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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 INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2022

Financial Highlights			
Results	Six months ended 30.6.2022	30.6.2021	Percentage change Increase / (Decrease)
Revenue (HK\$'000)			
- Commission and fee income	774,632	1,657,635	(53)
- Interest income	627,278	989,352	(37)
- Net trading and investment income	(1,283,150)	1,187,766	N/A
Net (Loss)/Profit Attributable to Shareholders (HK\$'000)	(1,681,222)	1,080,525	N/A
Per share			
Basic (Loss)/Earnings Per Share (HK Cents)	(25.82)	16.71	N/A
Diluted (Loss)/Earnings Per Share (HK Cents)	(25.82)	16.63	N/A
Financial Position	30.6.2022	31.12.2021	Percentage change Increase / (Decrease)
Shareholders' Funds (HK\$'000)	25,654,425	27,526,445	(7)
Total Assets (HK\$'000)	102,279,270	104,991,595	(3)
Number of Shares in Issue (Note)	6,641,563,594	6,037,785,086	10
NAV Per Share (HK\$)	3.86	4.56	(15)

Note:

A bonus issue was made on the basis of one bonus issue for every ten existing shares in issue held by the qualifying shareholders during the period. Hence, the total number of shares of the Company was increased to 6,641,563,594 as at 30 June 2022.

INTERIM RESULTS

The board of directors (the “Board”) of Haitong International Securities Group Limited (the “Company” or “Haitong International”) hereby announces the unaudited condensed consolidated results of the Company and its subsidiaries (collectively referred to as the “Group”) for the six months ended 30 June 2022, with the comparative figures for the preceding six months ended 30 June 2021, as follows:

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

	NOTES	Six months ended 30.6.2022 HK\$'000 (unaudited)	30.6.2021 HK\$'000 (unaudited)
Revenue			
Commission and fee income	5	774,632	1,657,635
Interest income	5	627,278	989,352
Net trading and investment income	5	(1,283,150)	1,187,766
		<u>118,760</u>	<u>3,834,753</u>
Other income and gains or losses	5	(28,653)	(91,305)
		<u>90,107</u>	<u>3,743,448</u>
Staff costs	6	(545,943)	(891,533)
Commission expenses		(3,173)	(92,722)
Amortisation and depreciation		(117,234)	(141,521)
Operating expenses		(368,224)	(480,777)
Finance costs	8	(471,143)	(616,231)
		<u>(1,505,717)</u>	<u>(2,222,784)</u>
(Loss)/Profit before impairment charges and tax		(1,415,610)	1,520,664
Impairment charges, net of reversal	7	(243,612)	(226,622)
		<u>(1,659,222)</u>	<u>1,294,042</u>
(Loss)/Profit before tax			
Income tax expense	9	(22,000)	(213,517)
		<u>(1,681,222)</u>	<u>1,080,525</u>
(Loss)/Profit for the period attributable to owners of the Company			
		<u>(1,681,222)</u>	<u>1,080,525</u>
(Loss)/Earnings per share attributable to owners of the Company			
- Basic (HK cents per share)	11	(25.82)	16.71
		<u>(25.82)</u>	<u>16.71</u>
- Diluted (HK cents per share)		(25.82)	16.63
		<u>(25.82)</u>	<u>16.63</u>

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	Six months ended	
	30.6.2022	30.6.2021
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
(Loss)/Profit for the period attributable to owners of the Company	(1,681,222)	1,080,525
Other comprehensive (expenses) 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	(234,733)	(7,456)
<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	-	(2,151)
- Reclassification adjustment to profit or loss on disposal	-	16,569
Exchange differences on translating foreign operations	41,064	10,395
Other comprehensive (expenses)/income for the period	(193,669)	17,357
Total comprehensive (expenses)/income for the period attributable to owners of the Company	(1,874,891)	1,097,882

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

		30.6.2022 (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		6,386,907	-	6,386,907	7,106,485	-	7,106,485
Cash held on behalf of customers		11,747,059	-	11,747,059	12,820,396	-	12,820,396
Financial assets held for trading and market making activities		1,410,039	-	1,410,039	3,265,941	-	3,265,941
Investment securities		24,693,340	10,550,285	35,243,625	25,843,187	9,363,316	35,206,503
Assets acquired for financial products issued		16,331,572	14,412	16,345,984	16,888,862	664,783	17,553,645
Derivative financial instruments		144,778	-	144,778	106,239	-	106,239
Advances to customers	12	12,352,612	1,326,595	13,679,207	11,461,781	626,016	12,087,797
Cash collateral on securities borrowed and reverse repurchase agreements		4,304,334	-	4,304,334	4,799,467	-	4,799,467
Receivable from clients for subscription of new shares in IPO	13	1,665	-	1,665	-	-	-
Accounts receivable	13	5,818,985	-	5,818,985	8,027,400	-	8,027,400
Tax recoverable		683,816	-	683,816	525,662	-	525,662
Prepayments, deposits and other receivables		1,662,632	31,887	1,694,519	1,756,485	39,406	1,795,891
Goodwill and other intangible assets		-	437,119	437,119	-	451,260	451,260
Other assets		-	180,177	180,177	-	199,664	199,664
Investment properties held by consolidated investment funds		-	3,130,516	3,130,516	-	-	-
Property and equipment		-	876,346	876,346	-	855,159	855,159
Deferred tax assets		-	194,194	194,194	-	190,086	190,086
Total assets		85,537,739	16,741,531	102,279,270	92,601,905	12,389,690	104,991,595
LIABILITIES AND EQUITY							
Liabilities							
Financial liabilities held for trading and market making activities		675,439	-	675,439	2,385,995	-	2,385,995
Financial products issued at fair value		5,614,067	14,447	5,628,514	7,500,248	269,532	7,769,780
Derivative financial instruments		24,485	-	24,485	320,368	-	320,368
Cash collateral on securities lent and repurchase agreements		5,604,088	-	5,604,088	3,077,400	-	3,077,400
Accounts payable	15	14,299,009	-	14,299,009	15,725,062	-	15,725,062
Bank borrowings and debt securities in issue		33,672,108	14,080,914	47,753,022	30,834,003	13,983,988	44,817,991
Liabilities arising from consolidation of investment funds		540,774	-	540,774	975,190	-	975,190
Tax payable		563,987	-	563,987	691,798	-	691,798
Other payables, accruals and other liabilities		1,292,935	220,556	1,513,491	1,490,565	188,822	1,679,387
Deferred tax liabilities		-	22,036	22,036	-	22,179	22,179
Total liabilities		62,286,892	14,337,953	76,624,845	63,000,629	14,464,521	77,465,150
Equity							
Share capital	14			664,156			603,778
Reserves				24,990,269			26,922,667
Total shareholders' equity				25,654,425			27,526,445
Total liabilities and shareholders' equity				102,279,270			104,991,595
Net current assets				23,250,847			29,601,276

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 a holding company and the business segments of the Company and its subsidiaries (collectively referred as the “Group”) include wealth management, corporate finance, asset management, global markets and investment. Details of the business segments of the Group are disclosed in note 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 (“PRC”)) respectively.

These unaudited condensed 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 unaudited condensed consolidated financial statements have been prepared in accordance with Hong Kong Accounting Standard 34 “Interim Financial Reporting” 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.

3. PRINCIPAL ACCOUNTING POLICIES

The unaudited condensed consolidated financial statements have been prepared on the historical cost basis except for investment properties held by consolidated investment funds and certain financial instruments, which are measured at fair values.

Other than additional accounting policies resulting from application of amendments to Hong Kong Financial Reporting Standards ("HKFRSs"), the accounting policies and methods of computation used in the unaudited condensed consolidated financial statements for the six months ended 30 June 2022 are the same as those followed in the preparation of the Group's audited consolidated financial statements for the year ended 31 December 2021.

Details of any changes in accounting policies are set out below.

Application of amendments to HKFRSs

In the current interim period, the Group has applied the following amendments to HKFRSs issued by the HKICPA, for the first time, which are mandatorily effective for the annual periods beginning on or after 1 January 2022 for the preparation of the Group's unaudited condensed consolidated financial statements:

Amendments to HKFRS 3	Reference to the Conceptual Framework
Amendments 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 application of the amendments to HKFRSs in the current interim period has had no material impact on the Group's financial positions and performance for the current and prior periods and/or on the disclosures set out in these unaudited condensed consolidated financial statements.

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.

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

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

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

- (a) the wealth management segment provides financial advisory services and customised investment solutions to satisfy the specific financial needs of high net worth clients. This segment offers a broad range of products and services including securities, futures and options contracts, over-the-counter products, funds, discretionary account management services, securities custodian services, and securities margin financing;
- (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. 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 instruments and holds majority of investment securities (measured at amortised cost and at fair value) of the Group. Investments held by this segment include primarily investment funds, listed and unlisted debt and equities, alternative investments (such as real estate investments through investment funds) and private equities. This segment aims at acquiring investments that generates a reasonable yield while maintaining a robust risk management mechanism.

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 six month ended 30 June											
	2022 HK\$'000	2021 HK\$'000	2022 HK\$'000	2021 HK\$'000 (Restated)	2022 HK\$'000	2021 HK\$'000	2022 HK\$'000	2021 HK\$'000 (Restated)	2022 HK\$'000	2021 HK\$'000 (Restated)	2022 HK\$'000	2021 HK\$'000
Segment revenue:												
Commission and fee income	113,855	337,798	277,014	798,130	141,254	271,054	242,509	250,653	-	-	774,632	1,657,635
Interest income	338,003	504,942	10,328	1,537	-	-	31,050	61,714	247,897	421,159	627,278	989,352
Net trading and investment income	-	-	-	-	-	-	312,893	518,805	(1,596,043)	668,961	(1,283,150)	1,187,766
Segment revenue	451,858	842,740	287,342	799,667	141,254	271,054	586,452	831,172	(1,348,146)	1,090,120	118,760	3,834,753
Other income and gains (losses)	3,408	(2,572)	218	710	(1)	-	(18,015)	(46,819)	(14,263) ¹	(42,624) ¹	(28,653)	(91,305)
Segment expenses	455,266 (221,118)	840,168 (426,385)	287,560 (230,242)	800,377 (358,723)	141,253 (61,877)	271,054 (118,822)	568,437 (424,555)	784,353 (622,381)	(1,362,409) (567,925)	1,047,496 (696,473)	90,107 (1,505,717)	3,743,448 (2,222,784)
Profit (loss) before impairment charges and tax	234,148	413,783	57,318	441,654	79,376	152,232	143,882	161,972	(1,930,334)	351,023	(1,415,610)	1,520,664
Impairment charges, net of reversal	(174,552)	(244,627)	(1,371)	(162)	-	-	13	(6,344)	(67,702)	24,511	(243,612)	(226,622)
Profit (loss) before tax	59,596	169,156	55,947	441,492	79,376	152,232	143,895	155,628	(1,998,036)	375,534	(1,659,222)	1,294,042
Income tax expense											(22,000)	(213,517)
(Loss) profit for the period											(1,681,222)	1,080,525
Amortisation and depreciation	(41,390)	(42,845)	(14,589)	(19,827)	(4,616)	(4,808)	(48,526)	(68,328)	(8,113)	(5,713)	(117,234)	(141,521)
Finance costs	(51,564)	(83,533)	(2,264)	(1,241)	-	-	(35,626)	(73,571)	(381,689)	(457,886)	(471,143)	(616,231)

¹ This includes net gain (loss) of consolidated investment funds attributable to third-party unit / shareholders.

5. REVENUE AND OTHER INCOME AND GAINS OR LOSSES

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

	Six months ended	
	30.6.2022	30.6.2021
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
Revenue		
Commission and fee income (note (i)):		
Commission on brokerage (note (ii))	252,763	475,239
Commission on underwriting and placing	197,786	687,668
Financial advisory and consultancy fee income	79,228	110,462
Asset management fee and performance fee income	141,254	271,054
Handling, custodian and service fee income (note (ii))	103,601	113,212
	<u>774,632</u>	<u>1,657,635</u>
Interest income:		
Interest income from advances to customers		
– margin financing	272,499	454,779
– term financing	119,497	141,778
Interest income from investment securities measured at amortised cost	163,457	319,570
Interest income from reverse repurchase agreements	30,261	29,346
Interest income from bank deposits and others	41,564	43,879
	<u>627,278</u>	<u>989,352</u>
Net trading and investment income (note (iii)):		
Net (loss) gain from financial assets held for trading and market making activities	(68,577)	198,667
Net trading income on financial products	381,470	320,138
Net (loss) gain from investments (note (v))	(1,596,043)	668,961
	<u>(1,283,150)</u>	<u>1,187,766</u>
	<u>118,760</u>	<u>3,834,753</u>
Other income and gains or losses		
Others (note (iv))	(28,653)	(91,305)

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\$605,402,000 (six months ended 30 June 2021: HK\$1,324,517,000) and HK\$169,230,000 (six months ended 30 June 2021: HK\$333,118,000) respectively.

- (ii) Amounts of commission on brokerage of HK\$186,231,000 (six months ended 30 June 2021: HK\$193,393,000) and handling, custodian and service fee income of HK\$56,278,000 (six months ended 30 June 2021: HK\$57,260,000) have been included in global markets segment and each of the remaining amounts of these revenue categories have been included in wealth management segment.
- (iii) Net loss from investments of HK\$1,596,043,000 (six months ended 30 June 2021: net gain of HK\$668,961,000) has been included in investment segment. Net loss from financial assets held for trading and market making activities of HK\$68,577,000 (six months ended 30 June 2021: net gain of HK\$198,667,000) and net trading income on financial products of HK\$381,470,000 (six months ended 30 June 2021: net trading income of HK\$320,138,000) have been included in global markets segment.
- (iv) Included in other income and gains or losses is the net gain on remeasurement of the liability in relation to the share of consolidated investment funds attributable to third-party unit/shareholders of HK\$160 million (six months ended 30 June 2021: net loss of HK\$44 million).
- Foreign exchange loss (net) of HK\$195 million (six months ended 30 June 2021: foreign exchange loss (net) of HK\$57 million) was also included in the other income and gains or losses. This amount relates to loss 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.
- (v) For the purpose of the disclosure on net (loss) gain from investments, investments include investment securities measured at fair value and investment properties held by consolidated investment funds. Included in net (loss) gain from investments is a revaluation gain of HK\$500 million in relation to investment properties held by consolidated investment funds. This revaluation gain has been included in investment segment.

6. STAFF COSTS

	Six months ended	
	30.6.2022	30.6.2021
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
Salaries, incentives, bonuses and allowances	518,560	863,958
Pension scheme contributions (net)	27,383	27,575
	<u>545,943</u>	<u>891,533</u>

7. IMPAIRMENT CHARGES, NET OF REVERSAL

	Six months ended	
	30.6.2022	30.6.2021
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
Net impairment charges (reversal of impairment charges) on:		
Advances to customers		
– margin financing	175,007	254,007
– term financing	46,552	(2,969)
Investment securities measured at amortised cost	(4,904)	(21,561)
Accounts receivable and others	26,957	(2,855)
	<u>243,612</u>	<u>226,622</u>

8. FINANCE COSTS

	Six months ended	
	30.6.2022	30.6.2021
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
Bank loans and overdrafts	212,190	321,300
Debt securities in issue:		
– Convertible bonds	-	1,072
– Non-convertible bonds	208,434	186,482
– Non-convertible notes	28,172	65,139
Interest on lease liabilities	4,980	5,945
Repurchase agreements and others	17,367	36,293
	<u>471,143</u>	<u>616,231</u>

9. INCOME TAX EXPENSE

	Six months ended	
	30.6.2022	30.6.2021
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
Current taxation:		
- Hong Kong	23,122	221,353
- Other jurisdictions	3,130	2,790
	<u>26,252</u>	<u>224,143</u>
Deferred tax:		
- Current period	(4,252)	(10,626)
	<u>22,000</u>	<u>213,517</u>

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

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 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 share was approved by the shareholders at the annual general meeting of the Company on 2 June 2022 and subsequently the bonus shares were issued on 23 June 2022.

At a meeting of the Board held on 24 August 2022, the Board resolved not declare an interim dividend for the 6 months ended 30 June 2022.

11. (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.

	Six months ended 30.6.2022 (unaudited)	30.6.2021 (unaudited) (restated)
(Loss)/Earnings		
(Loss)/Profit for the period attributable to owners of the Company (HK\$'000)	(1,681,222)	1,080,525
Number of shares		
Weighted average number of ordinary shares in issue less shares held for the share award scheme (in thousands) (note (b))	6,511,463	6,468,109
Basic (loss)/earnings per share (HK cents per share)	(25.82)	16.71

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.

	Six months ended 30.6.2022 (unaudited)	30.6.2021 (unaudited) (restated)
(Loss)/Earnings		
(Loss)/Profit for the period attributable to owners of the Company (HK\$'000)	(1,681,222)	1,080,525
Effect of dilutive potential ordinary shares		
- Interest on convertible bonds (net of tax) (HK\$'000) (note (c))	-	895
(Loss)/Earnings for the purpose of diluted earnings per share (HK\$'000)	(1,681,222)	1,081,420

Number of shares

Weighted average number of ordinary shares in issue less shares held for the share award scheme (in thousands) (note (b))	6,511,463	6,468,109
Effect of dilutive potential ordinary shares:		
- Convertible bonds (in thousands) (note (c))	-	25,021
- Share options (in thousands) (note (d))	-	2,614
- Share awards (in thousands) (note (d))	-	6,231
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Weighted average number of ordinary shares for the purpose of diluted earnings per share (in thousands)	6,511,463	6,501,975
	<hr/>	<hr/>
Diluted (loss)/earnings per share (HK cents per share)	(25.82)	16.63
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Notes:

- (a) On 23 June 2022, 603,778,508 shares were issued as bonus share on the basis one bonus share for every ten existing shares held by the shareholders of the Company. The effect of the bonus share has been included within the calculation of basic and diluted loss per share for the current 6-month period. Basic and diluted earnings per share for the 6 months ended 30 June 2021 have been restated to take into account the effects of the bonus issue.
- (b) As at 30 June 2022, the trustee of the share award scheme held 137,590,910 ordinary shares of the Company (30 June 2021: 133,276,362 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\$271 million (30 June 2021: HK\$306 million).
- (c) 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 were assumed to have been converted into ordinary shares. The weighted average number of ordinary shares outstanding was 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 was adjusted to eliminate the relevant interest expense less the tax effect. No such adjustment is made for the diluted loss per share for the six months ended 30 June 2022.
- (d) The computation of diluted loss per share for the six months ended 30 June 2022 does not assume the exercise of the Company's outstanding share options and share awards as their assumed exercise would result in a decrease in loss per share. The computation of diluted (loss)/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 six months ended 30 June 2021 and with the adjustment for the share options lapsed or exercised during the period.

12. ADVANCES TO CUSTOMERS

	30.6.2022 HK\$'000 (unaudited)	31.12.2021 HK\$'000 (audited)
Advances to customers:		
- Margin financing	10,831,927	9,160,201
- Term financing	2,847,280	2,927,596
	<hr/>	<hr/>
	13,679,207	12,087,797
Less: Non-current portion	(1,326,595)	(626,016)
	<hr/>	<hr/>
Current portion	12,352,612	11,461,781
	<hr/> <hr/>	<hr/> <hr/>

Margin financing

	30.6.2022 HK\$'000 (unaudited)	31.12.2021 HK\$'000 (audited)
Margin financing	11,725,676	9,925,118
Less: Impairment allowance	(893,749)	(764,917)
	<hr/>	<hr/>
	10,831,927	9,160,201
	<hr/> <hr/>	<hr/> <hr/>

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 June 2022, margin financing of HK\$10,832 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\$41,757 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 current period, additional individual impairment of HK\$137 million was made against several independent margin customers with net carrying amount of HK\$280 million as at 30 June 2022 due to the decrease in the market value of the listed shares pledged to the Group as at 30 June 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

	30.6.2022 HK\$'000 (unaudited)	31.12.2021 HK\$'000 (audited)
Term financing	3,120,929	3,374,834
Less: Impairment allowance	(273,649)	(447,238)
	<hr/> 2,847,280	<hr/> 2,927,596
Less: Non-current portion	(1,326,595)	(626,016)
	<hr/> 1,520,685	<hr/> 2,301,580
Current portion	<hr/> 1,520,685	<hr/> 2,301,580

Included in term financing are HK\$3,121 million (31 December 2021: HK\$3,375 million) of advances that are secured.

The majority of these term financings 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 financings are conducted by the Risk Management Department and the Investment Committee 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 30 June 2022, there were three past due term financings (31 December 2021: four).

As at 30 June 2022 and 31 December 2021, there was a past due term financing with a gross and carrying amount of HK\$197 million and HK\$118 million (31 December 2021: HK\$197 million and HK\$118 million) respectively that was advanced to an external party for its property development project in the PRC with the due date in July 2021. In assessing the impairment, the management considered a number of factors including creditworthiness and status of the borrower, recoverable amount of the collateral (at its force sale value), the credit protection structure and the status of enforcement proceedings in the PRC. In the opinion of the directors of the Company, the impairment provision for the current period and prior period are appropriate.

As at 30 June 2022, there was another past due term financing with gross and carrying amounts of EUR37 million (31 December 2021: EUR37 million) (equivalent to approximately HK\$307 million (31 December 2021: HK\$330 million)) and EUR14 million (31 December 2021: EUR22 million) (equivalent to approximately HK\$118 million (31 December 2021: HK\$198 million)) respectively that was advanced to a company listed in PRC and HK for its acquisition in the overseas. The loan matured and the principal and the accrued interest were not repaid as at 30 June 2022 and 31 December 2021. In assessing impairment, the management considered a number of factors including the financial status of the borrower, fair value of the collateral pledged, and the status of enforcement proceedings in the PRC. In the opinion of the directors, the impairment provision for the current period and prior period are appropriate.

A financing with the gross carrying amount of HK\$157 million (31 December 2021: HK\$156 million) with collaterals being listed equities and properties matured in October 2020 (and therefore classified as past due) and the borrower is in the process of repayment of principal and accrued interest, but pending for realisation of the borrower's assets (other than those pledged to the Group). In assessing the impairment, the management considered the collateral value and no impairment was made during the current period and prior period.

As at 31 December 2021, included in the term financing was a financing with gross amount of HK\$220 million with collaterals being unlisted shares of entities holding a property development project in the PRC is fully impaired. In assessing the impairment as at 31 December 2021, the management considered a number of factors including independent valuation of the property development projects, creditworthiness and status of the borrower, and the status of enforcement proceedings in the PRC. During the current 6-month period, the above-mentioned financing was fully written off.

13. RECEIVABLE FROM CLIENTS FOR SUBSCRIPTION OF NEW SHARES IN IPO AND ACCOUNTS RECEIVABLE

	30.6.2022 HK\$'000 (unaudited)	31.12.2021 HK\$'000 (audited)
Receivable from clients for subscription of new shares in IPO (note (i))	1,665	-
Accounts receivable	5,818,985	8,027,400
	5,820,650	8,027,400
Accounts receivable from:		
- Clients	1,823,502	1,834,709
- Brokers, dealers and clearing houses	3,913,437	6,075,851
- Others (note (ii))	82,046	116,840
	5,818,985	8,027,400

Notes:

- (i) Receivable from clients arising from financing of IPO subscriptions are required to settle their securities trading balances on the allotment date determined under the relevant market practices or exchange rules.
- (ii) The amount represents the fees receivable from corporate finance, wealth management and asset management businesses.

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

	30.6.2022 HK\$'000 (unaudited)	31.12.2021 HK\$'000 (audited)
Between 0 and 3 months	5,781,652	7,998,983
Between 4 and 6 months	12,262	11,884
Between 7 and 12 months	14,487	4,035
Over 1 year	10,584	12,498
	5,818,985	8,027,400

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

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

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

14. SHARE CAPITAL

	30.6.2022 HK\$'000 (unaudited)	31.12.2021 HK\$'000 (audited)
Authorised:		
20,000,000,000 (31 December 2021: 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:		
6,641,563,594 (31 December 2021: 6,037,785,086) ordinary shares of HK\$0.10 each	<u>664,156</u>	<u>603,778</u>

The movements in issued share capital were as follows:

	Number of shares in issue	Issued share capital HK\$'000
As at 1 January 2021	6,036,035,086	603,603
New shares issued under exercise of share options	<u>1,350,000</u>	<u>135</u>
As at 30 June 2021	6,037,385,086	603,738
New shares issued under exercise of share options	<u>400,000</u>	<u>40</u>
As at 31 December 2021 and 1 January 2022	6,037,785,086	603,778
New shares issued upon bonus issue	<u>603,778,508</u>	<u>60,378</u>
As at 30 June 2022	<u>6,641,563,594</u>	<u>664,156</u>

15. ACCOUNTS PAYABLE

	30.6.2022 HK\$'000 (unaudited)	31.12.2021 HK\$'000 (audited)
Accounts payable to:		
- Clients	12,377,964	13,410,306
- Brokers, dealers and clearing houses	1,828,215	2,029,906
- Others	92,830	284,850
	14,299,009	15,725,062

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

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

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

Except for the accounts payable to clients which bear interest at 0.001% as at 30 June 2022 (31 December 2021: 0.001%), all the accounts payable are non-interest bearing.

Accounts payable to clients include those payables placed in segregated accounts with authorized institutions of HK\$11,747,059,000 (31 December 2021: HK\$12,820,396,000), HKFE Clearing Corporation Limited, the SEHK Options Clearing House Limited and other futures dealers totalling HK\$150,249,000 (31 December 2021: HK\$226,187,000).

MANAGEMENT DISCUSSION AND ANALYSIS

In the first half of 2022, Hong Kong's stock and bond markets experienced significant volatility due to the Federal Reserve's significant interest rate hike, the Russia-Ukraine conflict, and the recurrent impact of the fifth wave of COVID-19 in Hong Kong. The Hang Seng Index dropped more than 6,800 points from peak to trough and fell by 1,537 points, or 6.6% cumulatively, during the period. ICE BofA Asian Dollar High Yield Corporate China Issuer Index fell 37.8% from the beginning of 2022. The primary market for equities and bonds also contracted sharply as a result of the high volatility in the secondary market, and the total fundraising amount in Hong Kong's IPO market dropped 90.7% year-on-year, reflecting a gloomy market sentiment.

Under the fluctuating market, Haitong International adheres to its commitment on “reducing risk by lowering leverage” and continued to implement the strategic transformation in building a solid fee based business, striving to maintain stability, and staying competitive of its core businesses in the marketplace. In the first half of 2022, Haitong International reported a fee and interest income of HK\$1,402 million. As a result of the Group's effective cost structure optimisation, the total cost declined by 32% to HK\$1,506 million compared with the same period of last year. A net loss of HK\$1,681 million was mainly a result of the volatile capital market, which led to lower fee income and losses in trading and investment businesses, including losses recorded in the Group's equity investments, debt investments and fund-of-funds investments managed by third-party managers.

During the period under review, Haitong International continued to reduce the scale of risk assets proactively and improve asset structure, and the Group successfully mitigated its exposure to market risks. The total assets of Haitong International stood at HK\$102.3 billion, while the net asset was HK\$25.7 billion as of 30 June 2022. The leverage ratio remained at an industry-low of 3.50 times.

In the midst of a challenging global economic and market environment, Haitong International maintains its risk appetite of “stable to prudent” and continues to strengthen its risk management capabilities in accordance with the Group's risk management framework. The Group is also at its best standing in recent years in terms of the three indicators of risk, capital, and liquidity. In the first half of 2022, the Group maintained a standing of “BBB” credit rating from Standard & Poor's and a “Baa2” credit rating from Moody's with a stable outlook.

A well-built investment banking ecosystem to fully realise synergies of “One Haitong”

During the first half of 2022, Haitong International's investment banking team further improved the investment banking ecosystem, diversified its product offerings, and enhanced cross-departmental and cross-regional synergies, to further leverage the synergy of the “One Haitong” business. Despite the significant contraction of the IPO market in Hong Kong, the Group completed 11 equity financing projects (including IPOs, secondary placings, and rights issues) in Hong Kong during the period, ranked No. 3 among all financial institutions in terms of the number of projects. In the overseas markets, Haitong International's United States office completed its first SPAC IPO at the beginning of the year, becoming the first Chinese investment bank to participate in fundraising projects through its business entity in the United States. The investment banking team also worked closely with Haitong Securities, the parent company of Haitong International, to actively explore business opportunities in the issuance of global depositary receipts (“GDRs”) and connect schemes.

According to Bloomberg's Asia (ex-Japan) G3 High Yield Bond League Table, Haitong International has completed a total of 97 bond issuances as of 30 June 2022, ranked No. 4 among international financial institutions in terms of the number of issuances. The debt capital markets team has also upheld the ESG and sustainable finance principles by completing 14 green and sustainable bond issuances during the period, raising over US\$6 billion in total. The team has further developed its financial advisory business in response to growing market demand, and completed 11 debt restructuring projects in the first half of 2022, ranked top in Bloomberg's APAC Liability Management Bonds League Table.

In view of the rapidly changing capital markets in the first half of 2022, Haitong International's mergers and acquisitions team actively participated in cross-border mergers and acquisitions and financing deals, leveraging the Group's global presence and strengthening cross-region collaborations in the investment banking business. The team offered financial advisory services for a number of mergers and acquisitions projects in Europe and participated in several SPAC projects in the United States. During the reporting period, the loan capital markets team completed three financing projects, with total fundraising amount reaching US\$400 million. In addition, the team has achieved internal synergy through working with the investment banking team in unlocking new business opportunities.

Bolster capabilities for local and cross-border transactions

In the first half of 2022, under the impact of complex and volatile macroeconomic, geopolitical and market environments, the average daily turnover of the Hong Kong equity market fell by 27.1% year-on-year. With the spirit of “customers first”, Haitong International continued to deliver efficient and professional trading, research and sales services to global institutional clients. The global markets segment generated HK\$243 million in commission and fee income for the first half of 2022, a decline of 3% year-on-year. The decline in trading volume of the cash equities business was much less than the turnover drop of the Hong Kong stock market, resulting in a bigger market share in both the Hong Kong stock market and China stock connect.

Haitong International's equity research team has continuously consolidated its competitive edge in China research while enhancing its cross-border research capabilities. The team has also recruited a number of seasoned analysts with substantial research experience in overseas markets to deepen exchanges between the Chinese market with those of Europe, the United States and Southeast Asia markets. As of the end of June 2022, the team grew its coverage of international stocks by 20% compared with the beginning of the year.

In the first half of 2022, the fixed income sales and trading team boosted the trading volume of bonds significantly on the premise of strictly applying risk management measures and effectively reducing the usage of its own capital. The Group committed more resources to the prime brokerage business and launched the cross-border total return swap (“TRS”) business during the period, with the aim of better supporting the cross-border investment needs of institutional clients participating in connect schemes.

Upgraded private wealth management platform and service model

The wealth management segment reported a revenue of HK\$452 million for the first half of 2022, a decrease of 46% year-on-year. This drop was partly a result of lower market turnover in the Hong Kong stock market, and the high base of last year's segment revenue which consisted of private wealth management and retail business in the first quarter, as the Group has officially upgraded its wealth management business to private wealth management since last April.

During the period under review, Haitong International has continued to improve the business model of its private wealth management business. Through strengthening its collaboration with the investment banking, asset management, and equity sales and trading teams, the private wealth management team provides more diversified wealth management and investment solutions for the Group's high-net-worth and ultra-high-net-worth clients, such as new SPAC funds and discretionary accounts. To meet the needs of entrepreneurial clients, the private wealth management team has made significant progress in developing employee stock option plans (“ESOP”) and service platforms. In the meantime, this segment achieved effective control of credit risk by onboarding a group of premium clients and offering high-quality margin financing services.

The private wealth management team at Haitong International's Singapore office shrewdly adjusted its business strategies during the period and accelerated its global family office business. The team has finalised cooperation agreements with a number of well-known local asset managers and formally launched external asset management (“EAM”) services in Singapore to meet the global asset allocation needs of high-net-worth clients.

Further development of the distinctive asset management platform

Haitong International's asset management team collaborates with investment banking, trading, private wealth management, equity sales and trading, and other relevant teams, to boost its research and investment capabilities to develop a distinctive investment platform that can adapt to changing market conditions, meet customer needs, and commit to ESG investment. As of June 2022, the management fee income remained stable with assets under management (“AUM”) at HK\$51.5 billion.

As the downward pressure on the global economy continues to increase during the first half of 2022, the asset management team remained focused to hone its investment and research capabilities, actively calibrate fund investment strategies, and persistently provide customers with superior investment management services. With the strategy of uniting all business segments, the team successfully launched the Haitong Spark Global Multi-Asset Fund S.P., which was customised for the Group's high-net-worth clients. It has also set up a tailor-made SPAC fund in conjunction with the SPAC business in Hong Kong equity markets for external investors in the first half of 2022, further consolidating the service cycle of the investment banking business.

The asset management team at Haitong International has consistently produced exceptional and steady long-term returns for the funds it manages. During the period, our asset management team received a number of industry honours, including Best ESG Manager, Best 10 Year Performance Awards – Equity Fund (Hong Kong) from the Lipper Fund Awards Hong Kong, The Asset and Insights & Mandate Professional Investment, among others.

Continual implementation of sustainable finance and ESG practices

In recognition of its exceptional achievements in sustainable finance and ESG practices, Haitong International has been included into the FTSE4Good Index by global index provider FTSE Russell of the London Stock Exchange. Additionally, the Group reaffirmed its A rating for ESG performance from MSCI, placing it at the forefront of ESG practices among global investment banks.

In terms of green financing, Haitong International maintained its market-leading position by underwriting 14 green and sustainable bonds that raised a total of US\$6 billion.

Haitong International has also taken significant steps to fulfil its corporate social responsibilities by fully supporting the fight against the epidemic since the fifth wave of COVID-19 outbreak in Hong Kong at the beginning of the year. The Group has frequently donated anti-epidemic supplies to front-line healthcare workers, affected grassroots communities, and the general public through NGOs and social groups. At the same time, the Group has implemented a variety of measures to assist employees and their families, such as offering care subsidies, free anti-epidemic supplies, and flexible work arrangements, among other measures.

Prospect

Looking ahead to the second half of 2022, global economic growth will slow down further, inflation will remain high, and the risk of stagflation cannot be ruled out. The Federal Reserve and other major central banks are expected to continue to prioritise inflation control and accelerate the tightening of monetary policy through interest rate hikes and tapering. This will force the majority of emerging economies to raise interest rates to curb inflation and prevent capital outflows. Furthermore, uncontrollable factors such as recurrent COVID-19 outbreaks, energy crisis, climate change risks, and geopolitical conflicts may further stimulate inflation and slow economic growth, endangering the stability of global financial markets. It is expected that Hong Kong and overseas financial markets will continue to face greater downside pressure and the risk of sharp fluctuations in asset prices should not be underestimated.

Based on the fundamental judgement that “the adjustment of market risks not yet eliminated”, Haitong International will continue to adhere to its commitment to “reducing risk by lowering leverage”, further reduce the scale of risk assets and improve asset structure, and respond to market changes and challenges with a prudent mindset and a stable business model. The Group will remain focused on transforming its fee based business, and pursue the steady and sustainable growth of its core businesses of investment banking, asset management, private wealth management, and global markets. Haitong International will also continue to expand its global footprint, strengthen cross-border and cross-department synergies, unite all business segments to act as a whole, and to become a leading global investment bank.

INTERIM DIVIDEND

The Board did not recommend the payment of an interim dividend for the 6 months ended 30 June 2022 (6 months ended 30 June 2021: HK9 cents per share).

COMPLIANCE WITH CORPORATE GOVERNANCE CODE

The Board is committed to maintaining a high standard of corporate governance practices within the Group. Throughout the six months ended 30 June 2022, the Company has fully complied with the code provisions set out in the Corporate Governance Code as contained in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange.

COMPLIANCE WITH MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the “Model Code”) set out in Appendix 10 to the Rules Governing the Listing of Securities on the Stock Exchange 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 of the Company confirmed that they have complied with the required standard set out in the Model Code throughout the six months ended 30 June 2022.

AUDIT COMMITTEE

The audit committee of the Company (the “Audit Committee”) has met with the external auditors of the Group, Messrs. Deloitte Touche Tohmatsu, to review the accounting principles and practices adopted by the Group and the unaudited consolidated results for the six months ended 30 June 2022 of the Group. The Audit Committee currently comprises 3 non-executive directors of the Company and among whom 2, including the chairman of the Audit Committee (the “Chairman”), are independent non-executive directors of the Company. The Chairman has the appropriate financial-related professional qualification and experience.

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

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company’s listed securities during the six months ended 30 June 2022 other than as an agent for clients of the Company or its subsidiaries.

PUBLICATION OF THE INTERIM RESULTS ANNOUNCEMENT AND INTERIM REPORT FOR THE SIX MONTHS ENDED 30 JUNE 2022 ON THE WEBSITES OF THE HONG KONG EXCHANGES AND CLEARING LIMITED AND THE COMPANY

This announcement of the interim results for the six months ended 30 June 2022 is published on the websites of the Hong Kong Exchanges and Clearing Limited at www.hkexnews.hk and the Company at www.htisec.com. The interim report for the six months ended 30 June 2022 of the Company containing the information required by the Listing Rules will be despatched 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, 24 August 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*