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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 2023

Financial Highlights			
Results	Six months ended		Percentage change Increase / (Decrease)
	30.6.2023	30.6.2022	
Revenue (<i>HK\$'000</i>)			
- Commission and fee income	532,256	774,632	(31)
- Interest income	772,839	627,278	23
- Net trading and investment income	588,730	(1,283,150)	N/A
Net Loss Attributable to Shareholders (<i>HK\$'000</i>)	(780,943)	(1,681,222)	N/A
Per share			
Basic Loss Per Share (<i>HK Cents</i>)	(11.55)	(25.62)	N/A
Diluted Loss Per Share (<i>HK Cents</i>)	(11.55)	(25.62)	N/A
Financial Position	30.6.2023	31.12.2022	Percentage change Increase / (Decrease)
Shareholders' Funds (<i>HK\$'000</i>)	22,738,236	20,688,808	10
Total Assets (<i>HK\$'000</i>)	89,942,131	89,097,202	1
Number of Shares in Issue (<i>Note</i>)	8,438,024,077	6,641,563,594	27
NAV Per Share (<i>HK\$</i>)	2.69	3.12	(14)

Note:

A rights issue was made on the basis of three rights shares 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 8,438,024,077 as at 30 June 2023.

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 2023, with the comparative figures for the preceding six months ended 30 June 2022, as follows:

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

	NOTES	Six months ended	
		30.6.2023 HK\$'000 (unaudited)	30.6.2022 HK\$'000 (unaudited)
Revenue			
Commission and fee income	5	532,256	774,632
Interest income	5	772,839	627,278
Net trading and investment income	5	588,730	(1,283,150)
		-----	-----
		1,893,825	118,760
Other income and gains or losses	5	(105,856)	(28,653)
		-----	-----
		1,787,969	90,107
Staff costs	6	(399,580)	(545,943)
Commission expenses		(8,582)	(3,173)
Amortisation and depreciation		(95,699)	(117,234)
Operating expenses		(375,835)	(368,224)
Finance costs	8	(1,158,340)	(471,143)
		-----	-----
		(2,038,036)	(1,505,717)
Loss before impairment charges and tax		(250,067)	(1,415,610)
Impairment charges, net of reversal	7	(440,070)	(243,612)
		-----	-----
Loss before tax		(690,137)	(1,659,222)
Income tax expense	9	(90,806)	(22,000)
		-----	-----
Loss for the period attributable to owners of the Company		(780,943)	(1,681,222)
		=====	=====
Loss per share attributable to owners of the Company	11		(restated)
- Basic (HK cents per share)		(11.55)	(25.62)
		=====	=====
			(restated)
- Diluted (HK cents per share)		(11.55)	(25.62)
		=====	=====

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	Six months ended	
	30.6.2023	30.6.2022
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
Loss for the period attributable to owners of the Company	<u>(780,943)</u>	<u>(1,681,222)</u>
Other comprehensive income (expenses):		
<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	32,138	(234,733)
<i>Items that may be reclassified subsequently to profit or loss:</i>		
Exchange differences on translating foreign operations	<u>59,340</u>	<u>41,064</u>
Other comprehensive income (expenses) for the period	<u>91,478</u>	<u>(193,669)</u>
Total comprehensive expenses for the period attributable to owners of the Company	<u><u>(689,465)</u></u>	<u><u>(1,874,891)</u></u>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	NOTES	30.6.2023 (unaudited)			31.12.2022 (audited)		
		Current	Non-current	Total	Current	Non-current	Total
		HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
ASSETS							
Cash and cash equivalents		9,695,293	-	9,695,293	5,002,861	-	5,002,861
Cash held on behalf of customers		8,629,775	-	8,629,775	9,059,437	-	9,059,437
Financial assets held for trading and market making activities		1,005,410	-	1,005,410	903,855	-	903,855
Investment securities		22,711,173	11,117,902	33,829,075	24,209,788	10,821,498	35,031,286
Assets acquired for financial products issued		11,480,649	3,079	11,483,728	10,562,194	2,422	10,564,616
Derivative financial instruments		299,398	-	299,398	185,760	-	185,760
Advances to customers	12	11,429,492	722,440	12,151,932	13,944,015	1,104,108	15,048,123
Cash collateral on securities borrowed and reverse repurchase agreements		1,633,639	-	1,633,639	1,404,392	-	1,404,392
Receivable from clients for subscription of new shares in IPO	13	-	-	-	1,080	-	1,080
Accounts receivable	13	4,448,667	-	4,448,667	4,704,423	-	4,704,423
Tax recoverable		644,522	-	644,522	656,019	-	656,019
Prepayments, deposits and other receivables		950,091	217,618	1,167,709	1,423,609	100,574	1,524,183
Goodwill and other intangible assets		-	416,887	416,887	-	431,308	431,308
Other assets		-	185,191	185,191	-	223,826	223,826
Investment properties		-	3,445,862	3,445,862	-	3,405,900	3,405,900
Property and equipment		-	832,195	832,195	-	875,388	875,388
Deferred tax assets		-	72,848	72,848	-	74,745	74,745
Total assets		72,928,109	17,014,022	89,942,131	72,057,433	17,039,769	89,097,202
LIABILITIES AND EQUITY							
Liabilities							
Financial liabilities held for trading and market making activities		210,860	-	210,860	125,875	-	125,875
Financial products issued at fair value		4,001,965	3,115	4,005,080	2,879,886	2,450	2,882,336
Derivative financial instruments		110,031	-	110,031	187,631	-	187,631
Cash collateral on securities lent and repurchase agreements		5,187,693	-	5,187,693	5,859,415	-	5,859,415
Accounts payable	15	11,465,632	-	11,465,632	10,601,632	-	10,601,632
Bank borrowings and debt securities in issue		33,885,099	10,940,115	44,825,214	36,175,110	10,884,538	47,059,648
Liabilities arising from consolidation of investment funds		233,210	-	233,210	361,940	-	361,940
Tax payable		171,196	-	171,196	181,206	-	181,206
Other payables, accruals and other liabilities		812,540	165,954	978,494	956,925	169,597	1,126,522
Deferred tax liabilities		-	16,485	16,485	-	22,189	22,189
Total liabilities		56,078,226	11,125,669	67,203,895	57,329,620	11,078,774	68,408,394
Equity							
Share capital	14			843,802			664,156
Reserves				21,894,434			20,024,652
Total shareholders' equity				22,738,236			20,688,808
Total liabilities and shareholders' equity				89,942,131			89,097,202
Net current assets				16,849,883			14,727,813

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 property 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 2023 are the same as those followed in the preparation of the Group's audited consolidated financial statements for the year ended 31 December 2022.

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 2023 for the preparation of the Group's unaudited condensed consolidated financial statements:

Amendments to HKAS 8	Definition of Accounting Estimates
Amendments to HKAS 12	Deferred Tax related to Assets and Liabilities arising from a Single Transaction
Amendments to HKAS 12	International Tax Reform – Pillar Two Model Rules

Except as described below, 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.

In July 2023, the HKICPA issued the amendments to HKAS 12 to add the exception to recognising and disclosing information about deferred tax assets and liabilities that are related to tax law enacted or substantively enacted to implement the Pillar Two model rules published by the Organisation for Economic Co-operation and Development (the "Pillar Two legislation"). The amendments require that entities shall apply the amendments immediately upon issuance. The amendments also require that entities shall disclose separately its current tax expense/income related to Pillar Two income taxes, and the qualitative and quantitative information about its exposure to Pillar Two income taxes in periods in which the Pillar Two legislation is enacted or substantially enacted but not yet in effect in annual reporting periods beginning on or after 1 January 2023.

The Group is yet to apply the temporary exception during the current interim period because the Group's entities are operating in jurisdictions which the Pillar Two legislation has not yet been enacted or substantially enacted. The Group will disclose known or reasonably estimable information that helps users of financial statements to understand the Group's exposure to Pillar Two income taxes in the Group's annual consolidated financial statements in which the Pillar Two legislation has been enacted or substantially enacted and will disclose separately current tax expense/income related to Pillar Two income taxes when it is in effect.

4. SEGMENT INFORMATION

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

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

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

- (a) the wealth management segment 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 subsidiaries) 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	
	2023 HK\$'000	2022 HK\$'000	2023 HK\$'000	2022 HK\$'000	2023 HK\$'000	2022 HK\$'000	2023 HK\$'000	2022 HK\$'000	2023 HK\$'000	2022 HK\$'000	2023 HK\$'000	2022 HK\$'000
For the six month ended 30 June												
Segment revenue:												
Commission and fee income	82,532	113,855	170,724	277,014	96,760	141,254	182,240	242,509	-	-	532,256	774,632
Interest income	492,458	338,003	16,566	10,328	-	-	55,488	31,050	208,327	247,897	772,839	627,278
Net trading and investment income	-	-	-	-	-	-	282,941	312,893	305,789	(1,596,043)	588,730	(1,283,150)
Segment revenue	574,990	451,858	187,290	287,342	96,760	141,254	520,669	586,452	514,116	(1,348,146)	1,893,825	118,760
Other income and gains (losses)	(4,799)	3,408	2,599	218	29	(1)	(27,981)	(18,015)	(75,704) ¹	(14,263) ¹	(105,856)	(28,653)
Segment expenses	570,191 (411,168)	455,266 (221,118)	189,889 (158,622)	287,560 (230,242)	96,789 (75,834)	141,253 (61,877)	492,688 (463,924)	568,437 (424,555)	438,412 (928,488)	(1,362,409) (567,925)	1,787,969 (2,038,036)	90,107 (1,505,717)
Profit (loss) before impairment charges and tax	159,023	234,148	31,267	57,318	20,955	79,376	28,764	143,882	(490,076)	(1,930,334)	(250,067)	(1,415,610)
Impairment charges, net of reversal	(305,779)	(174,552)	4,406	(1,371)	-	-	(1,258)	13	(137,439)	(67,702)	(440,070)	(243,612)
(Loss) profit before tax	(146,756)	59,596	35,673	55,947	20,955	79,376	27,506	143,895	(627,515)	(1,998,036)	(690,137)	(1,659,222)
Income tax expense											(90,806)	(22,000)
Loss for the period											(780,943)	(1,681,222)
Amortisation and depreciation	(36,277)	(41,390)	(12,041)	(14,589)	(3,767)	(4,616)	(38,370)	(48,526)	(5,244)	(8,113)	(95,699)	(117,234)
Finance costs	(228,442)	(51,564)	(22,547)	(2,264)	-	-	(62,074)	(35,626)	(845,277)	(381,689)	(1,158,340)	(471,143)

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	
	30.6.2023 HK\$'000 (unaudited)	30.6.2022 HK\$'000 (unaudited)
Revenue		
Commission and fee income (note (i)):		
Commission on brokerage (note (ii))	168,905	252,763
Commission on underwriting and placing	71,881	197,786
Financial advisory and consultancy fee income	98,843	79,228
Asset management fee and performance fee income	96,760	141,254
Handling, custodian and service fee income (note (ii))	95,867	103,601
	532,256	774,632
Interest income:		
Interest income from advances to customers		
– margin financing	300,594	272,499
– term financing	68,096	119,497
Interest income from investment securities measured at amortised cost	178,163	163,457
Interest income from reverse repurchase agreements	26,378	30,261
Interest income from bank deposits and others	199,608	41,564
	772,839	627,278
Net trading and investment income (note (iii)):		
Net gain (loss) from financial assets held for trading and market making activities	22,600	(68,577)
Net trading income on financial products	260,341	381,470
Net gain (loss) from investments (note (v))	305,789	(1,596,043)
	588,730	(1,283,150)
	1,893,825	118,760
Other income and gains or losses		
Others (note (iv))	(105,856)	(28,653)

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\$377,440,000 (six months ended 30 June 2022: HK\$605,402,000) and HK\$154,816,000 (six months ended 30 June 2022: HK\$169,230,000) respectively.

- (ii) Amounts of commission on brokerage of HK\$119,745,000 (six months ended 30 June 2022: HK\$186,231,000) and handling, custodian and service fee income of HK\$62,495,000 (six months ended 30 June 2022: HK\$56,278,000) have been included in global markets segment and each of the remaining amounts of these categories have been included in wealth management segment.
- (iii) Net gain from investments of HK\$305,789,000 (six months ended 30 June 2022: net loss of HK\$1,596,043,000) has been included in investment segment. Net gain from financial assets held for trading and market making activities of HK\$22,600,000 (six months ended 30 June 2022: net loss of HK\$68,577,000) and net trading income on financial products of HK\$260,341,000 (six months ended 30 June 2022: net trading income of HK\$381,470,000) 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\$11 million (six months ended 30 June 2022: net gain of HK\$160 million).
- Foreign exchange loss (net) of HK\$126 million (six months ended 30 June 2022: foreign exchange loss (net) of HK\$195 million) was also included in the other income and gains or losses. This amount relates to gain or 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 gain (loss) from investments, investments include investment securities measured at fair value and investment properties. Included in net gain (loss) from investments is a revaluation gain of HK\$40 million (six months ended 30 June 2022: HK\$500 million) in relation to investment properties. This revaluation gain has been included in investment segment.

6. STAFF COSTS

	Six months ended	
	30.6.2023 HK\$'000 (unaudited)	30.6.2022 HK\$'000 (unaudited)
Salaries, incentives, bonuses and allowances	377,990	518,560
Pension scheme contributions (net)	21,590	27,383
	<u>399,580</u>	<u>545,943</u>

7. IMPAIRMENT CHARGES, NET OF REVERSAL

	Six months ended	
	30.6.2023 HK\$'000 (unaudited)	30.6.2022 HK\$'000 (unaudited)
Net impairment charges (reversal of impairment charges) on:		
Advances to customers		
– margin financing	270,134	175,007
– term financing	20,007	46,552
Investment securities measured at amortised cost	124,578	(4,904)
Accounts receivable and others	25,351	26,957
	<u>440,070</u>	<u>243,612</u>

8. FINANCE COSTS

	Six months ended	
	30.6.2023 HK\$'000 (unaudited)	30.6.2022 HK\$'000 (unaudited)
Bank loans and overdrafts	814,002	212,190
Debt securities in issue:		
– Non-convertible bonds	209,090	208,434
– Non-convertible notes	41,558	28,172
Interest on lease liabilities	7,766	4,980
Repurchase agreements and others	85,924	17,367
	<u>1,158,340</u>	<u>471,143</u>

9. INCOME TAX EXPENSE

	Six months ended	
	30.6.2023 HK\$'000 (unaudited)	30.6.2022 HK\$'000 (unaudited)
Current taxation:		
- Hong Kong	47,555	23,122
- Other jurisdictions	47,058	3,130
	<u>94,613</u>	<u>26,252</u>
Deferred tax:		
- Current period	(3,807)	(4,252)
	<u>90,806</u>	<u>22,000</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 2023, the Board resolved not to declare a second interim dividend for the year ended 31 December 2022.

At a meeting of the Board held on 28 August 2023, the Board resolved not to declare an interim dividend for the 6 months ended 30 June 2023.

11. LOSS PER SHARE

Basic loss per share

Basic loss per share is calculated by dividing the loss 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	
	30.6.2023	30.6.2022
	(unaudited)	(unaudited)
		(restated)
Loss		
Loss for the period attributable to owners of the Company (HK\$'000)	(780,943)	(1,681,222)
Number of shares		
Weighted average number of ordinary shares in issue less shares held for the share award scheme (in thousands) (notes (b) and (c))	6,761,421	6,563,224
Basic loss per share (HK cents per share)	(11.55)	(25.62)

Diluted loss per share

Diluted loss 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	
	30.6.2023	30.6.2022
	(unaudited)	(unaudited)
		(restated)
Loss		
Loss for the period attributable to owners of the Company (HK\$'000)	(780,943)	(1,681,222)
Effect of dilutive potential ordinary shares	-	-
Loss for the purpose of diluted loss per share (HK\$'000)	(780,943)	(1,681,222)
Number of shares		
Weighted average number of ordinary shares in issue less shares held for the share award scheme (in thousands) (notes (b) and (c))	6,761,421	6,563,224
Effect of dilutive potential ordinary shares:		
- Share options (in thousands) (note (d))	-	-
- Share awards (in thousands) (note (d))	-	-
Weighted average number of ordinary shares for the purpose of diluted loss per share (in thousands)	6,761,421	6,563,224
Diluted loss per share (HK cents per share)	(11.55)	(25.62)

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.
- (b) During the period, the Company raised approximately HK\$1,163 million by way of rights issue on the basis of 3 rights share for every 10 existing shares held by shareholders of the Company at the discounted price of HK\$0.65, which represent a discount to the prevailing fair value at the date of rights issue of the existing shares.
- The effect of the bonus element resulting from this rights issue has been included in the calculation of basic and diluted loss per share and the prior period basic and diluted loss per share are adjusted in order to provide a comparable basis for the rights issue in the current period.
- (c) As at 30 June 2023, the trustee of the share award scheme held 113,653,474 ordinary shares of the Company (30 June 2022: 137,590,910 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\$224 million (30 June 2022: HK\$271 million).
- (d) The computation of diluted loss per share for the six months ended 30 June 2022 and 2023 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.

12. ADVANCES TO CUSTOMERS

	30.6.2023 HK\$'000 (unaudited)	31.12.2022 HK\$'000 (audited)
Advances to customers:		
- Margin financing	9,803,870	12,219,979
- Term financing	2,348,062	2,828,144
	12,151,932	15,048,123
Less: Non-current portion	(722,440)	(1,104,108)
Current portion	11,429,492	13,944,015

Margin financing

	30.6.2023 HK\$'000 (unaudited)	31.12.2022 HK\$'000 (audited)
Margin financing	11,220,148	13,366,123
Less: Impairment allowance	(1,416,278)	(1,146,144)
	9,803,870	12,219,979

The financial accommodation provided to margin clients are determined with reference to 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 (“Lending Ratio”). Any excess in the Lending Ratio will trigger a margin call with the margin clients having to make good the shortfall. 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 2023, margin financing of HK\$9,804 million (31 December 2022: HK\$12,220 million) were secured by securities pledged by the customers to the Group as collateral with market value of HK\$34,264 million (31 December 2022: HK\$38,898 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 and other factors including expected cash flows, 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\$277 million was made against several independent margin customers with net carrying amount of HK\$2,383 million as at 30 June 2023 due to the decrease in the market value of the listed shares pledged to the Group and credit exposure being overdue as at 30 June 2023.

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

	30.6.2023	31.12.2022
	HK\$'000	HK\$'000
	(unaudited)	(audited)
Term financing	2,952,626	3,402,650
Less: Impairment allowance	(604,564)	(574,506)
	2,348,062	2,828,144
Less: Non-current portion	(722,440)	(1,104,108)
Current portion	1,625,622	1,724,036

As at 30 June 2023, the term financing of HK\$2,953 million (31 December 2022: HK\$3,403 million) are secured, including nine past due term financing with the gross carrying amount of HK\$1,692 million (31 December 2022: six past due term financing with the gross carrying amount of HK\$1,464 million). In assessing the relevant expected credit losses, 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 opinion of the directors of the Company, the impairment provision for the current period and prior year are appropriate.

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 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.

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

	30.6.2023 HK\$'000 (unaudited)	31.12.2022 HK\$'000 (audited)
Receivable from clients for subscription of new shares in IPO (note (i))	-	1,080
Accounts receivable	4,448,667	4,704,423
	4,448,667	4,705,503
Accounts receivable from:		
- Clients	1,401,871	1,534,335
- Brokers, dealers and clearing houses	2,941,366	3,066,063
- Others (note (ii))	105,430	104,025
	4,448,667	4,704,423

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:

	30.6.2023 HK\$'000 (unaudited)	31.12.2022 HK\$'000 (audited)
Between 0 and 3 months	4,365,552	4,584,987
Between 4 and 6 months	16,486	96,698
Between 7 and 12 months	43,920	5,276
Over 1 year	22,709	17,462
	4,448,667	4,704,423

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 which the Group holds as custodian are sufficient to cover the amounts due to the Group.

14. SHARE CAPITAL

	30.6.2023 HK\$'000 (unaudited)	31.12.2022 HK\$'000 (audited)
Authorised: 20,000,000,000 (31 December 2022: 20,000,000,000) ordinary shares of HK\$0.10 each	2,000,000	2,000,000
Issued and fully paid: 8,438,024,077 (31 December 2022: 6,641,563,594) ordinary shares of HK\$0.10 each	843,802	664,156

The movements in issued share capital were as follows:

	Number of shares in issue	Issued share capital HK\$'000
As at 1 January 2022	6,037,785,086	603,778
New shares issued upon bonus issue	603,778,508	60,378
As at 30 June 2022, 31 December 2022 and 1 January 2023	6,641,563,594	664,156
New shares issued under right issue	1,796,460,483	179,646
As at 30 June 2023	8,438,024,077	843,802

15. ACCOUNTS PAYABLE

	30.6.2023 HK\$'000 (unaudited)	31.12.2022 HK\$'000 (audited)
Accounts payable to:		
- Clients	9,752,418	9,803,365
- Brokers, dealers and clearing houses	1,505,409	530,253
- Others	207,805	268,014
	11,465,632	10,601,632

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 2023 (31 December 2022: 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\$8,629,775,000 (31 December 2022: HK\$9,059,437,000), HKFE Clearing Corporation Limited, the SEHK Options Clearing House Limited and other futures dealers totalling HK\$165,324,000 (31 December 2022: HK\$133,327,000).

MANAGEMENT DISCUSSION AND ANALYSIS

In the first half of 2023 (the "Period"), with interest rates remained at high level and the banking sector turmoil in the United States and Europe, investors remained concerned about the vulnerability of the financial sector, in spite of the prompt and decisive actions by regulators to prevent contagion. The tightening of credit by commercial banks also intensified worries about a global economic recession. At the beginning of the year, Mainland China and Hong Kong resumed cross-border traffic, but the Hong Kong stock and bond markets remained weak. The Hang Seng Index dropped more than 4,400 points from peak to trough and fell by 1,229 points, or 6.10% cumulatively, during the Period. ICE BofA Asian Dollar High Yield Corporate China Issuer Index fell 12.44% from the beginning of 2023. Meanwhile, the Hong Kong Stock Exchange introduced a number of new regulations during the Period, including the new listing regime for specialist technology companies, making it easier for technology companies to get listed in Hong Kong; HKD-RMB Dual Counter Model was launched in June, facilitating the use of RMB in Hong Kong securities market. The new regulations will encourage more enterprises based in Mainland China to consider listing in Hong Kong, simplify the process of mainland investors investing in the Hong Kong stock market, and create more business opportunities for Chinese financial institutions based in Hong Kong. During the Period, 29 IPO deals were completed, recording a 32% year-on-year increase, and the total fundraising amount was HK\$ 17.8 billion.

Haitong International continued to implement the "One Haitong" philosophy, further strengthened the synergies with its parent company and made progress in enriching the investment banking ecosystem which includes global market, private wealth management and asset management businesses around its core investment banking business. In the first half of 2023, Haitong International recorded a total revenue of HK\$1.79 billion. Benefiting from the optimization of business structure, interest income rose by 23% to HK\$773 million. During the Period, Haitong International recorded total costs of HK\$2.04 billion, a 35% increase year-on-year, and a net loss of HK\$781 million, decreased by 54% from the same period of last year. The capital structure remained stable, total assets stood at HK\$89.9 billion, 1% higher than at 31 December 2022, and total liabilities reported HK\$67.2 billion, 2% lower than at 31 December 2022. Net assets increased by HK\$2.0 billion from the beginning of the year to HK\$22.7 billion as of 30 June 2023, which was mainly due to the US\$ 200 million subordinate perpetual bond issuance and the HK\$1.16 billion rights issue, partially offset by the net loss incurred for the Period. The leverage ratio was 3.53 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. In addition, Haitong International successfully obtained a HK\$16 billion syndicated loan with the support of the parent company. Besides, in order to strengthen its equity base, Haitong International issued a US\$200 million subordinated perpetual bond to its parent company, and completed rights issue on the basis of 3 rights shares for every 10 existing shares, further consolidating its equity base. With the support of the parent company and its continuous efforts, Haitong International received a reaffirmed BBB rating from Standard & Poor's with a stable outlook.

Haitong International has consistently integrated environmental, social and corporate governance (ESG) principles into various aspects of its business operations. In 2023, HTI received HR Asia's "Best Companies To Work For In Asia" for the sixth consecutive year, and won the "Award for ESG Concern of the Year" in 2022 Chinese Offshore Bond Agency of the Year Award for the second consecutive year. Once again, Haitong International's strong expertise in green investment banking services and sustainable finance has been recognized by the investment community. The Debt Capital Markets team also strives to participate in the ESG and sustainable finance field, underwriting 67 green and sustainable bonds since the start of year 2021, raising a cumulative amount of US\$20 billion.

Investment banking: Enrich ecosystem and bolster business collaboration under the "One Haitong" philosophy

Haitong International continued to diversify its fee income sources and provide full spectrum of investment banking services via bolstering business collaboration under the "One Haitong" philosophy. The investment banking team completed 7 equity financing projects (including IPOs, secondary placings, and rights issues) in Hong Kong during the Period. The loan capital markets team and mergers and acquisitions team have been working together to explore business opportunities in respect of pre-IPO financing, providing client with broader Investment Banking services, achieving synergy and cross-selling opportunities within investment banking business, and boosting Haitong International's financial advisory income. 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 China Risk G3 + CNY Bond League Table, Haitong International has completed a total of 48 bond issuances as of 30 June 2023. The debt capital markets team has also upheld the idea of ESG and sustainable finance by completing 3 green and sustainable bond issuances during the Period, raising US\$572 million in total. The team has further developed its financial advisory business in response to growing market demand, and completed 6 debt restructuring projects in the first half of 2023, ranked top in Bloomberg's APAC Liability Management Bonds League Table.

Global Markets: Stay customer-oriented and provide efficient and professional services

In the first half of 2023, under the impact of complex and volatile macroeconomic, geopolitical and market environments, the average daily turnover of the Hong Kong equity market fell by 16% year-on-year. On the basis of clients' increasing demand for diversifying investments globally, Haitong International global markets segment insisted to be customer-oriented, continuing to provide institutional clients worldwide with efficient and professional trading, research and sales services.

Haitong International's equity research team has continuously consolidated its competitive edge in China and cross-border research capabilities. As of the end of June 2023, the team covered 1,748 equities.

In light of the current market situation, FIST has continued to strengthen its market position of fixed income securities and products within primary and secondary markets. Under strict risk control guidelines, the team has continued to increase participation in the IG bond market, resulting in a steady increase in commission income. With the support of its parent company in respect of the cross-border total return swap (TRS) business, Haitong International further expanded business serving institutional clients' cross border investments needs in fixed income products. The team also stays current with market opportunities brought by the internationalization of renminbi and actively explores business potentials with Bond Connect and Swap Connect Schemes.

Private Wealth Management: Enrich product varieties and enhance cross-sectoral collaboration

During the Period, the Private Wealth Management segment has continued to strengthen collaboration with other business segments to implement the "One Haitong" philosophy. It launched a series of investor events in conjunction with the Global Markets segment, such as "Surfing Capital Navigator Club", to provide customized macro analysis and investment strategy advice for high-net-worth clients. At the same time, it actively developed new customer resources and enrich product varieties (including ESOP, Haitong Liquid Asset Fund, Haitong Opportunity Fund, Haitong Opportunity Fund II, Discretionary Account and other investment products and services). It cooperated with professional institutions to provide cutting-edge knowledge sharing and business services on hot topics including quarterly investment hotspots, global immigration, overseas study and family trust establishment by organizing themed investor events. In the meantime, it provide competitive margin financing services through market-oriented pricing, fast and efficient pledge and custody services to enhance client stickiness and stimulate more transaction activities.

In the first half of Year 2023, the Singapore team of Haitong International Private Wealth Management adjusted its business direction and promoted the External Asset Management (EAM) business to meet the market and the customer demands, taking this opportunity to develop customer resources and promote long-term business development.

Asset Management: Develop core competencies

In accordance with the "One Haitong" philosophy and the "Haitong International 3.0" strategy, Haitong International's Asset Management segment emphasizes its client-oriented business positioning to improve asset structure, focus on key products, explores customers' asset allocation demand in both domestic and overseas markets and bridges the channel between overseas investors and mainland China capital market.

Amid downward pressures from macroeconomic divergence, securities market volatility and sluggish investment sentiments, Haitong International Asset Management focused on investment process improvement and overseas business expansion. As a result, the overall investment performance and rankings have gradually improved, and overseas clients' asset under management has been growing steadily. In a high interest rate environment, the Asset Management segment strived to create benefits for customers by strategically optimizing and promoting asset allocation products such as liquid asset fund and ESG ETF product.

During the Period, Haitong International Asset Management received a number of mid-to-long term fund performance awards, such as the Lipper Fund Awards Hong Kong, and Professional Investment Awards by Insights & Mandate.

Investment: Prudent investment strategy

Considering the volatile global economic and political environment, weak market performances, and the impact of interest rate hikes, since 2022, Haitong International has been proactively reducing the size of its investments and adopting a more prudent investment strategy, focusing on high-liquidity and high-quality assets to minimize its exposure to market risks.

From the perspective of asset allocation, bond investments primarily focus on investment grade bonds with good liquidity while equity investments primarily focus on shares in industry-leaders with high liquidity and ESG-oriented. Most of the term financings are guaranteed by third parties and the relevant teams at Haitong International conduct regular reviews on the status of collateral and borrower's financial position to effectively manage credit risk.

For the investment in the primary market, Haitong International maintains a stable size of investment and continues to invest on a rolling basis according to projects exit schedule. As for now, HTI has gradually transformed from direct investing to collaborating with well-known fund managers, focusing on the technology and medical industries. The team actively embraces national strategies such as "Manufacturing Power (製造強國)", "Specialized and Sophisticated (專精特新)" and "dual carbon economy (雙碳經濟)", implements the trend investment and value investment philosophies, with strategic focus on emerging industries. At the same time, by exploring new business models and attracting external investors, HTI further reduced the portion of total investment contributed by its own funds.

Outlook

Looking ahead to the second half of the year, concerns over global economic uncertainty continues to grow amid rising interest rates and inflation as well as increasing impacts of climate change. According to the latest United Nation forecast, the world economy is projected to grow by 2.3% in 2023 and 2.5% in 2024, below the average growth rate of 3.1% in the two decades before COVID-19. While global monetary policies have been tightening, inflation pressures are expected to gradually ease. As the Federal Reserve and major central banks are expected to slow down the pace of interest rate hike, emerging market economies might be able to put a halt to monetary tightening to support economic growth. Besides, the "Belt and Road" summit is scheduled to be held in the second half of the year, economically benefiting countries along the route and companies in related fields. Meanwhile, Hong Kong's economy is gradually recovering with resumed cross-border traffic with mainland China, and the new policies introduced by the HKEx could lead to potential growth in the IPO market. However, given the dampened stock market sentiment, lower-than-expected company valuations, and underwhelming IPO performances in recent years, new listings in Hong Kong could still be in the doldrums. Overall, it is expected that risks will remain, with opportunities emerging, for the Hong Kong and overseas financial markets; risks of fluctuations in asset prices should not be underestimated.

Based on the fundamental assessment that the risk of market adjustment not yet eliminated, Haitong International will continue to adhere to its commitment to "preventing 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 attitude and a stable business model. Haitong International will continue to follow the "One Haitong" philosophy, bolster business collaboration with its parent company, grasp the market opportunities of connectivity, enhance the strengths of investment banking business and drive the development of global market, asset management and private wealth management business. Haitong International will continue to strengthen its risk management and optimize asset structure, enhance efficiency and cost control, and implement ESG strategy.

INTERIM DIVIDEND

The Board did not recommend the payment of an interim dividend for the 6 months ended 30 June 2023 (6 months ended 30 June 2022: Nil).

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 2023, 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 2023.

AUDIT COMMITTEE

The Group’s external auditor, Deloitte Touche Tohmatsu, has carried out a review of the unaudited consolidated results for the six months ended 30 June 2023 of the Group in accordance with the Hong Kong Standard on Review Engagements 2410 “Review of Interim Financial Information performed by the Independent Auditor of the Entity” issued by the HKICPA.

The audit committee of the Company (the “Audit Committee”) has reviewed the accounting principles and practices adopted by the Group and the unaudited consolidated results for the six months ended 30 June 2023 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 2023 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 2023 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 2023 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 2023 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, 28 August 2023

As at the date of this announcement, the Board comprises Mr. LI Jun (Chairman), Mr. LIN Yong (Deputy Chairman and Chief Executive Officer), 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*