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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 THREE MONTHS ENDED 31 MARCH 2022

The Board of Directors of Haitong International Securities Group Limited (the "Company" or "Haitong International") (the "Board") hereby announces the unaudited condensed consolidated results of the Company and its subsidiaries (collectively referred to as the "Group") for the three months ended 31 March 2022, with the comparative figures as follows:

Financial Highlights			
Results	For the three months ended 31.03.2022	31.03.2021	Percentage change Increase / (Decrease)
Revenue (HK\$'000)			
- Commission and fee income	380,647	910,581	(58)
- Interest income	392,433	583,293	(33)
- Net trading and investment income	(753,657)	478,697	N/A
(Loss)/Profit before impairment charges and tax (HK\$'000)	(681,342)	707,812	N/A
Net (Loss)/Profit Attributable to Shareholders (HK\$'000)	(640,280)	557,595	N/A
Per share			
Basic (Loss)/Earnings Per Share (HK Cents)	(10.81)	9.51	N/A
Diluted (Loss)/Earnings Per Share (HK Cents)	(10.80)	9.46	N/A
Financial Position	31.03.2022	31.12.2021	Percentage change Increase / (Decrease)
Shareholders' Funds (HK\$'000)	26,915,298	27,526,445	(2)
Total Assets (HK\$'000)	103,489,558	104,991,595	(1)
Number of Shares in Issue	6,037,785,086	6,037,785,086	-
NAV Per Share (HK\$)	4.46	4.56	(2)

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS (UNAUDITED)

	NOTES	Three months ended	
		31.03.2022	31.03.2021
		HK\$'000	HK\$'000
Revenue			
Commission and fee income	3	380,647	910,581
Interest income	3	392,433	583,293
Net trading and investment income	3	(753,657)	478,697
		<u>19,423</u>	<u>1,972,571</u>
Other income and gains or losses	3	86,087	(104,640)
		<u>105,510</u>	<u>1,867,931</u>
Staff costs		(307,487)	(431,617)
Commission expenses		(3,427)	(80,312)
Amortisation and depreciation		(58,620)	(70,965)
Operating expenses		(183,623)	(244,916)
Finance costs	5	(233,695)	(332,309)
		<u>(786,852)</u>	<u>(1,160,119)</u>
(Loss)/Profit before impairment charges and tax		(681,342)	707,812
Impairment charges, net of reversal	4	(85,460)	(44,167)
		<u>(766,802)</u>	<u>663,645</u>
(Loss)/Profit before tax		(766,802)	663,645
Income tax credit/(expense)		126,522	(106,050)
		<u>(640,280)</u>	<u>557,595</u>
(Loss)/Profit for the period attributable to owners of the Company		(640,280)	557,595
(Loss)/Earnings per share attributable to owners of the Company			
- Basic (HK cents per share)	6	(10.81)	9.51
- Diluted (HK cents per share)		(10.80)	9.46

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

	Three months ended	
	31.03.2022	31.03.2021
	HK\$'000	HK\$'000
(Loss)/Profit for the period attributable to owners of the Company	(640,280)	557,595
Other comprehensive (expense) income:		
<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	(3,238)	1,254
<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	-	(26,514)
- Reclassification adjustment to profit or loss on disposal	-	9,602
Exchange differences on translating foreign operations	21,019	23,286
Other comprehensive income for the period	17,781	7,628
Total comprehensive (expense)/income for the period attributable to owners of the Company	(622,499)	565,223

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

		31.03.2022 (Unaudited)			31.12.2021 (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		5,893,974	-	5,893,974	7,106,485	-	7,106,485
Cash held on behalf of customers		14,361,816	-	14,361,816	12,820,396	-	12,820,396
Financial assets held for trading and market making activities		2,185,550	-	2,185,550	3,265,941	-	3,265,941
Investment securities	8	25,699,639	9,280,456	34,980,095	25,843,187	9,363,316	35,206,503
Assets acquired for financial products issued		16,081,902	532,851	16,614,753	16,888,862	664,783	17,553,645
Derivative financial instruments		107,717	-	107,717	106,239	-	106,239
Advances to customers	9	12,571,496	443,626	13,015,122	11,461,781	626,016	12,087,797
Cash collateral on securities borrowed and reverse repurchase agreements		4,981,110	-	4,981,110	4,799,467	-	4,799,467
Accounts receivable		6,876,374	-	6,876,374	8,027,400	-	8,027,400
Tax recoverable		683,435	-	683,435	525,662	-	525,662
Prepayments, deposits and other receivables		1,924,208	42,515	1,966,723	1,756,485	39,406	1,795,891
Goodwill and other intangible assets		-	444,589	444,589	-	451,260	451,260
Other assets		-	159,042	159,042	-	199,664	199,664
Property and equipment		-	902,650	902,650	-	855,159	855,159
Deferred tax assets		-	316,608	316,608	-	190,086	190,086
Total assets		91,367,221	12,122,337	103,489,558	92,601,905	12,389,690	104,991,595
LIABILITIES AND EQUITY							
Liabilities							
Financial liabilities held for trading and market making activities		1,492,309	-	1,492,309	2,385,995	-	2,385,995
Financial products issued at fair value		6,157,719	165,237	6,322,956	7,500,248	269,532	7,769,780
Derivative financial instruments		276,959	-	276,959	320,368	-	320,368
Cash collateral on securities lent and repurchase agreements		3,189,715	-	3,189,715	3,077,400	-	3,077,400
Accounts payable		17,460,745	-	17,460,745	15,725,062	-	15,725,062
Bank borrowings and debt securities in issue		31,382,440	14,044,662	45,427,102	30,834,003	13,983,988	44,817,991
Liabilities arising from consolidation of investment funds		643,839	-	643,839	975,190	-	975,190
Tax payable		552,337	-	552,337	691,798	-	691,798
Other payables, accruals and other liabilities		915,253	271,148	1,186,401	1,490,565	188,822	1,679,387
Deferred tax liabilities		-	21,897	21,897	-	22,179	22,179
Total liabilities		62,071,316	14,502,944	76,574,260	63,000,629	14,464,521	77,465,150
Equity							
Share capital				603,778			603,778
Reserves				26,311,520			26,922,667
Total shareholders' equity				26,915,298			27,526,445
Total liabilities and shareholders' equity				103,489,558			104,991,595
Net current assets				29,295,905			29,601,276

Notes:

1. BASIS OF PREPARATION AND ACCOUNTING POLICIES

These unaudited condensed consolidated financial statements should be read in conjunction with the 2021 annual consolidated financial statements. Except as described below, 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 2021.

Amendments to Hong Kong Financial Reporting Standards ("HKFRSs") that are mandatorily effective for the current financial year

In the current 3 months ended 31 March 2022, the Group has applied, for the first time, the following amendments to HKFRSs issued by the Hong Kong Institute of Certified Public Accountants that are relevant for the preparation of the Group's unaudited condensed consolidated financial statements:

Amendments to HKFRS 3	Reference to the Conceptual Framework
Amendment to HKFRS 16	Covid-19-Related Rent Concessions beyond 30 June 2021
Amendments to HKAS 16	Property, Plant and Equipment - Proceeds before Intended Use
Amendments to HKAS 37	Onerous Contracts - Cost of Fulfilling a Contract
Amendments to HKFRSs	Annual Improvements to HKFRSs 2018-2020

The directors of the Company considered that the application of above-mentioned amendments to HKFRSs has had no material impact on the Group's financial position and performance for the current and prior periods and/or on the disclosures set out in these unaudited condensed consolidated financial statements.

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, discretionary account management services, 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 global markets segment provides a vast range of financial services to a diverse group of institutional clients, such as investment funds, sovereign funds, insurance companies and financial institutions, globally. This segment offers sales and trading of both equity and fixed income products, prime brokerage and risk management solutions, and research advisory. It is also an active player in equity derivative products creation and trading. This segment is supported by the award-winning equity research team that specialises in listed equities in Asian financial markets; and
- (e) the investment segment invests in various financial instruments and holds majority of investment securities of the Group. Investments held by this segment include primarily investment funds, listed and unlisted debt and equities, and private equities. This segment aims at acquiring investments that generates a reasonable yield while maintaining a robust risk management mechanism.

During the year ended 31 December 2021, the Group has redefined its key business activities of global markets segment, aiming at providing equity sales and trading, fixed income sales and trading, derivative sales and trading, prime brokerage and equity research services to institutional clients globally and facilitating client transactions across different asset classes in financial markets worldwide, the "Institutional Clients" segment has been renamed as "Global Markets" segment. The Group has also reclassified interest income from financial assets measured at amortised cost (including investment securities at amortised cost and term financing) held by corporate finance segment and global markets segment to investment segment to better reflect the management view that these assets form part of the investment portfolio held by the Group. Consequently, comparative information for the 3 months ended 31 March 2021 on segment revenue and segment expenses (as a result of reclassification of segment revenue) has been restated to conform the current period's presentation.

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

(Unaudited)	Wealth management		Corporate finance		Asset management		Global markets		Investment		Consolidated	
					For the three months ended 31 March							
	2022	2021	2022	2021	2022	2021	2022	2021	2022	2021	2022	2021
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
		(Restated)		(Restated)		(Restated)		(Restated)		(Restated)		(Restated)
Segment revenue:												
Commission and fee income	45,090	176,549	110,148	388,406	75,010	209,487	150,399	136,139	-	-	380,647	910,581
Interest income	216,752	273,071	3,449	-	-	-	15,822	38,158	156,410	272,064	392,433	583,293
Net trading and investment income	-	-	-	-	-	-	121,121	433,129	(874,778)	45,568	(753,657)	478,697
Segment revenue	261,842	449,620	113,597	388,406	75,010	209,487	287,342	607,426	(718,368)	317,632	19,423	1,972,571
Other income and gains/ (losses)	(994)	(13,448)	1,171	638	58	-	(737)	(66,138)	86,589 ¹	(25,692) ¹	86,087	(104,640)
Segment expenses	260,848 (128,244)	436,172 (269,702)	114,768 (77,848)	389,044 (139,293)	75,068 (52,261)	209,487 (58,493)	286,605 (253,212)	541,288 (354,519)	(631,779) (275,287)	291,940 (338,112)	105,510 (786,852)	1,867,931 (1,160,119)
Profit / (Loss) before impairment charges and tax	132,604	166,470	36,920	249,751	22,807	150,994	33,393	186,769	(907,066)	(46,172)	(681,342)	707,812
Impairment charges, net of reversal	(101,084)	(54,104)	494	669	-	-	40	519	15,090	8,749	(85,460)	(44,167)
Profit / (Loss) before tax	31,520	112,366	37,414	250,420	22,807	150,994	33,433	187,288	(891,976)	(37,423)	(766,802)	663,645
Income tax credit / (expense)											126,522	(106,050)
(Loss) / profit for the period											(640,280)	557,595
Amortisation and depreciation	(11,867)	(21,392)	(7,173)	(5,555)	(2,225)	(2,361)	(34,168)	(38,746)	(3,187)	(2,911)	(58,620)	(70,965)
Finance costs	(25,354)	(50,141)	(399)	-	-	-	(16,985)	(35,834)	(190,957)	(246,334)	(233,695)	(332,309)

¹ This includes net gain / (loss) 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	
	31.03.2022	31.03.2021
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Revenue		
Commission and fee income (note (i)):		
Commission on brokerage (note (ii))	150,903	261,158
Commission on underwriting and placing	96,727	344,928
Financial advisory and consultancy fee income	13,421	43,478
Asset management fee and performance fee income	75,010	209,487
Handling, custodian and service fee income (note (ii))	44,586	51,530
	380,647	910,581
Interest income:		
Interest income from advances to customers		
- margin financing	182,915	241,780
- term financing	56,740	100,756
Interest income from investment securities measured at amortised cost	115,516	189,058
Interest income from reverse repurchase agreements	15,478	18,762
Interest income from bank deposits and others	21,784	32,937
	392,433	583,293
Net trading and investment income (note (iii)):		
Net (loss) gain from financial assets held for trading and market making activities	(82,572)	201,442
Net trading income on financial products	203,693	231,687
Net (loss) gain from investment securities at fair value	(874,778)	45,568
	(753,657)	478,697
	19,423	1,972,571
Other income and gains or losses		
Others (note (iv))	86,087	(104,640)

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\$296,723,000 (3 months ended 31 March 2021: HK\$671,016,000) and HK\$83,924,000 (3 months ended 31 March 2021: HK\$239,565,000) respectively.
- (ii) Amounts of commission on brokerage of HK\$117,503,000 (3 months ended 31 March 2021: HK\$103,879,000) and handling, custodian and service fee income of HK\$32,896,000 (3 months ended 31 March 2021: HK\$32,260,000) have been included in global markets segment and the remaining amount of each category has been included in wealth management segment.

- (iii) Net loss from investment securities at fair value of HK\$874,778,000 (3 months ended 31 March 2021: net gain of HK\$45,568,000) has been included in investment segment. Net loss from financial assets held for trading and market making activities of HK\$82,572,000 (3 months ended 31 March 2021: net gain of HK\$201,442,000) and net trading income on financial products of HK\$203,693,000 (3 months ended 31 March 2021: net trading income of HK\$231,687,000) have been included in global markets segment.
- (iv) Included in other income and gains or losses is the net gain on re-measurement of the liability in relation to the share of consolidated investment funds attributable to third-party unit/shareholders of HK\$137 million (3 months ended 31 March 2021: net loss of HK\$19 million).

Foreign exchange loss (net) of HK\$55 million (3 months ended 31 March 2021: foreign exchange loss (net) of HK\$90 million) was also included in the other income and gains or losses. This amount relates to loss arising from translation of assets and liabilities (other than financial assets / liabilities measured at fair value through profit or loss) into Hong Kong dollar, while the 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	
	31.03.2022	31.03.2021
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Net impairment charges / (reversal of impairment charges) on:		
Advances to customers		
- margin financing	104,503	52,044
- term financing	(11,874)	4,965
Investment securities at amortised cost	(4,876)	(11,160)
Accounts receivable and others	(2,293)	(1,682)
	<u>85,460</u>	<u>44,167</u>

5. FINANCE COSTS

	Three months ended	
	31.03.2022	31.03.2021
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Bank loans and overdrafts	107,465	180,999
Debt securities in issue:		
- Convertible bonds	-	534
- Non-convertible bonds	103,945	90,318
- Non-convertible notes	12,345	36,805
Interest on lease liabilities	2,415	2,923
Repurchase agreements and others	7,525	20,730
	<u>233,695</u>	<u>332,309</u>

6. (LOSS)/EARNINGS PER SHARE

Basic (loss)/earnings per share

Basic (loss)/earnings per share is calculated by dividing the (loss)/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	
	31.03.2022	31.03.2021
	(Unaudited)	(Unaudited)
(Loss)/Earnings		
(Loss)/Profit for the period attributable to owners of the Company (HK\$'000)	(640,280)	557,595
Number of shares		
Weighted average number of ordinary shares in issue less shares held for the share award scheme (in thousands) (note (a))	5,922,486	5,866,301
Basic (loss)/earnings per share (HK cents per share)	(10.81)	9.51

Diluted (loss)/earnings per share

Diluted (loss)/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	
	31.03.2022	31.03.2021
	(Unaudited)	(Unaudited)
(Loss)/Earnings		
(Loss)/Profit for the period attributable to owners of the Company (HK\$'000)	(640,280)	557,595
Effect of dilutive potential ordinary shares		
- Interest on convertible bonds (net of tax) (HK\$'000) (note (b))	-	446
(Loss)/Earnings for the purpose of diluted (loss)/earnings per share (HK\$'000)	(640,280)	558,041
Number of shares		
Weighted average number of ordinary shares in issue less shares held for the share award scheme (in thousands) (note (a))	5,922,486	5,866,301
Effect of dilutive potential ordinary shares:		
- Convertible bonds (in thousands) (note (b))	-	22,342
- Share options (in thousands) (note (c))	1	2,688
- Share awards (in thousands)	6,862	5,895
Weighted average number of ordinary shares for the purpose of diluted (loss)/earnings per share (in thousands)	5,929,349	5,897,226
Diluted (loss)/earnings per share (HK cents per share)	(10.80)	9.46

Notes:

- (a) As at 31 March 2022, the trustee of the share award scheme held 110,420,646 ordinary shares of the Company (31 December 2021: 117,409,723 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\$254 million (31 December 2021: HK\$270 million).
- (b) Convertible bonds issued on 25 October 2016 that were outstanding and convertible into ordinary shares of the Company at a conversion price of HK\$5.06 immediate before redemption had been redeemed in full during the year ended 31 December 2021. In the calculation of the diluted earnings per share, the convertible bonds are assumed to have been converted into ordinary shares. The weighted average number of ordinary shares outstanding is increased by the weighted average number of additional ordinary shares that would have been outstanding assuming the conversion of outstanding convertible bonds into ordinary shares was made from the date of the first issue with the adjustment if there is any conversion of the convertible bonds into ordinary shares during the period. The net profit is adjusted to eliminate the relevant interest expense less the tax effect.
- (c) The computation of diluted (loss)/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 periods ended 31 March 2022 and 2021 and with the adjustment for the share options lapsed or exercised during the periods.

7. DIVIDENDS

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

It is the practice of the Group to declare a dividend only at the half-year and year-end and no dividend will be proposed for the current period (3 months ended 31 March 2021: Nil).

8. INVESTMENT SECURITIES

	31.03.2022 HK\$'000 (Unaudited)	31.12.2021 HK\$'000 (Audited)
Investment securities measured at:		
- Fair value through profit or loss	27,848,683	28,093,118
- Fair value through other comprehensive income	56,420	59,053
- Amortised cost	7,074,992	7,054,332
	34,980,095	35,206,503
Less: Non-current portion (note (iv))	(9,280,456)	(9,363,316)
Current portion	25,699,639	25,843,187

Investment securities at fair value through profit or loss

	31.03.2022 HK\$'000 (Unaudited)	31.12.2021 HK\$'000 (Audited)
Listed equity investments	1,118,818	2,096,922
Exchange traded funds	-	49,680
Unlisted equity investments	7,468	7,845
Unlisted debt investments	583,865	421,078
Unlisted investment funds (notes (ii) and (iii))	9,011,494	9,962,740
Consolidated investment funds (note (i))	17,127,038	15,554,853
	27,848,683	28,093,118
Less: Non-current portion (note (iv))	(7,895,005)	(7,705,205)
Current portion	19,953,678	20,387,913

Investment securities measured at fair value through other comprehensive income

	31.03.2022 HK\$'000 (Unaudited)	31.12.2021 HK\$'000 (Audited)
Listed equity investments	56,420	59,053
	56,420	59,053
Less: Non-current portion (note (iv))	(56,420)	(59,053)
Current portion	-	-

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

	31.03.2022 HK\$'000 (Unaudited)	31.12.2021 HK\$'000 (Audited)
Unlisted debt investments	7,078,275	7,062,491
Less: Impairment allowance	(3,283)	(8,159)
	7,074,992	7,054,332
Less: Non-current portion (note (iv))	(1,329,031)	(1,599,058)
Current portion	5,745,961	5,455,274

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 31 March 2022, the amount includes the consolidated bond funds, equity funds, private equity funds, limited partnership funds and fund of funds (31 December 2021: consolidated bond funds, equity funds, private equity funds and limited partnership 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\$17,127 million (31 December 2021: HK\$ HK\$15,555 million) is interests held by third-party unit/shareholders of HK\$644 million (31 December 2021: HK\$975 million). These interests are held by third-party unit/shareholders and the gain or loss arising from these third party interests have no impact to the net assets, net profit and leverage ratio of the Group.

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

There is no unfilled capital commitment to these investment funds. The current carrying amount of HK\$9,011 million (31 December 2021: HK\$9,963 million) in the unaudited condensed consolidated statement of financial position represents the Group's maximum exposure.

- (iii) The Group held unlisted investment funds amounted to HK\$2,150 million (31 December 2021: HK\$2,197 million) and these investment funds shall be classified as "investments accounted for using the equity method" given the Group held over 30% (31 December 2021: over 30%) of the non-participating shares and also the Group held 50% of the management shares in these unlisted investment funds, and management shareholders are empowered to make all the key financing and operating decisions in the funds and require unanimous consent of the parties sharing control. The directors of the Company considered that these investment funds shall be measured at fair value through profit or loss instead of applying the equity method as the principal activity of the subsidiary holding these investments is investment holding. There is no unfilled capital commitment on these unlisted investment funds as at 31 March 2022 and 31 December 2021 respectively and the fair values represent the maximum exposure on respective reporting dates.

- (iv) As at 31 March 2022 and 31 December 2021, included in the non-current portion of investment securities are listed equity investments, unlisted equity investments, unlisted debt investments, unlisted partnership investments, unlisted investment funds and consolidated investment funds that the directors of the Company expect to realise not within twelve months after each reporting period.

- (v) Included in investment securities at amortised cost are HK\$7,078 million (31 December 2021: HK\$7,062 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.

As at 31 March 2022, there were four past due investment securities (31 December 2021: four).

9. ADVANCES TO CUSTOMERS

	31.03.2022 HK\$'000 (Unaudited)	31.12.2021 HK\$'000 (Audited)
Advances to customers:		
- Margin financing	9,638,274	9,160,201
- Term financing	3,376,848	2,927,596
	<u>13,015,122</u>	<u>12,087,797</u>
Less: Non-current portion	(443,626)	(626,016)
Current portion	<u>12,571,496</u>	<u>11,461,781</u>
<u>Margin financing</u>		
	31.03.2022 HK\$'000 (Unaudited)	31.12.2021 HK\$'000 (Audited)
Margin financing	10,507,694	9,925,118
Less: Impairment allowance	(869,420)	(764,917)
	<u>9,638,274</u>	<u>9,160,201</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 Risk Management Department is responsible to monitor credit risk and seek to maintain a strict control over the outstanding loan balance.

The loans to margin clients are interest bearing and secured by the underlying pledged securities. As at 31 March 2022, margin financing of HK\$9,638 million (31 December 2021: HK\$9,160 million) were secured by securities pledged by the customers to the Group as collateral with undiscounted market value of HK\$43,417 million (31 December 2021: HK\$46,997 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.

During the period ended 31 March 2022, additional individual impairment of HK\$67 million was made against several independent margin customers with carrying amount of HK\$361 million as at 31 March 2022 due to the decrease in the market value of the listed shares pledged to the Group as at 31 March 2022.

No ageing analysis is disclosed as in the opinion of the directors, the ageing analysis is not meaningful in view of the revolving nature of the business of securities margin financing.

Term financing

	31.03.2022 HK\$'000 (Unaudited)	31.12.2021 HK\$'000 (Audited)
Term financing	3,812,212	3,374,834
Less: Impairment allowance	(435,364)	(447,238)
	<hr/> 3,376,848	<hr/> 2,927,596
Less: Non-current portion	(443,626)	(626,016)
	<hr/> 2,933,222	<hr/> 2,301,580
Current portion	<hr/> 2,933,222	<hr/> 2,301,580

Included in term financing are HK\$3,812 million (31 December 2021: HK\$3,375 million) of advances that are secured.

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

Collateral held includes equity instruments (listed or unlisted), investment portfolios held by the borrowers, etc. In addition, majority of these advances are also guaranteed by other parties including holding companies or related companies of the borrower, beneficial owner of the borrower, etc. Regular reviews on these term financing are conducted by the Risk Management Department of the Group based on the latest status of these term financing and the latest announced or available information about the borrowers and the underlying collateral held. Apart from collateral monitoring, the Group seeks to maintain effective control over its term financing in order to minimise credit risk by reviewing the borrowers' and/or guarantors' financial positions.

As at 31 March 2022, there were four past due term financing (31 December 2021: four).

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 three months ended 31 March 2022.

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

Hong Kong, 22 April 2022

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*