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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)

QUARTERLY RESULTS FOR THE NINE MONTHS ENDED 30 SEPTEMBER 2021

The Board of Directors of Haitong International Securities Group Limited (the "Company" or "Haitong International") (the "Board") is pleased to announce the unaudited condensed consolidated results of the Company and its subsidiaries (collectively referred to as the "Group") for the nine months ended 30 September 2021, with the comparative figures as follows:

Financial Highlights			
Results	For the nine months ended		Percentage change Increase / (Decrease)
	30.09.2021	30.09.2020	
Revenue (HK\$'000)	4,961,503	5,885,219	(16)
- Commission and fee income	2,358,486	1,905,688	24
- Interest income	1,468,158	1,962,777	(25)
- Net trading and investment income	1,134,859	2,016,754	(44)
Net Profit Attributable to Shareholders (HK\$'000)	1,150,275	1,200,943	(4)
Per share			
Basic Earnings Per Share (HK Cents)	19.53	20.49	(5)
Diluted Earnings Per Share (HK Cents)	19.46	20.42	(5)
Financial Position			
	30.09.2021	31.12.2020	Percentage change Increase / (Decrease)
Shareholders' Funds (HK\$'000)	28,343,548	28,317,169	-
Total Assets (HK\$'000)	116,227,632	146,442,516	(21)
Number of Shares in Issue	6,037,785,086	6,036,035,086	-
NAV Per Share (HK\$)	4.69	4.69	-

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS (UNAUDITED)

	NOTES	Three months ended		Nine months ended	
		30.09.2021	30.09.2020	30.09.2021	30.09.2020
		HK\$'000	HK\$'000	HK\$'000	HK\$'000
Revenue					
Commission and fee income	3	700,851	709,546	2,358,486	1,905,688
Interest income	3	478,806	600,223	1,468,158	1,962,777
Net trading and investment income	3	(52,907)	1,050,792	1,134,859	2,016,754
		-----	-----	-----	-----
		1,126,750	2,360,561	4,961,503	5,885,219
Other income and gains or losses	3	(26,375)	(60,164)	(117,680)	164,131
		-----	-----	-----	-----
		1,100,375	2,300,397	4,843,823	6,049,350
		-----	-----	-----	-----
Staff costs		(416,257)	(527,123)	(1,307,790)	(1,086,325)
Commission expenses		(8,693)	(72,774)	(101,415)	(198,907)
Amortisation and depreciation		(70,481)	(61,025)	(212,002)	(179,729)
Operating expenses		(224,318)	(244,360)	(705,095)	(703,394)
Finance costs	5	(250,808)	(545,098)	(867,039)	(1,724,951)
		-----	-----	-----	-----
		(970,557)	(1,450,380)	(3,193,341)	(3,893,306)
		-----	-----	-----	-----
Profit before impairment charges and tax		129,818	850,017	1,650,482	2,156,044
Impairment charges, net of reversal	4	(46,623)	3,631	(273,245)	(769,074)
		-----	-----	-----	-----
Profit before tax		83,195	853,648	1,377,237	1,386,970
Income tax expense		(13,445)	(174,203)	(226,962)	(186,027)
		-----	-----	-----	-----
Profit for the period attributable to owners of the Company		69,750	679,445	1,150,275	1,200,943
		=====	=====	=====	=====
Earnings per share attributable to owners of the Company					
- Basic (HK cents per share)	6	1.18	11.58	19.53	20.49
		=====	=====	=====	=====
- Diluted (HK cents per share)		1.18	11.53	19.46	20.42
		=====	=====	=====	=====

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME (UNAUDITED)

	Three months ended		Nine months ended	
	30.09.2021	30.09.2020	30.09.2021	30.09.2020
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Profit for the period attributable to owners of the Company	69,750	679,445	1,150,275	1,200,943
Other comprehensive income (expense):				
<i>Item that will not be reclassified subsequently to profit or loss:</i>				
Fair value changes on investments in equity instruments at fair value through other comprehensive income	(15,672)	(24,496)	(23,128)	(64,893)
<i>Items that may be reclassified subsequently to profit or loss:</i>				
Fair value changes on investments in debt instruments at fair value through other comprehensive income				
- Net fair value changes during the period	13,677	(8,232)	11,526	(21,246)
- Reclassification adjustment to profit or loss on disposal	-	65	16,569	4,991
Exchange differences on translating foreign operations	12,346	(118)	22,741	(55,630)
Other comprehensive income (expense) for the period	10,351	(32,781)	27,708	(136,778)
Total comprehensive income for the period attributable to owners of the Company	80,101	646,664	1,177,983	1,064,165

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

		30.09.2021 (Unaudited)			31.12.2020 (Audited)		
		Current	Non-current	Total	Current	Non-current	Total
	NOTES	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
ASSETS							
Cash and cash equivalents		6,042,590	-	6,042,590	4,334,925	-	4,334,925
Cash held on behalf of customers		13,914,179	-	13,914,179	19,553,711	-	19,553,711
Financial assets held for trading and market making activities		3,520,272	-	3,520,272	10,590,827	-	10,590,827
Investment securities	8	31,392,741	8,097,129	39,489,870	31,499,248	15,267,263	46,766,511
Assets acquired for financial products issued		20,829,337	5,078,323	25,907,660	26,532,975	5,279,720	31,812,695
Derivative financial instruments		250,839	-	250,839	732,110	-	732,110
Advances to customers	9	12,686,056	722,707	13,408,763	15,980,978	231,403	16,212,381
Cash collateral on securities borrowed and reverse repurchase agreements		4,050,357	-	4,050,357	7,738,041	-	7,738,041
Receivable from clients for subscription of new shares in IPO		2,654	-	2,654	562,717	-	562,717
Accounts receivable		6,260,539	-	6,260,539	5,014,090	-	5,014,090
Tax recoverable		451,617	-	451,617	432,569	-	432,569
Prepayments, deposits and other receivables		1,303,835	54,886	1,358,721	1,047,322	59,131	1,106,453
Goodwill and other intangible assets		-	454,281	454,281	-	480,148	480,148
Other assets		-	278,058	278,058	-	198,051	198,051
Investment property		-	-	-	-	70,078	70,078
Property and equipment		-	806,147	806,147	-	812,208	812,208
Deferred tax assets		-	31,085	31,085	-	25,001	25,001
Total assets		100,705,016	15,522,616	116,227,632	124,019,513	22,423,003	146,442,516
LIABILITIES AND EQUITY							
Liabilities							
Financial liabilities held for trading and market making activities		2,479,581	-	2,479,581	4,067,271	-	4,067,271
Financial products issued at fair value		12,429,981	702,582	13,132,563	15,619,109	816,545	16,435,654
Derivative financial instruments		452,783	-	452,783	819,725	-	819,725
Cash collateral on securities lent and repurchase agreements		8,004,832	-	8,004,832	10,680,425	-	10,680,425
Accounts payable		18,227,725	-	18,227,725	22,921,539	-	22,921,539
Bank borrowings and debt securities in issue		28,211,516	13,959,956	42,171,472	44,316,967	11,568,173	55,885,140
Liabilities arising from consolidation of investment funds		1,137,444	-	1,137,444	5,071,585	-	5,071,585
Tax payable		562,912	-	562,912	479,154	-	479,154
Other payables, accruals and other liabilities		1,539,560	154,260	1,693,820	1,542,931	197,348	1,740,279
Deferred tax liabilities		-	20,952	20,952	-	24,575	24,575
Total liabilities		73,046,334	14,837,750	87,884,084	105,518,706	12,606,641	118,125,347
Equity							
Share capital				603,778			603,603
Reserves				27,739,770			27,007,350
Proposed dividends				-			706,216
Total shareholders' equity				28,343,548			28,317,169
Total liabilities and shareholders' equity				116,227,632			146,442,516
Net current assets				27,658,682			18,500,807

Notes:

1. BASIS OF PREPARATION AND ACCOUNTING POLICIES

These unaudited condensed consolidated financial statements should be read in conjunction with the 2020 annual consolidated financial statements. Except as described below and detailed in related notes, the accounting policies and methods of computation used in the preparation of these condensed consolidated financial statements are consistent with those used in the annual consolidated financial statements for the year ended 31 December 2020 except for amendments to the Hong Kong Financial Reporting Standards that are detailed in note 3 of 2021 interim report.

Change in presentation of unaudited condensed 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 period’s presentation.

2. SEGMENT INFORMATION

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

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

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

- (a) the wealth management segment provides financial advisory services and 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, securities custodian services, and securities margin financing;
- (b) the corporate finance segment engages in provision of sponsoring and underwriting services to corporate clients for their fund raising activities in equity and debt capital markets, and also engages in provision of financial advisory service for corporate actions such as mergers and acquisitions. In addition, this segment also provides financing solutions to the corporate clients and distributes these financing assets in secondary market;
- (c) the asset management segment engages in provision of investment management services on diversified and comprehensive investment products including public funds, private funds, and mandatory provident funds to individual, corporate and institutional clients;
- (d) the institutional clients segment serves institutional clients globally through sales and trading of both equity and fixed income products, financing, structuring products, offering risk management solutions and providing research advisory. It is also an active player in equity derivative products creation and trading. This segment is supported by the award-winning equity research team that specialises in listed equities in Asian financial markets; and
- (e) the investment segment invests in various financial instruments, primarily on listed equities, investment funds and private equity investments, to explore investment opportunities with reasonable returns.

The following table presents revenue and profit (loss) for the Group's business segments for the nine months ended 30 September:

(Unaudited)	Wealth management		Corporate finance		Asset management		Institutional clients		Investment		Consolidated	
	For the nine months ended 30 September											
	2021	2020	2021	2020	2021	2020	2021	2020	2021	2020	2021	2020
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Commission and fee income	432,079	559,557	1,224,240	836,664	327,178	240,265	374,989	269,202	-	-	2,358,486	1,905,688
Interest income	772,929	964,195	457,593	542,734	-	-	236,014	442,931	1,622	12,917	1,468,158	1,962,777
Net trading and investment income	-	-	-	-	-	-	686,749	864,620	448,110	1,152,134	1,134,859	2,016,754
Segment revenue	1,205,008	1,523,752	1,681,833	1,379,398	327,178	240,265	1,297,752	1,576,753	449,732	1,165,051	4,961,503	5,885,219
Other income and gains (losses)	(20,749)	30,539	(6,421)	10,719	(243)	3	(102,239)	136,698	11,972 ¹	(13,828) ¹	(117,680)	164,131
	1,184,259	1,554,291	1,675,412	1,390,117	326,935	240,268	1,195,513	1,713,451	461,704	1,151,223	4,843,823	6,049,350
Segment expenses	(621,812)	(797,515)	(725,802)	(603,054)	(162,177)	(138,879)	(1,110,159)	(1,474,107)	(573,391)	(879,751)	(3,193,341)	(3,893,306)
Profit (loss) before impairment charges and tax	562,447	756,776	949,610	787,063	164,758	101,389	85,354	239,344	(111,687)	271,472	1,650,482	2,156,044
Impairment charges, net of reversal	(270,559)	(92,206)	(3,376)	(42,995)	-	-	690	(633,873)	-	-	(273,245)	(769,074)
Profit (loss) before tax	291,888	664,570	946,234	744,068	164,758	101,389	86,044	(394,529)	(111,687)	271,472	1,377,237	1,386,970
Income tax expense											(226,962)	(186,027)
Profit for the period											1,150,275	1,200,943
Amortisation and depreciation	(64,651)	(53,883)	(24,627)	(15,446)	(5,826)	(4,655)	(113,033)	(102,974)	(3,865)	(2,771)	(212,002)	(179,729)
Finance costs	(131,378)	(234,774)	(123,626)	(213,857)	-	-	(254,457)	(629,406)	(357,578)	(646,914)	(867,039)	(1,724,951)

The following table presents revenue and profit (loss) for the Group's business segments for the three months ended 30 September:

(Unaudited)	Wealth management		Corporate finance		Asset management		Institutional clients		Investment		Consolidated	
	2021 HK\$'000	2020 HK\$'000	2021 HK\$'000	2020 HK\$'000	2021 HK\$'000	2020 HK\$'000	2021 HK\$'000	2020 HK\$'000	2021 HK\$'000	2020 HK\$'000	2021 HK\$'000	2020 HK\$'000
Commission and fee income	94,281	217,613	426,110	300,439	56,124	85,819	124,336	105,675	-	-	700,851	709,546
Interest income	267,987	321,802	147,146	169,155	-	-	62,051	107,813	1,622	1,453	478,806	600,223
Net trading and investment income	-	-	-	-	-	-	167,944	511,095	(220,851)	539,697	(52,907)	1,050,792
Segment revenue	362,268	539,415	573,256	469,594	56,124	85,819	354,331	724,583	(219,229)	541,150	1,126,750	2,360,561
Other income and gains (losses)	(18,177)	9,755	(3,260)	(5,959)	(243)	3	(55,420)	(8,892)	50,725 ¹	(55,071) ¹	(26,375)	(60,164)
	344,091	549,170	569,996	463,635	55,881	85,822	298,911	715,691	(168,504)	486,079	1,100,375	2,300,397
Segment expenses	(195,427)	(264,576)	(241,272)	(264,217)	(43,355)	(57,183)	(360,646)	(497,104)	(129,857)	(367,300)	(970,557)	(1,450,380)
Profit (loss) before impairment charges and tax	148,664	284,594	328,724	199,418	12,526	28,639	(61,735)	218,587	(298,361)	118,779	129,818	850,017
Impairment charges, net of reversal	(25,932)	10,530	(27,725)	(22,544)	-	-	7,034	15,645	-	-	(46,623)	3,631
Profit (loss) before tax	122,732	295,124	300,999	176,874	12,526	28,639	(54,701)	234,232	(298,361)	118,779	83,195	853,648
Income tax expense											(13,445)	(174,203)
Profit for the period											69,750	679,445
Amortisation and depreciation	(21,806)	(17,845)	(1,534)	(6,196)	(1,018)	(1,763)	(44,705)	(34,226)	(1,418)	(995)	(70,481)	(61,025)
Finance costs	(47,845)	(50,290)	(40,828)	(71,188)	-	-	(80,178)	(227,746)	(81,957)	(195,874)	(250,808)	(545,098)

¹ This mainly represents gain / (loss) on re-measurement of the liability in relation to the share of consolidated investment funds attributable to third-party unit/shareholders.

3. REVENUE AND OTHER INCOME AND GAINS OR LOSSES

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

	Three months ended		Nine months ended	
	30.09.2021	30.09.2020	30.09.2021	30.09.2020
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Revenue				
Commission and fee income (note (i)):				
Commission on brokerage (note (ii))	161,684	227,198	636,923	621,798
Commission on underwriting and placing	321,056	232,743	1,008,724	697,602
Financial advisory and consultancy fee income	105,054	67,696	215,516	139,062
Asset management fee and performance fee income	56,124	85,819	327,178	240,265
Handling, custodian and service fee income (note (ii))	56,933	96,090	170,145	206,961
	700,851	709,546	2,358,486	1,905,688
Interest income:				
Interest income from advances to customers				
– margin financing	240,696	285,805	695,475	802,246
– merger and acquisition financing	40,735	60,234	156,524	178,099
– secured financing	14,518	27,559	40,507	153,414
Interest income from investment securities at amortised cost	154,592	157,000	474,162	573,023
Interest income from reverse repurchase agreements	8,482	31,727	37,828	83,000
Interest income from bank deposits and others	19,783	37,898	63,662	172,995
	478,806	600,223	1,468,158	1,962,777
Net trading and investment income (note (iii)):				
Net income from financial assets held for trading and market making activities	12,222	389,917	210,889	338,815
Net trading income on financial products	155,722	121,178	475,860	525,805
Net (loss) gain from investment securities at fair value	(220,851)	539,697	448,110	1,152,134
	(52,907)	1,050,792	1,134,859	2,016,754
	1,126,750	2,360,561	4,961,503	5,885,219
Other income and gains or losses				
Others (note (iv))	(26,375)	(60,164)	(117,680)	164,131

Notes:

- (i) Commission and fee income is the only revenue arising from HKFRS 15, while interest income and net trading and investment income are under the scope of HKFRS 9. Included in revenue, revenue arising from contract with customers recognised at a point in time and over time were HK\$1,895,872,000 (nine months ended 30 September 2020: HK\$1,607,626,000) and HK\$462,614,000 (nine months ended 30 September 2020: HK\$298,062,000) respectively.
- (ii) Amounts of commission on brokerage of HK\$287,556,000 (nine months ended 30 September 2020: HK\$175,147,000) and handling, custodian and service fee income of HK\$87,433,000 (nine months ended 30 September 2020: HK\$94,055,000) have been included in institutional clients segment and each of the remaining amounts of these revenue categories have been included in wealth management segment.
- (iii) Net gain from investment securities at fair value of HK\$448,110,000 (nine months ended 30 September 2020: HK\$1,152,134,000) has been included in investment segment. Net income from financial assets held for trading and market making activities of HK\$210,889,000 (nine months ended 30 September 2020: HK\$338,815,000) and net trading income on financial products of HK\$475,860,000 (nine months ended 30 September 2020: HK\$525,805,000) have been included in institutional clients 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\$7 million (nine months ended 30 September 2020: net loss of HK\$47 million).

Foreign exchange loss (net) of HK\$147 million (nine months ended 30 September 2020: foreign exchange gain (net) of HK\$196 million) were 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 gain or loss arising from translation of financial assets / liabilities at fair value through profit or loss is recognised within net trading and investment income.

4. IMPAIRMENT CHARGES, NET OF REVERSAL

	Three months ended		Nine months ended	
	30.09.2021	30.09.2020	30.09.2021	30.09.2020
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Net impairment charges/(reversal of impairment charges) on:				
Advances to customers				
- margin financing	40,819	(9,848)	294,826	91,577
- merger and acquisition financing	(1,369)	1,889	(5,391)	2,755
- secured financing	12,478	1,643	13,531	664,487
Investment securities at amortised cost	(3,176)	(5,678)	(24,737)	617
Accounts receivable and others	(2,129)	8,363	(4,984)	9,638
	<u>46,623</u>	<u>(3,631)</u>	<u>273,245</u>	<u>769,074</u>

5. FINANCE COSTS

	Three months ended		Nine months ended	
	30.09.2021	30.09.2020	30.09.2021	30.09.2020
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Bank loans and overdrafts	114,208	231,668	435,508	1,012,245
Debt securities in issue:				
- Convertible bonds	539	530	1,611	1,584
- Non-convertible bonds	103,515	109,082	289,997	378,548
- Non-convertible notes	18,639	41,352	83,778	149,311
Interest on lease liabilities	2,783	2,376	8,728	8,200
Repurchase agreements and others (note)	11,124	160,090	47,417	175,063
	<u>250,808</u>	<u>545,098</u>	<u>867,039</u>	<u>1,724,951</u>

Note:

For the nine months ended 30 September 2020, included in the "finance costs – repurchase agreement and others" of HK\$175 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.

6. EARNINGS PER SHARE

Basic earnings per share

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

	Three months ended		Nine months ended	
	30.09.2021	30.09.2020	30.09.2021	30.09.2020
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Earnings				
Profit for the period attributable to owners of the Company (HK\$'000)	<u>69,750</u>	<u>679,445</u>	<u>1,150,275</u>	<u>1,200,943</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>5,904,503</u>	<u>5,867,040</u>	<u>5,888,323</u>	<u>5,860,956</u>
Basic earnings per share (HK cents per share)	<u>1.18</u>	<u>11.58</u>	<u>19.53</u>	<u>20.49</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.

	Three months ended		Nine months ended	
	30.09.2021	30.09.2020	30.09.2021	30.09.2020
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Earnings				
Profit for the period attributable to owners of the Company (HK\$'000)	69,750	679,445	1,150,275	1,200,943
Effect of dilutive potential ordinary shares				
- Interest on convertible bonds (net of tax) (HK\$'000) (note (b))	450	442	1,345	1,322
Earnings for the purpose of diluted earnings per share (HK\$'000)	70,200	679,887	1,151,620	1,202,265
Number of shares				
Weighted average number of ordinary shares in issue less shares held for the share award scheme (in thousands) (note (a))	5,904,503	5,867,040	5,888,323	5,860,956
Effect of dilutive potential ordinary shares:				
- Convertible bonds (in thousands) (note (b))	23,563	21,921	23,021	21,592
- Share options (in thousands) (note (c))	1,703	1,630	2,288	615
- Share awards (in thousands) (note (c))	2,565	5,817	4,315	5,168
Weighted average number of ordinary shares for the purpose of diluted earnings per share (in thousands)	5,932,334	5,896,408	5,917,947	5,888,331
Diluted earnings per share (HK cents per share)	1.18	11.53	19.46	20.42

Notes:

- (a) As at 30 September 2021, the trustee of the share award scheme held 117,406,723 ordinary shares of the Company (30 September 2020: 168,871,979 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 (30 September 2020: HK\$401 million).
- (b) On 25 October 2016, the Company issued convertible bonds of HK\$3,880 million with remaining outstanding principal amount of HK\$124 million as at 30 September 2021.

As at 30 September 2021, the convertible bonds issued in 2016 that remain outstanding are convertible into ordinary shares of the Company at a conversion price of HK\$5.06 (31 December 2020: HK\$5.55), at the option of the holders of the convertible bonds, which created a potential dilutive effect to the earnings per share. In the calculation of the diluted earnings per share, the convertible bonds are assumed to have been converted into ordinary shares. The weighted average number of ordinary shares outstanding is increased by the weighted average number of additional ordinary shares that would have been outstanding assuming the conversion of all dilutive potential ordinary shares was made from the date of the first issue with the adjustment if there is any conversion of the convertible bonds into ordinary shares during the period. The net profit is adjusted to eliminate the relevant interest expense less the tax effect.

- (c) The computation of diluted earnings per share assumed the exercise of the Company's outstanding share options and share awards with the exercise price lower than the average market price during the nine months ended 30 September 2021 and 2020 and with the adjustment for the share options lapsed or exercised during the periods.

7. DIVIDENDS

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.

It is the practice of the Group to consider to declare a dividend only at the half-year and year-end and no dividend will be proposed for the current period (nine months ended 30 September 2020: Nil).

8. INVESTMENT SECURITIES

	30.09.2021 HK\$'000 (Unaudited)	31.12.2020 HK\$'000 (Audited)
Investment securities measured at:		
- Fair value through profit or loss	33,380,072	35,946,111
- Fair value through other comprehensive income	89,717	344,683
- Amortised cost	6,020,081	10,475,717
	39,489,870	46,766,511
Less: Non-current portion (note (ii))	(8,097,129)	(15,267,263)
Current portion	31,392,741	31,499,248

Investment securities measured at fair value through profit or loss

	30.09.2021 HK\$'000 (Unaudited)	31.12.2020 HK\$'000 (Audited)
Listed equity investments	2,258,964	3,625,574
Exchange traded funds	64,440	87,269
Unlisted partnership investments	-	1,608,351
Unlisted equity investments	261,436	740,359
Unlisted debt investments	531,858	3,326,017
Unlisted investment funds	9,164,549	15,367,658
Consolidated investment funds (notes (i) and (iii))	21,098,825	11,190,883
	33,380,072	35,946,111
Less: Non-current portion (note (ii))	(8,020,021)	(12,793,985)
Current portion	25,360,051	23,152,126

Investment securities measured at fair value through other comprehensive income

	30.09.2021 HK\$'000 (Unaudited)	31.12.2020 HK\$'000 (Audited)
Listed equity investments	77,108	284,838
Listed debt investments	12,609	59,845
	89,717	344,683
Less: Non-current portion (note (ii))	(77,108)	(344,683)
Current portion	12,609	-

Investment securities measured at amortised cost (note (iv))

	30.09.2021 HK\$'000 (Unaudited)	31.12.2020 HK\$'000 (Audited)
Unlisted debt investments	6,029,977	10,510,350
Less: Impairment allowance	(9,896)	(34,633)
	6,020,081	10,475,717
Less: Non-current portion (note (ii))	-	(2,128,595)
Current portion	6,020,081	8,347,122

Notes:

- (i) Investment securities at fair value through profit or loss includes certain investment funds that are consolidated into the unaudited condensed consolidated financial statements of the Group. As at 30 September 2021 and 31 December 2020, the amount includes the 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.

Included in the consolidated investment funds of HK\$21,099 million (31 December 2020: HK\$11,191 million) is interests held by third-party unit/shareholders of HK\$ 1,137 million (31 December 2020: HK\$5,072 million). These interests are beneficially held by third-party unit/shareholders and the gain or loss arising from these third party interests have no impact to the net assets, net profit and leverage ratio of the Group. Instead, these interests are consolidated as a result of assessment of criteria (as detailed in note 26 of the 2020 annual audited financial statements and note 23 of 2021 interim report) and this is an application of relevant accounting standard of the scope of consolidation.

- (ii) As at 30 September 2021 and 31 December 2020, included in the non-current portion of investment securities are listed equity investments, unlisted equity investments, listed debt investments, unlisted debt investments, unlisted partnership investments, unlisted investment funds and consolidated investment funds that the Group expect to realise not within twelve months after each reporting period.
- (iii) As part of the liquidity and cash management of the Group, the Group invested into highly liquid investments for the purpose of maintaining sufficient cash and financial assets that are readily convertible into cash while aiming to earn an investment return. It is the Group's strategy to invest into financial assets that are not subject to any holding period restriction and that are issued by reputable financial institutions and corporations. As at 30 September 2021, such financial assets held amounted to HK\$8,919 million (31 December 2020: HK\$4,181 million).

- (iv) Included in investment securities at amortised cost are HK\$6,030 million (31 December 2020: HK\$10,510 million) of investment securities that are secured.

The majority of these investment securities at amortised cost are secured and/or guaranteed with contractual maturity within 1 year from the reporting date. These investment securities are monitored by the Risk Management Department and the Investment Committee of the Group based on the latest status of these securities, and the latest announced or available information about the issuers and the underlying collateral held.

9. ADVANCES TO CUSTOMERS

	30.09.2021 HK\$'000 (Unaudited)	31.12.2020 HK\$'000 (Audited)
Advances to customers:		
- Margin financing	10,027,340	12,327,279
- Merger and acquisition financing	2,574,003	3,232,843
- Secured financing	807,420	652,259
	13,408,763	16,212,381
Less: Non-current portion	(722,707)	(231,403)
Current portion	12,686,056	15,980,978

Margin financing

	30.09.2021 HK\$'000 (Unaudited)	31.12.2020 HK\$'000 (Audited)
Margin financing	10,724,461	13,534,090
Less: Impairment allowance	(697,121)	(1,206,811)
	10,027,340	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 30 September 2021, margin financing of HK\$10,027 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\$48,718 million (31 December 2020: HK\$72,753 million). In determining the allowances for credit impaired loans to margin clients for the current period, the management of the Group also takes into account shortfall by comparing the fair value of securities pledged as collateral and the outstanding balance of loan to margin clients, 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.

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.

Merger and acquisition financing

	30.09.2021 HK\$'000 (Unaudited)	31.12.2020 HK\$'000 (Audited)
Merger and acquisition financing	2,761,100	3,425,331
Less: Impairment allowance	(187,097)	(192,488)
	2,574,003	3,232,843
Less: Non-current portion	(649,667)	(231,403)
Current portion	1,924,336	3,001,440

Included in merger and acquisition financing are HK\$2,761 million (31 December 2020: HK\$3,425 million) of advances that are secured. Collateral held includes shares of the target company (or shares of the legal entity holding shares of target company) acquired by the borrower. In addition, majority of these advances are also guaranteed by other parties including holding companies or related companies of the borrower, beneficial owner of the borrower, etc.

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

As at 30 September 2021 and 31 December 2020, there were two past due merger and acquisition financing.

Secured financing

	30.09.2021 HK\$'000 (Unaudited)	31.12.2020 HK\$'000 (Audited)
Secured financing	872,711	703,887
Less: Impairment allowance	(65,291)	(51,628)
	807,420	652,259
Less: Non-current portion	(73,040)	-
Current portion	734,380	652,259

Included in secured financing are HK\$873 million (31 December 2020: HK\$704 million) that are secured.

The majority of these secured financing are secured and/or guaranteed with contractual maturity within 1 year to 2 years from the reporting date and credit limits are set for borrowers. Collateral held includes equity instruments and / or investment portfolio held by borrowers, etc. Regular reviews on these secured financing are conducted by the Risk Management Department of the Group based on the latest status of these secured financing and the latest announced or available information about the borrowers and the underlying collateral held. Apart from collateral monitoring, the Group seeks to maintain effective control over its secured financing in order to minimise credit risk by reviewing the borrowers' and/or guarantors' financial positions.

As at 30 September 2021, there was one past due secured financing (31 December 2020: one).

REVIEW OF UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

The Audit Committee of the Company has reviewed the Group's Unaudited Condensed Consolidated Financial Statements for the nine months ended 30 September 2021.

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

Hong Kong, 27 October 2021

As at the date of this announcement, the Board comprises Mr. LI Jun (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*, Mr. ZHANG Xinjun*, Mr. WAN Kam To**, Mr. LIU Swee Long Michael**, Mr. ZHANG Huaqiao** and Ms. LEE Man Yuen Margaret**.*

* *Non-executive Directors*

** *Independent Non-executive Directors*