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HAITONG INTERNATIONAL SECURITIES GROUP LIMITED

海通國際證券集團有限公司

(Incorporated in Bermuda with limited liability)

(Stock Code: 665)

ANNOUNCEMENT OF THE ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2018

Financial Highlights			
Results	For the year ended 31 December		Percentage change Increase / (Decrease)
	2018	2017	
Revenue (HK\$'000)	6,328,782	7,195,021	(12)
- Commission and fee income	2,130,334	2,013,575	6
of which: Commission on underwriting and placing	767,557	488,890	57
- Interest income	2,575,717	2,152,832	20
- Net investment gains	1,622,731	3,028,614	(46)
Net Profit Attributable to Shareholders (HK\$'000)	1,022,838	3,028,688	(66)
Per share			
Basic Earnings Per Share (HK Cents)	18.25	56.53	(68)
Diluted Earnings Per Share (HK Cents)	17.27	51.68	(67)
Financial Position			
	31.12.2018	31.12.2017	Percentage change Increase / (Decrease)
Shareholders' Equity (HK\$'000)	25,810,337	25,367,879	2
Total Assets (HK\$'000)	151,181,085	130,223,838	16
Number of Shares in Issue (Note)	5,789,746,388	5,500,858,791	5
NAV Per Share (HK\$)	4.46	4.61	(3)

Note:

Certain equity rights conferred on convertible bond and share option holders were exercised during the year. Certain shareholders also elected for scrip dividend. Hence, the total number of shares of the company was increased to 5,789,746,388 as at 31 December 2018.

ANNUAL RESULTS

The Board of Directors of Haitong International Securities Group Limited (the "Company" or "Haitong International") (the "Board") is pleased to announce the consolidated results of the Company and its subsidiaries (collectively referred to as the "Group") for the year ended 31 December 2018, with the comparative figures for the preceding year ended 31 December 2017, as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

	NOTES	2018 HK\$'000	2017 HK\$'000
Revenue			
Commission and fee income	5	2,130,334	2,013,575
Interest income	5	2,575,717	2,152,832
Net investment gains	5	1,622,731	3,028,614
		-----	-----
		6,328,782	7,195,021
Other income and gains or losses	5	28,868	(92,986)
		-----	-----
		6,357,650	7,102,035
		-----	-----
Salaries and allowances, bonuses and pension	6	(1,154,662)	(1,148,974)
Commission expenses	6	(254,517)	(288,467)
Amortisation and depreciation		(98,144)	(62,616)
Impairment losses, net of reversal	7	(238,771)	(246,295)
Other expenses		(731,825)	(594,540)
		-----	-----
		(2,477,919)	(2,340,892)
		-----	-----
Finance costs	8	(2,473,278)	(1,659,631)
Share of results of investments accounted for using the equity method		(226,869)	470,727
		-----	-----
Profit before tax		1,179,584	3,572,239
Income tax expense	9	(156,746)	(543,551)
		-----	-----
Profit for the year attributable to owners of the Company		1,022,838	3,028,688
		=====	=====
Earnings per share attributable to owners of the Company			
- Basic (HK cents per share)	11	18.25	56.53
		=====	=====
- Diluted (HK cents per share)		17.27	51.68
		=====	=====

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	2018	2017
	HK\$'000	HK\$'000
Profit for the year attributable to owners of the Company	<u>1,022,838</u>	<u>3,028,688</u>
Other comprehensive income (expense):		
<i>Items that may be reclassified subsequently to profit or loss:</i>		
Available-for-sale investments		
Net fair value changes during the year	-	237,379
Reclassification adjustment to profit or loss on disposal and deemed disposal	-	(190,859)
Changes in fair value of derivatives designated as cash flow hedge	7,169	21,015
Exchange differences on translating foreign operations arising during the year	<u>(122,578)</u>	<u>58,425</u>
Other comprehensive (expense) income for the year	<u>(115,409)</u>	<u>125,960</u>
 Total comprehensive income for the year attributable to owners of the Company	 <u><u>907,429</u></u>	 <u><u>3,154,648</u></u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	NOTES	2018			2017		
		Current	Non-current	Total	Current	Non-current	Total
		HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
ASSETS							
Assets							
Cash and cash equivalents		7,088,829	-	7,088,829	4,536,816	-	4,536,816
Cash held on behalf of customers		15,998,360	-	15,998,360	19,768,481	-	19,768,481
Financial assets held for trading and market making activities		34,314,567	-	34,314,567	26,052,327	-	26,052,327
Investment securities		10,295,263	15,850,602	26,145,865	15,417,396	10,370,907	25,788,303
Assets acquired for financial products issued		25,484,416	2,268,434	27,752,850	11,140,369	1,139,283	12,279,652
Derivative financial instruments		540,563	-	540,563	693,676	-	693,676
Advances to customers in margin financing	12	15,952,460	-	15,952,460	16,369,217	-	16,369,217
Advances to customers for merger and acquisition activities	13	2,477,467	1,094,666	3,572,133	4,295,885	38,333	4,334,218
Asset-backed financing to customers	14	5,113,873	224,744	5,338,617	3,052,873	1,045,756	4,098,629
Reverse repurchase agreements		4,343,561	-	4,343,561	2,921,857	-	2,921,857
Accounts receivable	15	6,968,476	-	6,968,476	5,946,394	-	5,946,394
Tax recoverable		213,656	-	213,656	76,233	-	76,233
Prepayments, deposits and other receivables		1,529,261	53,050	1,582,311	891,574	17,114	908,688
Investments accounted for using the equity method		-	154,440	154,440	-	5,872,866	5,872,866
Goodwill and other intangible assets		-	473,391	473,391	-	268,695	268,695
Other assets		-	76,296	76,296	-	128,445	128,445
Investment property		-	231,539	231,539	-	-	-
Property and equipment		-	420,968	420,968	-	178,243	178,243
Deferred tax assets		-	12,203	12,203	-	1,098	1,098
Total assets		130,320,752	20,860,333	151,181,085	111,163,098	19,060,740	130,223,838
LIABILITIES AND EQUITY							
Liabilities							
Financial liabilities held for trading and market making activities		4,405,866	-	4,405,866	4,604,688	-	4,604,688
Financial products issued at fair value		13,315,922	638,846	13,954,768	11,284,590	852,245	12,136,835
Derivative financial instruments		505,496	-	505,496	1,323,116	-	1,323,116
Repurchase agreements		24,089,043	-	24,089,043	11,307,114	-	11,307,114
Accounts payable	17	20,974,552	-	20,974,552	26,469,683	-	26,469,683
Bank loans and other borrowings		33,776,139	-	33,776,139	30,755,297	-	30,755,297
Debt securities in issue		15,803,992	9,243,635	25,047,627	1,201,216	14,422,099	15,623,315
Other liabilities arising from consolidation of investment funds		483,781	-	483,781	271,601	-	271,601
Tax payable		260,633	-	260,633	468,785	-	468,785
Other payables and accruals		1,259,472	586,189	1,845,661	1,291,693	586,189	1,877,882
Deferred tax liabilities		-	27,182	27,182	-	17,643	17,643
Total liabilities		114,874,896	10,495,852	125,370,748	88,977,783	15,878,176	104,855,959
Equity							
Share capital	16			578,975			550,086
Reserves				25,150,306			23,827,638
Proposed dividends	10			81,056			990,155
Total shareholders' equity				25,810,337			25,367,879
Total liabilities and shareholders' equity				151,181,085			130,223,838
Net current assets				15,445,856			22,185,315

Notes:

1. GENERAL INFORMATION

Haitong International Securities Group Limited (the "Company") is a limited liability company incorporated in Bermuda and its shares were listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The principal place of business of the Company is located at 22nd Floor, Li Po Chun Chambers, 189 Des Voeux Road Central, Hong Kong. The Company is an investment holding company and its subsidiaries are principally engaged in wealth management, corporate finance, asset management, institutional clients and investment. Details of the business segments of the Company and its subsidiaries (collectively referred as the "Group") are disclosed in note 4.

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) respectively.

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

2. BASIS OF PREPARATION

The consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") as well as with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the "Listing Rules") and by the Hong Kong Companies Ordinance.

Change in presentation of statements of financial position

To better reflect the business operations and activities of the Group and the Company in relation to interest bearing assets, trading and market making activities and investment activities, the directors of the Company decided to present and group the relevant financial instruments in accordance with the portfolio the financial instruments are managed in under respective business operations and activities in the consolidated statement of financial positions.

3. APPLICATION OF NEW AND AMENDMENTS TO HKFRSs

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

The Group has applied the following new and amendments to HKFRSs issued by the HKICPA for the first time in the current year:

HKFRS 9	Financial Instruments
HKFRS 15	Revenue from Contracts with Customers and the related Amendments
HK(IFRIC) - Int 22	Foreign Currency Transactions and Advance Consideration
Amendments to HKFRS 2	Classification and Measurement of Share-based Payment Transactions
Amendments to HKFRS 4	Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts
Amendments to HKAS 28	As part of the Annual Improvements to HKFRSs 2014 - 2016 Cycle
Amendments to HKAS 40	Transfers of Investment Property

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

3.1 HKFRS 9 "Financial Instruments"

In the current year, the Group has applied HKFRS 9 "Financial Instruments" ("HKFRS 9") and the related consequential amendments to other HKFRSs. HKFRS 9 introduces new requirements for (1) the classification and measurement of financial assets and financial liabilities, (2) expected credit losses ("ECL") for financial assets and other items (for example contract assets (if any)) and (3) general hedge accounting.

The Group has applied HKFRS 9 in accordance with the transition provisions set out in HKFRS 9. i.e. applied the classification and measurement requirements (including impairment under ECL model) retrospectively to instruments that have not been derecognised as at 1 January 2018 (date of initial application) and has not applied the requirements to instruments that have already been derecognised as at 1 January 2018. The difference between carrying amounts as at 31 December 2017 and the carrying amounts as at 1 January 2018 are recognised in the opening retained profits and other components of equity, without restating comparative information.

Accordingly, certain comparative information may not be comparable as comparative information was prepared under HKAS 39 "Financial Instruments: Recognition and Measurement" ("HKAS 39").

In addition, the Group applied the hedge accounting prospectively.

Summary of effects arising from initial application of HKFRS 9

The table below illustrates the classification and measurement of financial assets and financial liabilities and other items subject to ECL under HKFRS 9 and HKAS 39 at the date of initial application, 1 January 2018.

Notes	Cash and cash equivalents	Cash held on behalf of customers	Financial assets held for trading and market making activities, at fair value through profit or loss	Investment securities, at fair value through profit or loss	Investment securities, at amortised cost	Advances to customers in margin financing, at amortised cost	Advances to customers for merger and acquisition activities, at amortised cost	Asset-backed financing to customers, at amortised cost	Reverse repurchase agreements, at amortised cost	Investment securities classified as held-to-maturity investments, at amortised cost
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Closing balance at 31 December 2017 - HKAS 39	4,536,816	19,768,481	26,052,327	11,856,132	5,733,689	16,369,217	4,334,218	4,098,629	2,921,857	94,171
Effect arising from initial application of HKFRS 9:										
Reclassification										
From available-for-sale (a)	-	-	-	6,431,134	-	-	-	1,673,177	-	-
From held-to-maturity (b)	-	-	94,171	-	-	-	-	-	-	(94,171)
From asset-backed financing to customers (c)	-	-	-	156,317	-	-	-	(156,317)	-	-
From investment securities, at amortised cost (d)	-	-	-	781,585	(781,585)	-	-	-	-	-
Remeasurement										
Impairment under ECL model (e)	(59)	(1,029)	-	-	(14,945)	(29,853)	(6,673)	(11,456)	(1)	-
Opening balance at 1 January 2018	<u>4,536,757</u>	<u>19,767,452</u>	<u>26,146,498</u>	<u>19,225,168</u>	<u>4,937,159</u>	<u>16,339,364</u>	<u>4,327,545</u>	<u>5,604,033</u>	<u>2,921,856</u>	<u>-</u>

Summary of effects arising from initial application of HKFRS 9 - continued

Notes	Accounts receivable, at amortised cost HK\$'000	Deposits and other receivables, at amortised cost HK\$'000	Investment securities classified as available-for-sale investments HK\$'000	Deferred tax assets HK\$'000	Investments revaluation reserve HK\$'000	Retained profits HK\$'000
Closing balance at 31 December 2017 - HKAS 39	5,946,394	736,427	8,104,311	1,098	161,389	5,639,074
Effect arising from initial application of HKFRS 9:						
Reclassification						
From available-for-sale (a)	-	-	(8,104,311)	-	(161,389)	161,389
From held-to-maturity (b)	-	-	-	-	-	-
From asset-backed financing to customers (c)	-	-	-	-	-	-
From investment securities, at amortised cost (d)	-	-	-	-	-	-
Remeasurement						
Impairment under ECL model (e)	(2,869)	-	-	11,036	-	(55,849)
Opening balance at 1 January 2018	<u>5,943,525</u>	<u>736,427</u>	<u>-</u>	<u>12,134</u>	<u>-</u>	<u>5,744,614</u>

Notes:

- (a) *From investment securities classified as available-for-sale ("AFS") investments to investment securities at fair value through profit or loss ("FVTPL")*

At the date of initial application of HKFRS 9, the Group's listed equity investments, listed debt investments, unlisted fund investments, unlisted partnership investments and unlisted equity investments of HK\$6,431 million that were reclassified from investment securities classified as AFS investments to investment securities at FVTPL since the cash flows do not represent solely payments of principal and interest on the principal amount outstanding ("SPPI"). The net fair value gains of HK\$161 million relating to those investments previously carried at fair value were transferred from investment revaluation reserve to retained profits.

From investment securities classified as AFS debt investments to asset-backed financing to customers measured at amortised cost

At the date of initial application of HKFRS 9, unlisted debt investments of HK\$1,673 million were reclassified from investment securities classified as AFS investments to asset-backed financing to customers measured at amortised cost since the Group's business model is to hold these assets for collection of contractual cash flows, and the cash flows represent SPPI. The directors of the Company considered that the fair value of these debt investments is approximate to their amortised cost.

- (b) *From investment securities classified as held-to-maturity investments to financial assets held for trading and market making activities*

At the date of initial application of HKFRS 9, unlisted debt security of HK\$94 million previously classified as held-to-maturity investments was reclassified to financial asset held for trading and market making activities that are measured at FVTPL as the directors of the Company re-considered that this debt security was held within a business model whose objective is achieved by selling of these assets. The directors of the Company considered that the fair value of these debt investments approximates to their carrying value. Such debt security was derecognised in 2018.

- (c) *From asset-backed financing to customers to investment securities at FVTPL*

Asset-backed financing to customers of HK\$156 million was reclassified to investment securities that are measured at FVTPL upon the application of HKFRS 9 because its cash flows do not represent SPPI. At the date of transition, the directors of the Company considered that the fair value did not materially differ from the carrying value under HKAS 39.

- (d) *From investment securities at amortised cost to investment securities at FVTPL*

Investment securities of HK\$782 million previously measured at amortised cost was reclassified to investment securities that are measured at FVTPL upon the application of HKFRS 9 because its cash flows do not represent SPPI. At the date of transition, the directors of the Company considered that the fair value did not materially differ from the carrying value under HKAS 39.

(e) *Impairment under ECL model*

The following table reconciles the impairment allowance measured in accordance with HKAS 39 (under incurred loss model) as at 31 December 2017 to the new impairment allowance measured with HKFRS 9 (under ECL model) at 1 January 2018:

	Impairment allowance under HKAS 39 <u>HK\$'000</u>	Additional impairment allowance under re-measurement <u>HK\$'000</u>	Impairment allowance under HKFRS 9 <u>HK\$'000</u>
Advances to customers in margin financing	239,204	29,853	269,057
Advances to customers for merger and acquisition activities	108,647	6,673	115,320
Asset-backed financing to customers	102,883	11,456	114,339
Investment securities at amortised cost	-	14,945	14,945
Cash and cash equivalents	-	59	59
Cash held on behalf of customers	-	1,029	1,029
Reverse repurchase agreements	-	1	1
Accounts receivable	-	2,869	2,869
Total	<u>450,734</u>	<u>66,885</u>	<u>517,619</u>

Such amount represents the impairment under ECL model upon application of HKFRS 9.

Loss allowances for advances to customers in margin financing, advances to customers for merger and acquisition activities, asset-backed financing to customers, investment securities at amortised cost, cash and cash equivalents, cash held on behalf of customers, reverse repurchase agreements and accounts receivable that is not result of transactions within the scope of HKFRS 15, are measured on 12m ECL basis ("Stage 1") as there had been no significant increase in credit risk since initial recognition, except for those advances to customers in margin financing, advances to customers for merger and acquisition activities and asset-backed financing to customers which are measured on lifetime ECL basis as those credit risk had increased significantly ("Stage 2") or assessed to be credit-impaired ("Stage 3") since initial recognition.

As at 1 January 2018, the additional credit allowance of HK\$66,885,000 has been recognised against the retained profits. The additional loss allowance is charged against the respective asset. Deferred tax assets of HK\$11,036,000 have been recognised for the additional loss allowance.

(f) *Hedge accounting*

The Group applies the hedge accounting requirements of HKFRS 9 prospectively. At the date of initial application, hedging relationships that qualified for hedge accounting in accordance with HKAS 39 are regarded as continuing hedging relationship if all qualifying criteria under HKFRS 9 are met, after taking into account any rebalancing of the hedge relationships on transition. Consistent with prior periods, the Group has continued to designate certain cross currency swap as hedging instruments for cash flow hedges. As such, the adoption of the hedge accounting requirements of HKFRS 9 had not resulted in adjustments to comparative figures.

3.2 HKFRS 15 "Revenue from Contracts with Customers"

The Group has applied HKFRS 15 for the first time in the current year. HKFRS 15 superseded HKAS 18 "Revenue", HKAS 11 "Construction Contracts" and the related interpretations.

The Group has applied HKFRS 15 retrospectively with the cumulative effect of initially applying this Standard recognised at the date of initial application, 1 January 2018. The application of HKFRS 15 on 1 January 2018 has no material impact on the Group's financial performance and positions at the initial application and during the current year, and accordingly, there is no adjustment on the opening consolidated statement of financial position and consolidated statement of changes in equity.

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

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

HKFRS 16	Leases ¹
HKFRS 17	Insurance Contracts ³
HK(IFRIC) - Int 23	Uncertainty over Income Tax Treatments ¹
Amendments to HKFRS 3	Definition of a Business ⁴
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture ²
Amendments to HKFRS 9	Prepayment Features with Negative Compensation ¹
Amendments to HKAS 1 and HKAS 8	Definition of Material ⁵
Amendments to HKAS 19	Plan Amendment, Curtailment or Settlement ¹
Amendments to HKAS 28	Long-term Interests in Associates and Joint Ventures ¹
Amendments to HKFRSs	Annual Improvements to HKFRSs 2015 - 2017 Cycle ¹

¹ Effective for annual periods beginning on or after 1 January 2019

² Effective for annual periods beginning on or after a date to be determined

³ Effective for annual periods beginning on or after 1 January 2021

⁴ Effective for business combination for which the acquisition date is on or after the beginning of the first annual period beginning on or after 1 January 2020

⁵ Effective for annual periods beginning on or after 1 January 2020

Except for the new HKFRSs mentioned below, the directors of the Company anticipate that the application of all other new and amendments to HKFRSs and Interpretations will have no material impact on the consolidated financial statements in the foreseeable future.

HKFRS 16 "Leases"

HKFRS 16 introduces a comprehensive model for the identification of lease arrangements and accounting treatments for both lessors and lessees. HKFRS 16 will supersede HKAS 17 "Leases" and the related interpretations when it becomes effective.

HKFRS 16 distinguishes lease and service contracts on the basis of whether an identified asset is controlled by a customer. Distinctions of operating leases and finance leases are removed for lessee accounting and replaced by a model where a right-of-use asset and a corresponding liability have to be recognised for all leases by lessees, except for short-term leases and leases of low value assets.

The right-of-use asset is initially measured at cost and subsequently measured at cost (subject to certain exceptions) less accumulated depreciation and impairment losses, adjusted for any remeasurement of the lease liability. The lease liability is initially measured at the present value of the lease payments that are not paid at that date. Subsequently, the lease liability is adjusted for interest and lease payments, as well as the impact of lease modifications, amongst others. For the classification of cash flows, the Group currently presents upfront prepaid lease payments as investing cash flows in relation to leasehold lands for owned use and those

classified as investment properties while other operating lease payments are presented as operating cash flows. Under the HKFRS 16, lease payments in relation to lease liability will be allocated into a principal and an interest portion which will be presented as financing and operating cash flows respectively by the Group.

Furthermore, extensive disclosures are required by HKFRS 16.

As at 31 December 2018, the Group has non-cancellable operating lease commitments of HK\$215 million. A preliminary assessment indicates that these arrangements will meet the definition of a lease. Upon application of HKFRS 16, the Group will recognise a right-of-use asset and a corresponding liability in respect of all these leases unless they qualify for low value or short-term leases.

In addition, the Group currently considers refundable rental deposits paid of HK\$29,058,000 as rights and obligations under leases to which HKAS 17 applies. Based on the definition of lease payments under HKFRS 16, such deposits are not payments relating to the right to use the underlying assets, accordingly, the carrying amounts of such deposits may be adjusted to amortised cost. Adjustments to refundable rental deposits paid would be considered as additional lease payments and included in the carrying amount of right-of-use assets.

The application of new requirements may result in changes in measurement, presentation and disclosure as indicated above. The Group intends to elect the practical expedient to apply HKFRS 16 to contracts that were previously identified as leases applying HKAS 17 and HK(IFRIC) - Int 4 "Determining whether an Arrangement contains a Lease" and not apply this standard to contracts that were not previously identified as containing a lease applying HKAS 17 and HK(IFRIC) - Int 4. Therefore, the Group will not reassess whether the contracts are, or contain a lease which already existed prior to the date of initial application. Furthermore, the Group intends to elect the modified retrospective approach for the application of HKFRS 16 as lessee and will recognise the cumulative effect of initial application to opening retained earnings without restating comparative information.

4. SEGMENT INFORMATION

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

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

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

- (a) the wealth management segment engages in provision of a full range of financial services and investment solutions to retail and high net-worth clients. Services provided include brokering and dealing in securities, futures and options contracts, foreign exchange trading, over-the-counter products and risk management instruments sales, investment advisory service, financial planning service and investment funds distribution services, custodian services as well as the provision of securities margin financing to clients;
- (b) the corporate finance segment engages in provision of sponsoring and underwriting services to corporate clients for their fund raising activities in equity and debt capital markets, and also engages in provision of advisory service and financing solutions to corporate clients for their corporate actions such as mergers and acquisitions as well as assets restructuring, etc.;
- (c) the asset management segment engages in provision of investment management services on diversified and comprehensive investment products including mainly public funds, private funds and mandatory provident funds to individual, corporate and institutional clients;
- (d) the institutional clients segment engages in provision of cash equities sales and trading, prime brokerage, stock borrowing and lending, equity research, and investment and financing solutions, issuance and market making for a wide variety of financial instruments, such as fixed income products, currency and commodity products, futures and options, exchange traded funds and derivative products in major financial centers across the world for global institutional clients; and
- (e) the investment segment aims to enhance and intensify the synergies among various business segments of the Group through investing in investment funds and private equity investments. It focuses on exploring investment opportunities with reasonable returns, thereby expanding customer relationships and promoting the overall growth of the Group's business.

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

	Wealth management		Corporate finance		Asset management		Institutional clients		Investment		Consolidated	
	2018 HK\$'000	2017 HK\$'000	2018 HK\$'000	2017 HK\$'000	2018 HK\$'000	2017 HK\$'000	2018 HK\$'000	2017 HK\$'000	2018 HK\$'000	2017 HK\$'000	2018 HK\$'000	2017 HK\$'000
Commission and fee income	665,921	757,158	974,653	754,665	278,475	328,920	211,285	172,832	-	-	2,130,334	2,013,575
Interest income	1,298,952	1,286,919	443,905	617,594	-	-	812,763	248,319	20,097	-	2,575,717	2,152,832
Net investment gains (losses)	176,583	149,226	184,560	473,275	-	-	1,346,899	1,221,320	(85,311)	1,184,793	1,622,731	3,028,614
Segment revenue	2,141,456	2,193,303	1,603,118	1,845,534	278,475	328,920	2,370,947	1,642,471	(65,214)	1,184,793	6,328,782	7,195,021
Other income and gains (losses)	17,056	28,999	2,988	2,415	-	-	2,342	7,984	6,482 ¹	(132,384) ¹	28,868	(92,986)
Segment expenses	2,158,512 (1,455,888)	2,222,302 (1,374,145)	1,606,106 (532,709)	1,847,949 (803,917)	278,475 (137,893)	328,920 (67,681)	2,373,289 (2,057,652)	1,650,455 (1,156,640)	(58,732) (767,055)	1,052,409 (598,140)	6,357,650 (4,951,197)	7,102,035 (4,000,523)
Segment results	702,624	848,157	1,073,397	1,044,032	140,582	261,239	315,637	493,815	(825,787)	454,269	1,406,453	3,101,512
Share of results of investments accounted for using the equity method	-	-	-	-	-	-	-	102,513	(226,869)	368,214	(226,869)	470,727
Profit (loss) before tax	702,624	848,157	1,073,397	1,044,032	140,582	261,239	315,637	596,328	(1,052,656)	822,483	1,179,584	3,572,239
Income tax expense											(156,746)	(543,551)
Profit for the year											1,022,838	3,028,688
Amortisation and depreciation	(22,548)	(19,571)	(5,046)	(1,926)	(2,181)	(956)	(67,813)	(38,280)	(556)	(1,883)	(98,144)	(62,616)
Impairment losses, net of reversal	(347,227)	(137,648)	108,569	(108,647)	-	-	(2,832)	-	2,719	-	(238,771)	(246,295)
Finance costs	(434,210)	(389,692)	(262,647)	(329,052)	-	-	(1,191,972)	(498,332)	(584,449)	(442,555)	(2,473,278)	(1,659,631)

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

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

5. REVENUE AND OTHER INCOME AND GAINS OR LOSSES

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

	2018 HK\$'000	2017 HK\$'000
Revenue		
Commission and fee income (note (i)):		
Commission on securities dealing and broking	455,444	514,024
Commission on futures and options dealing and broking	118,974	126,321
Commission on underwriting and placing	767,557	488,890
Financial advisory and consultancy fee income	382,245	495,703
Asset management fee and performance fee income	278,475	328,920
Handling, custodian and other service fee income	127,639	59,717
	<u>2,130,334</u>	<u>2,013,575</u>
Interest income:		
Interest income from advances to customers in margin financing	1,099,998	1,313,537
Interest income from investment securities at amortised cost	282,867	293,361
Interest income from advances to customers for merger and acquisition activities	244,447	183,133
Interest income from asset-backed financing to customers	638,618	214,452
Interest income from bank deposits and others	309,787	148,349
	<u>2,575,717</u>	<u>2,152,832</u>
Net investment gains (notes (ii)):		
Net gain from distribution of over-the-counter products	176,583	146,224
Net gain from financial product issuance	661,814	257,453
Net gain from trading and market making of fixed income securities and equity derivatives	685,085	821,994
Net gain from financial assets/liabilities at FVTPL	99,249	1,382,348
Net gain and interest income arising from available-for-sale investments	-	420,595
	<u>1,622,731</u>	<u>3,028,614</u>
	<u>6,328,782</u>	<u>7,195,021</u>
Other income and gains or losses		
Others (note (iii))	28,868	(92,986)
	<u>28,868</u>	<u>(92,986)</u>

Notes:

- (i) Commission and fee income is the only revenue arising from HKFRS 15, while interest income and net investment gains are under the scope of HKFRS 9.
- (ii) To better reflect the major revenue sources in the "Net investment gains" of the Group, the Group has decided to present the revenue items of "Net investment gains" in accordance with its business activities. Comparative information has been reclassified to conform with the current year's presentation.

- (iii) Included in other income and gains or losses is the net loss on remeasurement of the liability in relation to the share of consolidated investment funds attributable to third-party unit/shareholders of HK\$6 million (2017: net profit of HK\$139 million).

6. EMPLOYEE BENEFIT COSTS

	2018 HK\$'000	2017 HK\$'000
Salaries, bonuses and allowances	1,123,823	1,133,606
Pension scheme contributions (net)	30,839	15,368
	<u>1,154,662</u>	<u>1,148,974</u>
Commission to accounts executives (note)	219,461	268,820
	<u>1,374,123</u>	<u>1,417,794</u>

Note: Included in commission expenses of HK\$254,517,000 (2017: HK\$288,467,000) is commission to accounts executives of HK\$219,461,000 (2017: HK\$268,820,000).

7. IMPAIRMENT LOSSES, NET OF REVERSAL

	2018 HK\$'000	2017 HK\$'000
Impairment losses on:		
- advances to customers in margin financing	383,714	141,115
- advances to customers for merger and acquisition activities	-	108,647
- reverse repurchase agreements	14	-
Reversal of impairment losses:		
- advances to customers in margin financing	(30,000)	(3,467)
- advances to customers for merger and acquisition activities	(106,487)	-
- asset-backed financing to customers	(5,340)	-
- investment securities at amortised cost	(2,300)	-
- cash and cash equivalents	(10)	-
- cash held on behalf of customers	(281)	-
- accounts receivable	(539)	-
	<u>238,771</u>	<u>246,295</u>

8. FINANCE COSTS

	2018 HK\$'000	2017 HK\$'000
Bank loans and overdrafts	1,033,114	871,733
Debt securities in issue:		
Convertible bonds	66,202	67,712
Non-convertible bonds	452,787	448,556
Non-convertible notes	363,974	90,552
Repurchase agreements	547,750	176,286
Others	9,451	4,792
	<u>2,473,278</u>	<u>1,659,631</u>

9. INCOME TAX EXPENSE

	2018 HK\$'000	2017 HK\$'000
Current taxation:		
- Hong Kong	174,882	561,515
- Other jurisdictions	35,483	32,917
	<u>210,365</u>	<u>594,432</u>
Overprovision in prior years:		
- Hong Kong	(52,053)	(51,542)
Deferred tax:		
- Current year	(1,566)	661
	<u>156,746</u>	<u>543,551</u>

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.

10. DIVIDENDS

At a meeting of the Board held on 14 March 2018, the Board declared a second interim dividend of HK18 cents per share in cash for the year ended 31 December 2017. The shareholders were given the option to receive the second interim dividend in new shares in lieu of cash. The second interim dividend was paid on 11 May 2018, with a total of HK\$273,062,000 cash dividend paid to the shareholders and 161,693,823 shares were issued in scrip form with the amount of HK\$717,386,000.

At the meeting of the Board on 24 August 2018, the Board declared an interim dividend of HK7.6 cents per share in cash for the six months ended 30 June 2018. The shareholders were given the option to receive the interim dividend in new shares in lieu of cash. The interim dividend was paid on 24 October 2018, with a total of HK\$123,104,000 cash dividend paid to shareholders and 122,721,931 shares were issued in scrip form with the amount of HK\$307,590,000.

At a meeting of the Board held on 22 March 2019, the Board declared a second interim dividend of HK1.4 cents per share in cash for the year ended 31 December 2018. The second interim dividend is expected to be paid on or about 25 April 2019. The overall amount of cash dividends under distribution will be calculated according to such actual number of shares of the Company in issue on the record date for the cash dividend distribution.

11. 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.

	2018	2017
Earnings		
Profit for the year attributable to owners of the Company (HK\$'000)	<u>1,022,838</u>	<u>3,028,688</u>
Number of shares		
Weighted average number of ordinary shares in issue less shares held for the share award scheme (in thousands) (note (a))	<u>5,605,813</u>	<u>5,357,312</u>
Basic earnings per share (HK cents per share)	<u>18.25</u>	<u>56.53</u>

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.

	2018	2017
Earnings		
Profit for the year attributable to owners of the Company (HK\$'000)	1,022,838	3,028,688
Effect of dilutive potential ordinary shares		
- Interest on convertible bonds (net of tax) (HK\$'000) (note (b))	57,450	56,540
Earnings for the purpose of diluted earnings per share (HK\$'000)	1,080,288	3,085,228
Number of shares		
Weighted average number of ordinary shares in issue less shares held for the share award scheme (in thousands) (note (a))	5,605,813	5,357,312
Effect of dilutive potential ordinary shares:		
- Convertible bonds (in thousands) (note (b))	644,341	604,836
- Share options (in thousands) (note (c))	1,246	2,773
- Share awards (in thousands)	3,620	4,688
Weighted average number of ordinary shares for the purpose of diluted earnings per share (in thousands)	6,255,020	5,969,609
Diluted earnings per share (HK cents per share)	17.27	51.68

Notes:

- (a) As at 31 December 2018, the trustee of the share award scheme held 33,370,909 ordinary shares of the Company (31 December 2017: 19,266,739 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\$155 million (31 December 2017: HK\$113 million).

During the current year, 7,010,493 (31 December 2017: 4,246,234 awarded shares) awarded shares were granted by the Company. 171,613 awarded shares lapsed in respect of such grant, 108,611 awarded shares lapsed (31 December 2017: 269,921 awarded shares) in respect of the grant by the Company on 28 April 2017 and 149,898 awarded shares (31 December 2017: 524,975 awarded shares) in respect of the grant by the Company on 18 April 2016 lapsed during the year ended 31 December 2018. In addition, 1,318,237 awarded shares (31 December 2017: nil) were vested during the current year in relation to the grant made by the Company on 28 April 2017 and 2,252,593 awarded shares (31 December 2017: 2,457,261 awarded shares) were vested during the current year in relation to the grant made by the Company on 18 April 2016.

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

Convertible bonds issued in 2013 that were outstanding and convertible into ordinary shares of the Company at a conversion price of HK\$2.76 as at 31 December 2017 had been converted in full into shares during the current year. As at 31 December 2018, the convertible bonds issued in 2014 and 2016 that remain outstanding are convertible into ordinary shares of the Company at a conversion price of HK\$4.32 (31 December 2017: HK\$4.61) and HK\$6.09 (31 December 2017: HK\$6.53) respectively, at the option of the holders of the convertible bonds, which created a potential dilutive effect to the earnings per share. In the calculation of the diluted earnings per share, the convertible bonds are assumed to have been converted into ordinary shares. The weighted average number of ordinary shares outstanding is increased by the weighted average number of additional ordinary shares that would have been outstanding assuming the conversion of all dilutive potential ordinary shares was made from the date of the first issue with the adjustment if there is any conversion of the convertible bonds into ordinary shares during the year. The net profit is adjusted to eliminate the relevant interest expense less the tax effect.

- (c) The computation of diluted earnings per share assumed the exercise of the Company's outstanding share options with the exercise price lower than the average market price during the years ended 31 December 2018 and 2017 and with the adjustment for the share options lapsed or exercised during the years.

12. ADVANCES TO CUSTOMERS IN MARGIN FINANCING

	2018 HK\$'000	2017 HK\$'000
Loans to margin clients	16,567,822	16,608,421
Less: Impairment allowance	(615,362)	(239,204)
	<u>15,952,460</u>	<u>16,369,217</u>

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 Credit and Product Management Department, Risk Management Department and Risk Management Committee are responsible to monitor credit risk and seek to maintain a strict control over the outstanding loan balance.

The loans to margin clients are interest bearing and secured by the underlying pledged securities. The Group maintains a list of approved stocks for margin lending at a specified loan to collateral ratio. As at 31 December 2018, advances to customers in margin financing of HK\$16,125 million (31 December 2017: HK\$16,353 million) were secured by securities pledged by the customers to the Group as collateral with undiscounted market value of HK\$71,407 million (31 December 2017: HK\$84,580 million).

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.

13. ADVANCES TO CUSTOMERS FOR MERGER AND ACQUISITION ACTIVITIES

	2018 HK\$'000	2017 HK\$'000
Advances to customers for merger and acquisition activities	3,580,966	4,442,865
Less: Impairment allowance	(8,833)	(108,647)
	<u>3,572,133</u>	<u>4,334,218</u>
Less: Non-current portion	(1,094,666)	(38,333)
Current portion	<u>2,477,467</u>	<u>4,295,885</u>

Included in advances to customers for merger and acquisition activities are HK\$3,379 million (2017: HK\$4,243 million) of advances that are secured.

The majority of these advances to customers for merger and acquisition activities are secured and/or guaranteed with contractual maturity within 1 year from the reporting date and credit limits are set for borrowers. Regular reviews on these advances to customers for merger and acquisition activities are conducted by the Credit and Product Management Department, the Risk Management Department and the Risk Management Committee of the Group based on the latest status of these advances to customers for merger and acquisition activities, the latest announced or available information about the borrowers, the underlying collateral held and the latest status of the relevant merger and acquisition project. The Group seeks to maintain effective control over its advances to customers for merger and acquisition activities in order to minimise credit risk by reviewing the borrowers' and/or guarantors' financial positions.

As at 31 December 2018 and 2017, there was no past due advances to customers for merger and acquisition activities, except for a loan amounted to HK\$200 million that was lent to an external party for its property development project in the People's Republic of China and was past due for more than 360 days in 2017. During the prior year, an impairment loss of HK\$109 million was recognised given a number of factors including substantial delay in repayment, recoverable amount of the collateral (at its force sale value), and the credit protection structure.

During the current year, the above-mentioned borrower with the property development project has completed the debt restructuring by introducing an independent new lender for additional funding to complete the property development project and a revised syndicated loans agreement has been entered among the borrower, new lender and the existing lenders, which includes the Group, with the extended maturity date in 2021. The management considered that the development project has entered the final stage and valuation can be estimated reliably after the debt restructuring with new funding injected. Based on current creditworthiness, the completion of debt restructuring and sufficient expected collateral value, the management determined that the credit risk of default has been significantly reduced in current year, therefore, the relevant impairment provision has been reversed.

14. ASSET-BACKED FINANCING TO CUSTOMERS

	2018 HK\$'000	2017 HK\$'000
Asset-backed financing to customers	5,447,616	4,201,512
Less: Impairment allowance	(108,999)	(102,883)
	<u>5,338,617</u>	<u>4,098,629</u>
Less: Non-current portion	(224,744)	(1,045,756)
Current portion	<u>5,113,873</u>	<u>3,052,873</u>

Included in asset-backed financing to customers are HK\$5,448 million (2017: HK\$4,202 million) that are secured.

The majority of these asset-backed financing to customers are secured and/or guaranteed with contractual maturity within 1 year from the reporting date and credit limits are set for borrowers. Regular reviews on these asset-backed financing to customers are conducted by the Credit and Product Management Department, the Risk Management Department and the Risk Management Committee of the Group based on the latest status of these asset-backed financing to customers and the latest announced or available information about the borrowers and the underlying collateral held. Apart from collateral monitoring, the Group seeks to maintain effective control over its asset-backed financing to customers in order to minimise credit risk by reviewing the borrowers' and/or guarantors' financial positions.

As at 31 December 2018 and 2017, there was no past due asset-backed financing to customers, except for a corporate loan with outstanding balance of HK\$103 million was impaired during the year ended 31 December 2016 after the Group assessed the recoverability by referencing to the fair value of the collateral pledged by the borrower.

15. ACCOUNTS RECEIVABLE

	2018 HK\$'000	2017 HK\$'000
Accounts receivable from:		
- Clients	696,902	283,640
- Brokers, dealers and clearing houses	5,179,109	5,295,030
- Collateral paid under stock borrowing agreements	688,739	208,915
- Clients for subscription of new shares in IPO	2,273	-
- Others (note)	401,453	158,809
	<u>6,968,476</u>	<u>5,946,394</u>

Note: The amount represents the fees receivable from corporate finance, wealth management and fund management business.

There was no impaired accounts receivable as of the reporting dates for the prior year end.

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

	2018	2017
	HK\$'000	HK\$'000
Between 0 and 3 months	6,939,488	5,937,168
Between 4 and 6 months	13,634	2,373
Between 7 and 12 months	8,687	2,001
Over 1 year	6,667	4,852
	<u>6,968,476</u>	<u>5,946,394</u>

Accounts receivable from clients, brokers, dealers and clearing houses arising from the business of dealing in securities are repayable on demand subsequent to settlement date. Collateral paid under stock borrowing agreements is repayable upon expiry of relevant stock borrowing agreements and the relevant stocks borrowed are returned to the lender. The normal settlement terms of accounts receivable arising from the business of dealing in securities are two days after trade date and that of accounts receivable arising from the business of dealing in futures, options and securities trading in Shanghai-Hong Kong Stock Connect and Shenzhen-Hong Kong Stock Connect are one day after trade date.

Accounts receivable from clients arising from financing of IPO subscriptions are required to settle their securities trading balances on the allotment date determined under the relevant market practices or exchange rules. As at 31 December 2018, the settlement dates are in the range of 2 to 7 days.

Normal settlement terms of accounts receivable from advisory and wealth management, asset and fund management are determined in accordance with the contract terms, usually within one year after the services provided.

For accounts receivable from clients that are overdue, management ensures that the available cash balance and listed equity securities belonging to clients in which the Group holds as custodian are sufficient to cover the amounts due to the Group.

16. SHARE CAPITAL

	2018 HK\$'000	2017 HK\$'000
Authorised:		
20,000,000,000 (31 December 2017: 20,000,000,000) ordinary shares of HK\$0.10 each	<u>2,000,000</u>	<u>2,000,000</u>
Issued and fully paid:		
5,789,746,388 (31 December 2017: 5,500,858,791) ordinary shares of HK\$0.10 each	<u>578,975</u>	<u>550,086</u>
The movements in issued share capital were as follows:		
	Number of shares in issue	Issued share capital HK\$'000
As at 1 January 2017	5,336,534,474	533,653
New shares issued under exercise of share options	3,327,798	333
Scrip dividend issued - 2016 final dividend	78,617,528	7,862
Scrip dividend issued - 2017 interim dividend	<u>82,378,991</u>	<u>8,238</u>
As at 31 December 2017 and 1 January 2018	5,500,858,791	550,086
New shares issued under exercise of share options	3,747,206	375
New shares issued under exercise of convertible bonds	724,637	73
Scrip dividend issued - 2017 second interim dividend	161,693,823	16,169
Scrip dividend issued - 2018 interim dividend	<u>122,721,931</u>	<u>12,272</u>
As at 31 December 2018	<u>5,789,746,388</u>	<u>578,975</u>

17. ACCOUNTS PAYABLE

	2018 HK\$'000	2017 HK\$'000
Accounts payable to:		
- Clients	17,710,600	22,012,013
- Brokers, dealers and clearing houses	1,153,352	912,708
- Collateral received under stock lending agreements	1,708,575	3,417,718
- Others	402,025	127,244
	<u>20,974,552</u>	<u>26,469,683</u>

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

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

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

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

Except for the accounts payable to clients which bear interest at 0.001% as at 31 December 2018 (31 December 2017: 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\$15,998,360,000 (31 December 2017: HK\$19,768,481,000), HKFE Clearing Corporation Limited, the SEHK Options Clearing House Limited and other futures dealers totalling HK\$1,060,245,000 (31 December 2017: HK\$1,006,507,000).

SECOND INTERIM DIVIDEND

The Board declared a second interim dividend of HK1.4 cents per share in cash for the year ended 31 December 2018 which shall be paid to shareholders whose names appear on the register of members of the Company on Thursday, 11 April 2019. Together with the interim dividend of HK7.6 cents per share paid on Wednesday, 24 October 2018, the total dividend payout for the year ended 31 December 2018 will thus be HK9 cents per share.

The register of members of the Company will be closed from Tuesday, 9 April 2019 to Thursday, 11 April 2019, both dates inclusive, during which period no transfer of shares will be registered. In order to qualify for the second interim dividend, unregistered holders of the shares of the Company should ensure that all completed transfer forms accompanied by the relevant share certificates must be lodged with the Company's Branch Share Registrar and Transfer Office in Hong Kong, Tricor Investor Services Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong, for registration not later than 4:30 p.m. on Monday, 8 April 2019.

MANAGEMENT DISCUSSION AND ANALYSIS

Haitong International, rooted in Hong Kong and marching its way toward to the world stage, has been endeavoring to maintain its leadership and make great strides to be an international financial services provider. In early 2018, the Company's acquisition of Haitong Securities USA LLC and Haitong International (UK) Co. Limited from Haitong Bank S.A., perfecting its capability to provide professional financial services to investors world over, heralded a new chapter for its global presence. Despite the challenging market environment in 2018, the Company redefined itself with stability – it kept up the healthy trajectory track for its core businesses and successfully formed a financial services network that centered in New York, London, Singapore and Hong Kong and expanding into major Asia-Pacific capital markets such as Tokyo, Sydney and Mumbai. Haitong International has therefore possessed supreme global investment banking, investment, transaction execution and operating capabilities, and a global monitoring system comparable to European banking regulatory framework has taken shape.

Business review and analysis

In 2018, Haitong International braved the storm in the market by dynamically managing its balance sheet in a timely fashion. The total income of the Group for 2018 (including revenue; other income and gains or losses) was HKD 6.36 billion with a net profit of HKD1.02 billion.

Commission and fee income has been part and parcel for its core businesses. During the year, the Company's commission and fee income reached HKD2.13 billion, among which, the underwriting and placing commission saw a sharp year-on-year growth of 57%, upholding the leadership in the Hong Kong capital market. During the reporting period, the Company forayed into investment banking, investment and trading businesses in major financial hubs in the world. In 2018, thanks to its ever-strengthening asset allocation, Haitong International was delighted to see a healthy and stable rise of interest yield, achieving an increase of 20% for interest income with the interest-bearing assets well-maintained largely at the same level. At the same time, its debt structure and capital adequacy were kept up at a rational status.

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

For global equity financing, Haitong International completed a total of 37 IPO deals in Hong Kong during the year and ranked top among all financial services providers in terms of number of IPO projects underwritten. As the Company's global network is growing, it achieved brilliant results in Singapore and completed its first 2 IPOs in the U.S. For global bond financing, the Company has completed a total of 180 bond issuance projects. In

Offshore China Bonds League Table, Haitong International ranked No. 3 and No. 4 in terms of underwriting amounts and number of deals in 2018. Haitong International also topped the list of the Asian (ex Japan) G3 high yield corporate bond among the financial services providers in the world in terms of number of bond deals and underwriting amount. For global leverage and acquisition financing, the Company achieved a turnover of over HKD30 billion and expanded its footprint to Central Asia, Southeast Asia, Europe, North America and South America etc. – reinforcing the HTI brand in the M&A market around the world.

2. Growing competencies in global investment

For primary market, our PE team directed its attention to the “new economy” area – it secured 10 projects at home and abroad and has succeeded to divest from certain IPOs. For the secondary market, our Asset Management team issued US equity fund, Japanese equity fund and Chinese A share fund to enrich public fund products covering major capital markets in the world.

3. A surge of global transaction execution capability

For market making business, Haitong International kick-started its market making business in the U.S. in October 2018 and became the first Chinese market maker in the NASDAQ with a cross-border, cross-market and cross-department settlement system, laying a solid foundation for its U.S. securities trading in the future. In addition, the Company was for the first time approved as a stock futures liquidity provider and is now providing market making services of stock futures for new shares including unicorns.

For institutional equities, Haitong International’s coverage has extended to over 30 markets in different countries across the world, and equity research, institutional sales and trading services are provided to around 1,000 global institutional investors. In addition, it was also approved to trade according to Shanghai-London Stock Connect and conduct market making business on NASDAQ, which is a preemptive move as well as a strong lever for the Company to grow its clientele in the U.S. and U.K. For derivatives, Haitong International ranked third and fifth in the Hong Kong market in terms of number of underlying securities covered and transaction amount respectively – it has issued 1,219 warrants and 965 CBBCs as at 2018. Moreover, in June 2018, it also issued call/put warrants for Alibaba Group in the Hong Kong Stock Exchange – making it become a top-tier issuer, bucking the trend of longstanding dominance of foreign investment banks and meeting investors’ demand for U.S. IT stock derivatives.

For FICC, Haitong International has built a comprehensive industry chain for global credit bonds and harnessed international presence covering Asia, Europe and America with 24-hour round-the-clock services. Moreover, the Company is now an active market maker for futures in RMB in SGX and HKEx with turnover of RMB futures amounting to over USD15 billion during the year.

Moreover, the Company successfully rolled out the mega event “Haitong International AI Conference 2018” in Hong Kong and a series of themed activities across borders, catching the spotlight of foreign investors. Therefore, a long-term research branding strategy circling the AI theme has shaped up.

4. Time-tested global operational and risk management capabilities

Haitong International strives to develop an all-rounded global operational capability and has upgraded its operational and management system in full swing, building an overseas business global operational centre based in Hong Kong. Boasting its Central Database Management System (CDMS), the Company has achieved central management on global business data. The completion of the set-up of an innovative trading system facilitates interconnection of trading among Asian Pacific, European and U.S. markets.

In a market environment as arduous as in 2018, the Company proactively kept all kinds of risks at bay with a prudent approach and weathered all challenges in the market. Thanks to our robust and sophisticated risk management system, the investment grade ratings given by Moody’s and S&P were kept intact. It is the first Hong Kong subsidiary of a Chinese brokerage firm who is given an independent rating by Moody’s.

5. Shouldering the social responsibilities

2018 marked the year of 40th anniversary of China’s reform and opening-up. Finding itself at this new era, Haitong International set up new objectives for itself – it participated in promoting Hong Kong’s role for the Belt and Road Initiative, the development of Guangdong-Hong Kong-Macao Greater Bay Area and

internationalization of Renminbi. Moreover, it always set its eyes on the livelihood of Hong Kong people and support charities so as to make contribution to the robustness and prosperity of Hong Kong market.

In 2018, Haitong International devoted much of its energy to support a plethora of social enterprises, environmental protection campaigns and charity projects and it did not miss to deploy resources to other dimensions like career for youth, sports and culture and development of the financial sector. Incubating and developing budding talents has been one of the high priorities of Haitong International. During the year, the Company unprecedentedly unveiled a Management Trainee Home Starter Loan Scheme with a view to encouraging the younger generation to focus on developing their expertise and plan out their career path. In addition, as a staunch and longstanding sponsor for Windsurfing Association of Hong Kong, Haitong International spared no effort to support windsurfing events, train up Hong Kong windsurfing athletes and demonstrate Hong Kong sportsmanship to the international community. The Company is also a corporate member of The Better Hong Kong Foundation, a non-profit organization, in order to forge stronger communication with a number of reputed public institutions and organizations. In this way, it hopes to emit positivity and to raise Hong Kong's profile in the international arena.

Prospects

The global economic growth is expected to meet a slowdown in 2019. The U.S.'s growth has peaked and will soon subside due to the waning financial stimulus effect while China's economy will move on at a slower rate. It is expected the contribution for the two giant economies to the global economic growth will be limited. However, judging from Fed's gesture to slow down the pace of rate hikes in 2019, it is hoped that the global liquidity crunch will be alleviated and the financial market will be buoyed to some extent.

From a global perspective, developing the strength in capital-based intermediary businesses and steering toward the path of globalization has become a major trend among the top-notch investment banks. As such, Haitong International will stably expand its AUM, focus on the synergy-rich businesses and achieve high-efficient and quality asset allocation with all risk under control. More than this, not only can new economy business boost a company's efficiency and advance of technology, but it is also conducive to the progress of human society. As such, Haitong International will pay heed to this facet and mobilize proper resources in this aspect.

In future, Haitong International will adhere to its core values – “Courage, Sincerity and Innovation” to maintain its leadership in Hong Kong and to establish global presence. Boasting information technology and insisting on its risk management, Haitong International will endeavor to capture every market opportunity and become a world-class financial services provider with international competitiveness, systemic importance and brand influence.

CORPORATE GOVERNANCE

The Board is committed to maintaining a high standard of corporate governance practices within the Group. Throughout the year ended 31 December 2018, 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 Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the “Model Code”) set out in Appendix 10 of the Listing Rules as its code of conduct for securities transactions by the directors of the Company. Having made specific enquiry of all directors of the Company, all directors confirmed that they have complied with the required standard set out in the Model Code throughout the year ended 31 December 2018.

Following the appointment of Mr. SUN Tong as an executive director of the Company and the appointment of Mr. ZHANG Xinjun as a non-executive director of the Company on 27 March 2018, the proportion of independent non-executive director of the Company fell below the specific requirement under Rule 3.10A of the Rules Governing the Listing Rules; and

Following the resignation of Mr. LIN Ching Yee Daniel as independent non-executive director of the Company on 19 April 2018, the proportion of independent non-executive director of the Company fell below the specific requirement under Rule 3.10A of the Listing Rules, and the proportion of independent non-executive directors comprising the Audit Committee fell below the specific requirement under Rule 3.21 of the Listing Rules.

Upon the appointment of Mr. WAN Kam To as independent non-executive director and chairman of the audit committee of the Company and the appointment of Ms. LIU Yan as independent non-executive director of the Company on 19 June 2018, the Company has fully complied with the specific requirements as regards the proportion of independent non-executive directors comprising the Board as well as the composition of the Audit Committee under Rule 3.10A and Rule 3.21 of the Listing Rules.

The audit committee of the Company (the “Audit Committee”) has reviewed the accounting principles and practices adopted by the Group and the consolidated results for the year ended 31 December 2018 of the Group. The Audit Committee currently comprises 5 non-executive directors of the Company among whom 3, including the chairman of the Audit Committee (the “Chairman”), are independent non-executive directors. The Chairman has the appropriate professional qualification and experience in financial matters.

SCOPE OF WORK OF MESSRS. DELOITTE TOUCHE TOHMATSU

The figures in respect of the Group’s consolidated statement of financial position, consolidated statement of profit or loss, consolidated statement of profit or loss and other comprehensive income and the related notes thereto for the year ended 31 December 2018 as set out in the preliminary announcement have been agreed by the Group’s auditor, Messrs. Deloitte Touche Tohmatsu, to the amounts set out in the Group’s audited consolidated financial statements for the year. The work performed by Messrs. Deloitte Touche Tohmatsu in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by Messrs. Deloitte Touche Tohmatsu on the preliminary announcement.

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

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company’s listed securities during the year ended 31 December 2018 other than as an agent for clients of the Company or its subsidiaries and for the share award scheme of the Company.

PUBLICATION OF THE ANNUAL RESULTS ANNOUNCEMENT AND ANNUAL REPORT FOR THE YEAR ENDED 31 DECEMBER 2018 ON THE WEBSITES OF THE STOCK EXCHANGE AND THE COMPANY

This announcement of the annual results for the year ended 31 December 2018 is published on the websites of the Stock Exchange and the Company (<http://www.htisec.com>). The annual report for the year ended 31 December 2018 of the Company containing all the information required by the Listing Rules will be dispatched to shareholders of the Company and published on the aforesaid websites in due course.

By order of the Board
Haitong International Securities Group Limited
LIN Yong
Deputy Chairman and Chief Executive Officer

Hong Kong, 22 March 2019

As at the date of this announcement, the Board comprises Mr. QU Qiuping (Chairman), Mr. LIN Yong (Deputy Chairman and Chief Executive Officer), Mr. LI Jianguo (Deputy Chairman), Mr. POON Mo Yiu, Mr. SUN Jianfeng, Mr. SUN Tong, Mr. CHENG Chi Ming Brian*, Ms. WANG Meijuan*, Mr. ZHANG Xinjun*, Mr. William CHAN*, Mr. TSUI Hing Chuen William**, Mr. LAU Wai Piu**, Mr. WEI Kuo-chiang**, Mr. WAN Kam To** and Ms. LIU Yan**.*

* *Non-executive Directors*

** *Independent Non-executive Directors*