrease in financial products issued at fair value	**(8,665,874)**	(2,594,584)
Change in derivative financial instruments (net)	**126,514**	(117,371)
(Decrease) increase in other payables, accruals and other liabilities	**(52,342)**	100,515
(Decrease) increase in liabilities arising from consolidation of investment funds (Note 2)	**(4,096,395)**	4,650,347
Cash from operations	**14,446,331**	2,689,003
Interest received	**1,643,241**	2,915,820
Dividend received	**918,345**	634,821
Interest paid	**(1,037,333)**	(2,357,585)
Tax paid	**(470,249)**	(646,785)
NET CASH FROM OPERATING ACTIVITIES	**15,500,335**	3,235,274

Consolidated Statement of Cash Flows

For the year ended 31 December 2021

	2021 HK$'000	2020 HK$'000
INVESTING ACTIVITIES		
Proceeds from disposal of property and equipment	**489**	22
Purchases of intangible assets	**(17,175)**	(31,947)
Purchases of property and equipment	**(91,462)**	(54,988)
NET CASH USED IN INVESTING ACTIVITIES	**(108,148)**	(86,913)
FINANCING ACTIVITIES		
Proceeds from issuance of non-convertible notes	**13,147,148**	8,110,286
Proceeds from issuance of non-convertible bonds	**2,329,470**	3,096,183
Issuance cost of non-convertible bonds paid	**(10,043)**	(11,304)
Repayment of non-convertible bonds	**–**	(5,425,210)
Repayment of non-convertible notes	**(12,548,329)**	(9,280,137)
Redemption of convertible bonds	**(127,137)**	–
Proceeds from shares issued upon exercise of share options	**3,022**	–
Repayment of lease liabilities	**(153,718)**	(133,710)
Net (repayment) proceeds for bank borrowings raised	**(14,011,353)**	1,142,689
Dividends paid to shareholders	**(1,249,687)**	(350,861)
Purchase of shares held under share award scheme	**–**	(230,980)
NET CASH USED IN FINANCING ACTIVITIES	**(12,620,627)**	(3,083,044)
NET INCREASE IN CASH AND CASH EQUIVALENTS	**2,771,560**	65,317
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	**4,334,925**	4,269,608
CASH AND CASH EQUIVALENTS AT END OF YEAR	**7,106,485**	4,334,925
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS		
Cash and cash equivalents (Note 1)	**7,106,485**	4,334,925

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. 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 is resulted from an application of relevant accounting standard of the scope of consolidation and increase or decrease in such liability as disclosed in the consolidated statement of cash flows has no impact to the Group's cash flow management.

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

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 a holding company and the business segments of the Company and its subsidiaries (collectively referred as the "Group") include wealth management, corporate finance, asset management, global markets 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 28 March 2022.

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

In the current year, the Group has applied the following amendments to HKFRSs issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") for the first time, which are mandatorily effective for the annual periods beginning on or after 1 January 2021 for the preparation of the consolidated financial statements:

Amendment to HKFRS 16	Covid-19-Related Rent Concessions
Amendments to HKFRS 9, HKAS 39, HKFRS 7, HKFRS 4 and HKFRS 16	Interest Rate Benchmark Reform — Phase 2

Except as described below, the application of the amendments to HKFRSs in the current year has had no material impact on the Group's financial positions and performance 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)

Amendments to HKFRSs that are mandatorily effective for the current year (continued)

2.1 Impacts on application of Amendments to HKFRS 9, HKAS 39, HKFRS 7, HKFRS 4 and HKFRS 16 "Interest Rate Benchmark Reform — Phase 2"

The Group has applied the amendments for the first time in the current year. The amendments relate to changes in the basis for determining the contractual cash flows of financial assets, financial liabilities and lease liabilities as a result of interest rate benchmark reform, specific hedge accounting requirements and the related disclosure requirements applying HKFRS 7 "Financial Instruments: Disclosures" ("HKFRS 7").

As at 1 January 2021, the Group has several financial assets and liabilities, the interest of which are indexed to benchmark rates that will or may be subject to interest rate benchmark reform. The following table shows the total amounts of these outstanding contracts. The amounts of financial assets and liabilities are shown at their carrying amounts except for investment securities measured at fair value through profit or loss and financial assets and liabilities held for trading and market making activities which are shown at their notional amounts.

	HKD Hong Kong Interbank Offered Rate ("HIBOR") HK$'000	USD London Interbank Offered Rate ("LIBOR") HK$'000
Financial assets		
Investment securities measured at amortised cost	3,244,919	387,605
Financial assets held for trading and market making activities	–	129,088
Investment securities measured at fair value through profit or loss	638,902	279,076
Advances to customers	–	310,084
Cash collateral on securities borrowed and reverse repurchase agreements	418,684	–
Accounts receivable	–	398,518
Financial liabilities		
Financial liabilities held for trading and market making activities	–	54,652
Cash collateral on securities lent and repurchase agreements	585,000	1,713,214
Bank borrowings and debt securities in issue	36,760,000	821,673

The amendments have had no impact on the consolidated financial statements as none of the relevant contracts has been transitioned to the relevant replacement rates during the year. The Group will apply the practical expedient in relation to the changes in contractual cash flows resulting from the interest rate benchmark reform for financial assets and financial liabilities measured at amortised cost. Additional disclosures as required by HKFRS 7 are set out in note 42.

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

New and amendments to HKFRS in issued but not yet effective

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

HKFRS 17	Insurance Contracts and the related Amendments[3]
Amendments to HKFRS 3	Reference to the Conceptual Framework[2]
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[4]
Amendment to HKFRS 16	Covid-19-Related Rent Concessions beyond 30 June 2021[1]
Amendments to HKAS 1	Classification of Liabilities as Current or Non-current and related amendments to Hong Kong Interpretation 5 (2020)[3]
Amendments to HKAS 1 and HKFRS Practice Statement 2	Disclosure of Accounting Policies[3]
Amendments to HKAS 8	Definition of Accounting Estimates[3]
Amendments to HKAS 12	Deferred Tax related to Assets and Liabilities arising from a Single Transaction[3]
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 April 2021.
2 Effective for annual periods beginning on or after 1 January 2022.
3 Effective for annual periods beginning on or after 1 January 2023.
4 Effective for annual periods beginning on or after a date to be determined.

Except for the new and amendments to HKFRSs mentioned below, 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.

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

New and amendments to HKFRS in issued but not yet effective (continued)

Amendments to HKAS 1 Classification of Liabilities as Current or Non-current and related amendments to Hong Kong Interpretation 5 (2020)

The amendments provide clarification and additional guidance on the assessment of right to defer settlement for at least twelve months from reporting date for classification of liabilities as current or non-current, which:

- specify that the classification of liabilities as current or non-current should be based on rights that are in existence at the end of the reporting period. Specifically, the amendments clarify that:

  (i) the classification should not be affected by management intentions or expectations to settle the liability within 12 months; and

  (ii) if the right is conditional on the compliance with covenants, the right exists if the conditions are met at the end of the reporting period, even if the lender does not test compliance until a later date; and

- clarify that if a liability has terms that could, at the option of the counterparty, result in its settlement by the transfer of the entity's own equity instruments, these terms do not affect its classification as current or non-current only if the entity recognises the option separately as an equity instrument applying HKAS 32 "Financial Instruments: Presentation".

In addition, Hong Kong Interpretation 5 was revised as a consequence of the Amendments to HKAS 1 to align the corresponding wordings with no change in conclusion.

Based on the Group's outstanding liabilities as at 31 December 2021, including bank borrowings and debt securities in issue, and the related terms and conditions stipulated in the agreements between the Group and the relevant lenders, the application of the amendments will not result in reclassification of the Group's liabilities.

3. Basis of Preparation and Significant Accounting Policies

Change in presentation of consolidated statement of profit or loss

To better reflect the foreign exchange gain or loss (net) arising from translation of foreign-currency denominated assets and liabilities of the Group (other than those measured at fair value through profit or loss) into the respective functional currencies and to align with the financial statements disclosure of other peers to enhance the comparability, the Group presents the foreign exchange gain or loss (net) from "Operating expenses" to "Other income and gains or losses". Comparative figures are restated to conform the current year's presentation.

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 the advances other than advances to customer in margin financing, the directors of the Company decided to present and group the "Merger and acquisition financing" and "Secured financing" within Advances to customers (note 21) as "Term financing" within Advances to customers from 2021 onwards.

Accordingly, the comparative figures of "Merger and acquisition financing" of HK$3,233 million and "Secured financing" of HK$652 million have been reclassified to conform with current year presentation and there is no financial impact on the consolidated statement of financial position.

3.1 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)

3.1 Basis of preparation of consolidated financial statements (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)

3.2 Significant accounting policies

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 agreements; 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.

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

3.2 Significant accounting policies (continued)

Basis of consolidation (continued)

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

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

Loss of control of a subsidiary

When the Group loses control of a subsidiary, 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.

Except for certain recognition exemptions, the identifiable assets acquired and liabilities assumed must meet the definitions of an asset and a liability in the Framework for the Preparation and Presentation of Financial Statements (replaced by the Conceptual Framework for Financial Reporting issued in October 2010).

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognised at their fair value, except that lease liabilities are recognised and measured at the present value of the remaining lease payments (as defined in HKFRS 16) as if the acquired leases were new leases at the acquisition date. Right-of-use assets are recognised and measured at the same amount as the relevant lease liabilities, adjusted to reflect favourable or unfavourable terms of the lease when compared with market terms. 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.

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

3.2 Significant accounting policies (continued)

Goodwill

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

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

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

Investments in associates and joint ventures

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

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

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

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

3.2 Significant accounting policies (continued)

Investments in associates and joint ventures (continued)

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".

Non-current assets held for sale

Non-current assets (and disposal groups) are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the asset (or disposal group) is available for immediate sale in its present condition subject only to terms that are usual and customary for sales of such asset (or disposal group) and its sale is highly probable. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

When the Group is committed to a sale plan involving disposal of an investment, or a portion of an investment, in an associate or joint venture, the investment or the portion of the investment that will be disposed of is classified as held for sale when the criteria described above are met, and the Group discontinues the use of the equity method in relation to the portion that is classified as held for sale from the time when the investment (or a portion of the investment) is classified as held for sale.

Non-current assets (and disposal groups) classified as held for sale are measured at the lower of their previous carrying amount and fair value less costs to sell.

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.

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

3.2 Significant accounting policies (continued)

Revenue from contracts with customers (continued)

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.

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.

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

3.2 Significant accounting policies (continued)

Revenue from contracts with customers (continued)

(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.

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

Variable consideration

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

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

3.2 Significant accounting policies (continued)

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 on or after the date of initial application of HKFRS 16 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.

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.

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

3.2 Significant accounting policies (continued)

Leases (continued)

The Group as a lessee (continued)

Right-of-use assets (continued)

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 and initially measured at fair value. Adjustments to fair value at initial recognition are considered as additional lease payments and included in the cost of right-of-use assets. Accounting policies for financial instruments are detailed below.

Lease liabilities

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

The lease payments relevant to the Group include:

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

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

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.

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

3.2 Significant accounting policies (continued)

Leases (continued)

The Group as a lessee (continued)

Lease modifications (continued)

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

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

The Group as a 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%

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

3.2 Significant accounting policies (continued)

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

Ownership interests in leasehold land and building

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

To the extent the allocation of the relevant payments can be made reliably, interest in leasehold land 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)

3.2 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.

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

3.2 Significant accounting policies (continued)

Intangible assets (continued)

Intangible assets acquired in a business combination

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

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

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

Derecognition of intangible assets

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

Foreign currency translation

- *Functional and presentation currency*

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

- *Transactions and balances*

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

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

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

3.2 Significant accounting policies (continued)

Foreign currency translation (continued)

- *Group companies*

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

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

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

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

Employee benefits

Pension scheme

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

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

Paid leave carried forward

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

Bonus 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.

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

3.2 Significant accounting policies (continued)

Employee benefits (continued)

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 fair value at the grant date.

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)

3.2 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.

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.

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.

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

3.2 Significant accounting policies (continued)

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.

In testing a cash-generating unit for impairment, corporate assets are allocated to the relevant cash-generating unit when a reasonable and consistent basis of allocation can be established, or otherwise they are allocated to the smallest group of cash generating units for which a reasonable and consistent allocation basis can be established. The recoverable amount is determined for the cash-generating unit or group of cash-generating units to which the corporate asset belongs, and is compared with the carrying amount of the relevant cash-generating unit or group of cash-generating units.

Recoverable amount is the higher of fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset (or a cash-generating unit) for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or a cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or a cash-generating unit) is reduced to its recoverable amount. For corporate assets or portion of corporate assets which cannot be allocated on a reasonable and consistent basis to a cash-generating unit, the Group compares the carrying amount of a group of cash-generating units, including the carrying amounts of the corporate assets or portion of corporate assets allocated to that group of cash-generating units, with the recoverable amount of the group of cash-generating units. In allocating the impairment loss, the impairment loss is allocated first to reduce the carrying amount of any goodwill (if applicable) and then to the other assets on a pro-rata basis based on the carrying amount of each asset in the unit or the group of cash-generating units. The carrying amount of an asset is not reduced below the highest of its fair value less costs of disposal (if measurable), its value in use (if determinable) and zero. The amount of the impairment loss that would otherwise have been allocated to the asset is allocated pro-rata to the other assets of the unit or the group of cash-generating units. An impairment loss is recognised immediately in profit or loss.

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

3.2 Significant accounting policies (continued)

Impairment on non-financial assets (continued)

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit or a group of cash-generating units) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or a cash-generating unit or a group of cash-generating units) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss.

Contingent liabilities

A contingent liability is a present obligation arising from past events but is not recognised because it is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation or the amount of the obligation cannot be measured with sufficient reliability.

Where the Group is jointly and severally liable for an obligation, the part of the obligation that is expected to be met by other parties is treated as a contingent liability and it is not recognised in the consolidated financial statements.

The Group assesses continually to determine whether an outflow of resources embodying economic benefits has become probable. If it becomes probable that an outflow of future economic benefits will be required for an item previously dealt with as a contingent liability, a provision is recognised in the consolidated financial statements in the reporting period in which the change in probability occurs, except in the extremely rare circumstances where no reliable estimate can be made.

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

3.2 Significant accounting policies (continued)

Financial instruments

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

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

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

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.

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

3.2 Significant accounting policies (continued)

Financial instruments (continued)

Financial assets (continued)

Classification and subsequent measurement of financial assets (continued)

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.

(i) Amortised cost and interest income

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 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.

Interest income is calculated by applying the effective interest rate to the gross carrying amount of financial assets measured subsequently at amortised cost and debt instruments measured at FVTOCI, 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.

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

3.2 Significant accounting policies (continued)

Financial instruments (continued)

Financial assets (continued)

Classification and subsequent measurement of financial assets (continued)

(ii) *Debt instruments as at FVTOCI*

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

(iii) *Equity instruments designated as at FVTOCI*

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

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

(iv) *Financial assets at FVTPL*

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

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

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

3.2 Significant accounting policies (continued)

Financial instruments (continued)

Financial assets (continued)

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

The Group performs impairment assessment under expected credit loss ("ECL") model on financial assets (including advances to customers, investment securities at amortised cost, debt instruments measured at FVTOCI, cash collateral on securities borrowed and reverse repurchase agreements, accounts receivable, receivable from clients for subscription of new shares in IPO, 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.

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.

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

3.2 Significant accounting policies (continued)

Financial instruments (continued)

Financial assets (continued)

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

(i) Significant increase in credit risk (continued)

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

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

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

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 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)

3.2 Significant accounting policies (continued)

Financial instruments (continued)

Financial assets (continued)

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

(iii) Credit-impaired financial assets

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

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

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

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

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

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

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

(iv) Write-off policy

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

(v) Measurement and recognition of ECL

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

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.

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

3.2 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)

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, receivable from clients for subscription of new shares in IPO, 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.

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.

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

3.2 Significant accounting policies (continued)

Financial instruments (continued)

Financial assets (continued)

Derecognition of financial assets (continued)

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.

Except for changes in the basis for determining the contractual cash flows as a result of interest rate benchmark reform in which the Group applies the practical expedient, 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.

Substantial modifications are treated as an extinguishment, and so derecognition, of the existing financial asset and recognition of a new asset based on the new contractual terms. Any difference is recognised as a gain or loss within profit or loss. Costs or fees incurred are also recognised within profit or loss as part of the gain or loss on extinguishment.

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.

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

3.2 Significant accounting policies (continued)

Financial instruments (continued)

Financial liabilities and equity

Classification as debt or equity

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

Equity instruments

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

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

Financial liabilities

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

Financial liabilities at FVTPL

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

Conditions for classifying financial liabilities as held for trading 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.

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.

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

3.2 Significant accounting policies (continued)

Financial instruments (continued)

Financial liabilities and equity (continued)

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, cash collateral on securities lent and repurchase agreements, 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.

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

3.2 Significant accounting policies (continued)

Financial instruments (continued)

Financial liabilities and equity (continued)

Convertible bonds (continued)

The value of 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 profits. No gain or loss is recognised in profit or loss upon conversion or expiration of the conversion option.

Transaction costs that relate to the issue of the convertible 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 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.

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

Derecognition of financial liabilities

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

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

3.2 Significant accounting policies (continued)

Financial instruments (continued)

Changes in the basis for determining the contractual cash flows as a result of interest rate benchmark reform

For changes in the basis for determining the contractual cash flows of a financial asset or financial liability to which the amortised cost measurement applies as a result of interest rate benchmark reform, the Group applies the practical expedient to account for these changes by updating the effective interest rate, such change in effective interest rate normally has no significant effect on the carrying amount of the relevant financial asset or financial liability.

A change in the basis for determining the contractual cash flows is required by interest rate benchmark reform if and only if, both these conditions are met:

- the change is necessary as a direct consequence of interest rate benchmark reform; and
- the new basis for determining the contractual cash flows is economically equivalent to the previous basis (ie the basis immediately preceding the change).

For other changes made to a financial asset or financial liability in addition to changes to the basis for determining the contractual cash flows required by interest rate benchmark reform, the Group first applies the practical expedient to the changes required by interest rate benchmark reform by updating the effective interest rate. The Group then applies the applicable requirements in HKFRS 9 on modification of a financial asset or a financial liability (see accounting policy above) to the additional changes to which the practical expedient does not apply.

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.

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

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

3.2 Significant accounting policies (continued)

Financial instruments (continued)

Reverse repurchase agreements

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

4. Critical Accounting Judgements and Key Sources of Estimation Uncertainty

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

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

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

Key sources of estimation uncertainty

Impairment charges of financial assets at amortised cost

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

In response to the requirements of HKFRS 9, the Risk Management Department is responsible 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.

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)

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.

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 adjusts 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. 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 together with third party professional valuers engaged by the Group, where necessary, 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.

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 (continued)

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.

Fair value of 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 2021, the carrying value of goodwill amounted to HK$380,099,000 (2020: HK$380,099,000). Details of the recoverable amount calculation are disclosed in note 27 to the consolidated financial statements.

Estimation of realisability of deferred tax assets

Deferred tax assets are recognised for tax losses not yet used and recognised to the extent that it is probable that future taxable profit will be available against which the unused tax credits can be utilised. Management's judgement is required to assess the probability of future taxable profits for a 3-year period (except for investment gains from financial asset based on a 1-year forecast), considering several factors including potential cashflows from assets (including financial assets) held, unrealised or realised gains or loss from these assets, and macro-economic environment (such as forecasted outlook of the financial market). Management's assessment is constantly reviewed, and additional deferred tax assets are recognised if it becomes probable that future taxable profits will allow the deferred tax asset to be recovered. As at 31 December 2021, the Group recognised deferred tax assets of approximately HK$190 million (31 December 2020: HK$25 million). In cases where the actual future taxable profits generated are less or more than expected, or change in facts and circumstances which result in revision of future taxable profits estimation, a material reversal or further recognition of deferred tax assets may arise, which would be recognised in profit or loss for the period in which such a reversal or further recognition takes place.

Furthermore, as at 31 December 2021, the Group has unrecognised deferred tax assets of approximately HK$901 million (31 December 2020: HK$600 million) arising from the subsidiaries of the Group which management consider that these subsidiaries are unlikely to generate available future taxable profit to utilise the deferred tax benefit.

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 whether the Group has 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 determines whether the Group is an agent to the Investments, the Group would assess:

- the scope of its decision-making authority over the investee;
- 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.

During the year ended 31 December 2021, the Group de-consolidated an investment fund (with underlying investments being debt securities) as a result of assessment of several factors including reduced holding of junior tranche fund units held by the Group, and the remuneration to the fund manager (which is a subsidiary of the Company) based on fixed return (without variable return such as performance fee). It is concluded that the Group is not acting as a principal in servicing and managing the fund, and consequently the Group de-consolidated this investment fund.

Further details are included in note 26 of these consolidated financial statements.

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 without undue cost or effort 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.

During the current year, the Group has redefined its key business activities of global markets segment, aiming at providing equity sales and trading, fixed income sales and trading, derivative sales and trading, prime brokerage and equity research services to institutional clients globally and facilitating client transactions across different asset classes in financial markets worldwide, the "Institutional Clients" segment has been renamed as "Global Markets" segment. The Group has also reclassified interest income from financial assets at amortised cost (including investment securities at amortised cost and term financing) held by corporate finance segment and global markets segment to investment segment to better reflect the management view that these assets form part of the investment portfolio held by the Group.

Comparative information on segment revenue and segment expenses (as a result of reclassification of segment revenue) has been restated to conform the current year's presentation.

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 customised 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, discretionary account management services, securities custodian services, and securities margin financing;

5. Segment Information (continued)

(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;

(d) the global markets segment provides a vast range of financial services to a diverse group of institutional clients, such as investment funds, sovereign funds, insurance companies and financial institutions, globally. This segment offers sales and trading of both equity and fixed income products, prime brokerage and risk management solutions, and 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; and

(e) the investment segment invests in various financial instruments and holds majority of investment securities of the Group. Investments held by this segment include primarily investment funds, listed and unlisted debt and equities, and private equities. This segment aims at acquiring investments that generates a reasonable yield while maintaining a robust risk management mechanism.

5. Segment Information (continued)

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

For the year ended 31 December 2021

	Wealth management HK$'000	Corporate finance HK$'000	Asset management HK$'000	Global markets HK$'000	Investment HK$'000	Consolidated HK$'000
Segment revenue:						
Commission and fee income	500,946	1,781,624	384,380	590,514	–	3,257,464
Interest income	907,974	6,112	–	85,214	741,700	1,741,000
Net trading and investment income	–	–	–	896,199	(642,479)	253,720
Segment revenue	1,408,920	1,787,736	384,380	1,571,927	99,221	5,252,184
Other income and gains (losses)	24,673	2,876	70	20,930	(13,383)[1]	35,166
	1,433,593	1,790,612	384,450	1,592,857	85,838	5,287,350
Segment expenses	(687,337)	(541,939)	(198,774)	(1,182,715)	(1,152,919)	(3,763,684)
Profit (loss) before impairment charges and tax	746,256	1,248,673	185,676	410,142	(1,067,081)	1,523,666
Impairment charges, net of reversal	(574,607)	(385)	–	1,011	(226,540)	(800,521)
Profit (loss) before tax	171,649	1,248,288	185,676	411,153	(1,293,621)	723,145
Income tax expense						(422,319)
Profit for the year						300,826
Amortisation and depreciation	(89,119)	(26,283)	(10,189)	(146,253)	(12,236)	(284,080)
Finance costs	(147,867)	(2,009)	–	(108,277)	(848,684)	(1,106,837)

5. Segment Information (continued)

For the year ended 31 December 2020 (Restated)

	Wealth management HK$'000	Corporate finance HK$'000	Asset management HK$'000	Global markets HK$'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	2,108	–	252,499	930,205	2,464,585
Net trading and investment income	–	–	–	1,175,534	1,825,053	3,000,587
Segment revenue	1,994,069	1,319,173	370,651	1,890,596	2,755,258	8,329,747
Other income and gains	52,892	3,611	4	60,709	41,481[1]	158,697
	2,046,961	1,322,784	370,655	1,951,305	2,796,739	8,488,444
Segment expenses	(1,090,421)	(494,506)	(207,113)	(1,518,156)	(1,891,541)	(5,201,737)
Profit before impairment charges and tax	956,540	828,278	163,542	433,149	905,198	3,286,707
Impairment charges, net of reversal	(380,649)	(669)	–	(427,761)	(177,036)	(986,115)
Profit before tax	575,891	827,609	163,542	5,388	728,162	2,300,592
Income tax expense						(367,715)
Profit for the year						1,932,877
Amortisation and depreciation	(77,985)	(16,794)	(7,136)	(139,734)	(10,442)	(252,091)
Finance costs	(318,843)	(27,730)	–	(346,929)	(1,451,009)	(2,144,511)

[1] This includes net gain (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 / (loss) of 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:

	2021 HK$'000	2020 HK$'000
Revenue		
Commission and fee income (note (i)):		
Commission on brokerage (note (ii))	839,162	913,265
Commission on underwriting and placing	1,461,896	1,114,145
Financial advisory and consultancy fee income	319,728	202,920
Asset management fee and performance fee income	384,380	370,651
Handling, custodian and service fee income (note (ii))	252,298	263,594
	3,257,464	2,864,575
Interest income:		
Interest income from advances to customers		
— margin financing	810,435	1,023,115
— term financing	242,849	367,221
Interest income from investment securities at amortised cost	571,224	763,979
Interest income from reverse repurchase agreements	48,231	109,400
Interest income from bank deposits and others	68,261	200,870
	1,741,000	2,464,585
Net trading and investment income (note (iii)):		
Net income from financial assets held for trading and market making activities	365,226	569,381
Net trading income on financial products	530,973	606,153
Net (loss) gain from investment securities at fair value	(642,479)	1,825,053
	253,720	3,000,587
	5,252,184	8,329,747
Other income and gains or losses		
Others (note (iv))	35,166	158,697

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$2,700,018,000 (2020: HK$2,399,862,000) and HK$557,446,000 (2020: HK$464,713,000) respectively.

(ii) Amounts of commission on brokerage of HK$464,206,000 (2020: HK$331,284,000) and handling, custodian and service fee income of HK$126,308,000 (2020: HK$131,279,000) have been included in global markets segment and the remaining amount of each category have been included in wealth management segment.

(iii) Net loss from investment securities at fair value of HK$642,479,000 (2020: net gain of HK$1,825,053,000) has been included in investment segment. Net income from financial assets held for trading and market making activities of HK$365,226,000 (2020: net income of HK$569,381,000) and net trading income on financial products of HK$530,973,000 (2020: net trading income of HK$606,153,000) have been included in global markets segment.

(iv) Included in other income and gains or losses is the net gain on remeasurement of the liability in relation to the share of consolidated investment funds attributable to third-party unit/shareholders of HK$22 million (2020: net loss of HK$126 million).

Foreign exchange loss (net) of HK$67 million (2020: foreign exchange gain (net) of HK$256 million) was also included in the other income and gains or losses. This amount relates to loss or gain arising from translation of foreign currency denominated assets and liabilities (other than financial assets/liabilities measured at fair value through profit or loss) into Hong Kong dollar, while the loss or gain arising from translation of financial assets/liabilities at fair value through profit or loss is recognised within net trading and investment income.

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

7. Staff Costs

	2021 HK$'000	2020 HK$'000
Salaries, incentives, bonuses and allowances	**1,268,397**	1,522,148
Pension scheme contributions (net)	**47,999**	42,847
	1,316,396	1,564,995

8. Impairment Charges, Net of Reversal

	2021 HK$'000	2020 HK$'000
Net impairment charges/(reversal of impairment charges) on:		
Advances to customers		
— margin financing	**562,271**	331,816
— term financing	**266,674**	622,861
Investment securities at amortised cost	**(26,474)**	20,909
Accounts receivable and others	**(1,950)**	10,529
	800,521	986,115

9. Finance Costs

	2021 HK$'000	2020 HK$'000
Bank loans and overdrafts	**544,417**	1,245,410
Debt securities in issue:		
— Convertible bonds	**1,752**	2,116
— Non-convertible bonds	**393,701**	468,808
— Non-convertible notes	**99,289**	188,056
Interest on lease liabilities	**11,329**	11,713
Repurchase agreements and others (note)	**56,349**	228,408
	1,106,837	2,144,511

Note: During the year ended 31 December 2020, included in the "finance costs — repurchase agreement and others" of HK$228.4 million was the finance costs of HK$10.7 million on an intercompany unsecured loan advanced from Haitong International Holdings Limited, the immediate holding company of the Company. Such intercompany loan was chargeable at US Dollar LIBOR plus a spread. Such intercompany loan was repaid in April 2020.

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):

	2021 HK$'000	2020 HK$'000
Auditor's remuneration:		
Statutory audit fee	**5,730**	5,450
Non-statutory audit service fee	**2,154**	770
Loss (gain) on disposal of property and equipment	**26**	(9)
Commission expenses:		
Commission to accounts executives	**76,720**	221,526
Other commission expenses	**30,842**	36,432
Amortisation and depreciation:		
Depreciation on property and equipment (other than right-of-use assets)	**75,851**	79,243
Depreciation of right-of-use assets	**162,166**	135,133
Amortisation of intangible assets	**46,063**	37,715

11. Directors' and Chief Executive's Emoluments

Independent non-executive directors — directors' fees

The emolument of every independent non-executive director is set out below:

	2021 HK$'000	2020 HK$'000
Wei Kuo-chiang (note a)	**81**	200
Tsui Hing Chuen, William (note a)	**101**	250
Lau Wai Piu (note a)	**81**	200
Wan Kam To	**356**	250
Liu Yan (note b)	**158**	200
Liu Swee Long Michael (note c)	**265**	–
Zhang Huaqiao (note c)	**265**	–
Lee Man Yuen Margaret (note d)	**124**	–
	1,431	1,100

The emolument of each independent non-executive director includes directors' fees as shown above, while was mainly for his / her services as a director of the Company.

Notes:

(a) Retired on 28 May 2021.

(b) Resigned on 25 August 2021.

(c) Appointed on 28 May 2021.

(d) Appointed on 25 August 2021.

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

Non-executive directors — directors' fees

	2021 HK$'000	2020 HK$'000
Li Jun (notes e & i)	–	–
Qu Qiuping (notes f & i)	–	–
Cheng Chi Ming Brian (note i)	200	200
Wang Meijuan (notes g & i)	–	–
William Chan (notes h & i)	81	200
Zhang Xinjun (note i)	–	–
	281	400

Notes:

(e) Appointed as a non-executive director and the Chairman of the Board on 19 October 2021.

(f) Resigned as a non-executive director and the Chairman of the Board on 19 October 2021.

(g) Retired on 29 May 2020.

(h) Resigned on 28 May 2021.

(i) The non-executive directors' emoluments shown above were for their services as directors of the Company. Except for the directors' fees waived by Mr. Li Jun, Mr. Qu Qiuping and Mr. Zhang Xinjun during the year ended 31 December 2021 (2020: Mr. Qu Qiuping, Ms. Wang Meijuan and Mr. Zhang Xinjun), there was no arrangement under which a director (including executive directors, non-executive directors and independent non-executive directors) waived or agreed to waive any remuneration during current year.

The emolument of each non-executive director includes directors' fee as shown above, which was mainly for his / her services as a director of the Company.

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

Executive directors — directors' fees, salaries and allowances and pension scheme contributions

For the year ended 31 December 2021

	Fees HK$'000	Salaries and allowances HK$'000	Pension Scheme contributions HK$'000	Total HK$'000
Executive directors:				
Lin Yong (notes j & k)	–	4,320	216	4,536
Li Jianguo (note j)	300	–	15	315
Poon Mo Yiu (note j)	–	3,096	155	3,251
Sun Jianfeng (note j)	–	2,478	124	2,602
Sun Tong (note j)	–	2,478	124	2,602
	300	12,372	634	13,306

For the year ended 31 December 2020

	Fees HK$'000	Salaries and allowances HK$'000	Pension Scheme contributions HK$'000	Total HK$'000
Executive directors:				
Lin Yong (notes j & k)	–	4,320	216	4,536
Li Jianguo (note j)	300	–	15	315
Poon Mo Yiu (note j)	–	3,096	155	3,251
Sun Jianfeng (note j)	–	2,478	124	2,602
Sun Tong (note j)	–	2,478	53	2,531
	300	12,372	563	13,235

Notes:

(j) The executive directors' emoluments disclosed in these consolidated financial statements 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.

(k) Mr. Lin Yong is also the Chief Executive Officer of the Group and his emoluments disclosed in these consolidated financial statements 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.

Other emoluments received by executive directors of the Company are detailed in note 38 of the consolidated financial statements.

12. Five Highest Paid Employees

The five highest paid employees during the current year did not include director (2020: one director), details of each director's remuneration are set out in note 11 above.

The total remuneration of five non-directors for the year ended 31 December 2021 and four non-directors for the year ended 31 December 2020 was as follows.

	2021 HK$'000	2020 HK$'000
Salaries, incentives, bonuses and allowances	78,724	74,299
Pension scheme contributions (net)	771	565
	79,495	74,864

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

	2021 Number of individuals	2020 Number of individuals
HK$10,000,001 to HK$11,000,000	1	–
HK$11,000,001 to HK$11,500,000	–	1
HK$13,500,001 to HK$14,000,000	1	–
HK$16,000,001 to HK$16,500,000	1	–
HK$16,500,001 to HK$17,000,000	–	1
HK$17,000,001 to HK$17,500,000	1	–
HK$21,000,001 to HK$22,000,000	1	–
HK$22,000,001 to HK$22,500,000	–	1
HK$24,500,001 to HK$25,000,000	–	1
	5	4

Note: Details of the remuneration disclosed above do not include amounts paid or payable by way of commissions generated by employees of the Group. No amounts is paid or payable by the Group as inducement for directors and 5 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

	2021 HK$'000	2020 HK$'000
Current taxation:		
— Hong Kong	544,063	357,948
— Other jurisdictions	45,631	26,162
	589,694	384,110
Under (over) provision in prior years:		
— Hong Kong	106	(19,705)
Deferred tax:		
— Current year and prior year	(167,481)	3,310
	422,319	367,715

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:

	2021 HK$'000	2020 HK$'000
Profit before tax	723,145	2,300,592
Taxation at income tax rate of 16.5%	119,319	379,598
Under (over) provision in respect of prior years	106	(19,705)
Tax effect of expenses not deductible for tax purpose	96,754	96,151
Tax effect of income not taxable for tax purpose	(111,668)	(279,837)
Tax effect of utilisation of estimated tax losses previously not recognised	(46,491)	(88,512)
Tax effect of estimated tax losses not recognised	351,855	272,671
Tax effect of recognition of deferred tax previously not recognised	687	7,781
Effect of different tax rates of subsidiaries operating in other jurisdictions	11,757	(432)
Income tax expense	422,319	367,715

13. Income Tax Expense (continued)

The Group has estimated tax losses of approximately HK$6,320 million as at 31 December 2021 (31 December 2020: HK$3,458 million), out of which HK$6,189 million (31 December 2020: HK$3,300 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$131 million will expire in 2026 to 2037 (31 December 2020: HK$158 million will expire in 2025 to 2037). Meanwhile, tax losses of HK$1,080 million have been recognised as deferred tax assets as at 31 December 2021 (31 December 2020: HK$69 million).

Deferred tax assets of HK$901 million (31 December 2020: HK$600 million) have not been recognised in respect of the remaining tax losses as it is not probable that sufficient future taxable profits will be available in the subsidiaries in which the losses arose against which the unused tax losses can be utilised in the near future.

14. Earnings Per Share

Basic earnings per share

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

	2021	2020
Earnings		
Profit for the year attributable to owners of the Company (HK$'000)	**300,826**	1,932,877
Number of shares		
Weighted average number of ordinary shares in issue less shares held for the share award scheme (in thousands) (note (a))	**5,896,402**	5,861,815
Basic earnings per share (HK cents per share)	**5.10**	32.97

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.

	2021	2020
Earnings		
Profit for the year attributable to owners of the Company (HK$'000)	**300,826**	1,932,877
Effect of dilutive potential ordinary shares		
— Interest on convertible bonds (net of tax) (HK$'000) (note (b))	**–**	1,767
Earnings for the purpose of diluted earnings per share (HK$'000)	**300,826**	1,934,644
Number of shares		
Weighted average number of ordinary shares in issue less shares held for the share award scheme (in thousands) (note (a))	**5,896,402**	5,861,815
Effect of dilutive potential ordinary shares:		
— Convertible bonds (in thousands) (note (b))	**–**	21,781
— Share options (in thousands) (note (c))	**1,834**	699
— Share awards (in thousands)	**3,662**	5,051
Weighted average number of ordinary shares for the purpose of diluted earnings per share (in thousands)	**5,901,898**	5,889,346
Diluted earnings per share (HK cents per share)	**5.10**	32.85

Notes:

(a) As at 31 December 2021, the trustee of the share award scheme held 117,409,723 ordinary shares of the Company (31 December 2020: 172,705,979 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$270 million (31 December 2020: HK$390 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 25 October 2016, the Company issued convertible bonds of HK$3,880 million with remaining principal amount of HK$124 million immediate before redemption.

Convertible bonds issued in 2016 that were outstanding and convertible into ordinary shares of the Company at a conversion price of HK$5.06 immediate before redemption (31 December 2020: HK$5.55) had been redeemed in full during the current year. 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 outstanding convertible bonds into ordinary shares was made from the date of the first issue with the adjustment if there is any conversion of the convertible bonds into ordinary shares during the year. The net profit is adjusted to eliminate the relevant interest expense less the tax effect. The convertible bond was matured in October 2021 and anti-dilutive in current year.

(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 2021 and 2020 and with the adjustment for the share options lapsed or exercised during the years.

15. Dividends

	2021 HK$'000	2020 HK$'000
Interim dividend paid		
— HK9 cents (2020: HK4.4 cents) per ordinary share	543,401	265,586
Proposed second interim dividend		
— HKNil (2020: HK11.7 cents) per ordinary share	–	706,216
	543,401	971,802

At a meeting of the Board held 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 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 was paid on 28 April 2021, with an approximate total of HK$706,286,000 cash dividend paid to the shareholders.

At a meeting of the Board held on 25 August 2021, the Board declared an interim dividend of HK9 cents per share in cash for the six months ended 30 June 2021 to shareholders whose names appear on the register of members of the Company on 13 September 2021. The interim dividend was paid on 24 September 2021, with an approximate total of HK$543,401,000 cash dividend paid to the shareholders.

At a meeting of the Board held on 28 March 2022, the Board resolved not to declare a second interim dividend for the year ended 31 December 2021. In addition, the Board proposed a bonus issue of shares on the basis of one bonus share for every ten existing shares held by qualifying shareholders whose names appear on the register of members of the Company on 14 June 2022. The proposed bonus issue is subject to the shareholders' approval at the forthcoming annual general meeting of the Company to be held on 2 June 2022.

16. Cash Held on Behalf of Customers

The Group maintains segregated accounts with authorised institutions to hold clients' monies arising from its normal course of business. The Group has classified the clients' monies as cash held on behalf of customers under the current assets section of the consolidated statement of financial position and recognised the corresponding accounts payable (note 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

	2021 HK$'000	2020 HK$'000
Financial assets held for trading and market making activities		
— at fair value		
Listed equity investments	559,957	1,060,830
Exchange traded funds	19,642	65,908
Listed preference shares	–	1,749
Listed debt investments	2,588,564	8,955,509
Unlisted debt investments	97,778	506,831
	3,265,941	10,590,827
Financial liabilities held for trading and market making activities		
— at fair value		
Listed equity investments (note (i))	64,644	167,972
Listed debt investments (note (i))	2,321,351	3,890,821
Listed preference shares (note (i))	–	8,349
Unlisted debt investments (note (i))	–	129
	2,385,995	4,067,271

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

	2021 HK$'000	2020 HK$'000
Investment securities measured at:		
— Fair value through profit or loss	28,093,118	35,946,111
— Fair value through other comprehensive income	59,053	344,683
— Amortised cost (note (vi) and (vii))	7,054,332	10,475,717
	35,206,503	46,766,511
Less: Non-current portion (note (iv))	(9,363,316)	(15,267,263)
Current portion	25,843,187	31,499,248

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

18. Investment Securities (continued)

Investment securities at fair value through profit or loss

	2021 HK$'000	2020 HK$'000
Listed equity investments	2,096,922	3,625,574
Exchange traded funds	49,680	87,269
Unlisted partnership investments (note (v))	–	1,608,351
Unlisted equity investments	7,845	740,359
Unlisted debt investments	421,078	3,326,017
Unlisted investment funds (notes (ii) and (iii))	9,962,740	15,367,658
Consolidated investment funds (notes (i) and (v))	15,554,853	11,190,883
	28,093,118	35,946,111
Less: Non-current portion (note (iv))	(7,705,205)	(12,793,985)
Current portion	20,387,913	23,152,126

Investment securities measured at fair value through other comprehensive income

	2021 HK$'000	2020 HK$'000
Listed equity investments	59,053	284,838
Listed debt investments	–	59,845
	59,053	344,683
Less: Non-current portion (note (iv))	(59,053)	(344,683)
Current portion	–	–

Investment securities measured at amortised cost (notes (vi) and (vii))

	2021 HK$'000	2020 HK$'000
Unlisted debt investments	7,062,491	10,510,350
Less: Impairment allowance	(8,159)	(34,633)
	7,054,332	10,475,717
Less: Non-current portion (note (iv))	(1,599,058)	(2,128,595)
Current portion	5,455,274	8,347,122

18. Investment Securities (continued)

Notes:

(i) Investment securities at fair value through profit or loss includes certain investment funds that are consolidated into the consolidated financial statements of the Group (note 26).

As at 31 December 2021, the amount includes the consolidated bond funds, equity funds, private equity funds and limited partnership funds (31 December 2020: consolidated bond funds, equity funds and private equity funds), which mainly invested in listed and unlisted equity investments, listed and unlisted debt investments, unlisted partnership investments 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$15,555 million (31 December 2020: HK$11,191 million) is interests held by third-party unit/shareholders of HK$975 million (31 December 2020: HK$5,072 million). These interests are 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.

(ii) The Group invested in investment funds. These investment funds invest in mainly stocks, bonds and funds, 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$9,963 million (31 December 2020: HK$15,368 million) in the consolidated statement of financial position represents the Group's maximum exposure.

(iii) The Group held unlisted investment funds amounted to HK$2,197 million (31 December 2020: HK$8,333 million) and these investment funds shall be classified as "investments accounted for using the equity method" given the Group held over 30% (31 December 2020: over 30%) of the non-participating shares 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 investments 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 2021 and 31 December 2020 respectively and the fair values represent the maximum exposure on respective reporting dates.

(iv) As at 31 December 2021 and 31 December 2020, included in the non-current portion of investment securities are listed equity investments, unlisted equity investments, unlisted debt investments, unlisted investment funds, unlisted partnership investments and consolidated investment funds that the directors of the Company expect to realise not within twelve months after each reporting period.

(v) As at 31 December 2021, the unfilled capital commitment to the partnerships were HK$615 million (31 December 2020: HK$456 million).

18. Investment Securities (continued)

Notes: (continued)

(vi) Included in investment securities at amortised cost are HK$7,062 million (31 December 2020: HK$10,510 million) of investment securities that are secured.

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.

As at 31 December 2021, there were four (31 December 2020: one) past due investment security(ies).

An investment security with the gross carrying amount of HK$62 million (31 December 2020: HK$62 million) with collaterals being properties matured in June 2021 (and therefore classified as past due in the current year) and the issuer is in the process of repayment of principal and accrued interest, but pending for realization of the issuer's assets (other than those pledged to the Group).

As at 31 December 2021, there was a past due investment security with gross carrying amount of HK$1,249 million (31 December 2020: HK$1,089 million) that relates to a property development project overseas by a Hong Kong listed company and the relevant property development project was pledged to the Group. In assessing the impairment provision, 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 fair value adjustments on the location, the value is higher than the outstanding gross carrying amount. The maturity had been extended during the year ended 31 December 2021 but matured in November 2021. The directors of the Company considered no provision shall be made against this security as at 31 December 2020 and 31 December 2021.

As at 31 December 2021, there were two past due investment securities with gross carrying amount of HK$2,565 million with the same guarantor and the collateral being listed shares of two Hong Kong listed companies. Both investment securities were matured in June 2021 (and therefore classified as past due in the current year). During the current year, the guarantor provided additional collaterals being a property development project in the United States as a credit enhancement. 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 fair value adjustments on the location, the value is higher than the outstanding gross carrying amount. The directors of the Company considered no provision shall be made against these securities as at 31 December 2021.

(vii) Included in investment securities measured at amortised cost are HK$1,170 million that held by consolidated investment funds (2020: HK$ Nil).

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

	2021 HK$'000	2020 HK$'000
Assets — acquired for financial products issued		
Listed equity investments, at fair value (note (ii))	1,038,015	3,408,390
Listed debt investments, at fair value (note (ii))	6,586,246	9,465,212
Unlisted equity investments, at fair value (notes (i) & (ii))	297,346	401,261
Unlisted partnership investments, at fair value (notes (i) & (ii))	47,190	15,504
Unlisted debt investments, at fair value (note (ii))	3,972,539	4,849,750
Unlisted investment funds, at fair value (notes (i) & (ii))	1,624,813	1,530,528
Unlisted financial products, at fair value (notes (ii) & (iv))	3,987,496	7,268,672
Consolidated investment fund, at fair value (notes (ii) & (v))	–	4,873,378
	17,553,645	31,812,695
Less: Non-current portion	(664,783)	(5,279,720)
Current portion	16,888,862	26,532,975
Liabilities — Financial products issued at fair value		
Unlisted issued financial products, at fair value (note (iii))	7,769,780	16,435,654
Less: Non-current portion	(269,532)	(816,545)
Current portion	7,500,248	15,619,109

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 2021 and 31 December 2020, 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$1,969 million (31 December 2020: HK$1,947 million) in the consolidated statement of financial position represents the Group's maximum exposure.

(ii) These financial assets are primarily acquired by the Group 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 2021 and 31 December 2020, financial products issued at fair value are generally issued in the form of notes or swaps of which pay-outs 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) As at 31 December 2020, 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 2021, such investment fund is no longer consolidated in the consolidated financial statements of the Group as a result of assessment of criteria as set out in note 25 and note 26.

20. Derivative Financial Instruments

	2021 HK$'000	2020 HK$'000
Assets		
Swaps	57,302	280,539
Forward foreign currency exchange contracts	19,077	12,076
Listed futures/options/warrants	27,195	414,717
Callable bull/bear contracts	–	4,741
Unlisted options	2,665	20,037
	106,239	732,110
Liabilities		
Swaps	1,875	6,131
Forward foreign currency exchange contracts	15,984	27,645
Listed futures/options/warrants	79,918	571,433
Callable bull/bear contracts	216,577	190,398
Unlisted options	6,014	24,118
	320,368	819,725

21. Advances to Customers

	2021 HK$'000	2020 HK$'000
Advances to customers:		
— Margin financing	9,160,201	12,327,279
— Term financing	2,927,596	3,885,102
	12,087,797	16,212,381
Less: Non-current portion	(626,016)	(231,403)
Current portion	11,461,781	15,980,978

Margin financing

	2021 HK$'000	2020 HK$'000
Margin financing	9,925,118	13,534,090
Less: Impairment allowance	(764,917)	(1,206,811)
	9,160,201	12,327,279

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 is 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 2021, margin financing of HK$9,160 million (31 December 2020: HK$12,327 million) were secured by securities pledged by the customers to the Group as collateral with undiscounted market value of HK$46,997 million (31 December 2020: HK$72,753 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.

21. Advances to Customers (continued)

Margin financing (continued)

As at 31 December 2020, included in the margin financing was a margin loan to an independent customer of gross amount of HK$602,080,000 with impairment of HK$576,094,000. One of the major pledged stock of this loan 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. During the current year, the above-mentioned other listed stocks were disposed, the remaining part of such margin loan was fully impaired and written off.

During the current year, additional individual impairment of HK$553 million was made against several independent margin customers with carrying amount of HK$210 million as at 31 December 2021 due to the decrease in the market value of the listed shares pledged to the Group as at 31 December 2021.

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.

Term financing

	2021 HK$'000	2020 HK$'000
Term financing	**3,374,834**	4,129,218
Less: Impairment allowance	**(447,238)**	(244,116)
	2,927,596	3,885,102
Less: Non-current portion	**(626,016)**	(231,403)
Current portion	**2,301,580**	3,653,699

Included in term financing are HK$3,375 million (31 December 2020: HK$4,129 million) of advances that are secured.

The majority of these term 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 (listed or unlisted), investment portfolios held by the borrowers, etc. 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. Regular reviews on these term financing are conducted by the Risk Management Department of the Group based on the latest status of these term 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 term financing in order to minimise credit risk by reviewing the borrowers' and/or guarantors' financial positions.

21. Advances to Customers (continued)

Term financing (continued)

As at 31 December 2021, there were four past due term financing (31 December 2020: three).

As at 31 December 2021, there was a past due term financing with a gross and carrying amount of HK$197 million and HK$118 million (31 December 2020: HK$197 million and HK$118 million) respectively that was advanced to an external party for its property development project in the PRC with the due date in July 2021 for the principal and 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), the credit protection structure and the status of enforcement proceedings in the PRC. In the opinion of the directors of the Company, the impairment provision for the current year and prior year are appropriate.

As at 31 December 2021, there was another past due term financing with gross and carrying amounts of HK$330 million and HK$198 million (31 December 2020: HK$356 million and HK$249 million) respectively that was advanced to a company listed in PRC and HK for its acquisition in the overseas. The loan matured and the principal and the accrued interest were not repaid as at 31 December 2021 and 31 December 2020. In assessing impairment, the management considered a number of factors including the financial status of the borrower, fair value of the collateral pledged, and the status of enforcement proceedings in the PRC. In the opinion of the directors, the impairment provision for the current year and prior year are appropriate.

A financing with the gross carrying amount of HK$156 million (31 December 2020: HK$155 million) with collaterals being listed equities and properties matured in October 2020 (and therefore classified as past due) and the borrower is in the process of repayment of principal and accrued interest, but pending for realisation of the borrower's assets (other than those pledged to the Group). In assessing the impairment, the management considered the collateral value and no impairment was made during the current and prior year.

A financing with gross amount of HK$220 million (31 December 2020: HK$220 million) with collaterals being a property development project in the PRC is fully impaired as at 31 December 2021. The loan was matured in November 2021 and the principal was not repaid as at 31 December 2021. In assessing the impairment, the management considered a number of factors including independent valuation of the property development projects, creditworthiness and status of the borrower, and the status of enforcement proceedings in the PRC. In the opinion of the directors of the Company, 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.

22. Cash Collateral on Securities Borrowed and Reverse Repurchase Agreements

	2021 HK$'000	2020 HK$'000
Cash collateral on securities borrowed	**53,679**	677,009
Reverse repurchase agreements	**4,745,788**	7,061,032
	4,799,467	7,738,041
Reverse repurchases agreements		
Analysed by collateral type:		
Equities	**7,570**	418,684
Bonds	**4,738,272**	6,642,356
	4,745,842	7,061,040
Less: Impairment allowance	**(54)**	(8)
	4,745,788	7,061,032
Analysed by market:		
Inter-bank market	**4,745,788**	7,061,032
Analysed for reporting purposes:		
Current	**4,745,788**	7,061,032

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 2021, the fair value of the collateral in respect of reverse repurchase agreements was HK$7,643 million (31 December 2020: HK$9,101 million).

23. Receivable From Clients for Subscription of New Shares in IPO and Accounts Receivable

	2021 HK$'000	2020 HK$'000
Receivable from clients for subscription of new shares in IPO (note (i))	–	562,717
Accounts receivable	8,027,400	5,014,090
	8,027,400	5,576,807
Accounts receivable from:		
— Clients	1,834,709	1,302,022
— Brokers, dealers and clearing houses	6,075,851	3,086,401
— Immediate holding company (note (ii))	–	400,941
— Others (note (iii))	116,840	224,726
	8,027,400	5,014,090

Notes:

(i) 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.

(ii) During the year ended 31 December 2020, the Company advanced a loan to Haitong International Holdings Limited (the immediate holding company of the Company) 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) and was fully repaid during the current year.

(iii) The amount represents the fees receivable from corporate finance, wealth management and asset management business.

Details of impairment assessment for current year are set out in "credit risk and impairment assessment" in note 42.

The following is an ageing analysis of the accounts receivable based on trade date/invoice date at the reporting date:

	2021 HK$'000	2020 HK$'000
Between 0 and 3 months	7,998,983	4,980,650
Between 4 and 6 months	11,884	16,349
Between 7 and 12 months	4,035	5,749
Over 1 year	12,498	11,342
	8,027,400	5,014,090

23. Receivable From Clients for Subscription of New Shares in IPO and Accounts Receivable (continued)

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

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 investments, listed debt investments and exchange traded funds 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

	2021 HK$'000	2020 HK$'000
Prepayments, deposits and other receivables (note)	**1,795,891**	1,106,453
Less: Non-current portion	**(39,406)**	(59,131)
Current portion	**1,756,485**	1,047,322

Note: Included in the amount of prepayments, deposits and other receivables are the interest receivable of HK$836 million (31 December 2020: HK$738 million) from bank deposits, financing to customers and debt securities which are receivable within one year.

During the year ended 31 December 2020, as part of the recovery procedure against a credit exposure in relation to a financing, guarantor of the borrower transferred shares of an unlisted entity incorporated in Canada at the consideration of US$20 million as a partial settlement of the relevant exposure. During the year ended 31 December 2021, management intended to dispose such unlisted shares by way of direct disposal of such shares and/or assets held by such unlisted entity to recover the carrying amount of the unlisted shares held. A letter of intention was entered between a third party purchaser and a subsidiary of the Company in December 2021 in respect of the disposal of part of the assets held by that entity.

Consequently, as at 31 December 2021, the Group's interest in the aforementioned entity is classified as an asset held-for-sale amounted to HK$320 million within "prepayments, deposits and other receivables" while a liability of HK$117 million in relation to the aforementioned entity is classified as a liability held-for-sale within "other payables, accruals and other liabilities" (note 34).

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 involved as investment manager, the Group determines whether the group is an agent to the Investments, the Group would assess:

- the scope of its decision-making authority over the investee;
- 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 the Group is acting as an agent/principal in these Investment which in turn includes an assessment of whether: (i) the Group has the decision-making authority to direct the relevant activities of the Investments, (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 the remuneration to which the Group is entitled and the Group's exposure to variability of returns from other interest that it holds in the Investments is of such significance that it indicates the Group is a principal.

26. Interests in Consolidated Investment (continued)

Third-party interests in consolidated Investments consist of third-party unit/shareholders' interests in consolidated Investments which are reflected as a liability since they can be put back to the Group for cash. The realisation of net assets attributable to third-party unit/shareholders' interests in consolidated Investments cannot be predicted with accuracy since these represent the interests of third-party unit/shareholders in consolidated Investments that are subject to the actions of third-party unit/shareholders.

For the year ended 31 December 2021, investment returns of the Group related to interests held by third-party unit/shareholders of gain of HK$22 million (year ended 2020: loss of HK$126 million) in consolidated Investments are included in other income and gains or losses in the consolidated statement of profit or loss and the interests attributable to third-party unit/shareholders amounted to HK$975 million (31 December 2020: HK$5,072 million) as at 31 December 2021. Such amount is recognised as "liabilities arising from consolidation of investment funds" in the consolidated statement of financial position.

As at 31 December 2020, the Group invested into an investment fund (the "Fund") with underlying investments of listed debt securities which was managed under the "held-to-maturity" strategy in accordance with the incorporation agreement of the Fund. A wholly owned subsidiary of the Company has been appointed as the fund manager of the Fund (the "Fund Manager") since its inception. The units of the Fund are divided into junior and senior tranches. The junior tranche units of the Fund ("Junior Fund Units") are designed to provide first loss protection to holders of senior tranches units of the Fund ("Senior Fund Units") and the holders of Junior Fund Units were entitled to receive any residual returns of the Fund after the payment of fixed return to the holders of the Senior Fund Units. Accordingly, the holders of the Senior Fund Units are generally in an economic position equivalent to creditors of the Fund which are with seniority in payment from the Fund while the holders of the Junior Fund Units are in a similar economic position to equity shareholders who have a lower priority of payment and share the residual interest of the Fund. The Fund Manager is entitled to receive a management fee, determined based on a prescribed percentage of the net asset value of the Fund. There is no other return, in the form of performance fee or otherwise, attributable to the Fund Manager.

In the year of 2020, as a result of a significant portion of the Junior Fund Units being held and controlled by the Group which entitled the Group to substantial variable returns of the Fund, the Fund in the carrying amount of HK$15.5 billion was consolidated in the consolidated statement of financial position as at 31 December 2020 based on the assessment of the Group acting as a principal and not an agent with respect to the Fund, with relevant interests in the Fund attributable to third-party unitholders amounting to HK$4,867 million recognised as "liabilities arising from consolidation of investment funds".

Since 2020, the Group has been taking active initiatives to reduce the size of its investment assets and portfolio and to lower the leverage ratios which are part of the major business strategies of the Group (the "Business Strategy").

26. Interests in Consolidated Investment (continued)

In the second half of the year of 2021, the Group disposed of approximately 66% of the Junior Fund Units it held to six independent third parties (the "Buyers"), who are the securities brokerage and margin clients and/or other investment business counterparties of the Group, for a total consideration of US$434 million (equivalent to HK$3.38 billion) on a principal-to-principal basis through separate transactions. The directors of the Company considered that the transaction prices ranging from US$94–96.6 per Junior Fund Unit were determined by arm's length negotiation between the Group and each of the Buyers with reference to the monthly net asset value per Fund unit quoted by the independent fund administrator for the Fund subscription and redemption purposes.

Contemporaneously, (i) the Group arranged loan finance totaling US$150 million (equivalent to approximately HK$1.17 billion) for two of the Buyers and such loan finance (the "Loans") appears in the consolidated statement of financial position of the Group as investment securities measured at amortised cost; and (ii) the Group provided a credit term of settlement of US$38.3 million (equivalent to approximately HK$298 million) to another Buyer, which appears in the consolidated statement of financial position of the Group as accounts receivable (the above transactions are collectively referred to as "Disposal of Junior Fund Units and Financing").

The management has assessed the background, investment experience, financial capabilities and creditworthiness of the Buyers and the values of the assets and collaterals pledged by the Buyers as part of the transactions. The management determined that the Buyers had the financial capacity and resources to fund the above-mentioned transactions and were bona fide third parties. On such basis the Group concluded that significant risks and rewards associated with the disposed Junior Fund Units were transferred to the Buyers and therefore the Group's exposure to the variable returns of the Fund was significantly reduced leading to deconsolidation of the Fund following a reassessment of the criteria for consolidation.

As at 31 December 2021, the remaining Junior Fund Units held by the Group amounting to US$54.0 million and US$61.2 million (equivalent to approximately HK$421 million and HK$478 million) which are respectively classified as "investment securities at fair value through profit or loss" (note 18) and "assets acquired for financial products issued" (note 19).

In the opinion of the directors of the Company, the Disposal of Junior Fund Units is an arm's length transaction made in line with the Company's Business Strategy and is in compliance with the Company's internal policies and procedures.

27. Goodwill and Other Intangible Assets

	2021 HK$'000	2020 HK$'000
Goodwill	380,099	380,099
Other intangible assets	71,161	100,049
	451,260	480,148

Goodwill

(a) Carrying value/movement

	2021 HK$'000	2020 HK$'000
Cost — As at 1 January 2020, 31 December 2020, 1 January 2021 and 31 December 2021	380,099	380,099

Particulars regarding impairment testing on goodwill are disclosed in note (b) below.

(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").

27. Goodwill and Other Intangible Assets (continued)

Goodwill (continued)

(b) Impairment testing on goodwill (continued)

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:

	2021 HK$'000	2020 HK$'000
Wealth Management — Entity E	854	854
Asset Management — Entity F	9,000	9,000
Global Markets		
— 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 2021 and 31 December 2020, 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 Entities 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 Global Markets CGU and Corporate Finance CGU that with material amount of goodwill allocated and their major underlying assumptions are summarised below:

(i) *Global Markets — 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 global markets of the Group. The directors of the Company determined that the global markets segment is expected to benefit from the synergies of the combination. Goodwill acquired through this business combination has been allocated to the CGU of "Global Markets", which is a reportable segment, for impairment testing.

27. Goodwill and Other Intangible Assets (continued)

Goodwill (continued)

(b) Impairment testing on goodwill (continued)

(i) Global Markets — Entities A, B and D (continued)

Entity B

In 2016, the Group has acquired the entire issued share capital of the entity from Haitong Bank, which is engaged in institutional equities business and investment banking business, to enrich and support the business of global markets of the Group. The directors of the Company determined that the Global Markets Segment is expected to benefit from the synergies of the combination. Goodwill acquired through this business combination has been allocated to the CGU of "Global Markets", 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 sales and trading, products offering, and serving global institutional clients with comprehensive financial products and services under Global Markets segment as its integral component.

The directors of the Company determined that the Global Markets 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 "Global Markets", which is a reportable segment, for impairment testing.

The recoverable amount of Global Markets segment has been determined based on value in-use calculation using cash flow projections covering a five-year period approved by the management.

The pre-tax discount rate applied to the cash flow projections of Entity A, B and D is 19% (2020: 16.5%) which is determined based on past performance, the management's expectations for the market development and future business plan. The pre-tax discount rate used reflects specific risk relating to Global Markets 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 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 pre-tax discount rate applied to the cash flow projections is 19% (2020: 15.5%) which is determined based on past performance, the management's expectations for the market development and future business plan. The pre-tax 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, Global Markets and 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 2020	11,133	104,197	45,584	160,914
Additions	–	31,947	–	31,947
At 31 December 2020 and 1 January 2021	11,133	136,144	45,584	192,861
Additions	–	17,175	–	17,175
At 31 December 2021	11,133	153,319	45,584	210,036
Amortisation				
At 1 January 2020	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
Charge for the year	–	40,351	5,712	46,063
At 31 December 2021	3,522	99,469	35,884	138,875
Carrying values				
At 31 December 2021	7,611	53,850	9,700	71,161
At 31 December 2020	7,611	77,026	15,412	100,049

Other than the trading rights and licenses, and system and infrastructure, which have indefinite useful lives and useful life of 3 to 10 years respectively, the intangible asset of customer relationship is amortised over the expected useful life of 15 years.

28. Other Assets

	2021 HK$'000	2020 HK$'000
At cost:		
Deposits with the Stock Exchange:		
— Compensation fund	**650**	650
— Fidelity fund	**1,036**	1,036
— Mainland Securities and Settlement Deposit	**80,848**	78,594
Dealers' deposit with Hong Kong Securities and Futures Commission ("SFC")	**–**	200
Stamp duty deposits	**500**	500
Contributions to The Central Clearing and Settlement System Guarantee Fund	**92,804**	93,541
Admission fees paid to Hong Kong Securities Clearing Company Limited	**300**	300
Reserve fund with The SEHK Options Clearing House Limited	**6,641**	4,371
Deposits with HKFE Clearing Corporation Limited in contribution to the reserve fund	**5,187**	6,745
Cost of membership for a seat at The Chinese Gold and Silver Exchange Society	**–**	486
Others	**11,698**	11,628
	199,664	198,051

29. Investment Property

	HK$'000
Fair value	
At 1 January 2020	192,471
Transfer to property and equipment	(122,393)
At 31 December 2020 and 1 January 2021	70,078
Transfer to property and equipment	(70,078)
At 31 December 2021	–

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.

During the current year, the Group commenced owner-occupation of the remaining investment property held and consequently all investment properties held as at 31 December 2020 were reclassified to property and equipment (note 30) during the current year.

29. Investment Property (continued)

The fair value of the Group's investment properties as at 31 December 2020 were arrived at on the basis of a valuation carried out on that date 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 as at 31 December 2020 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				
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 2021					
At 1 January 2021					
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**
At 1 January 2021, net of accumulated depreciation	**709,706**	**29,254**	**22,534**	**50,714**	**812,208**
Transfer from investment property	**70,078**	**–**	**–**	**–**	**70,078**
Additions — Right-of-use assets under HKFRS 16	**121,249**	**–**	**–**	**–**	**121,249**
Additions — Others	**–**	**50,804**	**7,179**	**33,479**	**91,462**
Disposals/termination	**(1,338)**	**(40)**	**(442)**	**(1)**	**(1,821)**
Depreciation	**(179,742)**	**(25,064)**	**(6,134)**	**(27,077)**	**(238,017)**
At 31 December 2021, net of accumulated depreciation	**719,953**	**54,954**	**23,137**	**57,115**	**855,159**
At 31 December 2021					
Cost	**1,153,840**	**196,877**	**98,804**	**610,451**	**2,059,972**
Accumulated depreciation	**(433,887)**	**(141,923)**	**(75,667)**	**(553,336)**	**(1,204,813)**
Net carrying values	**719,953**	**54,954**	**23,137**	**57,115**	**855,159**
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)

Notes:

(i) As at 31 December 2021, included in the carrying amount of leasehold land and buildings is right-of-use assets of HK$265,372,000 (as at 1 January 2021: HK$307,595,000).

(ii) For the year ended 31 December 2021, the total cash outflow for leases amounted to HK$153,718,000 (2020: HK$133,710,000) and depreciation charge amounts.

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 and termination 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

	2021 HK$'000	2020 HK$'000
Cash collateral on securities lent	1,083,437	1,580,139
Repurchase agreements	1,993,963	9,100,286
	3,077,400	10,680,425
Repurchase agreements		
Analysed by collateral type:		
Equities	1,070,947	4,782,353
Bonds	923,016	4,317,933
	1,993,963	9,100,286
Analysed by market:		
Inter-bank market	1,993,963	9,100,286
Analysed for reporting purposes:		
Current	1,993,963	9,100,286

31. Cash Collateral on Securities Lent and Repurchase Agreements (continued)

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 2021, 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$2,610 million (31 December 2020: HK$11,308 million), which are subject to the simultaneous agreements to repurchase these investments at the agreed date and price.

32. Accounts Payable

	2021 HK$'000	2020 HK$'000
Accounts payable to:		
— Clients	**13,410,306**	20,007,326
— Brokers, dealers and clearing houses	**2,029,906**	1,208,756
— Others	**284,850**	1,705,457
	15,725,062	22,921,539

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 2021 (31 December 2020: 0.001%), all the accounts payable are non-interest bearing.

Accounts payable to clients also include those payables placed in segregated accounts with authorised institutions of HK$12,820,396,000 (31 December 2020: HK$19,553,711,000), HKFE Clearing Corporation Limited, the SEHK Options Clearing House Limited and other futures dealers totalling HK$226,187,000 (31 December 2020: HK$701,543,000).

33. Bank Borrowings and Debt Securities in Issue

	2021 HK$'000	2020 HK$'000
Debt securities in issue		
Non-current		
Non-convertible bonds (note (b))	**13,983,988**	11,568,173
Current		
Convertible bonds (note (a))	**–**	125,385
Non-convertible notes (note (c))	**6,829,750**	6,175,976
Total current debt securities in issue	**6,829,750**	6,301,361
Total debt securities in issue	**20,813,738**	17,869,534
Bank borrowings		
Secured borrowing		
— Bank loans (notes (d), (e) and (f))	**78,290**	949,087
Unsecured borrowing		
— Bank loans (notes (e), (f) and (g))	**23,925,963**	37,066,519
Total bank borrowings	**24,004,253**	38,015,606
Total bank borrowings and debt securities in issue	**44,817,991**	55,885,140

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. Part of the convertible bonds issued in 2016 were redeemed during the year ended 31 December 2019, and the outstanding principal amount as at 31 December 2020 was HK$124 million.

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, 25 October 2016 and 25 October 2019 for details of the bonds and partial redemption.

All of the convertible bonds issued were redeemed during the current year while the number of outstanding shares convertible under the convertible bonds issued in 2016 was 22,342,342 with principal amount of HK$124 million as at 31 December 2020. Please refer to the Company's announcement on 25 October 2021 for details of the redemption.

As at 31 December 2020, the conversion prices of convertible bonds issued by the Company in 2016 is HK$5.5 per share . No convertible bonds issued by the Company in 2016 were converted during the period from 1 January 2021 to the date of redemption and prior year.

33. Bank Borrowings and Debt Securities in Issue (continued)

Notes: (continued)

(b) On 19 July 2019, the Company issued unsecured and unguaranteed bonds in principal amount of US$700 million at a discount of 99.808% which is listed on The Stock Exchange of Hong Kong Limited. The bond carries a fixed interest rate of 3.375% with a maturity period of 5 years. The principal will be fully repayable on the maturity date at 19 July 2024. Please refer to the Company's announcement on 10 July 2019 and 19 July 2019 for details of the bonds.

On 18 November 2019, the Company issued unsecured and unguaranteed bonds in principal amount of US$400 million at a discount of 99.415% which is listed on The Stock Exchange of Hong Kong Limited. The bond carries a fixed interest rate of 3.125% with a maturity period of 5.5 years. The principal will be fully repayable on the maturity date at 18 May 2025. Please refer to the Company's announcement on 7 November 2019 and 18 November 2019 for details of the bonds.

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

On 20 May 2021, the Company issued unsecured and unguaranteed bonds in principal amount of US$300 million at a discount of 99.934% which is listed on The Stock Exchange of Hong Kong Limited. The bond carries a fixed interest rate of 2.125% with a maturity period of 5 years. The principal will be fully repayable on the maturity date at 20 May 2026. Please refer to the Company's announcement on 12 May 2021, 20 May 2021 and 21 May 2021 for details of the bonds.

(c) During the year ended 31 December 2021, the Company has issued medium term notes under the Company's Medium Term Note Programme (the "MTN Programme") in principal amount totalling HK$13,156 million with a maturity period of 1 year and repaid several medium term notes of principal amount totalling HK$12,518 million. As at 31 December 2021, the outstanding balances of HK$6,830 million (31 December 2020: HK$6,176 million) represent the unsecured and unguaranteed non-convertible notes.

(d) As at 31 December 2021, bank loans of HK$78 million (31 December 2020: 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$2,437 million (31 December 2020: HK$4,943 million) at fair value held by the Group.

(e) The majority of the Group's bank borrowings bear interest at variable interest rates based on Hong Kong Interbank Offered Rate ("HIBOR").

(f) Bank loans are repayable on demand and within 1 year on repayment schedule.

(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 2021, 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$24,000 million, and these facilities have tenors of 36 months.

As at 31 December 2021, HK$10,800 million (31 December 2020: HK$26,100 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 2021						
At 1 January 2021	**–**	**125,385**	**11,568,173**	**6,175,976**	**38,015,606**	**55,885,140**
Financing cash flows	**(1,249,687)**	**(127,137)**	**2,319,427**	**598,819**	**(14,011,353)**	**(12,469,931)**
Dividend declared	**1,249,687**	**–**	**–**	**–**	**–**	**1,249,687**
Foreign exchange translation	**–**	**–**	**78,713**	**36,320**	**–**	**115,033**
Other changes	**–**	**1,752**	**17,675**	**18,635**	**–**	**38,062**
At 31 December 2021	**–**	**–**	**13,983,988**	**6,829,750**	**24,004,253**	**44,817,991**
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

34. Other Payables, Accruals and Other Liabilities

	2021 HK$'000	2020 HK$'000
Other payables, accruals and other liabilities (note (iii))	**1,679,387**	1,740,279
Less: Non-current portion	**(188,822)**	(197,348)
Current portion	**1,490,565**	1,542,931

Notes:

(i) Other payables are non-interest bearing.

(ii) As at 31 December 2021, included in other payables, accruals and other liabilities is lease liabilities of HK$287,608,000 (31 December 2020: HK$320,077,000).

	2021 HK$'000	2020 HK$'000
Lease liabilities payable:		
Within one year	**98,786**	122,729
Within a period of more than one year but not more than two years	**71,232**	62,267
Within a period of more than two years but not more than five years	**38,273**	43,618
Within a period of more than five years	**79,317**	91,463
	287,608	320,077

(iii) Included in other payables, accruals and other liabilities is a liability classified as held-for-sale of HK$117 million in relation to the Group's interest in unlisted shares of an entity incorporated in Canada. The corresponding interest is classified as an asset held-for-sale as detailed in note 24.

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 2020	310,846
Financing cash flow	(133,710)
New leases entered/other changes	142,941
At 31 December 2020 and 1 January 2021	320,077
Financing cash flow	(153,718)
New leases entered/other changes	121,249
At 31 December 2021	287,608

35. Share Capital

	2021 HK$'000	2020 HK$'000
Authorised: 20,000,000,000 (31 December 2020: 20,000,000,000) ordinary shares of HK$0.10 each	**2,000,000**	2,000,000
Issued and fully paid: 6,037,785,086 (31 December 2020: 6,036,035,086) ordinary shares of HK$0.10 each	**603,778**	603,603

The movements in issued share capital were as follows:

	Number of shares in issue	Issued share capital HK$'000
As at 1 January 2020	5,940,583,872	594,058
Scrip dividend issued — 2019 second interim dividend	95,451,214	9,545
As at 31 December 2020 and 1 January 2021	6,036,035,086	603,603
New shares issued under exercise of share options	1,750,000	175
As at 31 December 2021	6,037,785,086	603,778

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.

36. Share Option/Award Scheme (continued)

2015 Share option scheme (continued)

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.

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.

36. Share Option/Award Scheme (continued)

2015 Share option scheme (continued)

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 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.

36. Share Option/Award Scheme (continued)

2015 Share option scheme (continued)

On 21 July 2021, the Company granted 10,645,000 share options at the exercise price of HK$2.398 per share to its directors and employees under the 2015 Share Option Scheme with a total of 9,845,000 share options being accepted. The exercise period of the share options is from 17 February 2022 to 20 July 2026. 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$2.18 per share.

The estimated fair values of the options granted under 2015 Share Option Scheme on the grant date on 21 July 2021 is approximately HK$3.6 million, which was calculated using the Binomial Option Pricing model with the key inputs into the model as disclosed below.

	2021
Weighted average share price at the date of grant	**HK$2.18**
Initial exercise price	**HK$2.398**
Expected volatility	**37.533%**
Expected option life	**5 years**
Risk-free rate	**0.495%**
Expected dividend yield	**7.514%**
Early exercise multiples	
— directors	**1.68**
— employees	**1.91**

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 2021, the Group has recognised an equity-settled share-based compensation expense of HK$2,678,000 (2020: HK$3,222,000) for the share options under the 2015 Share Option Scheme in the consolidated statement of profit or loss.

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

	2021		2020	
	Weighted average exercise price HK$ per share	**Number of options '000**	Weighted average exercise price HK$ per share	Number of options '000
At beginning of the year	**3.369**	**62,102**	3.728	54,106
Granted and accepted during the year	**2.398**	**9,845**	1.727	10,645
Adjusted during the year (note)	**–**	**–**	3.717	95
Exercised during the year	**1.727**	**(1,750)**	–	–
Forfeited during the year	**3.84**	**(29,646)**	3.95	(2,744)
At end of the year	**2.86**	**40,551**	3.369	62,102

36. Share Option/Award Scheme (continued)

2015 Share option scheme (continued)

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

31 December 2021 Number of options '000	**Exercise price HK$ per share (note)**	**Exercise period**
6,546	5.002	7 June 2018 – 9 November 2022
11,125	2.898	28 May 2019 – 31 October 2023
6,340	2.554	27 December 2019 – 30 May 2024
7,345	1.727	25 December 2020 – 28 May 2025
9,195	2.398	17 February 2022 – 20 July 2026
40,551		

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		

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)

During the years ended 31 December 2021 and 31 December 2020, certain directors of the Company were granted share options for their services to the Group. 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:

	2021 HK$'000	2020 HK$'000
Executive Directors:		
Lin Yong	244	275
Li Jianguo	54	61
Poon Mo Yiu	109	107
Sun Jianfeng	163	184
Sun Tong	163	184
Non-executive directors:		
Li Jun	–	–
Qu Qiuping	–	153
Cheng Chi Ming Brian	54	46
Wang Meijuan	–	–
William Chan	–	46
Zhang Xinjun	54	61
Independent non-executive directors:		
Tsui Hing Chuen, William	–	46
Lau Wai Piu	–	46
Wei Kuo-chiang	–	46
Wan Kam To	41	46
Liu Yan	–	46
Liu Swee Long Michael	41	–
Zhang Huaqiao	41	–
Lee Man Yuen Margaret	–	–

As at 31 December 2021, the Company had 40,551,041 (2020: 62,102,499) share options outstanding under the 2015 Share Option Scheme, which represented approximately 0.67% (2020: 1.03%) 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 40,551,041 (2020: 62,102,499) additional ordinary shares of the Company and additional share capital of HK$4,055,000 (2020: HK$6,210,000) and share premium of HK$111,855,000 (2020: HK$203,016,000) (before issue expenses).

36. Share Option/Award Scheme (continued)

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 administrative 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 Administration Committee 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) select any participant (excluding any excluded participants as defined under the Scheme rules) for participation in the Scheme as a Selected Participant and determine the number of awarded shares, save and except that the selection of a director of the Company as a Selected Participant, the terms and conditions of the award to such director and the number of award shares thereunder shall be approved by the Board upon the recommendation of the Remuneration Committee.

After the selection of the Selected Participant(s) and the determination of the number of awarded shares by the Board or the Administration Committee, as the case may be, 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.

36. Share Option/Award Scheme (continued)

Share award scheme (continued)

The Administration Committee shall conduct a review of the performance conditions (if any) in relation to each Selected Participant at least once in each financial year during the award period if the award period is more than 12 months or once only during the award period if the award period is less than 12 months. The awarded shares will be vested if the Selected Participant is able to meet the relevant service conditions during the relevant period, or lapsed if the Selected Participant is unable to meet the relevant service conditions during the relevant period.

A Selected Participant shall not exercise or direct the trustee to exercise and the trustee shall not exercise the voting rights in respect of any awarded shares held under the trust.

Details of the awarded shares granted and unvested as at 31 December 2021 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 (h))	Number of awarded shares unvested	Vesting dates	Fair value as at grant date
11 May 2018	7,010,493	5,923,076	1,087,417	–	note (a)	32,108,000
25 March 2019	6,848,366	4,057,693	1,169,819	1,620,854	note (b)	21,024,000
29 October 2019	8,175,000	5,000,000	1,540,000	1,635,000	note (c)	18,557,000
25 March 2020	14,294,205	4,359,028	2,428,918	7,506,259	note (d)	28,731,000
3 July 2020	7,700,000	7,700,000	–	–	note (e)	16,016,000
25 March 2021	29,000,000	29,000,000	–	–	note (f)	69,890,000
31 August 2021	36,788,082	15,800,639	187,600	20,799,843	note (g)	82,773,000

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 2021, the Group has recognised an equity-settled share-based compensation expense of HK$130,655,000 (31 December 2020: HK$44,781,000) for the Scheme in consolidated statement of profit or loss.

As at 31 December 2021, the Company did not have any awarded shares granted on 11 May 2018 which were outstanding under the Scheme (2020: 1,860,031 awarded shares). During the current year, 108,413 (2020: 221,869) and 1,751,618 (2020: 1,971,575) awarded shares granted on 11 May 2018 were lapsed and vested respectively.

As at 31 December 2021, the Company had 1,620,854 (2020: 3,988,774) awarded shares granted on 25 March 2019 which were outstanding under the Scheme. During the current year, 433,949 (2020: 258,719) and 1,933,971 (2020: 2,123,722) awarded shares granted on 25 March 2019 were lapsed and vested respectively.

36. Share Option/Award Scheme (continued)

Share award scheme (continued)

As at 31 December 2021, the Company had 1,635,000 (2020: 4,760,000) awarded shares granted on 29 October 2019 which were outstanding under the Scheme. During the current year, 740,000 (2020: 470,000) and 2,385,000 (2020: 2,615,000) awarded shares granted on 29 October 2019 were lapsed and vested respectively.

As at 31 December 2021, the Company had 7,506,259 (2020: 13,463,223) awarded shares granted on 25 March 2020 which were outstanding under the Scheme. During the current year, 1,597,936 (2020: 830,982) and 4,359,028 awarded shares granted on 25 March 2020 were lapsed and vested respectively.

As at 31 December 2021, the Company had no awarded shares granted on 3 July 2020 which were outstanding under the Scheme. All 7,700,000 awarded shares granted on 3 July 2020 were vested during the year ended 31 December 2020.

As at 31 December 2021, the Company had no awarded shares granted on 25 March 2021 which were outstanding under the Scheme. During the current year, all 29,000,000 awarded shares granted on 25 March 2021 were vested.

As at 31 December 2021, the Company had 20,799,843 awarded shares granted on 31 August 2021 which were outstanding under the Scheme. During the current year, 187,600 and 15,800,639 awarded shares granted on 31 August 2021 were lapsed and vested respectively.

Notes:

(a) Pursuant to the agreed terms, the vesting date of one-third of the award shares granted on 11 May 2018 was on 13 May 2019 while the vesting date of another one-third of award shares granted on 11 May 2018 would be on 13 May 2020 and the vesting date for the remaining would be on 13 May 2021.

(b) Pursuant to the agreed terms, the vesting date of one-third of the award shares granted on 25 March 2019 was on 23 March 2020 while the vesting date of another one-third of award shares granted on 25 March 2019 would be on 23 March 2021 and the vesting date for the remaining would be on 23 March 2022.

(c) Pursuant to the agreed terms, the vesting date of one-third of the award shares granted on 29 October 2019 was on 2 January 2020 while the vesting date of another one-third of award shares granted on 29 October 2019 would be on 2 January 2021 and the vesting date for the remaining would be on 2 January 2022.

(d) Pursuant to the agreed terms, the vesting date of one-third of the award shares granted on 25 March 2020 was on 24 March 2021 while the vesting date of another one-third of award shares granted on 25 March 2020 would be on 24 March 2022 and the vesting date for the remaining would be on 24 March 2023.

36. Share Option/Award Scheme (continued)

Share award scheme (continued)

Notes: (continued)

(e) Pursuant to the agreed terms, the vesting date of all the award shares granted on 3 July 2020 was on 15 July 2020.

(f) Pursuant to the agreed terms, the vesting date of all the award shares granted on 25 March 2021 was on 30 April 2021.

(g) Pursuant to the agreed terms, the vesting date of one-third of the award shares granted on 31 August 2021 was on 30 September 2021 while the vesting date of another one-third of award shares granted on 31 August 2021 would be on 30 September 2022 and the vesting date for the remaining would be on 30 September 2023.

(h) Awarded Shares would lapse prior to their vesting date as a result of staff separations. Pursuant to the agreement, the lapsed shares would be held by the trustee which is subject to the approval from Administration Committee for re-selection of any Selected Participant. The lapsed Awarded Shares were transferred out from share award reserve to share premium as disclosed in the consolidated statement of changes in equity.

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

	2021		2020	
	HK$'000	Number of shares	HK$'000	Number of shares
At 1 January	389,986	172,705,979	207,210	62,273,142
Purchased during the year	–	–	230,980	126,069,000
Vested and transferred out during the year	(120,254)	(55,296,256)	(48,204)	(15,636,163)
At 31 December	269,732	117,409,723	389,986	172,705,979

37. Commitments and Contingencies

(a) Capital commitments

The Group had the following commitments as at year end.

	2021 HK$'000	2020 HK$'000
Contracted, but not provided for:		
Computer equipment	8,962	10,176
Others	319	614
	9,281	10,790

(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. On 21 April 2021, the Company renewed the master services agreement for a term of 3 years from 1 July 2021 to 30 June 2024. 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 advisory and services; 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$7,507,000 (2020: HK$4,451,000) and HK$1,313,000 (2020: HK$1,109,000) 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$7,318,000 (2020: HK$14,317,000) for provision of investment management service and investment advisory service to Haitong Securities Co., Ltd. (the ultimate holding company of the Company) and its subsidiaries and expenses related to referral fee amounted to HK$33,000 (2020: 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 (the "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 EUR747,000 (equivalent to HK$6,783,000) (2020: EUR587,000 (equivalent to HK$5,228,000)) and expenses paid by this subsidiary in connection to such services amounted to EUR4,891,000 (equivalent to HK$44,097,000) (2020: EUR5,323,000 (equivalent to HK$49,705,000)). The relevant income and expense are based on the terms as set out in the Agreement.

(iv) During the current and prior years, Haitong Bank provided financial advisory for the Group's financing activities, the Group paid financial advisory fee of US$2.5 million (equivalent to HK$19.40 million) (2020: financial advisory fee of US$2.5 million (equivalent to HK$19.48 million)) to Haitong Bank where such amount constitutes part of the effective interest expense of the Group under the applicable accounting standard. During the current year, amortisation of the financial advisory fee paid amounted to HK$19,749,000 (2020: HK$18,444,000), 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 current year, the Group recognised an underwriting commission of HK$2,109,000 (2020: HK$8,052,000) in relation to services provided to subsidiaries of Haitong Securities Co., Limited for their corporate finance activities. The commission income was recognised in accordance with relevant agreements entered between the Group and subsidiaries of Haitong Securities Co., Limited.

(vi) During the current year and prior year, the Company entered intercompany unsecured loan arrangements (chargeable at US Dollar LIBOR + 1.25%) with Haitong International Holdings Limited (the immediate holding company). The outstanding balance as at 31 December 2020 of US$51,408,000 (equivalent to approximately HK$398,518,000) was repaid during the current year, and there is no outstanding unsecured loan due from the Company. Interest income amounted to US$777,000 (equivalent to HK$6,029,000) (2020: US$1,827,000 (equivalent to HK$14,181,000)) was recognised in the consolidated statement of profit or loss during the current year. Interest expense amounted to US$1,376,000 (equivalent to HK$10,698,000) was recognised in the consolidated statement of profit or loss during the year ended 31 December 2020.

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

	2021 HK$'000	2020 HK$'000
Salaries, incentives, bonuses and allowances	64,082	96,932
Pension scheme contributions (net)	1,255	1,137
Total compensation of key management personnel	65,337	98,069

Compensation of key management personnel include fees, salaries and allowances, bonuses and pension scheme contribution of directors of the Company (if applicable) and members of the Executive Committee of the Company.

Included salaries, incentives, bonuses and allowances is the performance related bonuses to the certain executive directors, in which these directors are entitled to bonus payment that are determined as a percentage of the profit after tax of the Group. Such bonuses paid or to be paid to Mr. Lin Yong, Mr. Poon Mo Yiu, Mr. Sun Jianfeng and Mr. Sun Tong attributable to the year ended 31 December 2021 amounted to HK$4,816,000, HK$2,167,000, HK$2,528,000 and HK$2,528,000 (2020: HK$16,000,000, HK$6,300,000, HK$7,300,000 and HK$7,300,000) respectively.

The total remuneration paid or to be paid to Mr. Lin Yong, Mr. Poon Mo Yiu, Mr. Sun Jianfeng and Mr. Sun Tong attributable to the year ended 31 December 2021 (including those detailed in note 11) amounted to HK$9,352,000, HK$5,418,000, HK$5,130,000 and HK$5,130,000 (2020: HK$20,536,000, HK$9,551,000, HK$9,902,000 and HK$9,831,000) respectively.

39. Statement of Financial Position and Reserves Movement of the Company

(a) Statement of financial position of the Company

	2021 Current HK$'000	2021 Non-current HK$'000	2021 Total HK$'000	2020 Current HK$'000	2020 Non-current HK$'000	2020 Total HK$'000
ASSETS						
Cash and cash equivalents	1,067,006	–	1,067,006	34,896	–	34,896
Tax recoverable	20,664	–	20,664	63,444	–	63,444
Prepayments, deposits and other receivables	242,609	36,656	279,265	211,786	53,708	265,494
Amount due from a related company	–	–	–	398,518	–	398,518
Amounts due from subsidiaries	49,311,198	15,952,759	65,263,957	73,683,698	27,630,149	101,313,847
Accounts receivable	851,214	–	851,214	–	–	–
Property and equipment	–	89,311	89,311	–	121,230	121,230
Deferred tax assets	–	2,586	2,586	–	1,393	1,393
Investment in subsidiaries	–	23,152,543	23,152,543	–	2,106,186	2,106,186
Total assets	51,492,691	39,233,855	90,726,546	74,392,342	29,912,666	104,305,008
LIABILITIES AND EQUITY						
Liabilities						
Bank borrowings and debt securities in issue	32,042,408	13,983,988	46,026,396	43,251,361	11,568,173	54,819,534
Tax payable	10,421	–	10,421	40,974	–	40,974
Other payables and accruals and other liabilities	745,325	17,984	763,309	1,089,963	36,014	1,125,977
Amounts due to subsidiaries	14,299,516	–	14,299,516	26,356,015	–	26,356,015
Total liabilities	47,097,670	14,001,972	61,099,642	70,738,313	11,604,187	82,342,500
Equity						
Share capital (note 35)			603,778			603,603
Reserves (note 39(b))			29,023,126			20,652,689
Proposed dividends (note 15)			–			706,216
Total equity			29,626,904			21,962,508
Total liabilities and equity			90,726,546			104,305,008
Net current assets			4,395,021			3,654,029

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 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
At 1 January 2021	**19,311,207**	**50,428**	**35,431**	**(389,986)**	**5,102**	**2,697**	**6,411**	**1,631,399**	**20,652,689**
Profit and total comprehensive income for the year	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**8,781,700**	**8,781,700**
Exchange reserve	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(3,972)**	**(3,972)**
Recognition of equity-settled share based payment	**–**	**2,678**	**130,655**	**–**	**–**	**–**	**–**	**–**	**133,333**
Vesting of shares for the share award scheme	**13,455**	**–**	**(133,709)**	**120,254**	**–**	**–**	**–**	**–**	**–**
Redemption of convertible bond	**–**	**–**	**–**	**–**	**–**	**–**	**(6,411)**	**6,411**	**–**
Shares issued under share option scheme (notes 35 & 36)	**3,377**	**(530)**	**–**	**–**	**–**	**–**	**–**	**–**	**2,847**
Share awards lapsed	**1,346**	**–**	**(1,346)**	**–**	**–**	**–**	**–**	**–**	**–**
Share options lapsed	**29,448**	**(29,448)**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
2020 second interim dividend declared and settled in cash and scrip (note 15)	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(70)**	**(70)**
2021 interim dividend declared and settled in cash (note 15)	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(543,401)**	**(543,401)**
At 31 December 2021	**19,358,833**	**23,128**	**31,031**	**(269,732)**	**5,102**	**2,697**	**–**	**9,872,067**	**29,023,126**

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 2021 includes a profit and total comprehensive income of HK$8,781,700,000 which mainly derived from dividend received from subsidiaries (2020: profit and total comprehensive income of HK$2,223,211,000) which has been dealt with in the financial statements of the Company.

40. Investment in Subsidiaries

	2021	2020
	HK$'000	HK$'000
Unlisted shares, at cost	**20,908,222**	105,377
Deemed contribution	**2,244,321**	2,000,809
	23,152,543	2,106,186

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 2021 are as follows:

Name	Place of incorporation/ registration and operations	Paid-up register capital	Percentage of equity attributable to the Company Direct %	Indirect %	Principal activities
Haitong International (UK) Limited	England and Wales	GBP8,334,563	100 (2020: –)	– (2020:100)	Brokerage, equity research and research sales
Haitong International Asset Management (HK) Limited	Hong Kong	HK$20,000,000	100 (2020: –)	– (2020:100)	Provision of assets management services
Haitong International Asset Management Limited	Hong Kong	HK$13,000,000	100 (2020: –)	– (2020:100)	Provision of assets management services
Haitong International Capital (HK) Limited	Hong Kong	HK$10,000,000	100 (2020: –)	– (2020:100)	Corporate finance
Haitong International Capital Limited	Hong Kong	HK$20,000,000	100 (2020: –)	– (2020:100)	Provision of corporate financial advisory services
Haitong International Futures Limited	Hong Kong	HK$400,000,000	100 (2020: –)	– (2020:100)	Futures and options brokerage and trading
Haitong International Financial Products Limited	Hong Kong	HK$50,000,000	100 (2020: –)	– (2020:100)	Market-making in financial instruments
HTI Financial Solutions Limited (note a)	Hong Kong	HK$1,000,000	100 (2020: –)	– (2020:100)	Provision of financial solutions
Haitong International Investment Managers Limited	Hong Kong	HK$47,000,000	100 (2020: –)	– (2020:100)	Provision of asset management services
Haitong International (Japan) K.K.	Japan	Yen10,000,000	100 (2020: –)	– (2020: 100)	Asian equity research and corporate finance
Haitong International Research Limited	Hong Kong	HK$1,000,000	100 (2020: –)	– (2020:100)	Provision of research services

40. Investment in Subsidiaries (continued)

Name	Place of incorporation/ registration and operations	Paid-up register capital	Percentage of equity attributable to the Company Direct %	Indirect %	Principal activities
Haitong International Securities (Australia) Pty Ltd	Australia	AU$1,380,435	100 (2020: –)	– (2020: 100)	Brokerage services
Haitong International Securities (USA) Inc.	United States	US$12,654,319	100 (2020: –)	– (2020:100)	Equity research, sales and trading and investment banking
Haitong International Securities (UK) Limited	England and Wales	GBP560	100 (2020: –)	– (2020: 100)	Provision of corporate financial advisory services
Haitong International Securities Company Limited	Hong Kong	HK$11,500,000,000	100 (2020: –)	– (2020:100)	Securities brokerage and margin financing
Haitong International Securities Group (Singapore) Pte. Ltd.	Singapore	SG$730,550,721	100 (2020: –)	– (2020:100)	Investment holding
Haitong Securities USA LLC	United States	US$13,738,443	100 (2020: –)	– (2020: 100)	Investment banking
Haitong International Securities Nominees Limited	Hong Kong	HK$2	100 (2020: –)	– (2020:100)	Provision of custodian services
Haitong Securities India Private Limited	India	INR260,732,520	100 (2020: –)	– (2020: 100)	Institutional stock broking and investment banking
演天資訊科技(深圳)有限公司 (note b)	People's Republic of China	HK$10,000,000	–	100 (2020: 100)	Provision of software development services

Notes:

(a) The company was renamed from Haitong International Financial Solutions Limited to HTI Financial Solutions Limited with effect from 23 September 2021.

(b) Entity registered as wholly-foreign-owned enterprises under the law in the PRC.

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
Fountain 4 Limited Partnership Fund	Hong Kong	–	100 (2020: –)	Private equity funds investment
Innovation I Limited Partnership Fund	Hong Kong	–	100 (2020: –)	Private equity investment
Global Innovation Fund SPC (consists of SP I to SP V) (note 2)	Cayman Islands	–	100 (2020: 100)	Private equity investment

Notes:

1. As at 31 December 2020, the Group held 69% interest in Haitong Select China Offshore Real Estate Bond Fund S.P. (the "Fund"), a fund incorporated in Cayman Islands with principal activity being bond investments, and the Group had consolidated the Fund. During the year ended 31 December 2021, the Group's holding in the Fund decreased and the Fund was deconsolidated as at 31 December 2021.

   Detailed accounting policy on basis of consolidation are set out in note 3 and further details on interest in consolidated and unconsolidated Investments (as defined in note 26 and note 25) are set out in note 26 and note 25.

2. This fund was renamed from Haitong International Innovation Fund SPC to Global Innovation Fund SPC on 11 October 2021, and a subsidiary of the Company holds 100% interest in this fund through another investment fund with effective from 31 August 2021.

The table above lists out the subsidiaries (within the definition as defined in Chapter 1 of 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.

40. Investment in Subsidiaries (continued)

Debt securities issued by subsidiaries

As at 31 December 2021 and 31 December 2020, none of the subsidiaries of the Company issued any debt securities.

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 2021 was approximately of HK$181 million (31 December 2020: HK$38 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, the United States Financial Industry Regulatory Authority and the Australian Securities and Investments Commission.

During the current year and prior year, all aforementioned subsidiaries complied with all externally imposed 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 receivable from clients for subscription of new shares in IPO divided by the total shareholders' equity.

41. Capital Management (continued)

The leverage ratios as at the end of the reporting period were as follows:

	2021 HK$'000	2020 HK$'000
Total assets	**104,991,595**	146,442,516
Less: Accounts payable to clients (note 32)	**(13,410,306)**	(20,007,326)
Less: Receivable from clients for subscription of new shares in IPO (note 23)	**–**	(562,717)
	91,581,289	125,872,473
Shareholders' equity	**27,526,445**	28,317,169
Leverage ratio (times)	**3.33**	4.45

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 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.

42. Financial Risk Management (continued)

Market risk (continued)

Price risk

Price risk is the risk that the fair values of equity investments, debt instruments, exchange traded funds, unlisted investment funds 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/or 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 Asset and Liability Management 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 Legal Department.

Listed equity investments (including exchange traded funds)

The table below summarises the impact of changes in the Hong Kong Hang Seng Index and other relevant indexes on the Group's profit after tax for the year and on the investments revaluation reserve. The analysis is based on the assumption that the equity index had changed by 10% with all other variables held constant and all the listed equity instruments move according to the historical correlation with the index.

The directors of the Company consider the Group's exposure to price risk arising from the listed equity investments acquired for the issued financial products presented in assets acquired financial products issued can be offset against the Group's exposure to price risk arising from the issued financial products presented in financial products issued at fair value and therefore excluded from the analysis below.

Hong Kong Hang Seng Index and other relevant indexes

	2021	
	Net impact on profit after tax HK$'000	Impact on the investments revaluation reserve in equity HK$'000
Increase by 10%	427,042	5,905
Decrease by 10%	(427,042)	(5,905)

42. Financial Risk Management (continued)

Market risk (continued)

Price risk (continued)

Listed equity investments (including exchange traded funds) (continued)

Hong Kong Hang Seng Index and other relevant indexes (continued)

	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)

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$614,765,000 increase/decrease (2020: HK$752,069,000 increase/decrease).

Derivative financial instruments — held for trading

The fair value of derivative financial instruments held for trading depends on the underlying investment portfolio or linked index. If the fair value of the underlying investment portfolio or linked index increased/decreased by 5%, the fair value of derivative financial instruments held for trading and profit after tax would be subject to an estimated HK$8,940,000 decrease/increase (2020: HK$3,658,000 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 2021 would have increased/decreased by approximately HK$132,248,000 (2020: the profit after tax would have increased/decreased by approximately HK$259,473,000 and other comprehensive income would be subject to an estimated HK$1,197,000 increase/decrease).

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.

42. Financial Risk Management (continued)

Market risk (continued)

Currency risk

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate as a result of changes in foreign exchange rates.

The Group's foreign currency risk arises principally from the Group's transactions and borrowings denominated in currencies other than Hong Kong dollars ("HKD").

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 2021, 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$15,632,000 (2020: HK$31,443,000) higher/lower.

At 31 December 2021, 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$10,203,000 (2020: HK$16,463,000) higher/lower.

At 31 December 2021, 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$81,552,000 (2020: HK$109,021,000) 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.

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 2021, the total interest income under effective interest method from financial assets that are measured at amortised cost or at FVTOCI amounts to HK$1,741,000,000 (2020: HK$2,464,585,000). For year ended 31 December 2021, the interest expense on financial liabilities that are measured at amortised cost amounts to HK$1,106,837,000 (2020: HK$2,144,511,000).

42. Financial Risk Management (continued)

Market risk (continued)

Interest rate risk (continued)

Fair value interest rate risk (continued)

The Group's fair value interest rate risk exposure is summarised as follows:

	2021 HK$'000	2020 HK$'000
Financial assets held for trading and market making activities	2,686,342	9,464,089
Investment securities at FVTPL	8,585,608	13,003,564
Assets acquired for financial products issued	2,591,650	2,559,437
Financial liabilities held for trading and market making activities	(2,321,351)	(3,899,299)
Financial products issued at fair value	(1,031,556)	(3,031,042)
Investment securities at FVTOCI	–	59,845
	10,510,693	18,156,594

At 31 December 2021, if market interest rates had been 25 basis points (2020: 25 basis points) higher/lower with all other variables held constant, profit after tax for the year would have decreased/increased by HK$120,951,000 (2020: profit after tax would have decreased/increased by HK$75,187,000 and the investments revaluation reserve in equity would have decreased/increased by HK$186,000).

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.

Cash flow interest rate

The Group's cash flow interest rate risk relates primarily to the bank deposits, advances to customers, investment securities at amortised cost, debt securities in issue and bank borrowings.

The Group's cash flow interest rate risk is mainly concentrated on the fluctuation of HIBOR arising from the Group's HKD denominated borrowings as its interest-bearing assets and liabilities are mainly HKD denominated.

The Group's exposure to interest rate risk arising from the interest-bearing assets can be offset against the Group's interest-bearing liabilities. Management actively monitors the Group's net interest rate exposure through setting limits on the level of mismatch of interest rate re-pricing and duration gap and aims at maintaining an interest rate spread, such that the Group is always in a net interest-bearing asset position and derives net interest income. The directors of the Company considered that there is no concentration of interest rate risk exposure.

42. Financial Risk Management (continued)

Market risk (continued)

Interest rate risk (continued)

Cash flow interest rate (continued)

The Group's cash flow interest rate risk exposure arises on positions with the following carrying values:

	2021 HK$'000	2020 HK$'000
Advances to customers — margin financing	**9,160,201**	12,327,279
Advances to customers — term financing	**663,967**	1,046,465
Investment securities at amortised cost	**1,395,922**	3,257,313
Cash held on behalf of customers	**4,428,751**	9,782,289
Cash and cash equivalents	**7,003,777**	4,258,665
Bank borrowings	**(23,770,000)**	(37,899,087)
Debt securities in issue	**–**	(821,723)
	(1,117,382)	(8,048,799)

At 31 December 2021, if market interest rates had been 25 basis points (2020: 25 basis points) higher/lower with all other variables held constant, profit after tax for the year would have decreased/increased by HK$2,333,000 (2020: decreased/increased by HK$16,802,000). 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.

Interest rate benchmark reform

Several of the Group's HIBOR linked financial assets/liabilities may be subject to the interest rate benchmark reform. The Group is closely monitoring the market and managing the transition to new benchmark interest rates.

42. Financial Risk Management (continued)

Market risk (continued)

Interest rate benchmark reform (continued)

HIBOR

While the Hong Kong Dollar Overnight Index Average ("HONIA") has been identified as an alternative to HIBOR, there is no plan to discontinue HIBOR. The multi-rate approach has been adopted in Hong Kong, whereby HIBOR and HONIA will co-exist.

(i) Risks arising from the interest rate benchmark reform

The following are the key risks for the Group arising from the transition:

Interest rate related risks

There are fundamental differences between IBORs and the various alternative benchmark rates. IBORs are forward looking term rates published for a period (e.g. 3 months) at the beginning of that period and include an inter-bank credit spread, whereas alternative benchmark rates are typically risk-free overnight rates published at the end of the overnight period with no embedded credit spread. These differences will result in additional uncertainty regarding floating rate interest payments.

Interest rate basis risk

Interest rate basis risk may arise if a non-derivative instrument and the derivative instrument held to manage the interest risk on the non-derivative instrument transition to alternative benchmark rates at different times. This risk may also arise where back-to-back derivatives transition at different times. The Group will monitor this risk against its risk management policy which has been updated to allow for temporary mismatches of up to 12 months and transact additional basis interest rate swaps if required.

42. Financial Risk Management (continued)

Market risk (continued)

Interest rate benchmark reform (continued)

HIBOR (continued)

(ii) **Progress towards implementation of alternative benchmark interest rates**

During the year, the Group had confirmed with the relevant counterparties that HIBOR will continue to maturity for all contracts which are linked to HIBOR.

The following table shows the total amounts of outstanding contracts and the progress in completing the transition to alternative benchmark rates as at 31 December 2021. The amounts of financial assets and liabilities are shown at their carrying amounts except for investment securities measured at fair value through profit or loss which are shown at their notional amounts.

Financial instruments prior to transition	Maturing in	Carrying amounts/ notional amounts HK$'000	Hedge accounting	Transition progress for financial instruments
Non-derivative financial assets				
Investment securities measured at amortised cost linked to HIBOR	2022	1,395,922	N/A	HIBOR will continue till maturity, the management did not plan to transit to HONIA
Investment securities measured at fair value through profit or loss linked to HIBOR	2022	863,902	N/A	HIBOR will continue till maturity, the management did not plan to transit to HONIA
Cash collateral on securities borrowed and reverse repurchase linked to HIBOR	2022	7,570	N/A	HIBOR will continue till maturity, the management did not plan to transit to HONIA
Non-derivative financial liabilities				
Bank borrowings and debt securities in issue linked to HIBOR	2022	23,770,000	N/A	HIBOR will continue till maturity, the management did not plan to transit to HONIA

42. Financial Risk Management (continued)

Market risk (continued)

Credit risk and impairment assessment

As at 31 December 2021, the Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge an obligation by the counterparties is arising from the carrying amount of the respective recognised financial assets as stated in the consolidated statement of financial position.

The Group's credit risk exposure are primarily attributable to investment securities at amortised cost, financial products issued at fair value, advances to customers, 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 credit 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 at amortised cost, prior to the lending of a loan and subscription of debt securities, the Credit Committee or the Investment Committee will review the financial strength, purpose of the borrowing or issuance, repayment ability of the borrower 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.

42. Financial Risk Management (continued)

Market risk (continued)

Credit risk and impairment assessment (continued)

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.

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, management will also maintain a regular communication with the holders and assess the performance of the underlying investments to evaluate if there is any indication of potential credit deterioration.

For other credit exposures such as the derivative financial instruments, accounts and other receivables and cash and cash equivalents, the Group ensures that the exposures are limited to reputable counterparties, such as the financial institutions, brokers, dealers or clearing houses, which are governed by regulators including the Hong Kong Monetary Authority, the Hong Kong Securities and Futures Commission and other overseas regulators. The risk of default in repayment is considered to be minimal by the directors.

Other than concentration of credit risk on liquid funds which are deposited with several banks with high credit ratings, the Group does not have any other significant concentrations of credit risk.

The management is confident in its ability to continue to control and sustain minimal exposure of credit risk arising from below major recognised financial assets as stated in the consolidated statement of financial position.

- For accounts receivable, approximately HK$1,836,059,000 (2020: HK$1,303,378,000) 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.

42. Financial Risk Management (continued)

Market risk (continued)

Credit risk and impairment assessment (continued)

- Loans and debt securities classified as advances to customers and investment securities at amortised cost are either secured or guaranteed. Concentration risk of loans and debt securities is managed by reference to individual borrowers and issuers. The aggregate credit exposure in relation to the ten largest outstanding loans borrowers and issuers of debt securities at 31 December 2021 was HK$8,530 million (31 December 2020: HK$10,885 million). There was no recent history of individual impairment allowance recognised for these ten largest parties.

- For stock-pledged repurchase and stock-acquired resale business, management conducts strict due diligence and project review procedures, and control the credit risk relating to the business through marking the market, tracking projects, closing the position and other approaches. The directors of the Company focus on the investment diversification for credit-class fixed income securities investments and closely follow up the operation condition of counterparties and their credit ratings changes. Majorities of the above-mentioned businesses were entered with the counterparties with 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)

Market risk (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	2021 Gross carrying amount HK$'000	HK$'000	2020 Gross carrying amount HK$'000	HK$'000
Financial assets at amortised cost								
Advances to customers — margin financing	21	N/A	Low risk	12-month ECL	7,308,928		9,574,790	
			Watch list	12-month ECL	765,594		1,458,949	
			Doubtful	Lifetime ECL (not credit impaired)	542,594		475,565	
			Loss	Credit-impaired	1,308,002	9,925,118	2,024,786	13,534,090
Advances to customers — term financing	21	N/A	Low risk	12-month ECL	2,471,301		3,272,968	
			Watch list	12-month ECL	–		237,208	
			Doubtful	Lifetime ECL (not credit impaired)	–		–	
			Loss	Credit-impaired	903,533	3,374,834	619,042	4,129,218
Investment securities at amortised cost	18	N/A	Low risk	12-month ECL	3,185,693		8,602,253	
			Watch list	12-month ECL	–		338,927	
			Doubtful	Lifetime ECL (not credit impaired)	–		480,000	
			Loss	Credit-impaired	3,876,798	7,062,491	1,089,170	10,510,350
Debt instruments at FVTOCI (note)	18	Above Baa2 (Moody)/ BBB (S & P)	N/A	12-month ECL	–		59,845	
Cash collateral on securities borrowed and reverse repurchase agreements (note)	22	Above Baa2 (Moody)/ BBB (S & P)	N/A	12-month ECL	4,799,592		7,738,788	
Cash and cash equivalents (note)		Above Baa2 (Moody)/ BBB (S & P)	N/A	12-month ECL	7,106,590		4,335,005	
Cash held on behalf of customers (note)	16	Above Baa2 (Moody)/ BBB (S & P)	N/A	12-month ECL	12,821,247		19,555,006	
Accounts receivable (note)	23	N/A	Low risk	12-month ECL	8,030,650		5,603,157	
Deposits and other receivables (note)	24	N/A	Low risk	12-month ECL	1,632,071		1,106,543	

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)

Market risk (continued)

Credit risk and impairment assessment (continued)

The estimated loss rates for each class of financial assets are estimated based on historical observed default rates over the expected life of the respective class of financial assets and are adjusted for forward-looking information that is available without undue cost or effort, including macroeconomic data such as GDP growth, unemployment, benchmark interest rates and house prices. The identification of internal credit rating for individual financial assets 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)

Market risk (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 2021

	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 2021	29,922	7	1,176,882	1,206,811
Changes due to financial instruments recognised as at 1 January 2021:				
— Net remeasurement of ECL without transfer of stage	(149)	–	496,284	496,135
— Repayments (note iv)	(151)	–	(5,245)	(5,396)
— Transfer from/to 12-month ECL to/from lifetime ECL	(7,916)	8,136	(220)	–
— Net remeasurement of ECL arising from transfer of stage (note i)	(246)	5,017	66,031	70,802
— De-recognition (note v)	–	–	(1,004,165)	(1,004,165)
New lending (note ii)	725	5	–	730
As at 31 December 2021 (note iii)	22,185	13,165	729,567	764,917

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	(2,258)	–	250,108	247,850
— Repayments (note iv)	(157)	–	–	(157)
— Transfer from/to 12-month ECL to/from lifetime ECL	20,973	(33,987)	13,014	–
— Net remeasurement of ECL arising from transfer of stage (note i)	(19,868)	3	103,297	83,432
— De-recognition	–	–	(59)	(59)
New lending (note ii)	691	–	–	691
As at 31 December 2020 (note iii)	29,922	7	1,176,882	1,206,811

42. Financial Risk Management (continued)

Market risk (continued)

Credit risk and impairment assessment (continued)

Notes:

(i) Financial assets with a gross carrying amount of HK$81 million (2020: HK$554 million) were assessed as becoming credit-impaired. Additional impairment allowance of HK$66 million (2020: HK$103 million) was made under lifetime ECL in respect of these assets.

(ii) Impairment allowance of HK$1 million (2020: HK$1 million) made under 12m ECL is in relating to new financial assets with gross amount of HK$1,148 million (2020: 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) In determining the allowances for credit-impaired advances to customers in margin financing, the management of the Group also takes into account shortfall by comparing the fair value of securities pledged as collateral, other types of credit enhancement and the outstanding balance of loan to margin clients individually taking into account subsequent settlement or executable settlement plan and restructuring arrangements. In the opinion of the directors of the Company, the impairment provisions for both years are appropriate.

(iv) During the current year, loans with gross carrying amounts of HK$190 million (2020: HK$60 million) were repaid (with a corresponding reversals of impairment).

(v) During the current year, loans with gross carrying amounts of HK$1,004 million were written off.

Movement in the allowances for impairment that has been recognised for investment securities at amortised cost are as follows:

31 December 2021

	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 2021	25,121	9,512	–	34,633
Change due to financial instruments recognised as at 1 January 2021:				
— Transfer from/to 12m ECL to/from lifetime ECL (note iii)	(7,346)	(9,512)	16,858	–
— Net remeasurement of ECL arising from transfer of stage	(7,581)	–	(16,858)	(24,439)
— Net remeasurement of ECL without transfer of stage	(1,353)	–	–	(1,353)
— Repayments (note i)	(4,782)	–	–	(4,782)
New lending (note ii)	4,100	–	–	4,100
As at 31 December 2021	8,159	–	–	8,159

42. Financial Risk Management (continued)

Market risk (continued)

Credit risk and impairment assessment (continued)

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	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 without transfer of stage	10,253	–	–	10,253
— Repayments (note i)	(845)	–	–	(845)
New lending (note ii)	2,215	–	–	2,215
As at 31 December 2020	25,121	9,512	–	34,633

Notes:

(i) During the current year, impairment allowance of HK$5 million (2020: HK$1 million) was reversed due to repayment of financial assets with a gross carrying amount of HK$4,038 million (2020: HK$1,700 million).

(ii) Impairment allowance of HK$4 million (2020: HK$2 million) made under 12m ECL is in relation to new financial assets with gross amount of HK$1,326 million (2020: HK$1,914 million). During the current year, these investment securities at amortised cost had no significant increase in credit risk since initial recognition and were not assessed to be credit-impaired. In the opinion of the directors of the Company, the impairment provision for both years are appropriate.

(iii) During the year, investment securities with the gross carrying amounts of HK$2,627 million (2020: HK$1,089 million) was transferred to Stage 1 from Stage 3.

As at 31 December 2021, these securities are collateralised by listed shares of two listed companies with a property development project in the United States as a credit enhancement. In evaluating the impairment provision as at 31 December 2021, the Group evaluated the fair value of collaterals held and based on the valuation performed by an independent third party, the value is sufficiently higher than the outstanding gross carrying amount and therefore the directors of the Company considered no provision shall be made against this security as at 31 December 2021.

42. Financial Risk Management (continued)

Market risk (continued)

Credit risk and impairment assessment (continued)

Movement in the allowances for impairment that has been recognised for advances to customers — term financing are as follows:

31 December 2021

	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 2021	7,497	–	236,619	244,116
Changes due to financial instruments recognised as at 1 January 2021:				
— Transfer from/to 12m ECL to/from lifetime ECL (note iii)	(584)	–	584	–
— Net remeasurement of ECL without transfer of stage	8,631	–	37,905	46,536
— Net remeasurement of ECL arising from transfer of stage (note iii)	–	–	219,556	219,556
— Repayments (note i)	(2,982)	–	–	(2,982)
New lending (note ii)	3,564	–	–	3,564
Derecognition (note iv)	–	–	(63,552)	(63,552)
As at 31 December 2021	16,126	–	431,112	447,238

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	16,706	–	50,336	67,042
Changes due to financial instruments recognised as at 1 January 2020:				
— Transfer from/to 12m ECL to/from lifetime ECL	(2,755)	–	2,755	–
— Net remeasurement of ECL without transfer of stage	2,381	–	89,320	91,701
— Net remeasurement of ECL arising from transfer of stage	–	–	740,659	740,659
— Repayments (note i)	(11,684)	–	(200,664)	(212,348)
New lending (note ii)	2,849	–	–	2,849
Derecognition (note iv)	–	–	(445,787)	(445,787)
As at 31 December 2020	7,497	–	236,619	244,116

42. Financial Risk Management (continued)

Market risk (continued)

Credit risk and impairment assessment (continued)

Notes:

(i) During the current year, impairment allowance of HK$3 million (2020: HK$12 million) was reversed in stage 1 due to repayment of financial assets with a gross carrying amount of HK$1,293 million (2020: HK$4,425 million).

(ii) Impairment allowance of HK$4 million (2020: HK$3 million) made under 12m ECL is in relation to new financial assets with gross amount of HK$680 million (2020: HK$1,445 million). During the current year, these advances to customers for term financing activities had no significant increase in credit risk since initial recognition and were not assessed to be credit-impaired.

(iii) Financial assets with a gross carrying amount of HK$375 million (2020:HK$ 1,430 million) were assessed as becoming credit-impaired. Accordingly, ECL in stage 1 of HK$1 million (2020: HK$3 million) was transferred to stage 3 during the current year. Additional impairment allowance (net of reversal) of HK$220 million (2020: HK$540 million) was made under lifetime ECL in respect of these assets.

(iv) During the year, a loan with gross amount of HK$64 million (2020: HK$446 million) was derecognised.

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 2021, the Group has available unutilised overdrafts, and short and medium term bank loan facilities of approximately HK27,134 million (31 December 2020: HK$29,133 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)

Market risk (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 2021					
Non-convertible bonds issued	125,258	272,448	14,889,105	–	15,286,811
Non-convertible notes issued	3,060,848	3,805,477	–	–	6,866,325
Bank borrowings (note)	24,026,979	–	–	–	24,026,979
Cash collateral on securities lent and repurchase agreements	3,077,400	–	–	–	3,077,400
Accounts payable	15,725,062	–	–	–	15,725,062
Financial liabilities held for trading and market making activities	2,385,995	–	–	–	2,385,995
Financial products issued at fair value	7,500,248	–	269,532	–	7,769,780
Other payables and accruals	1,391,779	–	–	–	1,391,779
Liabilities arising from consolidation of investment funds	975,190	–	–	–	975,190
Derivative financial instruments — net settlement	320,368	–	–	–	320,368
Lease liabilities	35,926	72,419	131,869	96,514	336,728
	58,625,053	4,150,344	15,290,506	96,514	78,162,417

42. Financial Risk Management (continued)

Market risk (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 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

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 2021, the aggregate undiscounted principal amounts of these bank loans amounted to HK$13,204 million (31 December 2020: HK$11,799 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 3 months after the end of the reporting period (2020: within 3 months). At that time, the aggregate principal and interest cash outflows will amount to HK$13,213 million (31 December 2020: HK$11,810 million).

42. Financial Risk Management (continued)

Stock borrowing and lending arrangement

Under the normal course of business, the Group may enter into stock borrowing and lending arrangements with other financial institutions and its customers. Equity securities may be borrowed from the other financial institutions and lent to its customers or for the Group's proprietary short selling activity.

During the process, the Group receives cash collateral from the customers and also places cash collateral in other financial institutions as collateral.

	2021 HK$'000	2020 HK$'000
Equity securities borrowed from external financial institutions	**45,721**	652,747
Equity securities lent to counterparties and customers	**1,031,659**	1,554,486
Cash collateral received from counterparties and customers	**1,083,021**	1,579,058
Cash collateral held by financial institutions	**47,880**	673,989

43. Fair Value Measurements of Financial Instruments

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

As at 31 December 2021 and 31 December 2020, 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:

	2021		2020	
	Carrying amount HK$'000	Fair value HK$'000	Carrying amount HK$'000	Fair value HK$'000
Convertible bonds (note ii)	**–**	**–**	125,385	123,658
Non-convertible bonds (note ii)	**13,983,988**	**14,281,306**	11,568,173	12,049,864
Non-convertible notes (note i)	**6,829,750**	**6,827,502**	6,175,976	6,193,321

Notes:

(i) The fair values are based on discounted cash flows. The future cash flows are estimated based on applying the interest yield curves of different types of bonds as the key parameter. The most significant input is the discount rates of the instruments.

(ii) The fair values are based on the quoted prices from the Hong Kong stock exchange and other foreign stock exchange (if applicable).

These assets and liabilities are classified under Level 2 (as defined in note 3 above) in the fair value hierarchy.

43. Fair Value Measurements of Financial Instruments (continued)

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 2021

	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	559,957	–	–	559,957
— Exchange traded funds	19,642	–	–	19,642
— Listed debt investments	–	1,686,781	901,783	2,588,564
— Unlisted debt investments	–	80,467	17,311	97,778
	579,599	1,767,248	919,094	3,265,941
Investment securities at fair value (through profit or loss and through other comprehensive income)				
— Listed equity investments	2,155,975	–	–	2,155,975
— Exchange traded funds	49,680	–	–	49,680
— Unlisted equity investments	–	7,845	–	7,845
— Unlisted debt investments	–	403,280	17,798	421,078
— Unlisted investment funds	–	9,962,740	–	9,962,740
— Consolidated investment funds (Note 4)	2,636,000	9,168,894	3,749,959	15,554,853
	4,841,655	19,542,759	3,767,757	28,152,171
Derivative financial assets				
— Swaps	–	57,302	–	57,302
— Forward foreign currency exchange contracts	–	19,077	–	19,077
— Listed futures/options/warrants	–	27,195	–	27,195
— Unlisted options	–	2,665	–	2,665
	–	106,239	–	106,239
Total	5,421,254	21,416,246	4,686,851	31,524,351

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 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)

Liabilities — at 31 December 2021

	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	64,644	–	–	64,644
— Listed debt investments	–	2,321,351	–	2,321,351
	64,644	2,321,351	–	2,385,995
Derivative financial liabilities				
— Swaps	–	1,875	–	1,875
— Forward foreign currency exchange contracts	–	15,984	–	15,984
— Listed futures/options/warrants	–	79,918	–	79,918
— Callable bull/bear contracts	–	216,577	–	216,577
— Unlisted options	–	6,014	–	6,014
	–	320,368	–	320,368
Total	64,644	2,641,719	–	2,706,363

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)

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) listed/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 2021, the investments held by consolidated investment funds as disclosed in note 18(i) are HK$15.6 billion (2020: HK$11.2 billion), which include (i) listed equity investments of HK$2,636 million (2020: HK$1,187 million) classified as level 1, (ii) listed equity investments of HK$Nil (2020: HK$29 million), listed and unlisted debt investments of HK$7,448 million (2020: HK$9,678 million), unlisted equity of HK$401 million (2020: HK$Nil), unlisted fund investments of HK$780 million (2020: HK$Nil) and unlisted partnership of HK$540 million (2020: HK$Nil) collectively classified as level 2, (iii) unlisted equity investments of HK$369 million (2020: HK$147 million), unlisted fund investments of HK$99 million (2020: HK$99 million), unlisted partnership of HK$2,565 million (2020: HK$51 million) and unlisted debt investments of $717 million (2020: HK$Nil) collectively classified as level 3, with the total amounts of level 1, 2 and 3 investments being HK$2,636 million, HK$9,169 million and HK$3,750 million (2020: HK$1,187 million, HK$9,707 million and HK$297 million) respectively.

Fair value hierarchy and valuation technique of financial assets and financial liabilities relating to financial product issuance

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

The outstanding balance of HK$7,770 million (2020: HK$16,436 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$17,554 million (2020: HK$31,813 million).

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)

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 2021

	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	1,038,015	–	–	1,038,015
— Listed debt investments	–	2,879,991	3,706,255	6,586,246
— Unlisted equity investments	–	128,725	168,621	297,346
— Unlisted partnership investments	–	47,190	–	47,190
— Unlisted debt investments	–	3,972,539	–	3,972,539
— Unlisted investment funds	–	1,622,324	2,489	1,624,813
— Unlisted financial products	–	3,444,316	543,180	3,987,496
	1,038,015	12,095,085	4,420,545	17,553,645
Financial products issued at fair value				
— Unlisted issued financial products	–	7,224,646	545,134	7,769,780
Net position as of 31 December 2021	1,038,015	4,870,439	3,875,411	9,783,865

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 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

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.

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 2021

	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	2,217,201	3,149,108	(751,924)
Addition (note i)	1,148,661	77,592	(38,795)
Transfer into Level 3 (note ii)	775,919	2,517,156	(811,837)
Transfer into Level 2 (note iii)	(225,232)	(396,464)	396,464
Disposal	(1,379)	(67,113)	–
Total gains (losses) in profit or loss (note iv)	771,681	(859,734)	660,958
Closing balance	4,686,851	4,420,545	(545,134)

43. Fair Value Measurements of Financial Instruments (continued)

Information about Level 3 fair value measurements (continued)

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 iv)	(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)

Notes:

(i) For the year ended 31 December 2021, addition represents additional capital call to private equity funds of HK$206 million (2020: HK$89 million), purchase of debt investments amounting to HK$1,020 million (2020: HK$184 million) and issuance of unlisted financial products of HK$39 million (2020: HK$Nil) 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 2021, a private equity fund amounted to HK$37 million (2020: private equity investments amounted to HK$186 million) were transferred from Level 2 to Level 3 category. The reason for the transfer is due to the fair value being determined at 31 December 2020 with reference to the recent transaction price and therefore classified as Level 2 investments, and as of the reporting date were based on significant unobservable inputs applied (including the net asset value of the unlisted equity investments) in valuing these investments.

For the year ended 31 December 2021, unlisted and listed debt investments amounted to HK$3,027 million and unlisted financial product amounted to HK$229 million (2020: unlisted and listed debt investments of HK$4,179 million) were transferred from Level 2 to Level 3 category. The reason for the transfer is due to the fair value being determined at 31 December 2020 with reference to market observable broker/financial institution quotes and therefore classified as Level 2 investments, and as of the reporting date were based on significant unobservable inputs applied (including the credit assessment of the issuer) in valuing these investments. Financial products issued increased of HK$812 million (2020: HK$1,717 million) as a result of underlying investments were transferred into Level 3 category.

(iii) For the year ended 31 December 2021, the fair value of an equity investment of HK$70 million was determined with reference to market price with liquidity adjustment was transferred from Level 3 to Level 2 category as the investment was listed during the current year. The listed equity investment is subject to a lock up period and its fair value is determined with reference to the quoted market price of the share with an adjustment to discount the lack of marketability.

Another debt investment of HK$155 million where the fair value is determined based on observable broker/financial institutions quotes and therefore transferred from Level 3 to Level 2 categories. As at 31 December 2020, the fair value of the debt investment was determined with reference to unobservable inputs including discount rate for the credit spread with reference to the loss given default based on the management estimate.

Regarding assets acquired for financial products issued, the fair value of an equity investment of HK$363 million and a partnership investment of HK$33 million was determined with reference to market price with liquidity adjustment were transferred from Level 3 to Level 2 category as the investments were listed during the current year. The listed equity investment is subject to a lock up period and its fair value is determined with reference to the quoted market price of the share with an adjustment to discount the lack of marketability. Similarly, the corresponding financial products issued at fair value with the same underlying were also transferred from Level 3 to Level 2. During the prior year, the fair value of these investments were determined with reference to unobservable inputs including pricing multiples of market comparable companies used to determine the estimated value.

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.

(iv) Of the total gains or losses for the year included in profit or loss, losses of HK$744 million (2020: losses of HK$413 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 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 2021 HK$'000	2020 HK$'000	Valuation techniques and key inputs	Significant unobservable inputs	Relationship of unobservable inputs to fair value
Financial assets other than financial assets relating to financial product issuance					
Debt investments	**1,653,318**	249,425	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	**369,042**	246,520	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	**2,664,491**	1,721,256	Net asset value of the unlisted investments which are the deemed resale price of investments provided by the external counterparties	Net assets value	The higher the net assets value, the higher the fair value
	4,686,851	2,217,201			

43. Fair Value Measurements of Financial Instruments (continued)

Information about Level 3 fair value measurements (continued)

	Fair value as at 31 December 2021 HK$'000	2020 HK$'000	Valuation techniques and key inputs	Significant unobservable inputs	Relationship of unobservable inputs to fair value
Financial assets and financial liabilities relating to product issuance					
Asset acquired for financial products issued					
Debt investments/ unlisted financial products	**4,249,435**	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	**168,621**	401,261	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	**2,489**	35,185	Net asset value of the unlisted 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
	4,420,545	3,149,108			
Financial products issued at fair value					
Unlisted financial products	**545,134**	751,924	The return of the financial products issued is linked to equity investments, debt investments, partnership investments, or investment funds, 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 2021

	Gross amounts of recognised financial assets (liabilities) after impairment HK$'000	Gross amounts of recognised financial (liabilities) assets set off in the consolidated statement of financial position HK$'000	Net amounts of financial assets (liabilities) presented in the consolidated statement of financial position HK$'000	Related amounts not set off in the consolidated statement of financial position		Net amount HK$'000
				Financial instruments HK$'000	Collateral received/ pledged HK$'000	
Financial assets						
Accounts receivable from clients, brokers, dealers and clearing houses	12,424,901	(4,397,501)	8,027,400	(165,205)	(1,708,520)	6,153,675
Deposits placed with clearing houses	199,664	–	199,664	–	–	199,664
Advances to customers — margin financing	9,160,201	–	9,160,201	(159,685)	(8,230,685)	769,831
Cash collateral on securities borrowed and reverse repurchase agreements	4,799,467	–	4,799,467	(404,476)	(4,394,991)	–
Financial liabilities						
Accounts payable to clients, brokers, dealers and clearing houses	(20,122,563)	4,397,501	(15,725,062)	324,891	–	(15,400,171)
Financial liabilities held for trading and market making activities	(2,385,995)	–	(2,385,995)	–	2,385,995	–
Cash collateral on securities lent and repurchase agreements	(3,077,400)	–	(3,077,400)	404,476	2,672,924	–

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 assets (liabilities) presented in the consolidated statement of financial position HK$'000	Related amounts not set off in the consolidated statement of financial position: Financial instruments HK$'000	Related amounts not set off in the consolidated statement of financial position: Collateral received/ pledged 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)	841,834
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	–

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 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

	31/12/2021 HK$'000	31/12/2020 HK$'000	31/12/2019 HK$'000	31/12/2018 HK$'000	31/12/2017 HK$'000
RESULTS					
REVENUE	**5,252,184**	8,329,747	8,243,974	6,328,782	7,195,021
OPERATING PROFIT	**723,145**	2,300,592	1,850,629	1,406,453	3,101,512
Share of (loss) profit of investments accounted for using the equity method	**–**	–	–	(226,869)	470,727
PROFIT BEFORE TAX	**723,145**	2,300,592	1,850,629	1,179,584	3,572,239
Income tax expense	**(422,319)**	(367,715)	(299,771)	(156,746)	(543,551)
PROFIT FOR THE YEAR	**300,826**	1,932,877	1,550,858	1,022,838	3,028,688
ASSETS AND LIABILITIES:					
TOTAL ASSETS	**104,991,595**	146,442,516	156,274,502	151,181,085	130,223,838
TOTAL LIABILITIES	**(77,465,150)**	(118,125,347)	(129,243,921)	(125,370,748)	(104,855,959)
SHAREHOLDERS' FUNDS	**27,526,445**	28,317,169	27,030,581	25,810,337	25,367,879

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

LI Jun	*Chairman*
CHENG Chi Ming Brian	
ZHANG Xinjun	

Independent Non-executive Directors

WAN Kam To
LIU Swee Long Michael
ZHANG Huaqiao
LEE Man Yuen Margaret

Company Secretary

LUK Wai Yin

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

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Hamilton HM 11
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Principal Place of Business

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Hong Kong

Principal Share Registrar and Transfer Office

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