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5 December 2011

The Directors  
Haitong Securities Co., Ltd.  
Haitong International Capital Limited  
J.P. Morgan Securities (Asia Pacific) Limited

Dear Sirs,

We set out below our report on the financial information (“Financial Information”) regarding Haitong Securities Co., Ltd. (海通證券股份有限公司) (the “Company”) and its subsidiaries (hereinafter collectively referred to as the “Group”) for each of the three years ended 31 December 2008, 2009 and 2010 and the six months ended 30 June 2011 (the “Relevant Periods”) for inclusion in the prospectus of the Company dated 5 December 2011 (the “Prospectus”) in connection with the initial listing of the shares of the Company on the Main Board of The Stock Exchange of Hong Kong Limited (the “Hong Kong Stock Exchange”).

The Company was transformed from Shanghai Haitong Securities Company (上海海通證券公司), which was established in 1988, to a limited liability company upon the authorisation by the People’s Bank of China in September 1994 and had changed its name to 海通證券有限公司. In December 2001, the Company was further transformed to a joint-stock company upon the approval from China Securities Regulatory Commission (“CSRC”). In January 2002, the Company changed its name from 海通證券有限公司 to Haitong Securities Co., Ltd. (海通證券股份有限公司). In June 2007, the Company’s merger with former Shanghai Urban Agro-Business Co., Ltd. (上海市都市農商社股份有限公司) was approved by the CSRC, and was listed on the Shanghai Stock Exchange in July in the same year, with its name changed to “Haitong Securities”.

All subsidiaries have adopted 31 December as their financial year end dates. As at the date of this report, the Company has interest in the subsidiaries as set out in note 21 to section G of this report.

The consolidated financial statements of the Group prepared in accordance with the relevant accounting rules and financial regulations applicable to enterprises in the People’s Republic of China (the “PRC”) for the years ended 31 December 2008, 2009 and 2010 (the “PRC Financial Statements”) were audited by Shu Lun Pan Certified Public Accountants Co., Ltd. (立信會計事務有限公司), certified public accountants registered in the PRC, in accordance with the China Standards on Auditing. The statutory financial statements of the subsidiaries of the Company, directly or indirectly controlled by the Company, were audited by independent auditors as set out in note 21 to section G of this report.

For the purpose of this report, the directors of the Company have prepared consolidated financial statements of the Group for the six months ended 30 June 2011, in accordance with the International Financial Reporting Standards (“IFRSs”) issued by International Accounting Standards Board, which were audited by us in accordance with International Standards on Auditing issued by International Auditing and Assurance Standards Board (“IAASB”). The consolidated financial statements of the Group for the six months ended 30 June 2011 together with the PRC Financial Statements referred as the “Underlying Financial Statements”.

The Financial Information of the Group for the Relevant Periods set out in this report has been prepared in accordance with the Underlying Financial Statements, after making such adjustments as appropriate. For the purpose of this report, we have examined the Underlying Financial Statements and carried out such additional procedures as necessary in accordance with International Standards on Auditing issued by IAASB, and the Auditing Guideline 3.340 “Prospectuses and the Reporting Accountant” issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”).

The directors of the Company are responsible for the preparation of the Underlying Financial Statements and the contents of the Prospectus in which this report is included. It is our responsibility to compile the Financial Information set out in this report from the Underlying Financial Statements, to form an independent opinion on the Financial Information, and to report our opinion to you.

In our opinion, the Financial Information, together with the notes thereon, for the purpose of this report, gives a true and fair view of the state of affairs of the Group and of the Company as at 31 December 2008, 2009 and 2010 and 30 June 2011 and of the consolidated results and consolidated cash flows of the Group for each of the three years ended 31 December 2008, 2009 and 2010 and the six months ended 30 June 2011.

The comparative consolidated income statement, consolidated statement of comprehensive income, consolidated statement of cash flows and consolidated statement of changes in equity of the Group for the six months ended 30 June 2010 together with the notes thereon (the “30 June 2010 Financial Information”) have been extracted from the Group’s unaudited financial information for the same period which were prepared by the directors of the Company solely for the purpose of this report. We conducted our review on the 30 June 2010 Financial Information in accordance with the Hong Kong Standard on Review Engagements 2400 “Engagements to Review Financial Statements” issued by the HKICPA. Our review consisted of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion on the 30 June 2010 Financial Information. Based on our review, nothing has come to our attention that causes us to believe that the 30 June 2010 Financial Information is not prepared, in all material respects, in accordance with the accounting policies consistent with those used in the preparation of the Financial Information which conform with IFRSs.

## A. CONSOLIDATED INCOME STATEMENTS

		Year ended 31 December			Six months ended 30 June	
		2008	2009	2010	2010	2011
Notes		RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
					(unaudited)	
Revenue						
Commission and fee income	5	5,527,094	8,753,360	8,384,060	3,880,498	3,689,617
Interest income	6	1,386,606	1,407,042	1,647,007	746,888	1,205,484
Net investment gains	7	927,707	888,053	1,077,790	289,766	997,185
Total revenue		7,841,407	11,048,455	11,108,857	4,917,152	5,892,286
Other income and gains	8	106,798	267,391	196,078	55,687	60,796
Total revenue and other income		7,948,205	11,315,846	11,304,935	4,972,839	5,953,082
Depreciation and amortisation	9	(184,601)	(236,915)	(288,472)	(146,386)	(147,889)
Staff costs	10	(1,614,077)	(2,224,989)	(2,619,668)	(939,644)	(1,105,270)
Commission to account executives		(84,029)	(51,050)	(278,620)	(107,124)	(151,194)
Brokerage transaction fees and other services expenses	11	(534,983)	(947,122)	(897,203)	(334,018)	(392,362)
Interest expenses	12	(367,971)	(245,080)	(281,489)	(140,220)	(184,026)
Other expenses		(1,562,200)	(1,694,825)	(2,027,913)	(869,629)	(943,269)
Total expenses		(4,347,861)	(5,399,981)	(6,393,365)	(2,537,021)	(2,924,010)
Share of results of associates	22	97,517	65,962	78,120	39,628	34,048
Profit before income tax	13	3,697,861	5,981,827	4,989,690	2,475,446	3,063,120
Income tax expense	14	(312,842)	(1,320,086)	(1,121,532)	(550,111)	(723,994)
Profit for the year/period		3,385,019	4,661,741	3,868,158	1,925,335	2,339,126

		Year ended 31 December			Six months ended 30 June	
		2008	2009	2010	2010	2011
	<i>Notes</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
					(unaudited)	
Attributable to:						
Owners of the Company		3,301,653	4,548,226	3,686,264	1,841,976	2,234,781
Non-controlling interests		<u>83,366</u>	<u>113,515</u>	<u>181,894</u>	<u>83,359</u>	<u>104,345</u>
		<u>3,385,019</u>	<u>4,661,741</u>	<u>3,868,158</u>	<u>1,925,335</u>	<u>2,339,126</u>
Earnings per share						
(Expressed in RMB						
per share)						
– Basic	15	0.40	0.55	0.45	0.22	0.27
– Diluted	15	<u>0.40</u>	<u>0.55</u>	<u>0.45</u>	<u>0.22</u>	<u>0.27</u>

## B. CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Year ended 31 December			Six months ended 30 June	
	2008	2009	2010	2010	2011
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(unaudited)	
Profit for the year/period	3,385,019	4,661,741	3,868,158	1,925,335	2,339,126
Other comprehensive (expense) income:					
Available-for-sale investments					
Net fair value changes					
during the year/period	(1,202,373)	2,036,789	(691,854)	(830,572)	237,240
Reclassification adjustment to profit or loss on disposal/ impairment	(332,332)	(182,601)	(498,880)	(240,795)	(513,496)
Income tax relating to components of other comprehensive income	383,677	(458,004)	303,759	260,400	42,894
Share of revaluation (deficit) surplus of associates	(7,995)	2,076	1,450	(2,513)	(3,207)
	(1,159,023)	1,398,260	(885,525)	(813,480)	(236,569)
Exchange differences arising on translation	(7,115)	(4,265)	(100,765)	(22,400)	(95,070)
Other comprehensive (expense) income for the year/period (net of tax)	(1,166,138)	1,393,995	(986,290)	(835,880)	(331,639)
Total comprehensive income for the year/period	2,218,881	6,055,736	2,881,868	1,089,455	2,007,487
Attributable to:					
Owners of the Company	2,141,072	5,933,369	2,723,561	1,014,077	1,923,919
Non-controlling interests	77,809	122,367	158,307	75,378	83,568
	2,218,881	6,055,736	2,881,868	1,089,455	2,007,487

## C. CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

		As at 31 December			As at 30 June
		2008	2009	2010	2011
	Notes	RMB'000	RMB'000	RMB'000	RMB'000
Non-current assets					
Property and equipment	16	1,081,177	1,136,204	1,201,183	1,166,567
Investment properties	17	107,561	104,102	100,644	98,915
Goodwill	18	5,896	697,056	673,860	658,702
Other intangible assets	19	178,403	263,779	289,729	305,879
Investments in associates	22	192,418	215,747	543,281	892,127
Held-to-maturity financial assets	23	12,561	–	–	–
Available-for-sale investments	24	225,632	870,102	1,877,469	1,933,692
Deferred tax assets	46	4,311	56,974	61,592	163,581
Restricted bank deposits	34	102,453	184,844	260,801	297,170
Other assets	25	289,366	84,695	108,017	149,573
Total non-current assets		2,199,778	3,613,503	5,116,576	5,666,206
Current assets					
Advances to customers	26	29,734	2,034,977	5,814,456	6,529,170
Accounts receivable	27	82,091	677,077	980,221	1,458,279
Other receivables and prepayments	28	382,419	358,507	447,497	1,044,457
Held-to-maturity financial assets	23	997,286	–	–	–
Available-for-sale investments	24	1,007,795	5,778,403	5,060,788	6,293,039
Financial assets held under resale agreements	30	–	–	2,120,000	10,143,491
Financial assets at fair value through profit or loss	31	9,760,737	12,896,752	15,018,084	17,340,566
Deposits with exchanges	32	369,855	1,374,951	2,373,425	2,655,787
Clearing settlement funds	33	2,776,762	5,749,123	20,424,736	3,726,401
Bank balances and cash	34	57,079,562	88,246,912	58,057,315	51,200,413
Total current assets		72,486,241	117,116,702	110,296,522	100,391,603
Total assets		74,686,019	120,730,205	115,413,098	106,057,809

**APPENDIX I****ACCOUNTANTS' REPORT**

		As at 31 December			As at
		2008	2009	2010	30 June
	Notes	RMB'000	RMB'000	RMB'000	2011
					RMB'000
Current liabilities					
Borrowings	36	–	1,076,594	2,922,320	3,396,253
Accounts payable to brokerage clients	37	33,777,667	66,580,170	63,682,354	46,971,914
Other payables and accruals	38	1,240,216	1,870,895	2,523,395	1,664,364
Provisions	39	110,576	8,815	6,853	4,760
Tax liabilities		238,530	381,808	465,293	514,931
Financial liabilities at fair value through profit or loss	40	–	–	–	90,019
Financial assets sold under repurchase agreements	41	610,000	5,821,500	–	6,982,100
Total current liabilities		35,976,989	75,739,782	69,600,215	59,624,341
Net current assets		36,509,252	41,376,920	40,696,307	40,767,262
Total assets less current liabilities		38,709,030	44,990,423	45,812,883	46,433,468
Equity					
Share capital	42	8,227,821	8,227,821	8,227,821	8,227,821
Capital reserve		22,635,141	22,576,527	22,551,933	22,548,321
Investment revaluation reserve		23,986	1,413,394	528,344	296,166
Translation reserve		(7,115)	(11,380)	(89,033)	(167,717)
General reserves	44	2,693,817	3,989,218	5,014,289	5,014,289
Retained profits		4,788,338	7,218,380	8,234,009	9,234,617
Equity attributable to owners of the Company		38,361,988	43,413,960	44,467,363	45,153,497
Non-controlling interests		275,006	1,104,635	1,149,384	1,146,260
Total equity		38,636,994	44,518,595	45,616,747	46,299,757
Non-current liabilities					
Deferred tax liabilities	46	72,036	471,828	196,136	133,711
Total equity and non-current liabilities		38,709,030	44,990,423	45,812,883	46,433,468

## D. STATEMENTS OF FINANCIAL POSITION

		As at 31 December			As at
		2008	2009	2010	30 June
	Notes	RMB'000	RMB'000	RMB'000	2011
					RMB'000
Non-current assets					
Property and equipment	16	1,049,749	1,065,147	1,136,586	1,096,256
Investment properties	17	103,457	100,128	96,800	95,136
Other intangible assets	19	161,692	158,770	154,492	151,845
Investments in subsidiaries	21	2,044,798	5,333,310	7,054,730	7,054,730
Investments in associates	22	92,907	92,907	92,907	92,907
Available-for-sale investments	24	224,232	290,345	319,995	350,810
Deferred tax assets	46	–	43,769	42,333	123,274
Other assets	25	60,921	64,918	69,916	71,665
Total non-current assets		<u>3,737,756</u>	<u>7,149,294</u>	<u>8,967,759</u>	<u>9,036,623</u>
Current assets					
Advances to customers	26	–	–	2,091,136	2,640,042
Other receivables and prepayments	28	281,033	223,941	295,705	946,003
Amount due from a subsidiary	29	–	–	637,300	226,533
Held-to-maturity financial assets	23	997,286	–	–	–
Available-for-sale investments	24	961,232	5,717,123	4,913,712	5,687,149
Financial assets held under resale agreements	30	–	–	2,120,000	10,143,491
Financial assets at fair value through profit or loss	31	9,760,737	12,845,060	14,913,359	17,053,224
Deposits with exchanges	32	249,699	672,582	790,909	1,355,138
Clearing settlement funds	33	2,670,734	5,511,975	19,652,583	2,889,189
Bank balances and cash	34	<u>54,565,462</u>	<u>78,115,546</u>	<u>46,185,659</u>	<u>41,368,892</u>
Total current assets		<u>69,486,183</u>	<u>103,086,227</u>	<u>91,600,363</u>	<u>82,309,661</u>
Total assets		<u>73,223,939</u>	<u>110,235,521</u>	<u>100,568,122</u>	<u>91,346,284</u>

**APPENDIX I****ACCOUNTANTS' REPORT**

		As at 31 December			As at
		2008	2009	2010	30 June
	Notes	RMB'000	RMB'000	RMB'000	2011
					RMB'000
Current liabilities					
Accounts payable to brokerage clients	37	32,963,902	59,473,774	54,211,820	37,828,870
Other payables and accruals	38	1,110,818	1,210,340	2,102,123	1,280,326
Amount due to a subsidiary	29	–	–	20,000	904
Provisions	39	110,576	8,815	6,853	4,760
Tax liabilities		230,958	305,896	378,167	437,973
Financial liabilities at fair value through profit or loss	40	–	–	–	90,019
Financial assets sold under repurchase agreements	41	610,000	5,821,500	–	6,982,100
Total current liabilities		35,026,254	66,820,325	56,718,963	46,624,952
Net current assets		34,459,929	36,265,902	34,881,400	35,684,709
Total assets less current liabilities		38,197,685	43,415,196	43,849,159	44,721,332
Equity					
Share capital	42	8,227,821	8,227,821	8,227,821	8,227,821
Capital reserve		22,635,141	22,635,141	22,635,141	22,635,141
Investment revaluation reserve	43	30,550	1,381,572	386,646	275,498
General reserves	44	2,693,817	3,989,218	5,014,289	5,014,289
Retained profits	45	4,539,073	6,728,364	7,438,661	8,480,357
Total equity		38,126,402	42,962,116	43,702,558	44,633,106
Non-current liabilities					
Deferred tax liabilities	46	71,283	453,080	146,601	88,226
Total equity and non-current liabilities		38,197,685	43,415,196	43,849,159	44,721,332

## E. CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Attributable to owners of the Company						Non-controlling interests				Total equity
	Share capital	Capital reserve	Investment revaluation reserve	Translation reserve	General reserves	Retained profits	Total	Share of net assets of subsidiaries	Share option reserve of a subsidiary	Total	
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
	(Note a)										
At 1 January 2008	4,113,911	25,514,878	1,177,452	–	1,705,904	4,120,162	36,632,307	251,316	–	251,316	36,883,623
Profit for the year	–	–	–	–	–	3,301,653	3,301,653	83,366	–	83,366	3,385,019
Other comprehensive expense for the year	–	–	(1,153,466)	(7,115)	–	–	(1,160,581)	(5,557)	–	(5,557)	(1,166,138)
Total comprehensive (expense) income for the year	–	–	(1,153,466)	(7,115)	–	3,301,653	2,141,072	77,809	–	77,809	2,218,881
Appropriation to general reserves	–	–	–	–	987,913	(987,913)	–	–	–	–	–
Cash dividend recognised as distribution	–	–	–	–	–	(411,391)	(411,391)	(54,119)	–	(54,119)	(465,510)
Bonus issue	4,113,910	(2,879,737)	–	–	–	(1,234,173)	–	–	–	–	–
At 31 December 2008	8,227,821	22,635,141	23,986	(7,115)	2,693,817	4,788,338	38,361,988	275,006	–	275,006	38,636,994
Profit for the year	–	–	–	–	–	4,548,226	4,548,226	113,515	–	113,515	4,661,741
Other comprehensive income (expense) for the year	–	–	1,389,408	(4,265)	–	–	1,385,143	8,852	–	8,852	1,393,995
Total comprehensive income (expense) for the year	–	–	1,389,408	(4,265)	–	4,548,226	5,933,369	122,367	–	122,367	6,055,736
Acquisition of a subsidiary	–	–	–	–	–	–	–	839,385	–	839,385	839,385
Changes of equity interests in subsidiaries	–	(58,614)	–	–	–	–	(58,614)	(81,621)	–	(81,621)	(140,235)
Appropriation to general reserves	–	–	–	–	1,295,401	(1,295,401)	–	–	–	–	–
Cash dividend recognised as distribution	–	–	–	–	–	(822,783)	(822,783)	(50,502)	–	(50,502)	(873,285)
At 31 December 2009	8,227,821	22,576,527	1,413,394	(11,380)	3,989,218	7,218,380	43,413,960	1,104,635	–	1,104,635	44,518,595

# APPENDIX I

# ACCOUNTANTS' REPORT

	Attributable to owners of the Company						Non-controlling interests				
	Share capital	Capital reserve	Investment revaluation reserve	Translation reserve	General reserves	Retained profits	Total	Share of net	Share option	Total	Total equity
								assets of	reserve		
								subsidiaries	of a subsidiary		
RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	
	(Note a)										
At 1 January 2010	8,227,821	22,576,527	1,413,394	(11,380)	3,989,218	7,218,380	43,413,960	1,104,635	–	1,104,635	44,518,595
Profit for the year	–	–	–	–	–	3,686,264	3,686,264	181,894	–	181,894	3,868,158
Other comprehensive expense for the year	–	–	(885,050)	(77,653)	–	–	(962,703)	(23,587)	–	(23,587)	(986,290)
Total comprehensive (expense) income for the year	–	–	(885,050)	(77,653)	–	3,686,264	2,723,561	158,307	–	158,307	2,881,868
Changes of equity interests in subsidiaries	–	(44,167)	–	–	–	–	(44,167)	(61,129)	–	(61,129)	(105,296)
Issuance of shares by a subsidiary	–	12,937	–	–	–	–	12,937	35,140	–	35,140	48,077
Appropriation to general reserves	–	–	–	–	1,025,071	(1,025,071)	–	–	–	–	–
Cash dividend recognised as distribution	–	–	–	–	–	(1,645,564)	(1,645,564)	(91,923)	–	(91,923)	(1,737,487)
Others	–	6,636	–	–	–	–	6,636	4,354	–	4,354	10,990
At 31 December 2010	8,227,821	22,551,933	528,344	(89,033)	5,014,289	8,234,009	44,467,363	1,149,384	–	1,149,384	45,616,747
Profit for the period	–	–	–	–	–	2,234,781	2,234,781	104,345	–	104,345	2,339,126
Other comprehensive expense for the period	–	–	(232,178)	(78,684)	–	–	(310,862)	(20,777)	–	(20,777)	(331,639)
Total comprehensive (expense) income for the period	–	–	(232,178)	(78,684)	–	2,234,781	1,923,919	83,568	–	83,568	2,007,487
Changes of equity interests in a subsidiary	–	(4,361)	–	–	–	–	(4,361)	(6,765)	–	(6,765)	(11,126)
Capital injection by a non-controlling shareholder of a subsidiary	–	749	–	–	–	–	749	25,006	–	25,006	25,755
Cash dividend recognised as distribution	–	–	–	–	–	(1,234,173)	(1,234,173)	(110,335)	–	(110,335)	(1,344,508)
Others	–	–	–	–	–	–	–	–	5,402	5,402	5,402
At 30 June 2011	8,227,821	22,548,321	296,166	(167,717)	5,014,289	9,234,617	45,153,497	1,140,858	5,402	1,146,260	46,299,757

	Attributable to owners of the Company						Non-controlling interests			
	Share capital	Capital reserve	Investment revaluation reserve	Translation reserve	General reserves	Retained profits	Total	Share of net assets of subsidiaries	Share option reserve of a subsidiary	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
	(Note a)									
<b>Unaudited</b>										
At 1 January 2010	8,227,821	22,576,527	1,413,394	(11,380)	3,989,218	7,218,380	43,413,960	1,104,635	–	1,104,635
Profit for the period	–	–	–	–	–	1,841,976	1,841,976	83,359	–	83,359
Other comprehensive expense for the period	–	–	(805,523)	(22,376)	–	–	(827,899)	(7,981)	–	(7,981)
Total comprehensive (expense) income for the period	–	–	(805,523)	(22,376)	–	1,841,976	1,014,077	75,378	–	75,378
Changes of equity interests in subsidiaries	–	(40,279)	–	–	–	–	(40,279)	(56,321)	–	(56,321)
Issuance of shares by a subsidiary	–	6,847	–	–	–	–	6,847	4,727	–	4,727
Cash dividend recognised as distribution	–	–	–	–	–	(1,645,564)	(1,645,564)	(77,470)	–	(77,470)
At 30 June 2010	8,227,821	22,543,095	607,871	(33,756)	3,989,218	7,414,792	42,749,041	1,050,949	–	1,050,949

*Note a:* Capital reserve of the Group represents primarily (i) the share premium arisen from the issuance of the Company's shares, (ii) the difference between the considerations paid over the proportionate share of net assets attributable to the acquisition of additional interests in subsidiaries and (iii) netting the capital reserve transferred to share capital as bonus issue in 2008.

## F. CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year ended 31 December			Six months ended 30 June	
	2008	2009	2010	2010	2011
Notes	RMB'000	RMB'000	RMB'000	RMB'000 (unaudited)	RMB'000
OPERATING ACTIVITIES					
Profit before income tax	3,697,861	5,981,827	4,989,690	2,475,446	3,063,120
Adjustments for					
Interest expenses	367,971	245,080	281,489	140,220	184,026
Share-based payment expenses	–	–	10,990	–	5,402
Share of results of associates	(97,517)	(65,962)	(78,120)	(39,628)	(34,048)
Depreciation and amortisation	184,601	236,915	288,472	146,386	147,889
Impairment loss in respect of property and equipment	27,723	–	–	–	–
Reversal of impairment loss in respect of other receivables	(15,290)	(1,560)	(3,773)	(2,687)	(978)
Loss (gain) on disposal of property and equipment and other intangible assets	7,379	809	544	(111)	(239)
Gain on disposal of an associate	–	–	(4,121)	(4,121)	–
Gain on disposal of bond investments and held-to-maturity financial assets	–	(46,759)	–	–	–
Foreign exchange losses (gains), net	17,614	(1,722)	(5,814)	5,733	(34,637)
Net gains arising from available-for-sale investments	(345,399)	(211,391)	(596,163)	(320,647)	(569,290)
Impairment loss in respect of available-for-sale investments	39,270	4,659	–	–	–

**APPENDIX I****ACCOUNTANTS' REPORT**

	Year ended 31 December			Six months ended 30 June	
	2008	2009	2010	2010	2011
Notes	RMB'000	RMB'000	RMB'000	RMB'000 (unaudited)	RMB'000
Operating cash flows before movements in working capital	3,884,213	6,141,896	4,883,194	2,400,591	2,761,245
(Increase)/decrease in deposits and reserve funds and deposits with exchanges	2,609,813	(874,677)	(1,021,796)	(609,023)	(323,918)
(Increase)/decrease in advances to customers	(29,734)	(79,186)	(3,906,056)	(1,494,451)	(828,815)
(Increase)/decrease in accounts and other receivables and prepayments	(152,027)	(233,128)	(388,864)	(432,068)	(701,492)
(Increase)/decrease in financial assets held under resale agreements	262,632	–	(2,120,000)	(1,970,000)	(8,023,491)
(Increase)/decrease in financial assets at fair value through profit or loss	(6,600,493)	(3,084,476)	(2,121,332)	1,027,435	(2,322,482)
(Increase)/decrease in restricted fixed bank deposits	(1,042,324)	907,609	(75,957)	(32,463)	(36,369)
(Increase)/decrease in cash held on behalf of clients	19,941,804	(27,386,133)	3,404,597	10,843,871	17,564,654
Increase/(decrease) in accounts payable to brokerage clients and other payables and accruals	(20,225,291)	28,594,396	(2,034,887)	(9,966,771)	(17,411,814)
Increase/(decrease) in financial liabilities at fair value through profit or loss	–	–	–	–	90,019
Increase/(decrease) in financial assets sold under repurchase agreements	509,000	5,211,500	(5,821,500)	(4,035,700)	6,982,100
Increase/(decrease) in provisions	(50,512)	(101,761)	(1,962)	(166)	(2,093)
Cash (used in) from operations	(892,919)	9,096,040	(9,204,563)	(4,268,745)	(2,252,456)
Income taxes paid, net	(2,205,355)	(1,330,320)	(1,014,598)	(615,323)	(795,875)
Interest paid	(367,105)	(243,117)	(281,489)	(133,378)	(165,024)
NET CASH (USED IN) FROM OPERATING ACTIVITIES	(3,465,379)	7,522,603	(10,500,650)	(5,017,446)	(3,213,355)

	<i>Notes</i>	Year ended 31 December			Six months ended 30 June	
		2008	2009	2010	2010	2011
		RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
					(unaudited)	
INVESTING ACTIVITIES						
Dividends received from associates and other investments		70,212	55,550	42,496	–	51,995
Purchases of property and equipment and other intangible assets		(293,792)	(240,798)	(368,844)	(202,225)	(153,904)
Proceeds on disposal of property and equipment		13,732	36,055	12,075	–	13,085
Capital injection to associates		–	(1,300)	(300,000)	–	(370,000)
Proceeds on disposal of an associate		–	–	13,806	13,806	–
Acquisition of subsidiaries	53	–	(1,238,451)	–	–	–
Decrease (increase) in available-for-sale investments		464,427	(3,314,193)	(936,144)	(761,902)	(1,368,027)
Payment for other investment activities		(1,305,337)	–	–	–	–
Proceeds from other investment activities		–	1,406,046	–	–	–
NET CASH USED IN INVESTING ACTIVITIES		<u>(1,050,758)</u>	<u>(3,297,091)</u>	<u>(1,536,611)</u>	<u>(950,321)</u>	<u>(1,826,851)</u>

**APPENDIX I****ACCOUNTANTS' REPORT**

	<i>Notes</i>	Year ended 31 December			Six months ended 30 June	
		2008	2009	2010	2010	2011
		RMB'000	RMB'000	RMB'000	RMB'000 (unaudited)	RMB'000
FINANCING ACTIVITIES						
Dividends paid		(465,510)	(873,284)	(1,736,589)	(77,801)	(1,315,468)
Purchase of subsidiaries' shares		–	(140,235)	(105,296)	(96,600)	(11,126)
Proceeds from issue of subsidiaries' shares		–	–	47,558	6,537	25,751
Borrowings raised net of interest paid		(866)	435,402	1,845,727	1,708,874	466,751
Payment for other financing activities		–	–	(1,158,272)	–	(318,450)
NET CASH (USED IN) FROM FINANCING ACTIVITIES		<u>(466,376)</u>	<u>(578,117)</u>	<u>(1,106,872)</u>	<u>1,541,010</u>	<u>(1,152,542)</u>
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS						
		(4,982,513)	3,647,395	(13,144,133)	(4,426,757)	(6,192,748)
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR/PERIOD						
		30,307,274	25,290,541	28,931,881	28,931,881	15,777,118
Effect of foreign exchange rate changes		<u>(34,220)</u>	<u>(6,055)</u>	<u>(10,630)</u>	<u>(13,438)</u>	<u>(10,668)</u>
CASH AND CASH EQUIVALENTS AT END OF THE YEAR/PERIOD	35	<u>25,290,541</u>	<u>28,931,881</u>	<u>15,777,118</u>	<u>24,491,686</u>	<u>9,573,702</u>

## G. NOTES TO THE FINANCIAL INFORMATION

### 1. GENERAL INFORMATION OF THE GROUP

The Company was transformed from Shanghai Haitong Securities Company (上海海通證券公司), which was established in 1988, to a limited liability company upon the authorisation by the People's Bank of China in September 1994 and had changed its name to 海通證券有限公司. In December 2001, the Company was further transformed to a joint-stock company upon the approval from China Securities Regulatory Commission ("CSRC"). In January 2002, the Company changed its name from 海通證券有限公司 to Haitong Securities Co., Ltd. (海通證券股份有限公司). In June 2007, the Company's merger with former Shanghai Urban Agro-Business Co., Ltd. (上海市都市農商社股份有限公司) was approved by the CSRC, and was listed on the Shanghai Stock Exchange in July in the same year, with its name changed to "Haitong Securities".

The address of the Company's registered office is 98 Central Huaihai Road, Shanghai, the PRC. The principal place of business of the Company is Haitong Securities Building, No. 689 Guangdong Road, Shanghai, the PRC.

The Company and its subsidiaries are principally engaged in securities and futures contracts dealing and broking, proprietary trading, margin and other financing, underwriting, assets management and provision of investment advisory and consultancy services.

The Financial Information is presented in Renminbi ("RMB"), which is also the functional currency of the Company.

### 2. APPLICATION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS

For the purpose of preparing and presenting the Financial Information, the Group has consistently applied International Accounting Standards ("IASs"), International Financial Reporting Standards ("IFRSs"), amendments and the related Interpretations ("IFRICs") (herein collectively referred to as the "IFRSs") issued by the International Accounting Standards Board ("IASB") which are effective for the accounting period beginning on 1 January 2011 throughout the Relevant Periods, except for IFRS 3 (Revised) which has been applied prospectively for business combinations for which the acquisition date is on or after 1 January 2010.

The revision to IFRS 3 has no impact on the Group as the Group did not have any business combination after 1 January 2010.

The Group has not early applied the following new and revised Standards, Amendments and Interpretation that have been issued but are not yet effective.

IFRS 7 (Amendments)	Disclosures – Transfers of Financial Assets <sup>1</sup>
IFRS 9	Financial Instruments <sup>2</sup>
IFRS 10	Consolidated Financial Statements <sup>2</sup>
IFRS 11	Joint Arrangements <sup>2</sup>
IFRS 12	Disclosure of Interests in Other Entities <sup>2</sup>
IFRS 13	Fair Value Measurement <sup>2</sup>
IAS 1 (Amendments)	Presentation of Items of Other Comprehensive Income <sup>4</sup>
IAS 12 (Amendments)	Deferred Tax: Recovery of Underlying Assets <sup>3</sup>
IAS 19 (Revised 2011)	Employee Benefits <sup>2</sup>
IAS 27 (Revised 2011)	Separate Financial Statements <sup>2</sup>
IAS 28 (Revised 2011)	Investments in Associates and Joint Ventures <sup>2</sup>
IFRIC Interpretation 20	Stripping Costs in the Production Phase of a Surface Mine <sup>2</sup>

- 1 Effective for annual periods beginning on or after 1 July 2011.
- 2 Effective for annual periods beginning on or after 1 January 2013.
- 3 Effective for annual periods beginning on or after 1 January 2012.
- 4 Effective for annual periods beginning on or after 1 July 2012.

IFRS 9 Financial Instruments (as issued in November 2009) introduces new requirements for the classification and measurement of financial assets. IFRS 9 "Financial instruments" (as revised in October 2010) adds the new requirements for the financial liabilities and for derecognition.

Under IFRS 9, all recognised financial assets that are within the scope of IAS 39 "Financial instruments: Recognition and measurement" are subsequently measured at either amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. All other debt investments and equity investments are measured at their fair value at the end of subsequent accounting periods.

In relation to financial liabilities, the significant change relates to financial liabilities that are designated as at fair value through profit or loss. Specifically, under IFRS 9, for financial liabilities that are designated as at fair value through profit or loss, the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the presentation of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Currently, under IAS 39, the entire amount of the change in the fair value of the financial liability designated as at fair value through profit or loss is recognised in profit or loss.

IFRS 9 is effective for annual periods beginning on or after 1 January 2013, with earlier application permitted. The directors anticipate that IFRS 9 that will be adopted in the Group's consolidated financial statements for the financial year ending 31 December 2013 and that the application of IFRS 9 will affect the classification and measurement of the Group's available-for-sale investments and may have impact on the Group's other financial assets but not on the Group's financial liabilities. The directors of the Company have not yet completed the assessment of financial impact to the Group but considered that the application of IFRS 9 would have no significant impact on the Group.

IFRS 10 replaces the parts of IAS 27 *Consolidated and Separate Financial Statements* that deal with consolidated financial statements. Under IFRS 10, there is only one basis for consolidation, that is control. In addition, IFRS 10 includes a new definition of control that contains three elements: (a) power over an investee, (b) exposure, or rights, to variable returns from its involvement with the investee, and (c) ability to use its power over the investee to affect the amount of the investor's returns. Extensive guidance has been added in IFRS 10 to deal with complex scenarios. Overall, the application of IFRS 10 requires a lot of judgement. It is not practicable to provide a reasonable estimate of that effect until a detailed review has been completed.

IFRS 12 requires the disclosure of information that enables users of financial statements to evaluate the nature of, and risks associated with, its interests in other entities and the effects of those interests on its financial position, financial performance and cash flows. IFRS 12 is required to be applied by an entity that has an interest in subsidiaries, joint arrangements (joint operations or joint ventures), associates and unconsolidated structured entities.

IFRS 13 defines fair value, sets out in a single IFRS a framework for measuring fair value and requires disclosures about fair value measurements. IFRS 13 applies when another IFRS requires or permits fair value measurements or disclosures about fair value measurements (and measurements, such as fair value less costs to sell, based on fair value or disclosures about those measurements), except for share-based payment transactions within the scope of IFRS 2 *Share-based Payment*, leasing transactions within the scope of IAS 17 *Leases* and measurements that have some similarities to fair value but that are not fair value, such as net realisable value in IAS 2 *Inventories* or value in use in IAS 36 *Impairment of Assets*.

The directors of the Company anticipate that the application of other new and revised Standards, Amendments and Interpretation will have no material impact on the financial statements of the Group.

### 3. SIGNIFICANT ACCOUNTING POLICIES

The Financial Information has been prepared in accordance with IFRSs and included applicable disclosures required by the Rules Governing the Listing of Securities on the Hong Kong Stock Exchange and the Hong Kong Companies Ordinance. The Financial Information has been prepared on the historical cost basis except for certain financial instruments which are measured at fair values, as explained in the accounting policies set out below. Historical cost is generally based on the fair value of the consideration given in exchange for goods.

The preparation of Financial Information in conformity with IFRSs requires the use of certain critical accounting estimates. It also requires the management to exercise its judgement in the process of applying the Group's accounting policies. Areas where assumptions and estimates are significant to the Financial Information are disclosed in note 4.

#### **Basis of consolidation**

The Financial Information incorporates the financial statements of the Company and entities controlled by the Company (its subsidiaries). Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group.

All intra-group transactions, balances, income and expenses are eliminated in full on consolidation.

Non-controlling interests in subsidiaries are presented separately from the Group's equity therein.

#### ***Allocation of total comprehensive income to non-controlling interests***

Total comprehensive income and expense of a subsidiary is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

#### ***Changes in the Group's ownership interests in existing subsidiaries***

Changes in the Group's ownership interests in subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the Company.

#### **Investments in subsidiaries**

Investments in subsidiaries are stated at cost less accumulated impairment losses, if any.

#### **Business combinations**

Acquisition of businesses that took place prior to 1 January 2010 was accounted for using the purchase method. The cost of the acquisition was measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree, plus any costs directly attributable to the business combination. The acquiree's identifiable assets, liabilities and contingent liabilities that met the relevant conditions for recognition were generally recognised at their fair value at the acquisition date.

Goodwill arising on acquisition was recognised as an asset and initially measured at cost, being the excess of the cost of the acquisition over the Group's interest in the recognised amounts of the identifiable assets, liabilities and contingent liabilities recognised. If, after assessment, the Group's interest in the recognised amounts of the acquiree's identifiable assets, liabilities and contingent liabilities exceeded the cost of the acquisition, the excess was recognised immediately in profit or loss.

The minority interest in the acquiree was initially measured at the minority interest's proportionate share of the recognised amounts of the assets, liabilities and contingent liabilities of the acquiree.

**Goodwill**

Goodwill arising on an acquisition of a business is carried at cost less any accumulated impairment losses, if any, and is presented separately in the consolidated statement of financial position.

For the purposes of impairment testing, goodwill is allocated to each of the cash-generating units (or groups of cash-generating units) that is expected to benefit from the synergies of the combination.

A cash-generating unit to which goodwill has been allocated is tested for impairment annually, or more frequently whenever there is indication that the unit may be impaired. For goodwill arising on an acquisition in a reporting period, the cash-generating unit to which goodwill has been allocated is tested for impairment before the end of that reporting period. If the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro rata on the basis of the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognised directly in profit or loss in the consolidated income statement. An impairment loss recognised for goodwill is not reversed in subsequent periods.

On disposal of the relevant cash-generating unit, the attributable amount of goodwill is included in the determination of the amount of profit or loss on disposal.

**Investments in associates**

An associate is an entity over which the investor has significant influence and that is neither a subsidiary nor an interest in a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

The results and assets and liabilities of associates are incorporated in this Financial Information using the equity method of accounting. Under the equity method, investments in associates are initially recognised in the consolidated statement of financial position at cost and adjusted thereafter to recognise the Group's share of the profit or loss and other comprehensive income of the associates. When the Group's share of losses of an associate equals or exceeds its interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate), the Group discontinues recognising its share of further losses. Additional losses are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of that associate.

Any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of an associate recognised at the date of acquisition is recognised as goodwill, which is included within the carrying amount of the investment.

The requirements of IAS 39 are applied to determine whether it is necessary to recognise any impairment loss with respect to the Group's investment in an associate. When necessary, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with IAS 36 "Impairment of assets" as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs to sell) with its carrying amount, any impairment loss recognised forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognised in accordance with IAS 36 to the extent that the recoverable amount of the investment subsequently increases.

When a group entity transacts with its associate of the Group, profits and losses resulting from the transactions with the associate are recognised in the Financial Information only to the extent of interests in the associate that are not related to the Group.

In the Company's statement of financial position, investments in associates are stated at cost less accumulated impairment losses, if any.

**Property and equipment**

Property and equipment other than construction in progress, are stated at cost less subsequent accumulated depreciation and accumulated impairment losses, if any.

Depreciation is recognised so as to write off the cost of items of property and equipment, other than construction in progress, less their residual values over their estimated useful lives, using straight line method.

Construction in progress for production, supply or administrative purposes are carried at cost, less any recognised impairment loss. Costs include professional fees and, for qualifying assets, borrowing costs capitalised in accordance with the Group's accounting policy. Such properties are classified to the appropriate categories of property and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

An item of property and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

The estimated residual value rates and useful lives of each class of property and equipment are as follows:

<b>Classes</b>	<b>Estimated residual value rates</b>	<b>Useful lives</b>
Leasehold land and buildings	3-5%	Over the shorter of the lease term and estimated useful life of buildings of 30-40 years
Furniture, fixtures and equipment	3-10%	5-11 years
Motor vehicles	3-10%	5-8 years
Electronic equipment	3-10%	3-5 years
Leasehold improvements	0%	Over the lease term ranging from 1 month to 35 years

**Investment properties**

Investment properties are properties held to earn rentals and/or for capital appreciation.

Investment properties are initially measured at cost, including any directly attributable expenditure. Subsequent to initial recognition, investment properties are stated at cost less subsequent accumulated depreciation and any accumulated impairment losses.

Depreciation is recognised so as to write off the cost of investment properties over their estimated useful lives and after taking into account of their estimated residual value, using the straight-line method.

An investment property is derecognised upon disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from its disposals. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the profit or loss in the period in which the item is derecognised.

**Intangible assets*****Intangible assets acquired separately***

Intangible assets acquired separately and with finite useful lives are carried at costs less accumulated amortisation and any accumulated impairment losses. Amortisation for intangible assets with finite useful lives is provided on a straight-line basis over their estimated useful lives. Intangible assets with indefinite useful lives are carried at cost less any subsequent accumulated impairment losses.

Gains or losses arising from derecognition of an intangible asset are measured at the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in profit or loss in the period when the asset is derecognised.

The estimated useful lives of each class of intangible assets are as follows:

Computer software	3-10 years
Others (car park right, house use right and club membership)	5-50 years

***Intangible assets acquired in a business combination***

Intangible assets acquired in a business combination are recognised separately from goodwill and are initially recognised at their fair value at the acquisition date (which is regarded as their cost).

Subsequent to initial recognition, intangible assets with finite useful lives are carried at costs less accumulated amortisation and any accumulated impairment losses. Amortisation for intangible assets with finite useful lives is provided on a straight-line basis over their estimated useful lives. Alternatively, intangible assets with indefinite useful lives are carried at cost less any subsequent accumulated impairment losses.

**Leasing**

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

***The Group as lessor***

Rental income from operating leases is recognised in profit or loss on a straight-line basis over the term of the relevant lease.

***The Group as lessee***

Operating lease payments are recognised as an expense on a straight-line basis over the term of the relevant lease.

**Leasehold land and building**

When a lease includes both land and building elements, the Group assesses the classification of each element as a finance or an operating lease separately based on the assessment as to whether substantially all the risks and rewards incidental to ownership of each element have been transferred to the Group. Specifically, the minimum lease payments (including any lump-sum upfront payments) are allocated between the land and the building elements in proportion to the relative fair values of the leasehold interests in the land element and building element of the lease at the inception of the lease.

To the extent the allocation of the lease payments can be made reliably, interest in leasehold land that is accounted for as an operating lease is presented as “prepaid lease payments” and included in “other assets” in the Group and the Company’s statements of financial position and is amortised over the lease term on a straight-line basis. When the lease payments cannot be allocated reliably between the land and building elements, the entire lease is generally classified as finance lease and accounted for as property and equipment or investment properties, where applicable, unless it is clear that both elements are operating leases, in which case the entire lease is classified as an operating lease.

**Borrowing costs**

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets until such time as the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

**Foreign currencies**

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in the respective functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchanges prevailing on the dates of the transactions. At the end of the reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are recognised in profit or loss in the period in which they arise, except for exchange differences arising on a monetary item that forms part of the Company's net investment in a foreign operation, in which case, such exchange differences are recognised in other comprehensive income and accumulated in equity and will be reclassified from equity to profit or loss on disposal of the foreign operation. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in profit or loss for the period, except for exchange differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognised directly in other comprehensive income, in which cases, the exchange differences are also recognised directly in other comprehensive income.

For the purposes of presenting the Financial Information, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Group at the rate of exchange prevailing at the end of the reporting period, and their income and expenses are translated at the average exchange rates for the year/period. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity (the translation reserve).

Goodwill and fair value adjustments on identifiable assets acquired arising on an acquisition of a foreign operation on or after 1 January 2005 are treated as assets and liabilities of that foreign operation and retranslated at the rate of exchange prevailing at the end of the reporting period. Exchange differences arising are recognised in the translation reserve.

**Government grants**

Government grants are not recognised until there is reasonable assurance that the Group will comply with the conditions attaching to them and that the grants will be received.

Government grants are recognised in profit or loss on a systematic basis over the periods in which the Group recognises as expenses the related costs for which the grants are intended to compensate. Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognised in profit or loss in the period in which they become receivable.

**Social welfare**

Social welfare expenditure refers to payments for employees' social welfare system established by the Government of the People's Republic of China, including social insurance, housing funds and other social welfare contributions. The Group contributes on a monthly basis to these funds based on certain percentage of the salaries of the employees and the contributions are recognised in profit or loss for the period when employees have rendered service entitling them to the contribution. The Group's liabilities in respect of these funds are limited to the contribution payable in the reporting period.

**Contributions to pension schemes and annuity plans**

Payments to defined contribution retirement benefits plan are charged as expenses when employees have rendered service entitling them to the contributions.

**Taxation**

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year/period. Taxable profit differs from profit as reported in the consolidated income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the Financial Information and the corresponding tax base used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary difference to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries and associates, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of the reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset is realised, based on tax rate (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities. Deferred tax is recognised in profit or loss, except when it relates to items that are recognised in other comprehensive income or directly in equity, in which case the deferred tax is also recognised in other comprehensive income or directly in equity respectively.

**Financial instruments**

Financial assets and financial liabilities are recognised in the consolidated statement of financial position when a group entity becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets or financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

**Financial assets**

The Group's financial assets are classified into one of the four categories, including financial assets at fair value through profit or loss ("FVTPL"), loans and receivables, held-to-maturity financial assets and available-for-sale investments. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

*Financial assets at fair value through profit or loss*

Financial assets at FVTPL represents financial assets held for trading.

A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of selling in the near future;
- it is a part of an identified portfolio of financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

Financial assets at FVTPL are measured at fair value, with changes in fair value arising from re-measurement recognised directly in profit or loss in the period in which they arise. The net gain or loss recognised in profit or loss includes any dividend or interest earned on the financial assets.

*Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables (including advances to customers, accounts receivable, amount due from a subsidiary, bond investments, financial assets held under resale agreements, clearing settlement funds, bank balances and cash, pledged bank deposits, restricted bank deposits, deposits and other receivables), are carried at amortised cost using the effective interest method, less any identified impairment losses (see accounting policy on impairment loss on financial assets below).

*Held-to-maturity financial assets*

Held-to-maturity financial assets are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group's management has the positive intention and ability to hold to maturity. Subsequent to initial recognition, held-to-maturity financial assets are measured at amortised cost using the effective interest method, less any identified impairment losses (see accounting policy on impairment loss on financial assets below).

*Available-for-sale investments*

Available-for-sale investments are non-derivatives that are either designated or not classified as financial assets at FVTPL, loans and receivables or held-to-maturity financial assets.

Available-for-sale investments are measured at fair value at the end of the reporting period. Changes in fair value are recognised in other comprehensive income and accumulated in the investment revaluation reserve, until the financial asset is disposed of or is determined to be impaired, at which time, the cumulative gain or loss previously accumulated in the investment revaluation reserve is reclassified to profit or loss (see accounting policy on impairment loss on financial assets below).

For available-for-sale equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity instruments, they are measured at cost less any identified impairment losses at the end of the reporting period (see accounting policy on impairment loss on financial assets below).

*Impairment of financial assets*

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at the end of the reporting period. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial assets have been affected.

For an available-for-sale equity investment, a significant or prolonged decline in the fair value of that investment below its cost is considered to be objective evidence of impairment.

For all other financial assets, objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty;
- breach of contract, such as default or delinquency in interest and principal payments;
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation; or
- the disappearance of an active market for that financial asset because of financial difficulties.

For certain categories of financial asset, such as advances to customers and accounts receivable, assets that are assessed not to be impaired individually are subsequently assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments and observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortised cost, an impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate.

For financial assets carried at cost, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss will not be reversed in subsequent periods.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of advances to customers, accounts receivable and other receivables, where the carrying amount is reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss. When an advance to customers, an account receivable or a receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss.

For financial assets measured at amortised cost, if, in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment losses were recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Impairment losses on available-for-sale equity investments will not be reversed in profit or loss in subsequent periods. Any increase in fair value subsequent to impairment loss is recognised directly in other comprehensive income and accumulated in the investment revaluation reserve. For available-for-sale debt investments, impairment losses are subsequently reversed if an increase in the fair value of the investment can be objectively related to an event occurring after the recognition of the impairment loss.

#### ***Financial liabilities and equity instruments***

Financial liabilities and equity instruments issued by a group entity are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument.

An equity instrument is any contract that evidences a residual interest in the assets of the group after deducting all of its liabilities. The Group's financial liabilities are generally classified into financial liabilities at FVTPL and other financial liabilities.

*Financial liabilities at fair value through profit or loss*

Financial liabilities at FVTPL represents financial liabilities held for trading.

A financial liability is classified as held for trading if:

- it has been incurred principally for the purpose of repurchasing in the near future;
- it is a part of an identified portfolio of financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

Financial liabilities at FVTPL are measured at fair value, with changes in fair value arising on re-measurement recognised directly in profit or loss in the period in which they arise. The net gain or loss recognised in profit or loss excludes any interest paid on the financial liabilities.

*Other financial liabilities*

Other financial liabilities including borrowings, accounts payable to brokerage clients, financial assets sold under repurchase agreements, other payables and amount due to a subsidiary are subsequently measured at amortised cost, using the effective interest method.

*Equity instruments*

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

***Effective interest method***

The effective interest method is a method of calculating the amortised cost of a financial asset or liability and of allocating interest income or expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) or payments through the expected life of the financial asset or liability, or, where appropriate, a shorter period to the net carrying amount of the financial asset or liability on initial recognition. When the difference between the effective interest rate and the contract rate is insignificant, interest income or expense will be calculated using the contract interest rate.

Interest income is recognised on an effective interest basis for debt instruments other than those financial assets classified as at FVTPL, of which interest income is included in net gains or losses. Interest expense is recognised on an effective interest basis.

***Derivative financial instruments***

Derivatives are initially recognised at fair value at the date a derivative contract is entered into and are subsequently remeasured to their fair value at the end of the reporting period. The resulting gain or loss is recognised in profit or loss immediately unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in profit or loss depends on the nature of the hedge relationship.

***Financial assets sold under repurchase agreements and financial assets held under resale agreements***

Financial assets sold under repurchase agreements continue to be recognised, which do not result in derecognition of the financial assets, and are recorded as “available-for-sale investments” or “financial assets held for trading”. The corresponding liability is included in “financial assets sold under repurchase agreements”. Financial assets held under agreements to resell are recorded as “financial assets held under resale agreements” as appropriate. Financial assets sold under repurchase agreements and financial assets held under resale agreements are initially measured at fair value and are subsequently measured at amortised cost using the effective interest method.

***Securities lending***

The Group lends investment securities to clients and the cash collaterals balance required under the securities lending agreements and the interest arisen from these are classified as “accounts payable to brokerage clients”. For those securities held by the Group lent to client that do not result in the derecognition of financial assets, they are included in “available-for-sale investments”.

***Derecognition***

Financial assets are derecognised when the rights to receive cash flows from the assets expire or the financial assets are transferred and the Group has transferred substantially all the risks and rewards of ownership of the financial assets.

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised in other comprehensive income and accumulated in equity is recognised in profit or loss.

On derecognition of a financial asset other than in its entirety (e.g. when the Group retains an option to repurchase part of a transferred asset or retains a residual interest that does not result in the retention of substantially all the risks and rewards of ownership and the Group retains control), the Group allocates the previous carrying amount of the financial asset between the part it continues to recognise under continuing involvement, and the part it no longer recognises on the basis of the relative fair values of those parts on the date of the transfer. The difference between the carrying amount allocated to the part that is no longer recognised and the sum of the consideration received for the part no longer recognised and any cumulative gain or loss allocated to it that had been recognised in other comprehensive income is recognised in profit or loss. A cumulative gain or loss that had been recognised in other comprehensive income is allocated between the part that continues to be recognised and the part that is no longer recognised on the basis of the relative fair values of those parts.

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expires. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

**Revenue recognition**

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for services provided in the normal course of business. Revenue is recognised when it is probable that the economic benefits will flow to the Group and when revenue can be measured reliably, on the following basis:

- (i) Commission income for broking business is recorded as income on a trade date basis, and handling fee income arising from broking business is recognised when services are rendered;
- (ii) Underwriting and sponsors fees are recognised as income in accordance with the terms of the underwriting agreement or deal mandate when the relevant significant acts have been completed;
- (iii) Interest income from a financial asset is accrued on a time basis using the effective interest method, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition;
- (iv) Financial advisory and consultancy fee income are recognised when the relevant transactions have been arranged or the relevant services have been rendered; and
- (v) Asset management fee income is recognised when management services are provided in accordance with the management contracts.

**Provision**

Provisions are recognised when the Group has a present obligation as a result of a past event, and it is probable that the Group will be required to settle that obligation. Provisions are measured at the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (where the effect is material).

**Share-based payment transactions*****Share options granted to employees***

The fair value of services received determined by reference to the fair value of share options granted at the grant date is expensed on a straight-line basis over the vesting period, with a corresponding increase in equity (share option reserve).

At each reporting date, for share options, which are conditional upon satisfying specified non-market performance vesting conditions, the Group revises its estimates of the number of options that are expected to vest ultimately. The impact of the revision of the original estimates during the vesting period, if any, is recognised in profit or loss over the remaining vesting period, with a corresponding adjustment to the share option reserve.

At the time when the share options are exercised, the amount previously recognised in the share option reserve will be transferred to share premium. When share options are forfeited after the vesting date or are still not exercised at the expiry date, the amount previously recognised in the share option reserve will be remained in the reserve.

**Impairment losses on tangible and intangible assets as well as investments in subsidiaries and associates other than goodwill and financial assets (see the accounting policy in respect of goodwill and financial assets above)**

At the end of the reporting period, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. In addition, intangible assets with indefinite useful lives are tested for impairment annually, and whenever there is an indication that they may be impaired. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately.

#### 4. KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in note 3, the directors of the Company are required to make estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

##### **Impairment of advances to customers**

The Group reviews its advances to customers to assess impairment on a periodic basis. In determining whether an impairment loss should be recognised in profit or loss, the Group makes judgments as to whether there is any observable data indicating that there is an objective evidence of impairment will have a measurable decrease in the estimated future cash flows from a portfolio of advances. Moreover, the Group also reviews the value of the securities collateral received from the customers in determining the impairment. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

##### **Impairment of goodwill**

Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating units to which goodwill has been allocated. The value in use calculation requires the Group to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate the present value. Where the actual future cash flows are less than expected, a material impairment loss may arise. Details of the recoverable amount calculation are disclosed in note 20.

##### **Impairment of available-for-sale investments**

The determination of whether an available-for-sale investment is impaired requires significant judgement. In making this judgement, the Group evaluates the duration and extent to which the fair value of an investment is less than its cost. For listed available-for-sale equity investments, a significant or prolonged decline in fair value below cost is considered to be objective evidence of impairment. Judgement is required when determining whether a decline in fair value has been significant or prolonged.

##### **Fair value of available-for-sale investments with restriction on disposal**

For available-for-sale investments which are subject to legally enforceable restriction that prevents the holders from disposing them within the specified period, the fair value of these securities are made based on quoted market rates adjusted for specific features of the instrument. The estimation of fair value of these instruments includes some assumptions not supported by observable market prices or rates.

##### **Income taxes**

There are certain transactions and activities for which the ultimate tax determination is uncertain during the ordinary course of business. Where the final tax outcome of these matters is different from the amounts that were initially estimated, such differences will impact the current income tax and deferred income tax in the period during which such a determination is made.

No deferred tax asset has been recognised on the tax losses arising from the Group's subsidiaries in Hong Kong due to the unpredictability of future profit streams. The reliability of the deferred tax asset mainly depends on whether sufficient future profits or taxable temporary differences will be available in the future. In cases where the actual profits generated are more than expected, a material deferred tax assets would be recognised in profit or loss for the period. Details of the tax losses for the Relevant Periods are disclosed in note 14.

## 5. COMMISSION AND FEE INCOME

	Year ended 31 December			Six months ended 30 June	
	2008	2009	2010	2010	2011
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(unaudited)	
Commission on securities dealing and broking and handling fee income	4,585,758	7,264,369	5,938,693	2,702,419	2,348,438
Commission on futures and options contracts dealing and broking and handling fee income	59,865	144,818	392,719	159,108	181,105
Financial advisory and consultancy fee income	106,546	151,122	274,844	144,604	153,304
Underwriting and sponsors fees	239,269	449,392	1,039,162	551,661	562,169
Asset management fee income	535,656	743,659	714,793	312,219	437,378
Commission on bullion contracts dealing	—	—	7,621	—	4,913
Others	—	—	16,228	10,487	2,310
	<u>5,527,094</u>	<u>8,753,360</u>	<u>8,384,060</u>	<u>3,880,498</u>	<u>3,689,617</u>

## 6. INTEREST INCOME

	Year ended 31 December			Six months ended 30 June	
	2008	2009	2010	2010	2011
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(unaudited)	
Bank interest income	1,366,441	1,359,585	1,399,582	674,192	937,725
Interest income from advances to customers	634	8,648	219,039	72,630	229,188
Interest income from financial assets held under resale agreements	3,431	844	27,845	35	35,878
Interest income from held-to-maturity financial assets	13,570	4,392	—	—	—
Interest income from other bond investments	2,420	33,568	—	—	—
Other interest income	110	5	541	31	2,693
	<u>1,386,606</u>	<u>1,407,042</u>	<u>1,647,007</u>	<u>746,888</u>	<u>1,205,484</u>

## 7. NET INVESTMENT GAINS

	Year ended 31 December			Six months ended 30 June	
	2008	2009	2010	2010	2011
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(unaudited)	
Net gains arising from available-for-sale investments	345,399	211,391	596,163	320,647	569,290
Net gains arising from financial assets/financial liabilities held for trading and derivatives	783,503	950,838	378,038	220,364	717,150
Fair value change of financial instruments at fair value through profit or loss					
– financial assets/financial liabilities held for trading	(201,195)	(274,178)	101,052	(251,245)	(203,682)
– derivatives	–	2	2,537	–	(85,573)
	<u>927,707</u>	<u>888,053</u>	<u>1,077,790</u>	<u>289,766</u>	<u>997,185</u>

## 8. OTHER INCOME AND GAINS

	Year ended 31 December			Six months ended 30 June	
	2008	2009	2010	2010	2011
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(unaudited)	
Gain on disposal/redemption of held-to-maturity financial assets	–	3,780	–	–	–
Gain on disposal of other bond investments	–	42,979	–	–	–
Non-recurring government grants ( <i>Note</i> )	30,270	162,811	155,345	41,744	3,332
Rental income from investment properties	13,719	13,405	14,558	7,124	7,342
Others	<u>62,809</u>	<u>44,416</u>	<u>26,175</u>	<u>6,819</u>	<u>50,122</u>
	<u>106,798</u>	<u>267,391</u>	<u>196,078</u>	<u>55,687</u>	<u>60,796</u>

*Note:* The non-recurring government grants were received unconditionally by the Company and its subsidiaries from their local government where they reside. The main purpose is to subsidise the operation of these entities.

## 9. DEPRECIATION AND AMORTISATION

	Year ended 31 December			Six months ended 30 June	
	2008	2009	2010	2010	2011
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(unaudited)	
Depreciation for property and equipment	161,181	210,219	245,762	123,030	123,250
Depreciation for investment properties	3,459	3,459	3,458	1,729	1,729
Amortisation of other intangible assets	19,458	22,734	38,749	21,375	22,658
Amortisation of prepaid lease payments	503	503	503	252	252
	<u>184,601</u>	<u>236,915</u>	<u>288,472</u>	<u>146,386</u>	<u>147,889</u>

## 10. STAFF COSTS

	Year ended 31 December			Six months ended 30 June	
	2008	2009	2010	2010	2011
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(unaudited)	
Staff costs (including directors' remuneration (Note 50)):					
Salaries, bonus and allowances	1,370,446	1,806,042	2,170,795	783,531	838,320
Contributions to annuity plans	592	22,813	78,197	34,631	37,029
Social welfare	243,039	396,134	370,676	121,482	229,921
	<u>1,614,077</u>	<u>2,224,989</u>	<u>2,619,668</u>	<u>939,644</u>	<u>1,105,270</u>

The domestic employees of the Group in the PRC participate in a state-managed retirement benefit schemes operated by the respective local government in the PRC. The Group also operates a Mandatory Provident Fund Scheme for all qualifying employees in Hong Kong under the Mandatory Provident Fund Schemes Ordinance. The Group is required to contribute a specified percentage of payroll cost to these pension schemes and annuity plans to fund the benefits. The only obligation of the Group with respect to these schemes and annuity plans is to make the specified contributions.

## 11. BROKERAGE TRANSACTION FEES AND OTHER SERVICES EXPENSES

	Year ended 31 December			Six months ended 30 June	
	2008	2009	2010	2010	2011
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(unaudited)	
Securities and futures dealing and broking expenses	506,409	909,625	807,279	308,504	353,804
Services expenses for underwriting, sponsorship, and financial advisory, etc.	28,574	37,497	89,924	25,514	38,558
	<u>534,983</u>	<u>947,122</u>	<u>897,203</u>	<u>334,018</u>	<u>392,362</u>

## 12. INTEREST EXPENSES

	Year ended 31 December			Six months ended 30 June	
	2008	2009	2010	2010	2011
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(unaudited)	
Interest on borrowings wholly repayable within five years:					
– bank loans and overdrafts	5,073	6,514	22,759	6,841	12,275
– financial assets sold under repurchase agreements	27,590	54,988	54,025	29,491	64,470
– accounts payable to brokerage clients	335,308	183,578	198,757	100,899	105,016
– others	–	–	5,948	2,989	2,265
	<u>367,971</u>	<u>245,080</u>	<u>281,489</u>	<u>140,220</u>	<u>184,026</u>

## 13. PROFIT BEFORE INCOME TAX

	Year ended 31 December			Six months ended 30 June	
	2008	2009	2010	2010	2011
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(unaudited)	
The Group's profit before income tax is arrived at after charging (crediting):					
Auditors' remuneration	3,313	9,483	9,033	4,812	4,365
Impairment loss in respect of property and equipment	27,723	–	–	–	–
Impairment loss in respect of available-for-sale investments	39,270	4,659	–	–	–
Reversal of impairment loss in respect of other receivables	(15,290)	(1,560)	(3,773)	(2,687)	(978)
Loss (gain) on disposal of property and equipment and other intangible assets	7,379	809	544	(111)	(239)
Gain on disposal of an associate	–	–	(4,121)	(4,121)	–
Foreign exchange losses (gains), net	17,614	(1,722)	(5,814)	5,733	(34,637)
Operating lease rentals in respect of rented premises	<u>97,219</u>	<u>124,977</u>	<u>194,421</u>	<u>90,640</u>	<u>113,775</u>

## 14. INCOME TAX EXPENSE

	Year ended 31 December			Six months ended 30 June	
	2008	2009	2010	2010	2011
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(unaudited)	
Current tax:					
PRC Enterprise Income Tax and other jurisdictions	1,218,111	1,545,433	1,122,723	598,574	837,678
Hong Kong Profits Tax	–	6,938	17,307	9,810	13,651
	<u>1,218,111</u>	<u>1,552,371</u>	<u>1,140,030</u>	<u>608,384</u>	<u>851,329</u>
Adjustments in respect of current income tax in relation to prior years:					
PRC Enterprise Income Tax and other jurisdictions	(700,109)	(114,450)	(39,441)	(27,575)	(5,369)
Hong Kong Profits Tax	–	–	(2,506)	(1,924)	(446)
	<u>(700,109)</u>	<u>(114,450)</u>	<u>(41,947)</u>	<u>(29,499)</u>	<u>(5,815)</u>
Deferred tax:					
Current year/period	<u>(205,160)</u>	<u>(117,835)</u>	<u>23,449</u>	<u>(28,774)</u>	<u>(121,520)</u>
	<u>312,842</u>	<u>1,320,086</u>	<u>1,121,532</u>	<u>550,111</u>	<u>723,994</u>

Under the Law of the People's Republic of China on Enterprise Income Tax (the "EIT Law") and Implementation Regulation of the EIT Law, the tax rate is 25% from 1 January 2008 onwards. According to "Notification of the State Council on Carrying out the Transitional Preferential Policies Concerning Enterprise Income Tax" (Guo Fu [2007] No. 39), branches set up in Shenzhen and Haikou in the PRC are subject to tax rates of 18%, 20%, 22% and 24%, respectively, for the years ended 31 December 2008, 2009 and 2010 and the six months ended 30 June 2011.

Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profit for the Relevant Periods. Taxation arising in other jurisdictions is calculated at the rates prevailing in the relevant jurisdictions.

A reconciliation of the tax expense applicable to profit before income tax using the applicable rate to the tax expense at the effective tax rate is as follows:

	Year ended 31 December			Six months ended 30 June	
	2008	2009	2010	2010	2011
	RMB'000	RMB'000	RMB'000	RMB'000 (unaudited)	RMB'000
Profit before income tax	3,697,861	5,981,827	4,989,690	2,475,446	3,063,120
Tax at the statutory tax rate of 25%	924,465	1,495,457	1,247,423	618,862	765,780
Effect of share of results of associates	(24,379)	(16,491)	(19,530)	(9,907)	(8,512)
Tax effect of expenses not deductible for tax purpose	142,469	10,694	60,947	16,887	16,124
Tax effect of income not taxable for tax purpose	(44,284)	(63,976)	(129,001)	(31,936)	(9,551)
Adjustments in respect of current income tax in relation to prior years	(700,109)	(114,450)	(41,947)	(29,499)	(5,815)
Effect of different tax rates of subsidiaries operating in other jurisdictions	(6,441)	(7,497)	(13,415)	(4,674)	(14,790)
Others	21,121	16,349	17,055	(9,622)	(19,242)
Tax charge	<u>312,842</u>	<u>1,320,086</u>	<u>1,121,532</u>	<u>550,111</u>	<u>723,994</u>

Since the Company previously had not claimed a tax deduction on a doubtful debt provision and had paid the relevant enterprise income tax, the Company had successfully obtained from the tax authority a tax deduction in relation to the doubtful debt written off in previous years, and received a tax rebate of RMB718,403,000 in 2008.

The Group has tax losses arising from its subsidiaries in Hong Kong of approximately RMB35 million, RMB170 million, RMB155 million and RMB111 million as at 31 December 2008, 2009 and 2010 and 30 June 2011, respectively, that can be carried forward indefinitely for offsetting against future taxable profits of the respective companies in which the losses arose. Additional tax loss of approximately RMB142 million arose from the Group's acquisition of subsidiaries during the year ended 31 December 2009. Deferred tax assets have not been recognised in respect of these tax losses as it is not probable that sufficient future taxable profits will be available in the subsidiaries in which the losses arose against which the unused tax losses can be utilised in the near future.

## 15. EARNINGS PER SHARE

The calculation of basic and diluted earnings per share attributable to owners of the Company is as follows:

	Year ended 31 December			Six months ended 30 June	
	2008	2009	2010	2010	2011
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(unaudited)	
Earnings for the purpose of basic earnings per share:					
Profit for the year/period attributable to owners of the Company	3,301,653	4,548,226	3,686,264	1,841,976	2,234,781
Effect of dilutive potential ordinary shares:					
Adjustment to the share of profit of a listed subsidiary based on dilution of its earnings per share	—	—	(414)	(87)	(219)
Earnings for the purpose of diluted earnings per share	<u>3,301,653</u>	<u>4,548,226</u>	<u>3,685,850</u>	<u>1,841,889</u>	<u>2,234,562</u>
Number of shares:					
Number of shares in issue ('000)	<u>8,227,821</u>	<u>8,227,821</u>	<u>8,227,821</u>	<u>8,227,821</u>	<u>8,227,821</u>

For the year ended 31 December 2008, the number of shares was adjusted for bonus shares issue and capitalisation of capital reserve that occurred during that year assuming the relevant shares were in issue as at 1 January 2008.

For the year ended 31 December 2009, there was no effect of dilutive potential ordinary shares since the Group acquired the listed subsidiary in December 2009 and did not share any profit or loss of the listed subsidiary for that year due to insignificance.

## 16. PROPERTY AND EQUIPMENT

## Group

	Leasehold land and buildings <i>RMB'000</i>	Leasehold improvements <i>RMB'000</i>	Electronic equipment <i>RMB'000</i>	Motor vehicles <i>RMB'000</i>	Furniture, fixtures and equipment <i>RMB'000</i>	Construction in progress <i>RMB'000</i>	Total <i>RMB'000</i>
COST							
As at 1 January 2008	827,292	214,305	565,291	92,742	105,614	28,272	1,833,516
Additions during the year	8,302	29,569	131,159	29,308	22,153	46,450	266,941
Disposals during the year	(14,265)	–	(118,444)	(18,636)	(18,216)	–	(169,561)
Transfer during the year	–	48,084	–	–	–	(48,084)	–
As at 31 December 2008	821,329	291,958	578,006	103,414	109,551	26,638	1,930,896
ACCUMULATED DEPRECIATION							
As at 1 January 2008	139,124	165,173	361,956	64,599	76,818	–	807,670
Provided for the year	24,858	28,000	90,791	9,719	7,813	–	161,181
Eliminated on disposals	(1,473)	–	(114,916)	(16,031)	(17,094)	–	(149,514)
As at 31 December 2008	162,509	193,173	337,831	58,287	67,537	–	819,337
ALLOWANCE FOR IMPAIRMENT LOSSES							
As at 1 January 2008	2,659	–	–	–	–	–	2,659
Recognised in profit or loss	27,723	–	–	–	–	–	27,723
As at 31 December 2008	30,382	–	–	–	–	–	30,382
CARRYING VALUES							
As at 31 December 2008	628,438	98,785	240,175	45,127	42,014	26,638	1,081,177

**APPENDIX I**
**ACCOUNTANTS' REPORT**

	Leasehold land and buildings <i>RMB'000</i>	Leasehold improvements <i>RMB'000</i>	Electronic equipment <i>RMB'000</i>	Motor vehicles <i>RMB'000</i>	Furniture, fixtures and equipment <i>RMB'000</i>	Construction in progress <i>RMB'000</i>	Total <i>RMB'000</i>
<b>COST</b>							
As at 1 January 2009	821,329	291,958	578,006	103,414	109,551	26,638	1,930,896
Additions during the year	16,084	51,590	117,619	27,495	28,761	35,245	276,794
Acquired on acquisition of subsidiaries	1,857	6,420	8,598	–	7,264	–	24,139
Disposals during the year	–	–	(81,543)	(19,721)	(14,355)	–	(115,619)
Transfer during the year	–	45,686	–	–	–	(45,686)	–
As at 31 December 2009	839,270	395,654	622,680	111,188	131,221	16,197	2,116,210
<b>ACCUMULATED DEPRECIATION</b>							
As at 1 January 2009	162,509	193,173	337,831	58,287	67,537	–	819,337
Provided for the year	24,452	53,036	113,862	10,605	8,264	–	210,219
Eliminated on disposals	–	–	(58,260)	(12,376)	(9,296)	–	(79,932)
As at 31 December 2009	186,961	246,209	393,433	56,516	66,505	–	949,624
<b>ALLOWANCE FOR IMPAIRMENT LOSSES</b>							
As at 1 January 2009	30,382	–	–	–	–	–	30,382
Recognised in profit or loss	–	–	–	–	–	–	–
As at 31 December 2009	30,382	–	–	–	–	–	30,382
<b>CARRYING VALUES</b>							
As at 31 December 2009	621,927	149,445	229,247	54,672	64,716	16,197	1,136,204

**APPENDIX I**
**ACCOUNTANTS' REPORT**

	Leasehold land and buildings <i>RMB'000</i>	Leasehold improvements <i>RMB'000</i>	Electronic equipment <i>RMB'000</i>	Motor vehicles <i>RMB'000</i>	Furniture, fixtures and equipment <i>RMB'000</i>	Construction in progress <i>RMB'000</i>	Total <i>RMB'000</i>
<b>COST</b>							
As at 1 January 2010	839,270	395,654	622,680	111,188	131,221	16,197	2,116,210
Additions during the year	1,947	71,979	132,763	30,815	25,011	59,387	321,902
Disposals during the year	(62)	–	(51,049)	(12,935)	(12,913)	–	(76,959)
Transfer during the year	–	63,648	8,197	–	(8,197)	(63,648)	–
As at 31 December 2010	841,155	531,281	712,591	129,068	135,122	11,936	2,361,153
<b>ACCUMULATED DEPRECIATION</b>							
As at 1 January 2010	186,961	246,209	393,433	56,516	66,505	–	949,624
Provided for the year	25,072	65,727	121,386	17,836	15,741	–	245,762
Eliminated on disposals	(29)	–	(42,778)	(10,171)	(12,820)	–	(65,798)
As at 31 December 2010	212,004	311,936	472,041	64,181	69,426	–	1,129,588
<b>ALLOWANCE FOR IMPAIRMENT LOSSES</b>							
As at 1 January 2010	30,382	–	–	–	–	–	30,382
Recognised in profit or loss	–	–	–	–	–	–	–
As at 31 December 2010	30,382	–	–	–	–	–	30,382
<b>CARRYING VALUES</b>							
As at 31 December 2010	598,769	219,345	240,550	64,887	65,696	11,936	1,201,183

# APPENDIX I

# ACCOUNTANTS' REPORT

	Leasehold land and buildings <i>RMB'000</i>	Leasehold improvements <i>RMB'000</i>	Electronic equipment <i>RMB'000</i>	Motor vehicles <i>RMB'000</i>	Furniture, fixtures and equipment <i>RMB'000</i>	Construction in progress <i>RMB'000</i>	Total <i>RMB'000</i>
<b>COST</b>							
As at 1 January 2011	841,155	531,281	712,591	129,068	135,122	11,936	2,361,153
Additions during the period	–	18,119	46,649	12,833	6,443	16,474	100,518
Disposals during the period	(10,288)	(12,717)	(22,330)	(4,233)	(4,130)	–	(53,698)
Transfer during the period	–	11,933	214	–	1,521	(13,668)	–
As at 30 June 2011	830,867	548,616	737,124	137,668	138,956	14,742	2,407,973
<b>ACCUMULATED DEPRECIATION</b>							
As at 1 January 2011	212,004	311,936	472,041	64,181	69,426	–	1,129,588
Provided for the period	12,403	37,991	54,701	8,586	9,569	–	123,250
Eliminated on disposals	(4,530)	(11,351)	(20,381)	(2,929)	(2,623)	–	(41,814)
As at 30 June 2011	219,877	338,576	506,361	69,838	76,372	–	1,211,024
<b>ALLOWANCE FOR IMPAIRMENT LOSSES</b>							
As at 1 January 2011	30,382	–	–	–	–	–	30,382
Recognised in profit or loss	–	–	–	–	–	–	–
As at 30 June 2011	30,382	–	–	–	–	–	30,382
<b>CARRYING VALUES</b>							
As at 30 June 2011	580,608	210,040	230,763	67,830	62,584	14,742	1,166,567

The carrying values of the Group's leasehold land and buildings are situated on land with the following lease terms:

	<b>As at 31 December</b>			<b>As at 30 June 2011</b>
	<b>2008</b>	<b>2009</b>	<b>2010</b>	
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Held in Hong Kong				
Medium-term lease (10 – 50 years)	–	1,857	1,728	1,656
Held in PRC				
on long-term lease (over 50 years)	628,438	620,070	597,041	578,952
	628,438	621,927	598,769	580,608

**Company**

	<b>Leasehold land and buildings</b>	<b>Leasehold improvements</b>	<b>Electronic equipment</b>	<b>Motor vehicles</b>	<b>Furniture, fixtures and equipment</b>	<b>Construction in progress</b>	<b>Total</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
<b>COST</b>							
As at 1 January 2008	827,292	176,306	552,222	89,249	92,194	23,541	1,760,804
Additions during the year	8,302	25,590	125,408	26,398	17,423	46,155	249,276
Disposals during the year	(14,265)	–	(117,896)	(18,636)	(17,306)	–	(168,103)
Transfer during the year	–	43,323	–	–	–	(43,323)	–
As at 31 December 2008	821,329	245,219	559,734	97,011	92,311	26,373	1,841,977
<b>ACCUMULATED DEPRECIATION</b>							
As at 1 January 2008	139,124	131,220	352,479	62,857	72,089	–	757,769
Provided for the year	24,858	23,257	90,450	8,956	5,437	–	152,958
Eliminated on disposals	(1,473)	–	(114,713)	(16,031)	(16,664)	–	(148,881)
As at 31 December 2008	162,509	154,477	328,216	55,782	60,862	–	761,846
<b>ALLOWANCE FOR IMPAIRMENT LOSSES</b>							
As at 1 January 2008	2,659	–	–	–	–	–	2,659
Recognised in profit or loss	27,723	–	–	–	–	–	27,723
As at 31 December 2008	30,382	–	–	–	–	–	30,382
<b>CARRYING VALUES</b>							
As at 31 December 2008	628,438	90,742	231,518	41,229	31,449	26,373	1,049,749

# APPENDIX I

# ACCOUNTANTS' REPORT

	Leasehold land and buildings <i>RMB'000</i>	Leasehold improvements <i>RMB'000</i>	Electronic equipment <i>RMB'000</i>	Motor vehicles <i>RMB'000</i>	Furniture, fixtures and equipment <i>RMB'000</i>	Construction in progress <i>RMB'000</i>	Total <i>RMB'000</i>
<b>COST</b>							
As at 1 January 2009	821,329	245,219	559,734	97,011	92,311	26,373	1,841,977
Additions during the year	16,084	30,693	114,573	25,957	23,759	30,464	241,530
Disposals during the year	–	–	(80,744)	(17,931)	(13,266)	–	(111,941)
Transfer during the year	–	40,640	–	–	–	(40,640)	–
As at 31 December 2009	837,413	316,552	593,563	105,037	102,804	16,197	1,971,566
<b>ACCUMULATED DEPRECIATION</b>							
As at 1 January 2009	162,509	154,477	328,216	55,782	60,862	–	761,846
Provided for the year	24,452	40,708	107,768	9,364	8,190	–	190,482
Eliminated on disposals	–	–	(57,177)	(10,765)	(8,349)	–	(76,291)
As at 31 December 2009	186,961	195,185	378,807	54,381	60,703	–	876,037
<b>ALLOWANCE FOR IMPAIRMENT LOSSES</b>							
As at 1 January 2009	30,382	–	–	–	–	–	30,382
Recognised in profit or loss	–	–	–	–	–	–	–
As at 31 December 2009	30,382	–	–	–	–	–	30,382
<b>CARRYING VALUES</b>							
As at 31 December 2009	620,070	121,367	214,756	50,656	42,101	16,197	1,065,147

**APPENDIX I**
**ACCOUNTANTS' REPORT**

	Leasehold land and buildings <i>RMB'000</i>	Leasehold improvements <i>RMB'000</i>	Electronic equipment <i>RMB'000</i>	Motor vehicles <i>RMB'000</i>	Furniture, fixtures and equipment <i>RMB'000</i>	Construction in progress <i>RMB'000</i>	Total <i>RMB'000</i>
<b>COST</b>							
As at 1 January 2010	837,413	316,552	593,563	105,037	102,804	16,197	1,971,566
Additions during the year	1,947	65,687	121,706	26,825	22,645	59,387	298,197
Disposals during the year	–	–	(50,036)	(12,935)	(12,543)	–	(75,514)
Transfer during the year	–	63,648	–	–	–	(63,648)	–
As at 31 December 2010	839,360	445,887	665,233	118,927	112,906	11,936	2,194,249
<b>ACCUMULATED DEPRECIATION</b>							
As at 1 January 2010	186,961	195,185	378,807	54,381	60,703	–	876,037
Provided for the year	24,976	53,411	111,095	16,493	10,837	–	216,812
Eliminated on disposals	–	–	(42,678)	(10,170)	(12,720)	–	(65,568)
As at 31 December 2010	211,937	248,596	447,224	60,704	58,820	–	1,027,281
<b>ALLOWANCE FOR IMPAIRMENT LOSSES</b>							
As at 1 January 2010	30,382	–	–	–	–	–	30,382
Recognised in profit or loss	–	–	–	–	–	–	–
As at 31 December 2010	30,382	–	–	–	–	–	30,382
<b>CARRYING VALUES</b>							
As at 31 December 2010	597,041	197,291	218,009	58,223	54,086	11,936	1,136,586

	Leasehold land and buildings <i>RMB'000</i>	Leasehold improvements <i>RMB'000</i>	Electronic equipment <i>RMB'000</i>	Motor vehicles <i>RMB'000</i>	Furniture, fixtures and equipment <i>RMB'000</i>	Construction in progress <i>RMB'000</i>	Total <i>RMB'000</i>
<b>COST</b>							
As at 1 January 2011	839,360	445,887	665,233	118,927	112,906	11,936	2,194,249
Additions during the period	–	11,852	34,064	10,194	5,036	16,474	77,620
Disposals during the period	(10,247)	–	(17,587)	(3,784)	(3,013)	–	(34,631)
Transfer during the period	–	11,933	214	–	1,521	(13,668)	–
As at 30 June 2011	829,113	469,672	681,924	125,337	116,450	14,742	2,237,238
<b>ACCUMULATED DEPRECIATION</b>							
As at 1 January 2011	211,937	248,596	447,224	60,704	58,820	–	1,027,281
Provided for the period	12,372	33,439	49,696	7,704	6,413	–	109,624
Eliminated on disposals	(4,530)	–	(16,789)	(2,554)	(2,432)	–	(26,305)
As at 30 June 2011	219,779	282,035	480,131	65,854	62,801	–	1,110,600
<b>ALLOWANCE FOR IMPAIRMENT LOSSES</b>							
As at 1 January 2011	30,382	–	–	–	–	–	30,382
Recognised in profit or loss	–	–	–	–	–	–	–
As at 30 June 2011	30,382	–	–	–	–	–	30,382
<b>CARRYING VALUES</b>							
As at 30 June 2011	578,952	187,637	201,793	59,483	53,649	14,742	1,096,256

The Company's leasehold land and buildings are situated on land in the PRC with long-term lease.

As the lease payments included in the Group and the Company's leasehold land and buildings cannot be allocated reliably between the land and buildings, the entire leases are classified as finance leases and accounted for as property and equipment.

## 17. INVESTMENT PROPERTIES

## Group

	As at 31 December			As at 30 June 2011
	2008	2009	2010	
	RMB'000	RMB'000	RMB'000	RMB'000
<b>COST</b>				
At beginning and end of the year/period	125,585	125,585	125,585	125,585
<b>ACCUMULATED DEPRECIATION</b>				
At beginning of the year/period	14,565	18,024	21,483	24,941
Provided for the year/period	3,459	3,459	3,458	1,729
At end of the year/period	18,024	21,483	24,941	26,670
<b>CARRYING VALUES</b>				
At end of the year/period	107,561	104,102	100,644	98,915

The fair values of the Group's investment properties at 31 December 2008, 2009 and 2010 and 30 June 2011, were RMB276,152,000, RMB258,487,000, RMB240,834,000, and RMB250,993,000, respectively. The fair values have been determined by the directors of the Company by reference to recent market prices for similar properties in the same or similar locations and conditions.

## Company

	As at 31 December			As at 30 June 2011
	2008	2009	2010	
	RMB'000	RMB'000	RMB'000	RMB'000
<b>COST</b>				
At beginning and end of the year/period	120,094	120,094	120,094	120,094
<b>ACCUMULATED DEPRECIATION</b>				
At beginning of the year/period	13,308	16,637	19,966	23,294
Provided for the year/period	3,329	3,329	3,328	1,664
At end of the year/period	16,637	19,966	23,294	24,958
<b>CARRYING VALUES</b>				
At end of the year/period	103,457	100,128	96,800	95,136

The fair values of the Company's investment properties at 31 December 2008, 2009 and 2010 and 30 June 2011, were RMB252,559,000, RMB233,053,000, RMB213,773,000, and RMB223,526,000, respectively. The fair values have been determined by the directors of the Company by reference to recent market prices for similar properties in the same or similar locations and conditions.

The above investment properties are depreciated over their estimated useful lives of 35 years and after taking into account their estimated residual value of 3%, using the straight-line method.

All investment properties held by the Group and the Company are situated on land in the PRC with long-term lease.

## 18. GOODWILL

## Group

*Cost and carrying value*

	As at 31 December			As at 30 June 2011
	2008	2009	2010	
	RMB'000	RMB'000	RMB'000	RMB'000
At beginning of the year/period	5,896	5,896	697,056	673,860
Arising on acquisition of subsidiaries	–	691,160	–	–
Exchange adjustments	–	–	(23,196)	(15,158)
At end of the year/period	<u>5,896</u>	<u>697,056</u>	<u>673,860</u>	<u>658,702</u>

Particulars regarding impairment testing on goodwill are disclosed in note 20.

## 19. OTHER INTANGIBLE ASSETS

## Group

	Trading rights RMB'000	Computer software RMB'000	Others RMB'000	Construction in progress RMB'000	Total RMB'000
COST					
As at 1 January 2008	219,100	79,181	47,952	8,561	354,794
Additions during the year	864	25,992	1,800	2,386	31,042
Disposals during the year	(864)	(152)	(423)	–	(1,439)
Transfer during the year	–	9,491	–	(9,491)	–
As at 31 December 2008	<u>219,100</u>	<u>114,512</u>	<u>49,329</u>	<u>1,456</u>	<u>384,397</u>
ACCUMULATED AMORTISATION					
As at 1 January 2008	121,854	51,452	12,079	–	185,385
Provided for the year	–	15,429	4,029	–	19,458
Eliminated on disposals	–	(121)	(254)	–	(375)
As at 31 December 2008	<u>121,854</u>	<u>66,760</u>	<u>15,854</u>	<u>–</u>	<u>204,468</u>
ALLOWANCE FOR IMPAIRMENT LOSSES					
As at 1 January 2008 and 31 December 2008	<u>1,526</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>1,526</u>
CARRYING VALUES					
As at 31 December 2008	<u>95,720</u>	<u>47,752</u>	<u>33,475</u>	<u>1,456</u>	<u>178,403</u>

	<b>Trading rights RMB'000</b>	<b>Computer software RMB'000</b>	<b>Others RMB'000</b>	<b>Construction in progress RMB'000</b>	<b>Total RMB'000</b>
<b>COST</b>					
As at 1 January 2009	219,100	114,512	49,329	1,456	384,397
Additions during the year	2,162	14,925	–	8,744	25,831
Acquired on acquisition of subsidiaries	4,059	80,526	–	–	84,585
Disposals during the year	(4,050)	(16,671)	–	–	(20,721)
Transfer during the year	–	3,558	–	(3,558)	–
As at 31 December 2009	221,271	196,850	49,329	6,642	474,092
<b>ACCUMULATED AMORTISATION</b>					
As at 1 January 2009	121,854	66,760	15,854	–	204,468
Provided for the year	–	18,993	3,741	–	22,734
Eliminated on disposals	(2,524)	(14,365)	–	–	(16,889)
As at 31 December 2009	119,330	71,388	19,595	–	210,313
<b>ALLOWANCE FOR IMPAIRMENT LOSSES</b>					
As at 1 January 2009	1,526	–	–	–	1,526
Eliminated on disposals	(1,526)	–	–	–	(1,526)
As at 31 December 2009	–	–	–	–	–
<b>CARRYING VALUES</b>					
As at 31 December 2009	101,941	125,462	29,734	6,642	263,779
	<b>Trading rights RMB'000</b>	<b>Computer software RMB'000</b>	<b>Others RMB'000</b>	<b>Construction in progress RMB'000</b>	<b>Total RMB'000</b>
<b>COST</b>					
As at 1 January 2010	221,271	196,850	49,329	6,642	474,092
Additions during the year	1,568	59,714	161	4,715	66,158
Disposals during the year	(531)	(2,513)	–	–	(3,044)
Transfer during the year	–	4,882	–	(4,882)	–
As at 31 December 2010	222,308	258,933	49,490	6,475	537,206
<b>ACCUMULATED AMORTISATION</b>					
As at 1 January 2010	119,330	71,388	19,595	–	210,313
Provided for the year	–	35,397	3,352	–	38,749
Eliminated on disposals	(500)	(1,085)	–	–	(1,585)
As at 31 December 2010	118,830	105,700	22,947	–	247,477
<b>CARRYING VALUES</b>					
As at 31 December 2010	103,478	153,233	26,543	6,475	289,729

**APPENDIX I**
**ACCOUNTANTS' REPORT**

	<b>Trading rights RMB'000</b>	<b>Computer software RMB'000</b>	<b>Others RMB'000</b>	<b>Construction in progress RMB'000</b>	<b>Total RMB'000</b>
<b>COST</b>					
As at 1 January 2011	222,308	258,933	49,490	6,475	537,206
Additions during the period	–	40,658	–	2,853	43,511
Disposals during the period	(962)	(6,810)	–	–	(7,772)
Transfer during the period	–	825	–	(825)	–
As at 30 June 2011	221,346	293,606	49,490	8,503	572,945
<b>ACCUMULATED AMORTISATION</b>					
As at 1 January 2011	118,830	105,700	22,947	–	247,477
Provided for the period	–	20,544	2,114	–	22,658
Eliminated on disposals	–	(3,069)	–	–	(3,069)
As at 30 June 2011	118,830	123,175	25,061	–	267,066
<b>CARRYING VALUES</b>					
As at 30 June 2011	102,516	170,431	24,429	8,503	305,879

**Company**

	<b>Trading rights RMB'000</b>	<b>Computer software RMB'000</b>	<b>Others RMB'000</b>	<b>Construction in progress RMB'000</b>	<b>Total RMB'000</b>
<b>COST</b>					
As at 1 January 2008	219,100	66,128	47,952	8,561	341,741
Additions during the year	–	13,099	–	2,386	15,485
Disposals during the year	–	(41)	(423)	–	(464)
Transfer during the year	–	9,491	–	(9,491)	–
As at 31 December 2008	219,100	88,677	47,529	1,456	356,762
<b>ACCUMULATED AMORTISATION</b>					
As at 1 January 2008	121,854	43,814	12,079	–	177,747
Provided for the year	–	12,482	3,579	–	16,061
Eliminated on disposals	–	(10)	(254)	–	(264)
As at 31 December 2008	121,854	56,286	15,404	–	193,544
<b>ALLOWANCE FOR IMPAIRMENT LOSSES</b>					
As at 1 January 2008 and 31 December 2008	1,526	–	–	–	1,526
<b>CARRYING VALUES</b>					
As at 31 December 2008	95,720	32,391	32,125	1,456	161,692

**APPENDIX I**
**ACCOUNTANTS' REPORT**

	<b>Trading rights RMB'000</b>	<b>Computer software RMB'000</b>	<b>Others RMB'000</b>	<b>Construction in progress RMB'000</b>	<b>Total RMB'000</b>
<b>COST</b>					
As at 1 January 2009	219,100	88,677	47,529	1,456	356,762
Additions during the year	1,300	6,737	–	8,744	16,781
Disposals during the year	(4,050)	(15,406)	–	–	(19,456)
Transfer during the year	–	3,558	–	(3,558)	–
As at 31 December 2009	216,350	83,566	47,529	6,642	354,087
<b>ACCUMULATED AMORTISATION</b>					
As at 1 January 2009	121,854	56,286	15,404	–	193,544
Provided for the year	–	14,747	3,560	–	18,307
Eliminated on disposals	(2,524)	(14,010)	–	–	(16,534)
As at 31 December 2009	119,330	57,023	18,964	–	195,317
<b>ALLOWANCE FOR IMPAIRMENT LOSSES</b>					
As at 1 January 2009	1,526	–	–	–	1,526
Eliminated on disposals	(1,526)	–	–	–	(1,526)
As at 31 December 2009	–	–	–	–	–
<b>CARRYING VALUES</b>					
As at 31 December 2009	97,020	26,543	28,565	6,642	158,770
	<b>Trading rights RMB'000</b>	<b>Computer software RMB'000</b>	<b>Others RMB'000</b>	<b>Construction in progress RMB'000</b>	<b>Total RMB'000</b>
<b>COST</b>					
As at 1 January 2010	216,350	83,566	47,529	6,642	354,087
Additions during the year	–	11,158	–	4,715	15,873
Disposals during the year	(500)	(562)	–	–	(1,062)
Transfer during the year	–	4,882	–	(4,882)	–
As at 31 December 2010	215,850	99,044	47,529	6,475	368,898
<b>ACCUMULATED AMORTISATION</b>					
As at 1 January 2010	119,330	57,023	18,964	–	195,317
Provided for the year	–	16,958	3,173	–	20,131
Eliminated on disposals	(500)	(542)	–	–	(1,042)
As at 31 December 2010	118,830	73,439	22,137	–	214,406
<b>CARRYING VALUES</b>					
As at 31 December 2010	97,020	25,605	25,392	6,475	154,492

	Trading rights <i>RMB'000</i>	Computer software <i>RMB'000</i>	Others <i>RMB'000</i>	Construction in progress <i>RMB'000</i>	Total <i>RMB'000</i>
<b>COST</b>					
As at 1 January 2011	215,850	99,044	47,529	6,475	368,898
Additions during the period	–	5,090	–	2,853	7,943
Disposals during the period	–	(179)	–	–	(179)
Transfer during the period	–	825	–	(825)	–
As at 30 June 2011	215,850	104,780	47,529	8,503	376,662
<b>ACCUMULATED AMORTISATION</b>					
As at 1 January 2011	118,830	73,439	22,137	–	214,406
Provided for the period	–	8,553	2,024	–	10,577
Eliminated on disposals	–	(166)	–	–	(166)
As at 30 June 2011	118,830	81,826	24,161	–	224,817
<b>CARRYING VALUES</b>					
As at 30 June 2011	97,020	22,954	23,368	8,503	151,845

Trading rights mainly comprise the trading rights in the Shanghai Stock Exchange, the Shenzhen Stock Exchange, the Hong Kong Stock Exchange and the Hong Kong Futures Exchange Limited which allow the Group to trade securities and futures contracts on or through these exchanges.

## 20. IMPAIRMENT TESTING ON GOODWILL AND TRADING RIGHTS WITH INDEFINITE USEFUL LIVES

### Impairment testing on goodwill

For the purpose of impairment testing, goodwill set out in Note 18 has been allocated to two individual cash generating units (CGUs), including one subsidiary in Shanghai ("Unit A") and one subsidiary in Hong Kong ("Unit B"). The carrying amounts of goodwill as at 31 December 2008, 31 December 2009, 31 December 2010 and 30 June 2011 allocated to these units are as follows:

	As at 31 December			As at 30 June 2011
	2008	2009	2010	2011
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Unit A – Haitong Futures Co., Ltd.	5,896	5,896	5,896	5,896
Unit B – Haitong International Securities Group Limited	–	691,160	667,964	652,806
	5,896	697,056	673,860	658,702

During the years ended 31 December 2008, 2009 and 2010 and the six months ended 30 June 2011, management of the Group determines that there are no impairments of any of its CGUs containing goodwill as the recoverable amounts of Unit A and Unit B exceed their respective carrying amounts.

The basis of the recoverable amounts of the above CGUs and their major underlying assumptions are summarised below:

The recoverable amounts of Unit A and Unit B have been determined on the basis of value in use calculation. That calculation uses cash flow projections based on financial budgets approved by management covering a 5-year period, and at a discount rate of 8% and 7%, for Unit A and Unit B, respectively, as at 31 December 2008, 2009, and 2010 and 30 June 2011. The discount rates used reflect specific risks relating to the relevant CGUs.

Other key assumptions for the value in use calculations relate to the estimation of cash inflows/outflows which include budgeted income and gross margin, such estimation is based on the units' past performance and management's expectations for the market development.

Management believes that any reasonably possible change in any of these assumptions would not cause the aggregate carrying amount of Unit A or Unit B to exceed their respective aggregate recoverable amount.

#### Impairment testing on trading rights with indefinite useful lives

The trading rights held by the Group are considered by the directors of the Company as having indefinite useful lives because they are expected to contribute net cash inflows indefinitely. The trading rights will not be amortised until their useful life is determined to be finite. Instead, they will be tested for impairment annually and whenever there is an indication that they may be impaired. The respective recoverable amounts of the two cash generating units relating to brokerage business whereby these trading rights are allocated to, using a value in use calculation, exceed the carrying amounts. Accordingly, there is no impairment of the trading rights as at 31 December 2008, 2009 and 2010 and 30 June 2011.

## 21. INVESTMENTS IN SUBSIDIARIES

### Company

	As at 31 December			As at 30 June
	2008	2009	2010	2011
	RMB'000	RMB'000	RMB'000	RMB'000
Unlisted shares, at cost	2,044,798	5,333,310	7,054,730	7,054,730
Less: Allowance for impairment losses	—	—	—	—
	<u>2,044,798</u>	<u>5,333,310</u>	<u>7,054,730</u>	<u>7,054,730</u>

As of each of the reporting period ends and at the date of this report, the Company has the following subsidiaries comprising the Group:

Name of subsidiary	Place of incorporation/ establishment	Equity interest held by the Group					Share capital/ registered and paid-up capital	Principal activities	Statutory auditor <sup>#</sup>
		As at 31 December 2008	2009	2010	As at 30 June 2011	As at date of this report			
海富通基金管理有限公司 HFT Investment Management Co., Ltd.* <sup>B</sup>	PRC	51%	51%	51%	51%	51%	RMB150,000,000	Provision of fund trading, distribution and management services	KPMG Huazhen
海富通資產管理(香港)有限公司 HFT Investment Management (HK) Limited <sup>T</sup>	Hong Kong	—	—	100%	100%	100%	HKD60,000,000	Provision of asset management services	KPMG HK

# APPENDIX I

# ACCOUNTANTS' REPORT

Name of subsidiary	Place of incorporation/ establishment	Equity interest held by the Group					Share capital/ registered and paid-up capital	Principal activities	Statutory auditor <sup>#</sup>
		As at 31 December 2008	2009	2010	As at 30 June 2011	As at date of this report			
海富產業投資基金管理 有限公司 Haitong-Fortis Private Equity Fund Management Co., Ltd.* <sup>β</sup>	PRC	67%	67%	67%	67%	67%	RMB20,000,000	Provision of advisory services and fund management services	Deloitte PRC
海通開元投資有限公司 Haitong Capital Investment Co., Ltd.* <sup>β</sup>	PRC	100%	100%	100%	100%	100%	RMB3,000,000,000 <sup>1</sup>	Provision of advisory services and proprietary trading	Shu Lun Pan
海通吉禾股權投資基金管理 有限責任公司 Haitong Jihe Private Equity Investment Fund Management Company Limited*	PRC	–	–	51%	51%	51%	RMB50,000,000	Provision of advisory services and investment management	Shu Lun Pan
海通國際控股有限公司 (原名海通(香港)金融控股 有限公司) Haitong International Holdings Limited <sup>β</sup> (Formerly known as Hai Tong (HK) Financial Holdings Limited)	Hong Kong	100%	100%	100%	100%	100%	HKD4,000,000,000	Investment holding	BDO
海通證券(香港)經紀有限公司 Hai Tong Securities (HK) Brokerage Limited	Hong Kong	100%	100%	100%	100%	100%	HKD300,000,000	Inactive	BDO
海通資產管理(香港)有限公司 Hai Tong Asset Management (HK) Limited <sup>∞</sup> (Formerly known as Hai Tong Assets Management (HK) Limited)	Hong Kong	100%	100%	100%	100%	100%	HKD20,000,000	Provision of fund management services	<i>Note 1</i>
海通融資(香港)有限公司 Hai Tong Capital (HK) Limited <sup>∞</sup>	Hong Kong	100%	100%	100%	100%	100%	HKD10,000,000	Provision of corporate advisory services	<i>Note 1</i>
海通證券(香港)有限公司 Hai Tong Securities (HK) Limited	Hong Kong	100%	100%	100%	100%	100%	HKD1	Inactive	<i>Note 2</i>
海通期貨(香港)有限公司 Hai Tong Futures (HK) Limited	Hong Kong	–	100%	100%	100%	100%	HKD1	Inactive	<i>Note 2</i>
海通研究(香港)有限公司 Hai Tong Research (HK) Limited	Hong Kong	–	100%	100%	100%	100%	HKD1	Inactive	<i>Note 2</i>
海通國際金融控股有限公司 Haitong International Financial Holdings Company Limited	Hong Kong	–	–	100%	100%	100%	HKD1	Inactive	<i>Note 2</i>
上海海通開元投資諮詢 有限公司 Shanghai Haitong Open Trillion Investment Consulting Company Limited*	PRC	–	100%	100%	100%	100%	RMB10,000,000	Provision of advisory services	滬江誠信會計師事務 所有限公司, certified public accountants registered in the PRC

# APPENDIX I

# ACCOUNTANTS' REPORT

Name of subsidiary	Place of incorporation/ establishment	Equity interest held by the Group					Share capital/ registered and paid-up capital	Principal activities	Statutory auditor <sup>#</sup>
		As at 31 December 2008	2009	2010	As at 30 June 2011	As at date of this report			
深圳海通開兆投資諮詢有限公司 Shenzhen Haitong Open Trillion Investment Consulting Company Limited*	PRC	–	–	100%	100%	100%	RMB10,000,000	Provision of advisory services	深圳巨源至合會計師 事務所, certified public accountants registered in the PRC
Haitong PE Investment Management Ltd. <sup>Ω</sup> (Formerly known as Haitong Drilex Investment Management Ltd.)	Cayman Islands	–	100%	100%	100%	100%	USD10	Investment management	<i>Note 3</i>
易寶環球服務有限公司 Epro Global Services Limited <sup>Ω</sup>	Hong Kong	–	–	60%	60%	60%	HKD5,000,000	Provision of call centre services	Counselors CPA Limited, certified public accountants registered in Hong Kong
海通國際移民顧問有限公司 (原名大福歷斯頓移民顧問 有限公司) Haitong International Immigration Consultants Limited (Formerly known as Taifook Lexton Immigration Consultants Limited) <sup>Ω</sup>	Hong Kong	–	–	60%	60%	60%	HKD100,000	Provision of immigration consultancy services	Leslie Cheng & Co., certified public accountants registered in Hong Kong
海通期貨有限公司 Haitong Futures Co., Ltd.* <sup>β</sup>	PRC	64%	93.334%	93.334%	93.334%	66.67%	RMB500,000,000 <sup>2</sup>	Physical commodities and futures contracts broking and dealing	Zhonghua Certified Public Accountants, certified public accountants registered in the PRC
海通國際證券集團有限公司 (原名大福證券集團有限公司) Haitong International Securities Group Limited <sup>α</sup> (Formerly known as Taifook Securities Group Limited)	Bermuda	–	57.3%	60.59%	60.93%	69.74%	HKD71,503,300 <sup>3</sup>	Investment holding	PWC
創富會有限公司 E-wealth Club Limited <sup>Ω</sup>	Hong Kong	–	100%	100%	100%	100%	HKD1,000,000	Club association	PWC
Grand Fortune Company Limited <sup>Ω</sup>	Cayman Islands	–	–	100%	100%	100%	HKD1	Investment	<i>Note 3</i>
海通國際資產管理有限公司 (原名大福資產管理有限公司) Haitong International Asset Management Limited <sup>Ω</sup> (Formerly known as Taifook Asset Management Limited)	Hong Kong	–	100%	100%	100%	100%	HKD13,000,000	Investment holding and asset management	PWC
海通國際資產管理代理人 有限公司 (原名大福資產管理代理人有 限公司) Haitong International Asset Management Nominees Limited <sup>Ω</sup> (Formerly known as Taifook Asset Management Nominees Limited)	Hong Kong	–	100%	100%	100%	100%	HKD6,000,000	Proprietary trading	PWC

# APPENDIX I

# ACCOUNTANTS' REPORT

Name of subsidiary	Place of incorporation/ establishment	Equity interest held by the Group					Share capital/ registered and paid-up capital	Principal activities	Statutory auditor <sup>#</sup>
		As at 31 December 2008	2009	2010	As at 30 June 2011	As at date of this report			
海通國際金業有限公司 (原名大福金業有限公司) Haitong International Bullion Limited <sup>Ω</sup> (Formerly known as Taifook Bullion Limited)	Hong Kong	–	100%	100%	100%	100%	HKD7,000,000	Bullion contracts dealing and trading	PWC
Haitong International (BVI) Limited <sup>Ω</sup> (Formerly Taifook (BVI) Limited)	British Virgin Islands	–	100%	100%	100%	100%	HKD11,576	Investment holding	PWC
海通國際資本有限公司 (原名大福融資有限公司) Haitong International Capital Limited <sup>Ω</sup> (Formerly known as Taifook Capital Limited)	Hong Kong	–	100%	100%	100%	100%	HKD20,000,000	Provision of corporate advisory services	PWC
Haitong International Capital Management Limited <sup>Ω</sup> (原名 Taifook Capital Management Limited and 大福基金經理有限公司) (Formerly known as Taifook Capital Management Limited and Tai Fook Fund Managers Limited)	British Virgin Islands	–	100%	100%	100%	100%	USD1	Investment holding	Note 3
海通國際顧問有限公司 (原名大福歷斯頓顧問 有限公司) Haitong International Consultants Limited <sup>Ω</sup> (Formerly known as Taifook Lexton Consultants Limited)	Hong Kong	–	60%	60%	60%	60%	HKD5,000,000	Provision of financial advisory services	Leslie Cheng & Co., certified public accountants registered in Hong Kong
Haitong International E-wealth Club Inc. <sup>Ω</sup> (Formerly known as Taifook E-wealth Club Inc.)	British Virgin Islands	–	100%	100%	100%	100%	USD1	Investment holding	Note 3
海通國際財務有限公司 (原名大福財務有限公司) Haitong International Finance Company Limited <sup>Ω</sup> (Formerly known as Taifook Finance Company Limited)	Hong Kong	–	100%	100%	100%	100%	HKD300,000,002 (Non-voting deferred HKD100,700,001)	Investment holding, money lending and securities trading	PWC
海通國際創富理財顧問(澳門) 有限公司 (原名大福歷斯頓創富理財顧 問(澳門)有限公司) Haitong International Financial Management Consultancy (Macau) Limited <sup>Ω</sup> (Formerly known as Taifook Lexton Wealth Management Consultants (Macau) Limited)	Macau	–	75%	99%	99%	99%	MOP500,000	Provision of support services	Leong Kam Chun & Co., certified public accountants registered in Macau
海通國際期貨有限公司 (原名大福期貨有限公司) Haitong International Futures Limited <sup>Ω</sup> (Formerly known as Taifook Futures Limited)	Hong Kong	–	100%	100%	100%	100%	HKD50,000,000 <sup>4</sup>	Futures and options broking and trading	PWC

# APPENDIX I

# ACCOUNTANTS' REPORT

Name of subsidiary	Place of incorporation/ establishment	Equity interest held by the Group					Share capital/ registered and paid-up capital	Principal activities	Statutory auditor <sup>#</sup>
		As at 31 December 2008	2009	2010	As at 30 June 2011	As at date of this report			
Haitong International Information Systems Inc. <sup>Ω</sup> (Formerly known as Taifook Information Systems Inc.)	British Virgin Islands	–	100%	100%	100%	100%	USD1	Investment holding	<i>Note 3</i>
海通國際資訊系統有限公司 (原名大福資訊系統有限公司) Haitong International Information Systems Limited <sup>Ω</sup> (Formerly known as Taifook Information Systems Limited)	Hong Kong	–	100%	100%	100%	100%	HKD11,000,000	Provision of information technology solutions	PWC
Haitong International Information Technology Inc. <sup>Ω</sup> (Formerly known as Taifook Information Technology Inc.)	British Virgin Islands	–	100%	100%	100%	100%	USD1	Investment holding	<i>Note 3</i>
Haitong International Investment Management Inc. <sup>Ω</sup> (Formerly known as Taifook Investment Management Inc.)	British Virgin Islands	–	100%	100%	100%	100%	USD1	Investment holding	<i>Note 3</i>
海通國際投資經理有限公司 (原名大福投資經理有限公司) Haitong International Investment Managers Limited <sup>Ω</sup> (Formerly known as Taifook Investment Managers Limited)	Hong Kong	–	100%	100%	100%	100%	HKD47,000,000	Provision of asset and fund management services	PWC
海通國際投資服務有限公司 (原名大福投資服務有限公司) Haitong International Investment Services Limited <sup>Ω</sup> (Formerly known as Taifook Investment Services Limited)	Hong Kong	–	100%	100%	100%	100%	HKD42,500,000	Securities broking and dealing	PWC
海通國際企業管理顧問有限公司 (原名大福企業管理顧問有限公司) Haitong International Management Consultancy Limited <sup>Ω</sup> (Formerly known as Taifook Management Consultancy Limited)	Hong Kong	–	100%	100%	100%	100%	HKD2	Provision of consultancy services	PWC
海通國際管理服務有限公司 (原名大福管理服務有限公司) Haitong International Management Services Company Limited <sup>Ω</sup> (Formerly known as Taifook Management Services Company Limited)	Hong Kong	–	100%	100%	100%	100%	HKD2	Provision of management services	PWC
Haitong International Net Inc. <sup>Ω</sup> (Formerly known as Taifook Net Inc.)	British Virgin Islands	–	100%	100%	100%	100%	USD1	Investment holding	<i>Note 3</i>

# APPENDIX I

# ACCOUNTANTS' REPORT

Name of subsidiary	Place of incorporation/ establishment	Equity interest held by the Group					Share capital/ registered and paid-up capital	Principal activities	Statutory auditor <sup>#</sup>
		As at 31 December 2008	2009	2010	As at 30 June 2011	As at date of this report			
海通國際網有限公司 (原名大福網有限公司) Haitong International Net Limited <sup>Ω</sup> (Formerly known as Taifook Net Limited)	Hong Kong	–	100%	100%	100%	100%	HKD1,000,000	Inactive	PWC
海通國際代理人有限公司 (原名大福代理人有限公司) Haitong International Nominees Company Limited <sup>Ω</sup> (Formerly known as Taifook Nominees Company Limited)	Hong Kong	–	100%	100%	100%	100%	HKD50,000,000	Securities trading	PWC
Haitong International On-line Inc. <sup>Ω</sup> (Formerly known as Taifook On-line Inc.)	British Virgin Islands	–	100%	100%	100%	100%	USD1	Investment holding	Note 3
海通國際電子網上服務 有限公司 (原名大福電子網上服務有限 公司) Haitong International On-line Services Limited <sup>Ω</sup> (Formerly known as Taifook On-line Services Limited)	Hong Kong	–	100%	100%	100%	100%	HKD6,000,000	Provision of electronic financial services	PWC
海通國際研究有限公司 (原名海通國際資料研究 有限公司及大福資料研究 有限公司) Haitong International Research Limited <sup>Ω</sup> (Formerly known as Taifook Research Limited)	Hong Kong	–	100%	100%	100%	100%	HKD1,000,000	Provision of research services	PWC
海通國際證券有限公司 (原名大福證券有限公司) Haitong International Securities Company Limited <sup>Ω</sup> (Formerly known as Taifook Securities Company Limited)	Hong Kong	–	100%	100%	100%	100%	HKD600,000,000 <sup>5</sup>	Securities broking and dealing and leverage foreign exchange trading	PWC
海通國際證券代理人有限公司 (原名大福證券代理人 有限公司) Haitong International Securities Nominees Limited <sup>Ω</sup> (Formerly known as Taifook Securities Nominees Limited)	Hong Kong	–	100%	100%	100%	100%	HKD2	Provision of nominee and custodian services	PWC
海通國際創富理財集團 有限公司 (原名大福創富理財集團 有限公司) Haitong International Wealth Management Group Limited <sup>Ω</sup> (Formerly known as Taifook Wealth Management Group Limited)	Hong Kong	–	100%	100%	100%	100%	HKD3,500,000	Provision of financial planning services	PWC

# APPENDIX I

# ACCOUNTANTS' REPORT

Name of subsidiary	Place of incorporation/ establishment	Equity interest held by the Group					Share capital/ registered and paid-up capital	Principal activities	Statutory auditor <sup>#</sup>
		As at 31 December 2008	2009	2010	As at 30 June 2011	As at date of this report			
海通大福投資諮詢(深圳)有限公司 Haitong Taifook Investment Consultancy (Shenzhen) Company Limited <sup>*Ω</sup>	PRC	–	–	–	–	100%	HKD2,000,000	Provision of investment consultancy services	深圳永信瑞和會計師事務所, certified public accountants registered in the PRC
海通國際創富理財有限公司 (原名大福歷斯頓創富理財有限公司) Haitong International Wealth Management Limited <sup>Ω</sup> (Formerly known as Taifook Lexton Wealth Management Limited)	Hong Kong	–	60%	60%	60%	60%	HKD1,240,000	Provision of financial planning services and financial and insurance products brokerage	Leslie Cheng & Co., certified public accountants registered in Hong Kong
IB Capital Management Limited <sup>Ω</sup>	Cayman Islands	–	–	100%	100%	100%	USD50,000	Investment	Note 3
演天資訊科技有限公司 iT Technology Company Limited <sup>Ω</sup>	Hong Kong	–	100%	100%	100%	100%	HKD2	Investment holding	PWC
iT Technology Holdings Inc. <sup>Ω</sup>	British Virgin Islands	–	100%	100%	100%	100%	USD1	Investment holding	Note 3
演天資訊科技(深圳)有限公司 iT Technology (Shenzhen) Company Limited <sup>*Ω</sup>	PRC	–	100%	100%	100%	100%	HKD10,000,000	Provision of software development services	深圳永信瑞和會計師事務所, certified public accountants registered in the PRC
Ocean Pilot Investments Limited <sup>Ω</sup>	British Virgin Islands	–	100%	100%	100%	100%	USD1	Investment holding	Note 3
意盛有限公司 Prosper Ideal Limited <sup>Ω</sup>	Hong Kong	–	100%	100%	100%	100%	HKD2	Investment holding	PWC
大福投資諮詢顧問(廣州)有限公司 Taifook Investment Consultancy (Guangzhou) Company Limited <sup>*Ω</sup>	PRC	–	100%	100%	100%	100%	HKD2,000,000	Provision of investment consultancy services	廣州正粵會計師事務所, certified public accountants registered in the PRC
大福投資諮詢顧問(上海)有限公司 Taifook Investment Consultancy (Shanghai) Company Limited <sup>*Ω</sup>	PRC	–	100%	100%	100%	100%	USD700,000	Provision of investment consultancy services	上海立達聯合會計師事務所, certified public accountants registered in the PRC
海富創新資本管理有限公司 Haitong Chuangxin Capital Management Company Limited <sup>*</sup>	PRC	–	–	–	51%	51%	RMB50,000,000	Provision of investment and asset management and investment consultancy services	Note 4
Haitong International Asset Management (Cayman) Limited <sup>Ω</sup>	Cayman Islands	–	–	100%	100%	100%	JPY10,000	Provision of fund management service	Note 3
易普電子商務(深圳)有限公司 Yi Pu Electronic Business (Shenzhen) Company Limited <sup>*Ω</sup>	PRC	–	–	100%	100%	100%	RMB3,000,000	Provision of system development service	Note 4

Name of subsidiary	Place of incorporation/ establishment	Equity interest held by the Group					Share capital/ registered and paid-up capital	Principal activities	Statutory auditor <sup>#</sup>
		As at 31 December			As at	As at			
		2008	2009	2010	30 June 2011	date of this report			
大福資產管理有限公司 Taifook Asset Management Limited <sup>Ω</sup>	Hong Kong	–	–	100%	100%	100%	HKD1	Inactive	PWC
大福金業有限公司 Taifook Bullion Limited <sup>Ω</sup>	Hong Kong	–	–	100%	100%	100%	HKD1	Inactive	<i>Note 2</i>
大福融資有限公司 Taifook Capital Limited <sup>Ω</sup>	Hong Kong	–	–	100%	100%	100%	HKD1	Inactive	<i>Note 2</i>
大福歷斯頓顧問有限公司 Taifook Lexton Consultants Limited <sup>Ω</sup>	Hong Kong	–	–	100%	100%	100%	HKD1	Inactive	<i>Note 2</i>
大福期貨有限公司 Taifook Futures Limited <sup>Ω</sup>	Hong Kong	–	–	100%	100%	100%	HKD1	Inactive	<i>Note 2</i>
大福投資經理有限公司 Taifook Investment Managers Limited <sup>Ω</sup>	Hong Kong	–	–	100%	100%	100%	HKD1	Inactive	<i>Note 2</i>
大福投資服務有限公司 Taifook Investment Services Limited <sup>Ω</sup>	Hong Kong	–	–	100%	100%	100%	HKD1	Inactive	<i>Note 2</i>
大福資料研究有限公司 Taifook Research Limited <sup>Ω</sup>	Hong Kong	–	–	100%	100%	100%	HKD1	Inactive	<i>Note 2</i>
大福證券有限公司 Taifook Securities Company Limited <sup>Ω</sup>	Hong Kong	–	–	100%	100%	100%	HKD1	Inactive	<i>Note 2</i>
大福證券集團有限公司 Taifook Securities Group Limited <sup>Ω</sup>	Hong Kong	–	–	100%	100%	100%	HKD1	Inactive	PWC
大福歷斯頓創富理財有限公司 Taifook Lexton Wealth Management Limited <sup>Ω</sup>	Hong Kong	–	–	100%	100%	100%	HKD1	Inactive	<i>Note 2</i>

\* English translated name is for identification only.

β The subsidiary is directly held by the Company.

α The subsidiary's shares are listed on the Main Board of the Hong Kong Stock Exchange.

π The equity interest in the subsidiary represents the equity interest held directly by HFT Investment Management Company Limited.

∞ The equity interest in the subsidiary was held directly or indirectly by Haitong International Holdings Limited as at 31 December 2008 and 2009 and is subsequently held indirectly by Haitong International Securities Group Limited as at 31 December 2010, 30 June 2011 and at the date of this report.

Ω The equity interest in the subsidiary represents the equity interest held directly or indirectly by Haitong International Securities Group Limited.

# Statutory auditor of respective subsidiary of the Group are as follows:

- BDO represents BDO Limited, certified public accountants registered in Hong Kong;
- Deloitte PRC represents Deloitte Touche Tohmatsu CPA Ltd. (德勤華永會計師事務所有限公司), certified public accountants registered in the PRC;
- KPMG HK represents KPMG in Hong Kong, certified public accountants registered in Hong Kong;
- KPMG Huazhen represents KPMG Huazhen, certified public accountants registered in the PRC;
- PWC represents PricewaterhouseCoopers, certified public accountants registered in Hong Kong; and
- Shu Lun Pan represents Shu Lun Pan Certified Public Accountants Co., Ltd. (立信會計事務有限公司), certified public accountants registered in the PRC.

<sup>1</sup> The paid-up capital of the subsidiary has increased to RMB4,000,000,000 as at date of this report.

<sup>2</sup> The paid-up capital of the subsidiary has increased to RMB1,000,000,000 as at date of this report.

<sup>3</sup> The paid-up capital of the subsidiary has increased to HKD91,534,271 as at date of this report.

<sup>4</sup> The paid-up capital of the subsidiary has increased to HKD100,000,000 as at date of this report.

<sup>5</sup> The paid-up capital of the subsidiary has increased to HKD1,500,000,000 as at date of this report.

*Note 1* The subsidiary was audited by BDO for the year ended 31 December 2009 and was audited by PWC for the year ended 31 December 2010.

*Note 2* No audited financial statements were issued during the Relevant Periods for the subsidiary since the subsidiary was inactive since its incorporation.

*Note 3* There was no statutory audit requirement for the subsidiary and accordingly no audited financial statements were issued during the Relevant Periods.

*Note 4* The subsidiary was newly incorporated during the Relevant Periods and no statutory audit has been performed since its establishment and up to the date of the report.

## 22. INVESTMENTS IN ASSOCIATES

### Group

	As at 31 December			As at
	2008	2009	2010	30 June
	RMB'000	RMB'000	RMB'000	2011
				RMB'000
Cost of unlisted investments in associates	92,907	103,749	394,207	764,207
Share of post-acquisition profits and other comprehensive income, net of dividends received	99,511	111,998	149,074	127,920
	<u>192,418</u>	<u>215,747</u>	<u>543,281</u>	<u>892,127</u>

## Company

	As at 31 December			As at
	2008	2009	2010	30 June
	RMB'000	RMB'000	RMB'000	2011
				RMB'000
Cost of unlisted investments in associates	92,907	92,907	92,907	92,907

As of each of the reporting period ends, the Group has the following associates:

Name of associates	Place of incorporation/ establishment	Equity interest held by the Group				Principal activities
		As at 31 December		2010	As at 30 June 2011	
		2008	2009			
富國基金管理有限公司 Fullgoal Fund Management Co. Ltd.*	PRC	27.78%	27.78%	27.78%	27.78%	Provision of fund trading distribution services
海富金匯(天津)資本管理企業 (有限合夥) HFT Jinhui (Tianjin) Capital Management Enterprise (Limited Partnership)**	PRC	—	65.00%	65.00%	65.00%	Investing in securities
吉林省現代農業和新興產業投資 基金有限公司 Jilin Modern Agricultural and Emerging Markets Investment Fund Limited**	PRC	—	—	37.50%	37.50%	Investing in securities
西安航天新能源產業投資有限公司 Xi'an Aerospace and New Energy Industry Fund* <sup>β</sup>	PRC	—	—	—	37.00%	Investing in securities
招商大福資產管理有限公司 CMTF Asset Management Limited <sup>#</sup>	Hong Kong	—	49.00%	—	—	Asset management

\* English translated name is for identification only.

^ Pursuant to the partnership agreement, the Group is a limited partner of the partnership and therefore the Group does not control HFT Jinhui (Tianjin) Capital Management Enterprise (Limited Partnership) (海富金匯(天津)資本管理企業(有限合夥)). The directors of the Company consider that the Group does exercise significant influence over HFT Jinhui (Tianjin) Capital Management Enterprise (Limited Partnership) (海富金匯(天津)資本管理企業(有限合夥)) through the Group's participation in its operating and financing activities and it is therefore classified as an associate of the Group.

@ The associate was established in 2010 and the Group made capital injection of RMB300,000,000 on its establishment.

<sup>β</sup> The associate was established in 2011 and the Group made capital injection of RMB370,000,000 on its establishment.

# The associate was acquired through the acquisition of Haitong International Securities Group Limited in December 2009 and was disposed of at a cash consideration of HKD15,680,000 (equivalent to RMB13,806,000) in January 2010. The gain arising from the disposal of HKD4,843,000 (equivalent to RMB4,121,000) was recognised as other income during the year ended 31 December 2010 accordingly.

## ACCOUNTANTS' REPORT

Group

	As at 31 December			As at 30 June
	2008	2009	2010	2011
	RMB'000	RMB'000	RMB'000	RMB'000
Total assets	791,943	868,760	1,833,714	2,768,634
Total liabilities	<u>(158,719)</u>	<u>(158,031)</u>	<u>(197,434)</u>	<u>(198,781)</u>
Net assets	<u>633,224</u>	<u>710,729</u>	<u>1,636,280</u>	<u>2,569,853</u>
Group's share of net assets of associates	<u>175,878</u>	<u>202,215</u>	<u>532,755</u>	<u>883,105</u>

	Year ended 31 December			Six months ended 30 June	
	2008	2009	2010	2010	2011
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(unaudited)	
Income for the year/period	<u>858,033</u>	<u>796,279</u>	<u>877,477</u>	<u>423,962</u>	<u>434,269</u>
Total profit for the year/period	<u>309,220</u>	<u>251,644</u>	<u>292,802</u>	<u>148,087</u>	<u>132,691</u>
Other comprehensive (expense) income for the year/period	<u>(28,784)</u>	<u>7,475</u>	<u>5,223</u>	<u>(9,049)</u>	<u>(11,547)</u>
Group's share of profits and other comprehensive income of associates for the year/period	<u>89,522</u>	<u>68,038</u>	<u>79,570</u>	<u>37,115</u>	<u>30,841</u>

## 23. HELD-TO-MATURITY FINANCIAL ASSETS

## Group

	As at 31 December			As at
	2008	2009	2010	30 June
	RMB'000	RMB'000	RMB'000	2011
				RMB'000
Unlisted debt securities:				
Government bond	997,286	—	—	—
Corporate bond	12,561	—	—	—
	<u>1,009,847</u>	<u>—</u>	<u>—</u>	<u>—</u>
Analysed for reporting purposes as:				
Current assets	997,286	—	—	—
Non-current assets	12,561	—	—	—
	<u>1,009,847</u>	<u>—</u>	<u>—</u>	<u>—</u>

## Company

	As at 31 December			As at
	2008	2009	2010	30 June
	RMB'000	RMB'000	RMB'000	2011
				RMB'000
Unlisted debt securities				
Government bond – current	997,286	—	—	—
	<u>997,286</u>	<u>—</u>	<u>—</u>	<u>—</u>

These represent the Group's investments in a bond issued by the PRC government carried at zero coupon rate (the "PRC government bond") with an effective interest rate of 3.36% and by a corporate entity carried at 5.75% coupon rate (the "Corporate bond"). The PRC government bond was matured in January 2009. The Corporate bond, with a maturity date in July 2012, was disposed of in 2009 so as to generate cash for acquisition of Haitong International Securities Group Limited (note 53).

The PRC government bond was classified as current with a maturity date falling within one year from 31 December 2008, and the Corporate bond with the maturity date more than one year from 31 December 2008 was classified as non-current.

## 24. AVAILABLE-FOR-SALE INVESTMENTS

## Group

	As at 31 December			As at 30 June
	2008	2009	2010	2011
	RMB'000	RMB'000	RMB'000	RMB'000
Debt securities	–	110,938	278,522	220,043
Equity securities	1,069,078	6,049,354	5,735,718	7,370,317
Funds	164,349	488,213	924,017	636,371
	<u>1,233,427</u>	<u>6,648,505</u>	<u>6,938,257</u>	<u>8,226,731</u>
Analysed as:				
Listed in Hong Kong	–	21,992	16,501	119,656
Listed outside Hong Kong (primary in the PRC)	970,706	5,670,210	4,912,892	5,724,953
Unlisted	262,721	956,303	2,008,864	2,382,122
	<u>1,233,427</u>	<u>6,648,505</u>	<u>6,938,257</u>	<u>8,226,731</u>
Analysed as:				
Listed equity securities	961,232	5,642,236	4,845,408	5,780,958
Unlisted equity securities	107,846	407,118	890,310	1,589,359
	<u>1,069,078</u>	<u>6,049,354</u>	<u>5,735,718</u>	<u>7,370,317</u>
Analysed for reporting purpose as:				
Current assets	1,007,795	5,778,403	5,060,788	6,293,039
Non-current assets	225,632	870,102	1,877,469	1,933,692
	<u>1,233,427</u>	<u>6,648,505</u>	<u>6,938,257</u>	<u>8,226,731</u>

## Company

	As at 31 December			As at 30 June
	2008	2009	2010	2011
	RMB'000	RMB'000	RMB'000	RMB'000
Debt securities	–	110,938	270,472	211,993
Equity securities	1,067,678	5,704,696	4,741,075	5,573,268
Funds	117,786	191,834	222,160	252,698
	<u>1,185,464</u>	<u>6,007,468</u>	<u>5,233,707</u>	<u>6,037,959</u>
Analysed as:				
Listed outside Hong Kong (primarily in the PRC)	970,706	5,659,675	4,726,950	5,538,808
Unlisted	<u>214,758</u>	<u>347,793</u>	<u>506,757</u>	<u>499,151</u>
	<u>1,185,464</u>	<u>6,007,468</u>	<u>5,233,707</u>	<u>6,037,959</u>
Analysed as:				
Listed equity securities	961,232	5,606,185	4,642,964	5,475,157
Unlisted equity securities	<u>106,446</u>	<u>98,511</u>	<u>98,111</u>	<u>98,111</u>
	<u>1,067,678</u>	<u>5,704,696</u>	<u>4,741,075</u>	<u>5,573,268</u>
Analysed for reporting purpose as:				
Current assets	961,232	5,717,123	4,913,712	5,687,149
Non-current assets	<u>224,232</u>	<u>290,345</u>	<u>319,995</u>	<u>350,810</u>
	<u>1,185,464</u>	<u>6,007,468</u>	<u>5,233,707</u>	<u>6,037,959</u>

The equity interest in unlisted securities held by the Group and the Company are issued by private companies (including companies in (among others) banking, manufacturing, property development and utilities sectors). As the reasonable range of fair value estimation is so significant that the directors of the Company are of the opinion that the fair value cannot be measured reliably, the value of the securities is measured at cost less the impairment at the reporting date.

Included in the Group's listed equity securities of approximately RMB194,265,000, RMB4,155,143,000, RMB1,270,717,000, and RMB1,146,762,000 as at 31 December 2008, 2009 and 2010 and 30 June 2011, respectively, are restricted shares listed in the PRC with a legally enforceable restriction on these securities that prevents the Group to dispose of within the specified period. The fair values of these securities have taken into account the relevant features including the restrictions.

Included in the Company's listed equity securities of approximately RMB194,265,000, RMB4,141,084,000, RMB1,096,002,000, and RMB960,777,000 as at 31 December 2008, 2009 and 2010 and 30 June 2011, respectively, are restricted shares listed in the PRC with a legally enforceable restriction on these securities that prevents the Company to dispose of within the specified period. The fair values of these securities have taken into account the relevant features including the restrictions.

In the opinion of the directors of the Company, non-current available-for sale investments are expected to be realised or restricted for sale beyond one year from the end of the respective reporting periods.

The fair value of the Group and the Company's investments in unlisted funds, which mainly invest in publicly traded equities listed in Hong Kong and the PRC, are valued based on the net asset values of the funds calculated by the respective fund managers by reference to their underlying assets and liabilities' fair values.

The fair value of the Group and the Company's investments in equity securities without restriction, exchange-traded funds and debt securities are determined with reference to their quoted prices as at reporting date.

As at 31 December 2010 and 30 June 2011, the Company has entered into securities lending arrangement with clients that resulted in the transfer of available-for-sale investments with total fair value of RMB275,000 and RMB131,449,000 to external clients, respectively, which did not result in derecognition of the financial assets. RMB109,915,000 and RMB544,239,000 cash collateral was received from clients for securities lending arrangement and margin financing activities carried out in the PRC, and reported under accounts payable to brokerage clients (note 37). There was no such arrangement as at 31 December 2008 and 2009.

## 25. OTHER ASSETS

### Group

	As at 31 December			As at 30 June
	2008	2009	2010	2011
	RMB'000	RMB'000	RMB'000	RMB'000
Foreclosed assets	6,500	6,500	6,500	6,500
Deposits with the Hong Kong Stock Exchange	524	1,277	1,489	1,356
Contributions to reserve funds of				
– HKFE Clearing Corporation Limited	1,755	5,668	13,999	34,116
– The SEHK Options Clearing House Limited	–	10,840	21,037	40,789
Deposits for trading rights	35,904	40,396	45,897	47,898
Other bond investments ( <i>note</i> )	226,070	–	–	–
Prepaid lease payments	18,525	18,022	17,519	17,267
Others	88	1,992	1,576	1,647
	<u>289,366</u>	<u>84,695</u>	<u>108,017</u>	<u>149,573</u>

*Note:* These bonds carried zero coupon interest rate and were held with an intention to redeem upon the maturity dates from March 2009 to May 2012. Bond investments with maturity date more than one year from 31 December 2008 were classified as non-current whereas those with maturity date within one year is grouped in other receivables and prepayments under current assets. All the investments were disposed of in 2009 to generate cash for the acquisition of Haitong International Securities Group Limited (note 53).

### Company

	As at 31 December			As at 30 June
	2008	2009	2010	2011
	RMB'000	RMB'000	RMB'000	RMB'000
Foreclosed assets	6,500	6,500	6,500	6,500
Deposits for trading rights	35,896	40,396	45,897	47,898
Prepaid lease payments	18,525	18,022	17,519	17,267
	<u>60,921</u>	<u>64,918</u>	<u>69,916</u>	<u>71,665</u>

## 26. ADVANCES TO CUSTOMERS

**Group**

	As at 31 December			As at 30 June
	2008	2009	2010	2011
	RMB'000	RMB'000	RMB'000	RMB'000
Loans to margin clients	29,734	2,034,977	5,814,456	6,529,170
Less: Allowance for doubtful debts	—	—	—	—
	<u>29,734</u>	<u>2,034,977</u>	<u>5,814,456</u>	<u>6,529,170</u>

**Company**

	As at 31 December			As at 30 June
	2008	2009	2010	2011
	RMB'000	RMB'000	RMB'000	RMB'000
Loans to margin clients	—	—	2,091,136	2,640,042
Less: Allowance for doubtful debts	—	—	—	—
	<u>—</u>	<u>—</u>	<u>2,091,136</u>	<u>2,640,042</u>

The credit facility limits to margin clients are determined by the discounted market value of the collateral securities accepted by the Group and the Company.

The majority of the loans to margin clients which are secured by the underlying pledged securities are interest bearing. 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 which the customers have to make good of the shortfall.

Advances to customers as at 31 December 2008, 2009 and 2010 and 30 June 2011 were secured by the customers' securities to the Group as collateral with undiscounted market value of approximately RMB102,978,000, RMB14,630,936,000, RMB24,775,053,000 and RMB26,324,496,000, respectively.

Advances to customers as at 31 December 2010 and 30 June 2011 were secured by the customers' securities to the Company as collateral with undiscounted market value of approximately RMB6,914,883,000 and RMB8,961,935,000, respectively.

No ageing analysis is disclosed as in the opinion of the directors, the ageing analysis does not give additional value in view of the nature of business of securities margin financing.

The Group determines the allowance for impaired debts based on the evaluation of collectability and ageing analysis of accounts and on management's judgement including the assessment of change in credit quality, collateral and the past collection history of each client. There is no impaired debt for the years ended 31 December 2008, 2009 and 2010 and the six months ended 30 June 2011. The concentration of credit risk is limited due to the customer base being large and unrelated.

## 27. ACCOUNTS RECEIVABLE

## Group

	As at 31 December			As at
	2008	2009	2010	30 June
	RMB'000	RMB'000	RMB'000	2011
				RMB'000
Accounts receivable from:				
– Cash clients	170	52,281	44,118	27,197
– Brokers, dealers and clearing house	9,608	494,479	742,431	1,227,769
– Advisory and financial planning	–	4,012	4,344	–
– Asset and fund management	60,940	102,108	160,359	177,892
– Others	11,373	24,197	28,969	25,421
	<u>82,091</u>	<u>677,077</u>	<u>980,221</u>	<u>1,458,279</u>

There are no impaired accounts receivable for the years ended 31 December 2008, 2009 and 2010 and the six months ended 30 June 2011. Ageing analysis of accounts receivable from the trade date is as follows:

	As at 31 December			As at
	2008	2009	2010	30 June
	RMB'000	RMB'000	RMB'000	2011
				RMB'000
Between 0 and 3 months	9,955	557,491	823,320	1,401,959
Between 4 and 6 months	66,664	111,656	115,153	51,276
Between 7 and 12 months	–	2,485	1,214	2,444
Over 1 year	5,472	5,445	40,534	2,600
	<u>82,091</u>	<u>677,077</u>	<u>980,221</u>	<u>1,458,279</u>

The normal settlement terms of accounts receivable from clients and brokers, dealers and clearing houses are within two days after trade date. Trading limits are set for clients. The Group seeks to maintain tight control over its outstanding accounts receivable in order to minimise credit risk. Overdue balances are regularly monitored by management.

## 28. OTHER RECEIVABLES AND PREPAYMENTS

## Group

	As at 31 December			As at 30 June
	2008	2009	2010	2011
	RMB'000	RMB'000	RMB'000	RMB'000
Interest receivable	206,034	145,661	217,241	376,160
Dividend receivable	–	11	4,532	5,266
Expenses for underwriting business to be settled by clients	12,810	13,361	221	1,268
Other receivables and prepayments	634,531	760,764	788,115	851,601
Other bond investment ( <i>note 25</i> )	85,410	–	–	–
Deposit for investments subscription	–	–	–	372,800
	<u>938,785</u>	<u>919,797</u>	<u>1,010,109</u>	<u>1,607,095</u>
Less: allowance for doubtful debts on other receivables	<u>(556,366)</u>	<u>(561,290)</u>	<u>(562,612)</u>	<u>(562,638)</u>
	<u>382,419</u>	<u>358,507</u>	<u>447,497</u>	<u>1,044,457</u>

## Company

	As at 31 December			As at 30 June
	2008	2009	2010	2011
	RMB'000	RMB'000	RMB'000	RMB'000
Interest receivable	196,885	141,167	187,104	337,447
Dividend receivable	–	–	–	75,266
Expenses for underwriting business to be settled by clients	12,810	13,361	221	1,268
Other receivables and prepayments	627,704	630,703	670,992	721,860
Deposit for investments subscription	–	–	–	372,800
	<u>837,399</u>	<u>785,231</u>	<u>858,317</u>	<u>1,508,641</u>
Less: allowance for doubtful debts on other receivables	<u>(556,366)</u>	<u>(561,290)</u>	<u>(562,612)</u>	<u>(562,638)</u>
	<u>281,033</u>	<u>223,941</u>	<u>295,705</u>	<u>946,003</u>

Movements in the allowance for doubtful debts are as follows:

**Group and Company**

	As at 31 December			As at
	2008	2009	2010	30 June
	RMB'000	RMB'000	RMB'000	2011
				RMB'000
At beginning of the year/period	560,803	556,366	561,290	562,612
Reversal of impairment allowance	(15,290)	(1,560)	(3,773)	(978)
Recoveries of other receivables previously written off	16,958	6,591	5,095	1,004
Amounts written off during the year/period	(6,105)	(107)	—	—
At end of the year/period	<u>556,366</u>	<u>561,290</u>	<u>562,612</u>	<u>562,638</u>

Included in the allowance for doubtful debts of the Group and Company mainly represents a receivable of RMB550,000,000 from an independent third party who was in financial difficulties. In the opinion of the directors of the Company, the recoverability of the receivable is remote and a full provision is made.

The remaining other receivables and prepayments mainly represent short-term rental deposits placed with landlords under operating leases and other prepaid expenses for daily operation.

**29. AMOUNT DUE FROM/TO A SUBSIDIARY**

Amount due from/to a subsidiary is unsecured, repayable on demand, and bear interest at prevailing market interest rates. The Company is expected to recover the amount due from a subsidiary within 1 year from the end of the reporting period.

**30. FINANCIAL ASSETS HELD UNDER RESALE AGREEMENTS**

**Group and Company**

	As at 31 December			As at
	2008	2009	2010	30 June
	RMB'000	RMB'000	RMB'000	2011
				RMB'000
Analysed as collateral type:				
Bonds	<u>—</u>	<u>—</u>	<u>2,120,000</u>	<u>10,143,491</u>
Analysed by market:				
Inter-bank market	<u>—</u>	<u>—</u>	<u>2,120,000</u>	<u>10,143,491</u>

## 31. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

**Group**

	As at 31 December			As at
	2008	2009	2010	30 June
	RMB'000	RMB'000	RMB'000	2011
				RMB'000
Held for trading:				
Debt securities	7,843,053	6,297,506	8,978,165	12,746,765
Equity securities	1,862	2,087,886	3,248,364	3,051,571
Funds	1,915,822	4,280,728	2,791,555	1,542,230
Derivatives	—	230,632	—	—
	<u>9,760,737</u>	<u>12,896,752</u>	<u>15,018,084</u>	<u>17,340,566</u>
Analysed as:				
Listed in Hong Kong	—	49,117	75,891	72,073
Listed outside Hong Kong (primarily in the PRC)	1,430,475	3,243,849	5,151,119	9,022,366
Unlisted	<u>8,330,262</u>	<u>9,603,786</u>	<u>9,791,074</u>	<u>8,246,127</u>
	<u>9,760,737</u>	<u>12,896,752</u>	<u>15,018,084</u>	<u>17,340,566</u>

**Company**

	As at 31 December			As at
	2008	2009	2010	30 June
	RMB'000	RMB'000	RMB'000	2011
				RMB'000
Held for trading:				
Debt securities	7,843,053	6,297,506	8,951,939	12,534,164
Equity securities	1,862	2,038,616	3,172,474	2,979,228
Funds	1,915,822	4,278,306	2,788,946	1,539,832
Derivatives	—	230,632	—	—
	<u>9,760,737</u>	<u>12,845,060</u>	<u>14,913,359</u>	<u>17,053,224</u>
Analysed as:				
Listed outside Hong Kong (primarily in the PRC)	1,430,475	3,243,849	5,151,119	8,809,495
Unlisted	<u>8,330,262</u>	<u>9,601,211</u>	<u>9,762,240</u>	<u>8,243,729</u>
	<u>9,760,737</u>	<u>12,845,060</u>	<u>14,913,359</u>	<u>17,053,224</u>

The investments held within the above unlisted fund investments, which were classified as held for trading financial assets, mainly consist of publicly traded equities listed mainly in Hong Kong and the PRC. The fair value of the Group and the Company's investments in funds are valued based on the net asset values of the funds calculated by the respective fund managers by reference to their underlying assets and liabilities' fair values.

The fair value of the Group and the Company's listed equity securities, exchange-traded funds and unlisted debt securities are determined by reference to their quoted prices as at the reporting date.

## 32. DEPOSITS WITH EXCHANGES

## Group

	As at 31 December			As at
	2008	2009	2010	30 June
	RMB'000	RMB'000	RMB'000	2011
				RMB'000
Deposits with stock exchanges				
– Shanghai Stock Exchange	20,972	21,774	19,747	20,095
– Shenzhen Stock Exchange	232,027	655,012	708,735	716,396
	<u>252,999</u>	<u>676,786</u>	<u>728,482</u>	<u>736,491</u>
Deposits with futures and commodity exchanges				
– Shanghai Futures Exchange	83,297	505,146	726,498	694,754
– Dalian Commodity Exchange	20,808	126,967	187,732	171,394
– Zhengzhou Commodity Exchange	12,751	66,052	348,286	243,003
– China Financial Futures Exchange	–	–	373,315	777,351
	<u>116,856</u>	<u>698,165</u>	<u>1,635,831</u>	<u>1,886,502</u>
Guarantee fund paid to Shenzhen Stock Exchange	–	–	9,112	32,794
	<u>369,855</u>	<u>1,374,951</u>	<u>2,373,425</u>	<u>2,655,787</u>

## Company

	As at 31 December			As at
	2008	2009	2010	30 June
	RMB'000	RMB'000	RMB'000	2011
				RMB'000
Deposits with stock exchanges				
– Shanghai Stock Exchange	19,172	19,484	16,718	16,923
– Shenzhen Stock Exchange	230,527	653,098	706,380	713,897
	<u>249,699</u>	<u>672,582</u>	<u>723,098</u>	<u>730,820</u>
Deposits with China Financial Futures Exchange	–	–	58,699	591,524
Guarantee fund paid to Shenzhen Stock Exchange	–	–	9,112	32,794
	<u>249,699</u>	<u>672,582</u>	<u>790,909</u>	<u>1,355,138</u>

## 33. CLEARING SETTLEMENT FUNDS

## Group

	As at 31 December			As at
	2008	2009	2010	30 June
	RMB'000	RMB'000	RMB'000	2011
				RMB'000
Clearing settlement funds held with clearing houses for:				
House	94,937	210,415	442,829	836,092
Clients	2,681,825	5,538,708	19,981,907	2,890,309
	<u>2,776,762</u>	<u>5,749,123</u>	<u>20,424,736</u>	<u>3,726,401</u>

## Company

	As at 31 December			As at
	2008	2009	2010	30 June
	RMB'000	RMB'000	RMB'000	2011
				RMB'000
Clearing settlement funds held with clearing houses for:				
House	94,937	210,415	442,829	609,558
Clients	2,575,797	5,301,560	19,209,754	2,279,631
	<u>2,670,734</u>	<u>5,511,975</u>	<u>19,652,583</u>	<u>2,889,189</u>

These clearing settlement funds are held by the clearing houses for the Group and the Company and can be withdrawn freely by the Group and the Company. These balances carry interest at prevailing market interest rates.

## 34. BANK BALANCES AND CASH

## Group

	As at 31 December			As at
	2008	2009	2010	30 June
	RMB'000	RMB'000	RMB'000	2011
				RMB'000
House accounts ( <i>note i</i> )	26,288,057	28,906,310	16,765,183	10,511,502
Cash held on behalf of clients ( <i>note ii</i> )	30,893,958	59,525,446	41,552,933	40,986,081
	<u>57,182,015</u>	<u>88,431,756</u>	<u>58,318,116</u>	<u>51,497,583</u>
Less: non-current restricted bank deposits ( <i>note iii</i> )	(102,453)	(184,844)	(260,801)	(297,170)
	<u>57,079,562</u>	<u>88,246,912</u>	<u>58,057,315</u>	<u>51,200,413</u>

## Company

	As at 31 December			As at 30 June
	2008	2009	2010	2011
	RMB'000	RMB'000	RMB'000	RMB'000
House accounts	24,272,576	24,434,879	11,832,759	6,315,983
Cash held on behalf of clients (note ii)	30,292,886	53,680,667	34,352,900	35,052,909
	<u>54,565,462</u>	<u>78,115,546</u>	<u>46,185,659</u>	<u>41,368,892</u>

Bank balances and cash comprise cash on hand and demand deposits which bear interest at the prevailing market rates.

## Notes:

- (i) As at 31 December 2008, the house accounts included fixed bank deposit amounting to RMB990,000,000 for obtaining assets management business. Included in the house accounts as at 31 December 2010 and 30 June 2011 are pledged bank deposits of approximately RMB1,158,272,000 and RMB1,476,722,000, respectively, used as a security of borrowings (note 36), carry interest ranging from 0.71% to 2.8% per annum and have a maturity of seven days to three months.
- (ii) The Group and the Company maintain bank accounts with banks to hold clients' deposits arising from normal business transactions. The Group and the Company have recognised the corresponding amount in accounts payable to brokerage clients (note 37).
- (iii) The non-current restricted bank deposits are restricted for fund management risk reserve purpose.

## 35. CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprises of the following:

## Group

	As at 31 December			As at 30 June
	2008	2009	2010	2011
	RMB'000	RMB'000	RMB'000	RMB'000
Bank balances and cash – house	26,288,057	28,906,310	16,765,183	10,511,502
Less: Pledged bank deposits and fixed deposits	(990,000)	–	(1,158,272)	(1,476,722)
Restricted bank deposits	(102,453)	(184,844)	(260,801)	(297,170)
Clearing settlement funds – house	94,937	210,415	442,829	836,092
Bank overdrafts	–	–	(11,821)	–
	<u>25,290,541</u>	<u>28,931,881</u>	<u>15,777,118</u>	<u>9,573,702</u>

## 36. BORROWINGS

## Group

	As at 31 December			As at
	2008	2009	2010	30 June
	RMB'000	RMB'000	RMB'000	2011
				RMB'000
Secured short-term borrowings:				
Bank overdrafts ( <i>notes (i), (ii), (vi)</i> )	–	–	11,821	–
Bank loans ( <i>notes (ii), (iii), (iv), (vi)</i> )	–	724,402	2,060,101	2,355,148
Unsecured short-term borrowings:				
Bank loans ( <i>notes (iv), (vi)</i> )	–	132,072	765,305	957,943
Other loans ( <i>notes (iv), (v)</i> )	–	220,120	85,093	83,162
	–	1,076,594	2,922,320	3,396,253

## Notes:

- i. These are secured overdrafts and are repayable on demand.
- ii. Bank overdrafts and bank loans, borrowed by the subsidiaries in Hong Kong, of approximately RMB287,037,000, RMB1,220,992,000 and RMB1,107,718,000 as at 31 December 2009, 31 December 2010 and 30 June 2011, respectively, are secured by the listed shares pledged to the Group as a security for advances to customers (with customers' consent) of approximately RMB485,523,000, RMB2,767,224,000 and RMB2,760,147,000 as at 31 December 2009, 31 December 2010 and 30 June 2011, respectively.

As at 31 December 2009, secured bank loans of RMB437,365,000 are secured by the shares held by the Group in Haitong International Securities Group Limited (formerly known as Taifook Securities Group Limited).

- iii. As at 31 December 2010 and 30 June 2011, secured bank loans of RMB850,930,000 and RMB1,247,430,000, respectively, are secured by the Group's short-term time deposits placed at financial institutions.
- iv. Bank loans and other loans are repayable on demand or within 1 year.
- v. Other loans of approximately RMB85,093,000 and RMB83,162,000 at 31 December 2010 and 30 June 2011, respectively, were obtained from an independent third party and were interest bearing at a fixed rate of 4% per annum.

At 31 December 2009, other loans of RMB132,072,000 were obtained from a related company of the former controlling shareholder of Haitong International Securities Group Limited and with interest bearing at a fixed rate of 0.9% per annum whilst the remaining other loan of RMB88,048,000 was obtained from an independent third party and with interest bearing at a fixed rate of 4% per annum. All other loans were repayable on demand or within 1 year.

- vi. All the Group's bank borrowings bear interest (which are also equal to the effective interest rate) at Hong Kong Interbank Offered Rate plus 0.55% to 0.7% per annum, 0.50% to 1.24% per annum and 0.55% to 1.55% per annum as at 31 December 2009, 31 December 2010 and 30 June 2011, respectively.

**37. ACCOUNTS PAYABLE TO BROKERAGE CLIENTS**

The majority of the accounts payable balances is repayable on demand except where certain accounts payable to brokerage 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.

Accounts payable mainly include money held on behalf of clients at the banks and at the clearing houses by the Group and the Company.

As at 31 December 2010 and 30 June 2011, included in the Group and the Company's accounts payable to brokerage clients were approximately RMB109,915,000 and RMB544,239,000 cash collateral received from clients for securities lending and margin financing arrangement.

Accounts payable to brokerage clients is interest bearing at the prevailing interest rate.

**38. OTHER PAYABLES AND ACCRUALS****Group**

	As at 31 December			As at
	2008	2009	2010	30 June
	RMB'000	RMB'000	RMB'000	2011
				RMB'000
Accrued staff cost	670,164	860,961	905,143	969,239
Business tax and other tax payable	63,943	235,773	292,812	198,457
Funds payable to securities issuers	—	—	700,000	—
Others	506,109	774,161	625,440	496,668
	<u>1,240,216</u>	<u>1,870,895</u>	<u>2,523,395</u>	<u>1,664,364</u>

**Company**

	As at 31 December			As at
	2008	2009	2010	30 June
	RMB'000	RMB'000	RMB'000	2011
				RMB'000
Accrued staff cost	588,875	688,787	680,840	802,529
Business tax and other tax payable	59,999	200,537	268,696	186,870
Funds payable to securities issuers	—	—	700,000	—
Others	461,944	321,016	452,587	290,927
	<u>1,110,818</u>	<u>1,210,340</u>	<u>2,102,123</u>	<u>1,280,326</u>

Others represent primarily accrued operating expenses which are non-interest bearing and are repayable within one year.

## 39. PROVISIONS

## Group and Company

	As at 31 December			As at
	2008	2009	2010	30 June
	RMB'000	RMB'000	RMB'000	2011
				RMB'000
At beginning of the year/period	161,088	110,576	8,815	6,853
Addition for the year/period	–	–	–	248
Reversal for the year/period	(6,892)	(51,734)	(1,912)	(1,191)
Settlement in the year/period	(43,620)	(50,027)	(50)	(1,150)
	<u>110,576</u>	<u>8,815</u>	<u>6,853</u>	<u>4,760</u>
Provision	<u>110,576</u>	<u>8,815</u>	<u>6,853</u>	<u>4,760</u>

As at 31 December 2008, 2009 and 2010 and 30 June 2011, the Group has several outstanding litigations with potential claims with maximum total amount of approximately RMB133.8 million, RMB9.9 million, RMB10.1 million and RMB7.9 million, respectively, of which RMB110.6 million, RMB8.8 million, RMB6.9 million and RMB4.8 million, respectively were accounted for and provided in the Financial Information based on directors' best estimate of the amounts required to settle the claims.

## 40. FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS

## Group and Company

	As at 31 December			As at
	2008	2009	2010	30 June
	RMB'000	RMB'000	RMB'000	2011
				RMB'000
Derivatives held for trading				
Index futures contracts listed				
outside Hong Kong	<u>–</u>	<u>–</u>	<u>–</u>	<u>90,019</u>

The index futures contracts outstanding as at 30 June 2011 are used to hedge the exposure on the changes of fair values of those available-for-sales investments acquired for the purpose of securities lending to clients and will be expired before the end of 2011. The notional amounts of these contracts amounted to RMB3,168,218,000. These futures contracts will be settled on a net basis.

## 41. FINANCIAL ASSETS SOLD UNDER REPURCHASE AGREEMENTS

## Group and Company

	As at 31 December			As at 30 June
	2008	2009	2010	2011
	RMB'000	RMB'000	RMB'000	RMB'000
Analysed as collateral type:				
Bonds	610,000	5,821,500	–	6,982,100
Analysed by market:				
Shanghai Stock Exchange	610,000	1,806,500	–	4,628,800
Inter-bank market	–	4,015,000	–	2,353,300
	610,000	5,821,500	–	6,982,100

## 42. SHARE CAPITAL

	Non-trade restricted A shares		Listed A shares		Total	
	Number of share	Amount	Number of share	Amount	Number of share	Amount
	'000	RMB'000	'000	RMB'000	'000	RMB'000
Registered, issued and fully paid at RMB1.0 per share:						
At 1 January 2008	3,996,981	3,996,981	116,930	116,930	4,113,911	4,113,911
Bonus issue (note i)	1,199,094	1,199,094	35,079	35,079	1,234,173	1,234,173
Capitalisation (note i)	2,797,886	2,797,886	81,851	81,851	2,879,737	2,879,737
Transfer (note ii)	(3,518,713)	(3,518,713)	3,518,713	3,518,713	–	–
At 31 December 2008	4,475,248	4,475,248	3,752,573	3,752,573	8,227,821	8,227,821
Transfer (note ii)	(249,852)	(249,852)	249,852	249,852	–	–
At 31 December 2009	4,225,396	4,225,396	4,002,425	4,002,425	8,227,821	8,227,821
Transfer (note ii)	(4,225,396)	(4,225,396)	4,225,396	4,225,396	–	–
At 31 December 2010 and 30 June 2011	–	–	8,227,821	8,227,821	8,227,821	8,227,821

Non-trade restricted A shares are issued to shareholders when the Company became listed in 2007 and through private placements, which were restricted to be disposed of by the shareholders within a period of 12 months to 3 years. Other than the restrictions on disposal, the rights attached to Non-trade restricted A shares are same as Listed A shares.

## Notes:

- (i) Pursuant to the annual general meeting 2007, new share capital of 1,234,173,177 and 2,879,737,413 of RMB1.0 each were issued by way of bonus issues and capitalisation of capital reserve, respectively.
- (ii) Upon the maturity of the restrictions on disposal period of these non-trade restricted A shares, the Company did not have any non-trade restricted A shares.

**43. INVESTMENT REVALUATION RESERVE**

The movements of the investment revaluation reserve of the Company are set out below:

	As at 31 December			As at 30 June
	2008	2009	2010	2011
	RMB'000	RMB'000	RMB'000	RMB'000
At beginning of the year/period	1,176,808	30,550	1,381,572	386,646
Available-for-sale investments				
Net fair value changes during the year/period	(1,193,822)	1,958,070	(871,389)	328,791
Reclassification adjustments to profit or loss on disposal/impairment	(332,332)	(156,706)	(455,270)	(476,988)
Income tax relating to components of other comprehensive income	379,896	(450,342)	331,733	37,049
At end of the year/period	<u>30,550</u>	<u>1,381,572</u>	<u>386,646</u>	<u>275,498</u>

**44. GENERAL RESERVES**

The general reserves comprise statutory reserve, general reserve and transaction risk reserve.

Pursuant to the Company Law of The People's Republic of China, 10% of the net profit of the Company, as determined under the PRC accounting regulations and before distribution to shareholders, is required to be transferred to a statutory reserve until such time when this reserve represents 50% of the share capital of the Company. The reserve appropriated can be used for loss-covering, expansion of production scale and capitalisation, in accordance with the Company's articles of association or approved by the shareholders in a shareholders' general meeting.

In accordance with the Financial Rules for Financial Enterprises, the Company is required to appropriate 10% of net profit derived in accordance with the relevant accounting rules in the PRC before distribution to shareholders as general reserve from retained profits.

Pursuant to the Securities Law of The People's Republic of China, the Company is required to appropriate 10% of the net profit derived in accordance with the relevant accounting rules in the PRC before distribution to shareholders as transaction risk reserve from retained profits.

For each of the year ended 31 December 2008, 2009 and 2010 and the six months ended 30 June 2011, the Company transferred approximately RMB329,304,000, RMB431,800,000, RMB341,690,000 and nil, respectively, the same amount to each of the statutory reserve, general reserve and transaction risk reserve pursuant to the above regulatory requirements in the PRC.

Each of the statutory reserve, general reserve and transaction risk reserve amounted to approximately RMB897,939,000, RMB1,329,739,000, RMB1,671,430,000 and RMB1,671,430,000 as at 31 December 2008, 2009 and 2010 and 30 June 2011, respectively.

The Company's PRC subsidiaries are also subject to the statutory requirements to appropriate their earnings to reserves. The total amount of reserves appropriated as at 30 June 2011 is RMB373,094,000.

**45. RETAINED PROFITS**

The movements of retained profits of the Company are set out below:

	As at 31 December			As at 30 June
	2008	2009	2010	2011
	RMB'000	RMB'000	RMB'000	RMB'000
At beginning of the year/period	3,906,810	4,539,073	6,728,364	7,438,661
Profit for the year/period	3,265,740	4,307,475	3,380,932	2,275,869
Appropriation to general reserves	(987,913)	(1,295,401)	(1,025,071)	–
Dividends recognised as distribution (Note 49)	(1,645,564)	(822,783)	(1,645,564)	(1,234,173)
At end of the year/period	<u>4,539,073</u>	<u>6,728,364</u>	<u>7,438,661</u>	<u>8,480,357</u>

**46. DEFERRED TAXATION**

For the purpose of presentation in the Group and the Company's statements of financial position, certain deferred tax assets and liabilities have been offset. The following is the analysis of the deferred tax balances for financial reporting purposes:

**Group**

	As at 31 December			As at 30 June
	2008	2009	2010	2011
	RMB'000	RMB'000	RMB'000	RMB'000
Deferred tax assets	4,311	56,974	61,592	163,581
Deferred tax liabilities	(72,036)	(471,828)	(196,136)	(133,711)
	<u>(67,725)</u>	<u>(414,854)</u>	<u>(134,544)</u>	<u>29,870</u>

**Company**

	As at 31 December			As at 30 June
	2008	2009	2010	2011
	RMB'000	RMB'000	RMB'000	RMB'000
Deferred tax assets	–	43,769	42,333	123,274
Deferred tax liabilities	(71,283)	(453,080)	(146,601)	(88,226)
	<u>(71,283)</u>	<u>(409,311)</u>	<u>(104,268)</u>	<u>35,048</u>

The following are the major deferred tax assets (liabilities) recognised and movements thereon in the Relevant Periods:

**Group**

	Financial assets held for trading <i>RMB'000</i>	Accelerated depreciation <i>RMB'000</i>	Derivative assets <i>RMB'000</i>	Accrued but not paid expenses <i>RMB'000</i>	Available- for-sale investments <i>RMB'000</i>	Derivative liabilities <i>RMB'000</i>	Others <i>RMB'000</i>	Total <i>RMB'000</i>
At 1 January 2008	(115,007)	–	(4,720)	–	(386,893)	(149,942)	–	(656,562)
Credit (charge) to profit or loss	50,299	(753)	4,721	951	–	149,942	–	205,160
Credit to other comprehensive income	–	–	–	–	383,677	–	–	383,677
At 31 December 2008	(64,708)	(753)	1	951	(3,216)	–	–	(67,725)
Credit (charge) to profit or loss	68,546	(217)	(1)	49,507	–	–	–	117,835
Charge to other comprehensive income	–	–	–	–	(458,004)	–	–	(458,004)
Acquired on acquisition of subsidiaries	–	(13,476)	–	–	–	–	6,516	(6,960)
At 31 December 2009	3,838	(14,446)	–	50,458	(461,220)	–	6,516	(414,854)
(Charge) credit to profit or loss	(26,365)	(2,813)	–	9,139	–	1,112	(4,522)	(23,449)
Credit to other comprehensive income	–	–	–	–	303,759	–	–	303,759
At 31 December 2010	(22,527)	(17,259)	–	59,597	(157,461)	1,112	1,994	(134,544)
Credit (charge) to profit or loss	49,678	(884)	–	50,883	(10)	21,393	460	121,520
Credit to other comprehensive income	–	–	–	–	42,894	–	–	42,894
At 30 June 2011	27,151	(18,143)	–	110,480	(114,577)	22,505	2,454	29,870

## Company

	Financial assets held for trading <i>RMB'000</i>	Derivative assets <i>RMB'000</i>	Accrued but not paid expenses <i>RMB'000</i>	Available- for-sale investments <i>RMB'000</i>	Derivative liabilities <i>RMB'000</i>	Others <i>RMB'000</i>	Total <i>RMB'000</i>
At 1 January 2008	(115,007)	(4,720)	–	(386,472)	(149,942)	–	(656,141)
Credit to profit or loss	50,299	4,721	–	–	149,942	–	204,962
Credit to other comprehensive income	–	–	–	379,896	–	–	379,896
At 31 December 2008	(64,708)	1	–	(6,576)	–	–	(71,283)
Credit (charge) to profit or loss	68,546	(1)	43,769	–	–	–	112,314
Charge to other comprehensive income	–	–	–	(450,342)	–	–	(450,342)
At 31 December 2009	3,838	–	43,769	(456,918)	–	–	(409,311)
(Charge) credit to profit or loss	(26,365)	–	(1,436)	–	1,112	(1)	(26,690)
Credit to other comprehensive income	–	–	–	331,733	–	–	331,733
At 31 December 2010	(22,527)	–	42,333	(125,185)	1,112	(1)	(104,268)
Credit (charge) to profit or loss	49,654	–	31,229	(10)	21,393	1	102,267
Credit to other comprehensive income	–	–	–	37,049	–	–	37,049
At 30 June 2011	27,127	–	73,562	(88,146)	22,505	–	35,048

## 47. OPERATING LEASE ARRANGEMENTS

## The Group as lessee

Leases for the properties are negotiated for an average term of three years and rentals are fixed for an average of three years.

At 31 December 2008, 2009 and 2010 and 30 June 2011, the Group had total future minimum lease payments under non-cancellable operating leases in respect of rented premises falling due as follows:

	As at 31 December			As at 30 June
	2008	2009	2010	2011
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Within one year	77,619	47,554	170,246	195,027
In the second to fifth year, inclusive	123,969	224,048	275,306	364,808
Over five years	10,385	41,063	101,582	66,271
	<u>211,973</u>	<u>312,665</u>	<u>547,134</u>	<u>626,106</u>

**The Company as lessee**

Leases for the properties are negotiated for an average term of three years and rentals are fixed for an average of three years.

At 31 December 2008, 2009 and 2010 and 30 June 2011, the Company had total future minimum lease payments under non-cancellable operating leases in respect of rented premises falling due as follows:

	As at 31 December			As at 30 June
	2008	2009	2010	2011
	RMB'000	RMB'000	RMB'000	RMB'000
Within one year	71,916	7,822	97,060	85,835
In the second to fifth year, inclusive	120,711	199,267	188,761	255,725
Over five years	10,385	41,003	101,582	65,354
	<u>203,012</u>	<u>248,092</u>	<u>387,403</u>	<u>406,914</u>

**The Group as lessor**

The lease terms are negotiated for an average term of two years and rental are fixed for an average of two years.

At the end of the reporting period, the Group had contracted with tenants for the following future minimum lease payments:

	As at 31 December			As at 30 June
	2008	2009	2010	2011
	RMB'000	RMB'000	RMB'000	RMB'000
Within one year	6,426	6,426	6,051	11,226
In the second to fifth year, inclusive	26,159	19,733	13,682	22,216
Over five years	—	—	—	557
	<u>32,585</u>	<u>26,159</u>	<u>19,733</u>	<u>33,999</u>

**The Company as lessor**

The lease terms are negotiated for an average term of two years and rental are fixed for an average of two years.

At the end of the reporting period, the Company had contracted with tenants for the following future minimum lease payments:

	As at 31 December			As at 30 June
	2008	2009	2010	2011
	RMB'000	RMB'000	RMB'000	RMB'000
Within one year	5,863	5,864	5,863	9,965
In the second to fifth year, inclusive	25,410	19,546	13,682	26,627
Over five years	—	—	—	515
	<u>31,273</u>	<u>25,410</u>	<u>19,545</u>	<u>37,107</u>

## 48. CAPITAL COMMITMENT

## Group

	As at 31 December			As at
	2008	2009	2010	30 June
	RMB'000	RMB'000	RMB'000	2011
				RMB'000
Capital expenditure in respect of acquisition of property and equipment:				
– Contracted but not provided for	–	726	9,159	6,660

## 49. DIVIDENDS

	Year ended 31 December			Six months ended 30 June	
	2008	2009	2010	2010	2011
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
	(Note a)	(Note b)	(Note c)	(Note c)	(Note d)
				(unaudited)	
Dividends recognised as distribution	1,645,564	822,783	1,645,564	1,645,564	1,234,173

## Notes:

- (a) Pursuant to the resolution of annual general meeting 2007, the Company declared 2007 final dividend, including cash dividend of RMB0.10 per share amounting to RMB411,391,000 and bonus issue of a total of 1,234,173,177 ordinary shares to shareholders of the Company on the basis of three new shares for every ten shares then held.
- (b) Pursuant to the resolution of annual general meeting 2008, the Company declared 2008 final dividend of RMB0.10 per share, satisfied by cash.
- (c) Pursuant to the resolution of annual general meeting 2009, the Company declared 2009 final dividend of RMB0.20 per share, satisfied by cash.
- (d) Pursuant to the resolution of annual general meeting 2010, the Company declared 2010 final dividend of RMB0.15 per share, satisfied by cash.

## 50. DIRECTORS', SENIOR MANAGEMENT'S AND SUPERVISORS' EMOLUMENTS

The emoluments of the Directors, Senior Management and Supervisors of the Company paid/payable by the Group for each of the year ended 31 December 2008, 2009 and 2010 and the six months ended 30 June 2011 are set out below:

*For the year ended 31 December 2008*

Name	Director fee RMB'000	Salary and commission RMB'000	Employer's contribution to pension schemes/ annuity plans RMB'000	Bonuses* RMB'000	Total RMB'000
<i>Executive Directors and Senior Management:</i>					
Wang Kaiguo	–	855	37	1,637	2,529
Li Mingshan	–	856	37	1,637	2,530
Shen Degao	–	631	37	1,335	2,003
Ji Yuguang	–	631	37	1,335	2,003
Ren Peng	–	630	37	1,334	2,001
Jin Xiaobin	–	465	37	1,350	1,852
Li Chuqian	–	465	37	1,351	1,853
Wang Jianye	–	465	37	1,350	1,852
Wu Bin	–	406	37	1,207	1,650
<i>Non-executive Directors and Supervisors:</i>					
Xia Bin	120	–	–	–	120
Li Guangrong	120	–	–	–	120
Gu Gongyun	120	–	–	–	120
Chen Qiwei	120	–	–	–	120
Wu Xiaoqiu	120	–	–	–	120
Zhang Huiquan	120	–	–	–	120
Zhang Ming	80	–	–	–	80
Ke Yongzhen	–	856	37	1,637	2,530
Yang Qingzhong	–	419	37	1,166	1,622
Qiu Xiaping	–	288	37	677	1,002
Nai Xuegang	–	176	37	370	583
	<u>800</u>	<u>7,143</u>	<u>481</u>	<u>16,386</u>	<u>24,810</u>

For the year ended 31 December 2009

Name	Director fee RMB'000	Salary and commission RMB'000	Employer's contribution to pension schemes/ annuity plans RMB'000	Bonuses* RMB'000	Total RMB'000
<i>Executive Directors and Senior Management:</i>					
Wang Kaiguo	—	872	43	1,231	2,146
Li Mingshan	—	872	43	1,231	2,146
Shen Degao	—	643	43	812	1,498
Ji Yuguang	—	643	43	813	1,499
Ren Peng	—	641	43	812	1,496
Ma Yong	—	573	43	811	1,427
Jin Xiaobin	—	473	43	477	993
Li Chuqian	—	473	43	477	993
Wang Jianye	—	473	43	477	993
Wu Bin	—	439	43	474	956
<i>Non-executive Directors and Supervisors:</i>					
Xia Bin	120	—	—	—	120
Li Guangrong	120	—	—	—	120
Gu Gongyun	120	—	—	—	120
Chen Qiwei	120	—	—	—	120
Wu Xiaoqiu	120	—	—	—	120
Zhang Huiquan	120	—	—	—	120
Zhang Ming	120	—	—	—	120
Ke Yongzhen	—	872	43	1,231	2,146
Yang Qingzhong	—	587	43	810	1,440
Qiu Xiaping	—	318	43	314	675
Nai Xuegang	—	223	43	169	435
	840	8,102	602	10,139	19,683

For the year ended 31 December 2010

Name	Director fee RMB'000	Salary and commission RMB'000	Employer's contribution to pension schemes/ annuity plans RMB'000	Bonuses* RMB'000	Total RMB'000
<i>Executive Directors and Senior Management:</i>					
Wang Kaiguo	—	873	47	1,313	2,233
Li Mingshan	—	873	47	1,313	2,233
Shen Degao	—	643	47	973	1,663
Ji Yuguang	—	644	47	973	1,664
Ren Peng	—	642	47	973	1,662
Ma Yong	—	608	47	973	1,628
Jin Xiaobin	—	473	47	676	1,196
Li Chuqian	—	474	47	676	1,197
Wang Jianye	—	473	47	676	1,196
Wu Bin	—	443	47	676	1,166
<i>Non-executive Directors and Supervisors:</i>					
Xia Bin	120	—	—	—	120
Li Guangrong	120	—	—	—	120
Gu Gongyun	120	—	—	—	120
Chen Qiwei	120	—	—	—	120
Wu Xiaoqiu	120	—	—	—	120
Zhang Huiquan	120	—	—	—	120
Zhang Ming	120	—	—	—	120
Wang Yimin	—	756	47	993	1,796
Yang Qingzhong	—	611	47	973	1,631
Qiu Xiaping	—	330	47	463	840
Nai Xuegang	—	230	47	273	550
	840	8,073	658	11,924	21,495

For the six months ended 30 June 2011

Name	Director fee RMB'000	Salary and commission RMB'000	Employer's contribution to pension schemes/ annuity plans RMB'000	Bonuses* RMB'000	Total RMB'000
<i>Executive Directors and Senior Management:</i>					
Wang Kaiguo	–	626	25	987	1,638
Li Mingshan	–	626	25	987	1,638
Shen Degao	–	441	25	710	1,176
Ji Yuguang	–	442	25	710	1,177
Ren Peng	–	441	25	710	1,176
Ma Yong	–	438	25	709	1,172
Jin Xiaobin	–	367	25	601	993
Li Chuqian	–	367	25	601	993
Wang Jianye	–	367	25	601	993
Wu Bin	–	360	25	599	984
<i>Non-executive Directors and Supervisors:</i>					
Xia Bin	60	–	–	–	60
Li Guangrong	60	–	–	–	60
Gu Gongyun	50	–	–	–	50
Chen Qiwei	60	–	–	–	60
Wu Xiaoqiu	50	–	–	–	50
Zhang Huiquan	60	–	–	–	60
Dai Genyou	10	–	–	–	10
Zhang Ming	60	–	–	–	60
Wang Yimin	–	609	25	987	1,621
Yang Qingzhong	–	439	25	710	1,174
Qiu Xiaping	–	242	25	351	618
Du Hongbo	–	237	25	349	611
	410	6,002	350	9,612	16,374

For the six months ended 30 June 2010 (unaudited)

Name	Director fee RMB'000	Salary and commission RMB'000	Employer's contribution to pension schemes/ annuity plans RMB'000	Bonuses* RMB'000	Total RMB'000
<i>Executive Directors and Senior Management:</i>					
Wang Kaiguo	–	458	23	937	1,418
Li Mingshan	–	458	23	937	1,418
Shen Degao	–	338	23	697	1,058
Ji Yuguang	–	338	23	697	1,058
Ren Peng	–	337	23	697	1,057
Ma Yong	–	326	23	697	1,046
Jin Xiaobin	–	247	23	487	757
Li Chuqian	–	248	23	487	758
Wang Jianye	–	247	23	487	757
Wu Bin	–	243	23	487	753
<i>Non-executive Directors and Supervisors:</i>					
Xia Bin	60	–	–	–	60
Li Guangrong	60	–	–	–	60
Gu Gongyun	60	–	–	–	60
Chen Qiwei	60	–	–	–	60
Wu Xiaoqiu	60	–	–	–	60
Zhang Huiquan	60	–	–	–	60
Zhang Ming	60	–	–	–	60
Wang Yimin	–	342	23	617	982
Yang Qingzhong	–	316	23	697	1,036
Qiu Xiaping	–	168	23	337	528
Nai Xuegang	–	116	23	197	336
	420	4,182	322	8,458	13,382

\* The bonuses are discretionary and are determined by reference to the Group's and the individuals' performance.

During the Relevant Periods, no directors, supervisors or senior management of the Company waived any emoluments and no emoluments were paid by the Company to any of the directors, supervisors or senior management as an inducement to join or upon joining the Group or as compensation for loss of office.

**51. HIGHEST PAID INDIVIDUALS**

Of the five individuals with the highest emoluments, none of them are directors, supervisors or senior management. Details of the remuneration of the highest paid employees during the Relevant Periods are as follows:

	Year ended 31 December			Six months ended 30 June	
	2008	2009	2010	2010	2011
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(unaudited)	
Salary and commission	6,308	4,060	10,571	6,661	14,362
Bonuses	18,333	36,290	14,025	14,025	14,550
Employer's contribution to pension schemes/annuity plans	185	213	233	114	124
	<u>24,826</u>	<u>40,563</u>	<u>24,829</u>	<u>20,800</u>	<u>29,036</u>

Bonuses are discretionary and are determined by reference to the Group's and the individuals' performance. No emoluments have been paid to or receivable by these individuals as an inducement to join or upon joining the Group or as compensation for loss of office during the Relevant Periods.

The emoluments of the highest-paid individuals of the Group fall within the following bands:

	Year ended 31 December			Six months ended 30 June	
	2008	2009	2010	2010	2011
	No. of	No. of	No. of	No. of	No. of
	employees	employees	employees	employees	employees
				(unaudited)	
Emolument bands					
– HKD3,500,001 to HKD4,000,000	1	–	–	1	–
– HKD4,000,001 to HKD4,500,000	–	–	–	1	–
– HKD4,500,001 to HKD5,000,000	1	–	1	–	–
– HKD5,000,001 to HKD5,500,000	–	–	1	3	–
– HKD5,500,001 to HKD6,000,000	–	1	–	–	1
– HKD6,000,001 to HKD6,500,000	3	1	3	–	–
– HKD6,500,001 to HKD7,000,000	–	–	–	–	3
– HKD8,000,001 to HKD8,500,000	–	–	–	–	1
– HKD11,500,001 to HKD12,000,000	–	3	–	–	–
	<u>5</u>	<u>5</u>	<u>5</u>	<u>5</u>	<u>5</u>

**52. SHARE OPTION SCHEME OF A SUBSIDIARY**

One of the Company's subsidiaries, Haitong International Securities Group Limited ("HISGL"), a Hong Kong listed company, operates a share option scheme mainly for its directors and employees. HISGL was acquired by the Group on 21 December 2009.

The shareholders of HISGL approved the adoption of a share option scheme (the "2002 Share Option Scheme") on 23 August 2002.

A summary of the principal terms of the 2002 Share Option Scheme is set out as follows:

The 2002 Share Option Scheme was adopted for the purpose of attracting, retaining and motivating talented employees to strive towards long-term performance targets set by HISGL and its subsidiaries and at the same time allowing the participants to enjoy the results of HISGL attained through their effort and contribution. Under the 2002 Share Option Scheme, options may be granted to any full time employees, executive and non-executive directors of HISGL or any of its subsidiaries or associates.

The maximum number of shares which may be issued upon exercise of all options to be granted under the 2002 Share Option Scheme and any other share option schemes of HISGL shall not in aggregate exceed 10% of the total number of shares in issue as at the date of adoption of the 2002 Share Option Scheme (the "Scheme Mandate Limit") but HISGL may seek approval of its shareholders at general meetings to refresh the Scheme Mandate Limit, save that the maximum number of shares in respect of which options may be granted by directors of HISGL under the 2002 Share Option Scheme and any other share option schemes of HISGL shall not exceed 10% of the issued share capital of HISGL as at the date of approval by the shareholders of HISGL at general meetings where such limit is refreshed. Options previously granted under the 2002 Share Option Scheme and any other share option schemes of HISGL (including those outstanding, cancelled, lapsed or exercised options) will not be counted for the purpose of calculating such 10% limit as refreshed. Notwithstanding the aforesaid in this paragraph, the maximum number of shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the 2002 Share Option Scheme and any other share option schemes of HISGL shall not exceed 30% (or such higher percentage as may be allowed under the Listing Rules) of the total number of shares in issue from time to time.

The maximum number of shares issued and to be issued upon exercise of the options granted to each participant under the 2002 Share Option Scheme and any other share option schemes of HISGL (including both exercised and outstanding options) in any twelve-month period shall not exceed 1% of the total number of HISGL's shares in issue. Any further grant of share options in excess of this limit is subject to approval by the shareholders of HISGL at a general meeting.

Share options granted to a director, chief executive or substantial shareholders of HISGL, or to any of their associates, are subject to approval in advance by the independent non-executive directors. In addition, any share options granted to a substantial shareholder or an independent non-executive director of HISGL, or to any of their associates, in excess of 0.1% of the total number of shares of HISGL in issue at the date on which such grant is proposed by the directors of HISGL or with an aggregate value (based on the closing price of HISGL's shares at the date on which such grant is proposed by the directors of HISGL) in excess of HKD5 million, within any twelve-month period, are subject to shareholders' approval in advance at a general meeting of HISGL.

The offer of a grant of share options may be accepted within 30 days from the date of the offer upon payment of a consideration of HKD1 by the grantee. The exercise period of the share options granted is determinable by the directors of HISGL, and such period shall commence not earlier than six months from the date of grant of the options and expire not later than ten years after the date of grant of the options. The vesting period of the share options is from the date of the grant until the commencement of the exercise period. All share options under the 2002 Share Option Scheme are subject to a six-month vesting period.

The exercise price of the share options is determinable by the directors of HISGL, and shall be at least the highest of (i) the closing price of HISGL's shares as stated in the Hong Kong Stock Exchange's daily quotations sheet on the offer date; (ii) the average closing price of HISGL's shares as stated in the Hong Kong Stock Exchange's daily quotations sheets for the five trading days immediately preceding the offer date; and (iii) the nominal value of HISGL's shares.

Share options do not confer rights on the holders to dividends or to vote at shareholders' meetings of HISGL.

The 2002 Share Option Scheme shall be valid and effective for a period of ten years commencing from the date on which it is conditionally adopted by resolution of HISGL at a general meeting and will expire on 22 August 2012.

The following table discloses movements of share options granted to directors and employees of the Group under HISGL's 2002 Share Option Scheme during the years/period:

	Year ended 31 December				Six months ended	
	2009		2010		30 June 2011	
	Weighted average exercise price HKD per share	Number of options '000	Weighted average exercise price HKD per share	Number of options '000	Weighted average exercise price HKD per share	Number of options '000
At beginning of the year/period	–	–	5.88	24,050	5.26	54,807
Granted during the year/period	–	–	4.85	33,480	–	–
Adjusted during the year/period	–	–	5.24	(46)	–	–
Exercised during the year/period	–	–	5.87	(1,740)	4.85	(310)
Forfeited during the year/period	–	–	5.19	(937)	5.34	(8,739)
Acquisition of HISGL	5.88	24,050	–	–	–	–
At end of the year/period	5.88	24,050	5.26	54,807	5.25	45,758
Exercisable at end of the year/ period		24,050		21,956		45,758

The weighted average share price at the date of exercise of the share options during the year ended 31 December 2010 and the six months ended 30 June 2011 was HKD6.93 and HKD5.05, respectively.

The exercise prices and exercise periods of the share options outstanding as at respective reporting dates are as follows:

Number of options '000	Exercise price <sup>1</sup> HKD per share	Exercise period
<b>30 June 2011</b>		
17,812	5.88	1 June 2008 to 31 May 2016
27,946	4.85	3 March 2011 to 2 March 2019
45,758		
<b>31 December 2010</b>		
21,956	5.88	1 June 2008 to 31 May 2016
32,851	4.85	3 March 2011 to 2 March 2019
54,807		
<b>31 December 2009</b>		
24,050	5.88	1 June 2008 to 31 May 2016

<sup>1</sup> The exercise price of the share option is subject to adjustment in case of rights or bonus issues, or other similar changes in HISGL's share capital.

**New share option granted in September 2010**

On 3 September 2010, HISGL granted 33,480,000 share options (of which 32,880,000 shares options were accepted) to its employees (including directors) under the 2002 Share Option Scheme pursuant to a board of directors resolution of HISGL with a six-month vesting period from 3 September 2010 to 2 March 2011 and exercisable from 3 March 2011 to 2 March 2019.

The fair value of the equity settled share options granted above is estimated at the date of grant using the Binomial model. The fair value of the share options granted above was HKD30,726,712 (HKD0.92 each) of which the Group recognised a share option expense of HKD12,791,000 and HKD6,396,000 (equivalent to approximately RMB10,990,000 and RMB5,402,000, respectively) for the year ended 31 December 2010 and the six months ended 30 June 2011, respectively.

The following table lists the key inputs to the model used:

Share price at the date of grant	HKD4.85
Contractual option life	8.5 years
Exercise price	HKD4.85
Expected volatility	52.6%
Expected dividend yield (%)	5.61%
Risk-free interest rate (%) (based on Hong Kong Exchange Fund Notes)	1.7456%

The expected volatility is based on the historical volatility, and calculated based on the contractual life of the share options. Expected dividend yield is based on historical dividends. The Binomial model has been used to estimate the fair value of the options. The variables and assumptions used in computing the fair value of the share options are based on the directors' best estimate. The value of an option varies with different variables of certain subjective assumptions.

**53. ACQUISITION OF SUBSIDIARIES**

On 21 December 2009, the Group acquired 52.86% of issued share capital of HISGL from an independent third party for consideration of HKD1,822,361,000 (equivalent to RMB1,604,553,000). The transaction has been accounted for using the purchase method. As the completion date of this acquisition was close to 31 December 2009, the consolidated statement of comprehensive income of HISGL and its subsidiaries had not been consolidated in the Group's statement of comprehensive income for the year ended 31 December 2009 as it has no significant financial impact to the Group. The amount of goodwill arising as a result of the acquisition was HKD784,980,000 (RMB691,160,000). HISGL is engaged in the securities, futures and options contracts, broking and trading services. HISGL was acquired so as to continue the expansion of the Group's securities broking and trading services.

**Consideration transferred**

	<i>RMB'000</i>
Cash	1,604,553
Direct costs relating to the acquisition	23,086
	<hr/>
Total	1,627,639
	<hr/> <hr/>

**Assets acquired and liabilities recognised at the date of acquisition**

	<b>Acquiree's carrying amount and fair value RMB'000</b>
Cash and cash equivalents	367,753
Property and equipment	24,139
Other intangible assets	84,585
Other assets	151,818
Investment in an associate	9,542
Available-for-sale investments	34,868
Deferred tax assets	6,516
Advances to customers	1,926,057
Accounts receivables	460,258
Financial assets at fair value through profit or loss	51,539
Cash held on behalf of clients	4,102,238
Accounts payables	(4,628,162)
Tax payable	(35,677)
Other payables and accruals	(126,905)
Borrowings	(639,229)
Deferred tax liabilities	(13,476)
	<hr/>
Net assets acquired	1,775,864
	<hr/> <hr/>

**Goodwill arising on acquisition**

	<i>RMB'000</i>
Consideration transferred	1,627,639
Plus: non-controlling interests (47.14% in HISGL)	839,385
Less: fair value of net assets acquired	(1,775,864)
	<hr/>
Goodwill arising on acquisition	691,160
	<hr/> <hr/>

Goodwill arose in the acquisition of HISGL because the cost of the combination included a control premium. In addition, the consideration paid for the combination effectively included amounts in relation to the benefit of expected synergies, revenue growth, future market development and the assembled workforce of HISGL. These benefits are not recognised separately from goodwill because they do not meet the recognition criteria for identifiable intangible assets.

**Net cash outflow on acquisition of HISGL**

	<i>RMB'000</i>
Cash consideration paid	1,604,553
Payment of direct costs relating to the acquisition	1,651
Less: cash and cash equivalent balances acquired	(367,753)
	<hr/>
Cash outflow on acquisition	1,238,451
	<hr/> <hr/>

From 21 December 2009 to 31 December 2009, the Group acquired additional 4.44% interest in HISGL from the market with total consideration amounting to approximately RMB135 million. During the year ended 31 December 2010 and six months ended 30 June 2011, the Group further acquired 3.29% and 0.37% of HISGL from the market with a total consideration amounting to approximately RMB93 million and RMB11 million, respectively. The excess of RMB56 million, RMB39 million and RMB4 million, representing the consideration paid over the carrying amount of the non-controlling interest in 2009, 2010 and 2011, respectively, has been recognised in equity.

## 54. RELATED PARTY TRANSACTIONS

In addition to the transactions and balances set out in notes 29 and 50 above, the Group had the following material transactions with the associate during the Relevant Periods:

	Year ended 31 December			Six months ended 30 June	
	2008	2009	2010	2010	2011
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(unaudited)	
Administration fee income					
– Fullgoal Fund Management Co. Ltd.	1,594	1,610	1,072	1,050	487
Interest expense					
– Fullgoal Fund Management Co. Ltd.	(101)	(9)	(37)	(2)	(10)

The followings are the material transactions between the Group's subsidiary, HFT Investment Management Company Limited and BNP Paribas Investment Partners BE Holding SA ("BNP") (formerly known as Fortis Investment Management S.A.), its non-controlling shareholder and BNP Paribas Investment Partners Japan Ltd, BNP's subsidiary:

	Year ended 31 December			Six months ended 30 June	
	2008	2009	2010	2010	2011
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(unaudited)	
Consultancy and financial advisory fee income received and receivable from:					
– BNP	44,364	61,213	93,319	48,098	41,986
Other expenses paid and payable to:					
– BNP	(219)	(1,044)	(921)	(514)	(87)
– BNP Paribas Investment Partners Japan Ltd	–	–	(2,278)	(1,736)	(457)

	As at 31 December			As at
	2008	2009	2010	30 June
	RMB'000	RMB'000	RMB'000	2011
				RMB'000
Accounts receivable from:				
– BNP	14,240	19,333	23,913	24,683
Other payables and accrued expenses to:				
– BNP	(219)	(1,263)	(2,184)	(2,271)
– BNP Paribas Investment Partners Japan Ltd	–	–	(433)	(890)
	<u>–</u>	<u>–</u>	<u>(433)</u>	<u>(890)</u>

The remuneration of the key management personnel of the Group was as follows:

	Year ended 31 December			Six months ended 30 June	
	2008	2009	2010	2010	2011
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(unaudited)	
Short-term benefits:					
– Fees, salaries, commission and bonuses	24,329	19,081	20,837	13,060	16,024
Post-employment benefits:					
– Employer's contribution to pension schemes/annuity plans	481	602	658	322	350
	<u>24,810</u>	<u>19,683</u>	<u>21,495</u>	<u>13,382</u>	<u>16,374</u>

**55. SEGMENT REPORTING**

Information reported to the chief operating decision maker (the “CODM”), being the board of directors of the Company, for the purposes of resource allocation and assessment of segment performance focuses on the nature of products sold and services provided by the Group, which is also consistent with the Group’s basis of organisation, whereby the businesses are organised and managed separately as individual strategic business unit that offers different products and serves different markets. Segment information is measured in accordance with the accounting policies and measurement criteria adopted by each segment when reporting to management, which are consistent with the accounting and measurement criteria in the preparation of the Financial Information.

During 2011, the CODM commenced to allocate resources and assess the segment performance based on the revised grouping of operating segments. Accordingly, the Relevant Periods’ segment reporting presentation has been presented in accordance with the new approach adopted by the CODM in the Financial Information.

Specifically, the Group’s reportable and operating segments are as follows:

- (a) the brokerage segment engages in the trading of equities, bonds, funds, and warrants, as well as futures on behalf of the customers, and also providing margin financing and securities lending services (the “Securities and futures brokerage” segment);
- (b) the assets management segment offers traditional asset management products and services through the Company and HFT Investment Management Co., Ltd. (海富通基金管理有限公司), one of the Group’s subsidiaries. The Group operates the private equity asset management business through its subsidiaries, Haitong-Fortis Private Equity Fund Management Co., Ltd. (海富產業投資基金管理有限公司), Haitong Jihe Private Equity Investment Fund Management Company Limited (海通吉禾股權投資基金管理有限公司) and Haitong Chuangxin Capital Management Company Limited (海通創新資本管理有限公司) (the “Asset management” segment);
- (c) the proprietary trading segment engages in trading of equities, bonds, funds, derivative and other financial products for the Group (the “Proprietary trading” segment);
- (d) the investment banking segment provides corporate finance services, including equity underwriting, debt underwriting and financial advisory services to institutional clients (the “Investment banking” segment);
- (e) the direct investment segment make direct equity investments in private companies and earn capital gains by exiting from these private equity investments through IPOs or share sales, or receive dividends from these portfolio companies. In addition, the Group invests in private equity funds (the “Direct investment” segment);
- (f) the headquarters and others segment mainly represents head office operations, investment holding as well as interest income and interest expense incurred for general working capital purpose (the “Headquarters and others” segment); and
- (g) the overseas operations segment mainly represents the business operation of Haitong International Securities Group Limited, a listed subsidiary of the Company, which mainly engages in broking, margin financing, corporate advisory, placing and underwriting, trading and investment and financial planning and advisory services (the “Overseas operations” segment).

Inter-segment transactions, if any, are conducted with reference to the prices charged to third parties and there was no change in the basis during the Relevant Periods.

Segment profit/loss represents the profit earned by/loss measured by each segment without allocation of share of result of associates and income tax expenses. This is the measure reported to CODM for the purposes of resource allocation and performance assessment.

Segment assets/liabilities are allocated to each segment, excluding investments in associates, deferred tax assets/liabilities. Inter-segment balances eliminations mainly include amount due from/to another segment arising from investing activities’ carried out by a segment for another segment.

The segment information provided to the CODM for the operating and reportable segments for the years ended 31 December 2008, 2009 and 2010 and the six months ended 30 June 2011 is as follows:

### Operating and Reportable Segment

*For the year ended 31 December 2008*

	Securities and futures brokerage RMB'000	Asset management RMB'000	Proprietary trading RMB'000	Investment banking RMB'000	Direct investment RMB'000	Headquarters and others RMB'000	Overseas operations RMB'000	Segment total RMB'000	Eliminations RMB'000	Consolidated total RMB'000
<b>Segment revenue and results</b>										
<b>Revenue</b>										
– External	4,460,182	638,810	681,523	267,599	4,871	1,778,804	9,618	7,841,407	–	7,841,407
– Inter-segment	919,510	578	–	578	–	58,392	–	979,058	(979,058)	–
Other income and gains	69,297	(4,993)	3,459	–	–	38,887	148	106,798	–	106,798
Segment revenue	5,448,989	634,395	684,982	268,177	4,871	1,876,083	9,766	8,927,263	(979,058)	7,948,205
Segment expenses	(2,512,099)	(394,931)	(76,728)	(140,411)	(2,846)	(2,105,194)	(38,382)	(5,270,591)	922,730	(4,347,861)
Segment result	2,936,890	239,464	608,254	127,766	2,025	(229,111)	(28,616)	3,656,672	(56,328)	3,600,344
Share of results of associates	–	–	–	–	–	97,517	–	97,517	–	97,517
Profit before income tax	2,936,890	239,464	608,254	127,766	2,025	(131,594)	(28,616)	3,754,189	(56,328)	3,697,861
<b>Segment assets and liabilities</b>										
Segment assets	37,817,769	1,081,292	12,968,794	174,967	1,003,828	79,099,783	1,065,982	133,212,415	(58,723,125)	74,489,290
Investments in associates										192,418
Deferred tax assets										4,311
<b>Group's total assets</b>										74,686,019
Segment liabilities	35,089,198	574,451	12,500,560	47,326	2,559	44,241,103	212,697	92,667,894	(56,690,905)	35,976,989
Deferred tax liabilities										72,306
<b>Group's total liabilities</b>										36,049,295
<b>Other segment information</b>										
<i>Amounts included in the measure of segment profit or loss:</i>										
Depreciation and amortisation	89,813	8,770	642	2,582	–	80,753	2,041	184,601	–	184,601
Impairment losses in respect of property and equipment	–	–	–	–	–	27,723	–	27,723	–	27,723
Impairment loss in respect of available-for-sale investments	–	–	–	–	–	39,270	–	39,270	–	39,270
Reversal of impairment loss in respect of other receivables	–	–	–	–	–	15,290	–	15,290	–	15,290
Interest income	14,352	12,287	8,442	513	4,871	1,341,891	4,250	1,386,606	–	1,386,606
Interest expenses	334,131	193	74	–	–	33,481	92	367,971	–	367,971

## Operating and Reportable Segment

For the year ended 31 December 2009

	Securities and futures brokerage RMB'000	Asset management RMB'000	Proprietary trading RMB'000	Investment banking RMB'000	Direct investment RMB'000	Headquarters and others RMB'000	Overseas operations RMB'000	Segment total RMB'000	Eliminations RMB'000	Consolidated total RMB'000
<b>Segment revenue and results</b>										
<b>Revenue</b>										
– External	7,266,210	866,237	804,362	496,763	37,068	1,427,218	150,597	11,048,455	–	11,048,455
– Inter-segment	613,070	428	–	836	–	55,252	–	669,586	(669,586)	–
Other income and gains	17,802	12,656	450	–	15,012	174,810	46,661	267,391	–	267,391
Segment revenue	7,897,082	879,321	804,812	497,599	52,080	1,657,280	197,258	11,985,432	(669,586)	11,315,846
Segment expenses	(3,337,293)	(514,055)	(92,093)	(224,233)	(15,471)	(1,746,223)	(87,635)	(6,017,003)	617,022	(5,399,981)
Segment result	4,559,789	365,266	712,719	273,366	36,609	(88,943)	109,623	5,968,429	(52,564)	5,915,865
Share of results of associates	–	(118)	–	–	–	66,080	–	65,962	–	65,962
Profit before income tax	4,559,789	365,148	712,719	273,366	36,609	(22,863)	109,623	6,034,391	(52,564)	5,981,827
<b>Segment assets and liabilities</b>										
Segment assets	68,187,585	956,496	22,625,591	323,046	3,047,388	110,373,175	9,143,117	214,656,398	(94,198,914)	120,457,484
Investments in associates										215,747
Deferred tax assets										56,974
<b>Group's total assets</b>										120,730,205
Segment liabilities	63,395,308	259,358	21,135,151	49,704	13,320	73,165,993	6,584,139	164,602,973	(88,863,191)	75,739,782
Deferred tax liabilities										471,828
<b>Group's total liabilities</b>										76,211,610
<b>Other segment information</b>										
<i>Amounts included in the measure of segment profit or loss:</i>										
Depreciation and amortisation	118,319	11,702	792	3,064	604	99,267	3,167	236,915	–	236,915
Impairment loss in respect of available-for-sale investments	–	–	200	–	–	–	4,459	4,659	–	4,659
Reversal of impairment loss in respect of other receivables	–	–	–	–	–	1,560	–	1,560	–	1,560
Interest income	17,871	8,195	–	182	36,299	1,300,259	44,236	1,407,042	–	1,407,042
Interest expenses	183,151	84	34,469	–	–	–	27,376	245,080	–	245,080

## Operating and Reportable Segment

For the year ended 31 December 2010

	Securities and futures brokerage RMB'000	Asset management RMB'000	Proprietary trading RMB'000	Investment banking RMB'000	Direct investment RMB'000	Headquarters and others RMB'000	Overseas operations RMB'000	Segment total RMB'000	Eliminations RMB'000	Consolidated total RMB'000
<b>Segment revenue and results</b>										
<b>Revenue</b>										
– External	5,759,169	868,475	779,766	1,091,718	106,018	1,616,636	887,075	11,108,857	–	11,108,857
– Inter-segment	679,432	409	–	1,602	–	54,838	–	736,281	(736,281)	–
Other income and gains	15,602	30	–	–	–	162,481	17,965	196,078	–	196,078
Segment revenue	6,454,203	868,914	779,766	1,093,320	106,018	1,833,955	905,040	12,041,216	(736,281)	11,304,935
Segment expenses	(3,438,600)	(530,224)	(82,232)	(511,701)	(23,974)	(1,761,873)	(726,204)	(7,074,808)	681,443	(6,393,365)
Segment results	3,015,603	338,690	697,534	581,619	82,044	72,082	178,836	4,966,408	(54,838)	4,911,570
Share of profits of associates	–	(346)	–	–	–	78,466	–	78,120	–	78,120
Profit before income tax	3,015,603	338,344	697,534	581,619	82,044	150,548	178,836	5,044,528	(54,838)	4,989,690
<b>Segment assets and liabilities</b>										
Segment assets	72,680,321	1,112,302	19,686,020	1,494,945	2,981,507	110,964,233	12,508,847	221,428,175	(106,619,950)	114,808,225
Investments in associates										543,281
Deferred tax assets										61,592
<b>Group's total assets</b>										115,413,098
Segment liabilities	69,402,259	260,711	19,003,657	914,457	26,383	71,224,676	8,242,153	169,074,296	(99,474,081)	69,600,215
Deferred tax liabilities										196,136
<b>Group's total liabilities</b>										69,796,351
<b>Other segment information</b>										
<i>Amounts included in the measure of segment profit or loss:</i>										
Depreciation and amortisation	148,396	13,113	778	3,661	919	89,878	31,727	288,472	–	288,472
Reversal of impairment loss in respect of other receivables	–	–	–	–	–	3,773	–	3,773	–	3,773
Interest income	87,063	11,236	4	500	59,278	1,282,640	206,286	1,647,007	–	1,647,007
Interest expenses	198,981	79	35,980	–	–	18,401	28,048	281,489	–	281,489

## Operating and Reportable Segment

For the six months ended 30 June 2011

	Securities and futures brokerage RMB'000	Asset management RMB'000	Proprietary trading RMB'000	Investment banking RMB'000	Direct investment RMB'000	Headquarters and others RMB'000	Overseas operations RMB'000	Segment total RMB'000	Eliminations RMB'000	Consolidated total RMB'000
<b>Segment revenue and results</b>										
<b>Revenue</b>										
– External	2,290,000	512,669	802,718	621,953	23,426	1,153,397	488,123	5,892,286	–	5,892,286
– Inter-segment	335,257	178	–	2,661	–	269,039	–	607,135	(607,135)	–
Other income and gains	7,226	2,163	–	–	–	14,646	36,761	60,796	–	60,796
Segment revenue	2,632,483	515,010	802,718	624,614	23,426	1,437,082	524,884	6,560,217	(607,135)	5,953,082
Segment expenses	(1,402,527)	(297,679)	(99,454)	(160,487)	(4,302)	(943,430)	(354,227)	(3,262,106)	338,096	(2,924,010)
Segment result	1,229,956	217,331	703,264	464,127	19,124	493,652	170,657	3,298,111	(269,039)	3,029,072
Share of results of associates	–	(3)	–	–	(4,696)	38,747	–	34,048	–	34,048
Profit before income tax	1,229,956	217,328	703,264	464,127	14,428	532,399	170,657	3,332,159	(269,039)	3,063,120
<b>Segment assets and liabilities</b>										
Segment assets	55,267,712	1,111,113	25,059,595	838,649	2,549,842	96,101,044	12,757,546	193,685,501	(88,683,400)	105,002,101
Investments in associates										892,127
Deferred tax assets										163,581
<b>Group's total assets</b>										106,057,809
Segment liabilities	53,608,049	302,440	24,437,211	374,523	85,056	53,636,126	8,631,421	141,074,826	(81,450,485)	59,624,341
Deferred tax liabilities										133,711
<b>Group's total liabilities</b>										59,758,052
<b>Other segment information</b>										
<i>Amounts included in the measure of segment profit or loss:</i>										
Depreciation and amortisation	83,702	7,145	637	2,316	693	36,509	16,887	147,889	–	147,889
Reversal of impairment loss in respect of other receivables	–	–	–	–	–	–	978	978	–	978
Interest income	141,984	8,834	128	1,147	21,852	871,214	160,325	1,205,484	–	1,205,484
Interest expenses	104,764	25	39,497	2	–	25,240	14,498	184,026	–	184,026

## Operating and Reportable Segment

For the six months ended 30 June 2010 (unaudited)

	Securities and futures brokerage RMB'000	Asset management RMB'000	Proprietary trading RMB'000	Investment banking RMB'000	Direct investment RMB'000	Headquarters and others RMB'000	Overseas operations RMB'000	Segment total RMB'000	Eliminations RMB'000	Consolidated total RMB'000
<b>Segment revenue and results</b>										
<b>Revenue</b>										
– External	2,470,908	376,422	191,102	613,090	16,293	891,595	357,742	4,917,152	–	4,917,152
– Inter-segment	343,490	227	–	927	–	54,838	–	399,482	(399,482)	–
Other income and gains	15,579	–	–	–	–	35,618	4,490	55,687	–	55,687
Segment revenue	2,829,977	376,649	191,102	614,017	16,293	982,051	362,232	5,372,321	(399,482)	4,972,839
Segment expenses	(1,451,030)	(226,122)	(49,118)	(181,650)	(5,788)	(674,576)	(293,381)	(2,881,665)	344,644	(2,537,021)
Segment results	1,378,947	150,527	141,984	432,367	10,505	307,475	68,851	2,490,656	(54,838)	2,435,818
Share of results of associates	–	–	–	–	–	39,628	–	39,628	–	39,628
Profit before income tax	1,378,947	150,527	141,984	432,367	10,505	347,103	68,851	2,530,284	(54,838)	2,475,446
<b>Other segment information</b>										
<i>Amounts included in the measure of segment profit or loss:</i>										
Depreciation and amortisation	74,340	6,453	387	1,879	438	45,571	17,318	146,386	–	146,386
Reversal of impairment loss in respect of other receivables	–	–	–	–	–	2,687	–	2,687	–	2,687
Interest income	19,855	4,305	4	432	15,779	628,907	77,606	746,888	–	746,888
Interest expenses	100,653	48	20,954	–	–	8,683	9,882	140,220	–	140,220

The Group operates in two principal geographical areas, the People's Republic of China (excluding Hong Kong) and Hong Kong, representing the location of majority of the income from external customers and non-current assets of the Group. Segment revenue and non-current assets in respect of Overseas operations segment are substantially attributable to Hong Kong. The remaining segment revenue and non-current assets are attributable to the PRC. No single customers contribute more than 10% of income to the Group's income for the Relevant Periods.

## 56. MATURITY PROFILE OF ASSETS AND LIABILITIES

An analysis of the maturity profile of certain assets and liabilities of the Group based on the remaining contractual maturity as at 31 December 2008, 2009 and 2010 and 30 June 2011 is as follows:

	Repayable on demand <i>RMB'000</i>	Less than 1 year <i>RMB'000</i>	More than 1 year but less than 5 years <i>RMB'000</i>	More than 5 years <i>RMB'000</i>	Total <i>RMB'000</i>
<b>As at 31 December 2008</b>					
<b>Assets</b>					
Advances to customers	29,734	–	–	–	29,734
Bank balances and cash (including restricted bank deposits)	56,089,562	990,000	102,453	–	57,182,015
Clearing settlement funds (client money)	2,681,825	–	–	–	2,681,825
Debt securities classified as:					
Financial assets held for trading	–	1,939,468	4,802,497	1,101,088	7,843,053
Held-to-maturity financial assets	–	997,286	12,561	–	1,009,847
Bond investments included in:					
Other assets	–	–	226,070	–	226,070
Other receivables and prepayments	–	85,410	–	–	85,410
	<u>58,801,121</u>	<u>4,012,164</u>	<u>5,143,581</u>	<u>1,101,088</u>	<u>69,057,954</u>
<b>Liabilities</b>					
Accounts payable to brokerage clients (money held on behalf of clients only)	<u>33,575,783</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>33,575,783</u>

	Repayable on demand <i>RMB'000</i>	Less than 1 year <i>RMB'000</i>	More than 1 year but less than 5 years <i>RMB'000</i>	More than 5 years <i>RMB'000</i>	Total <i>RMB'000</i>
<b>As at 31 December 2009</b>					
<b>Assets</b>					
Advances to customers	2,034,977	–	–	–	2,034,977
Bank balances and cash (including restricted bank deposits)	88,246,912	–	184,844	–	88,431,756
Clearing settlement funds (client money)	5,538,708	–	–	–	5,538,708
Debt securities classified as:					
Financial assets held for trading	–	110,012	2,646,878	3,540,616	6,297,506
Available-for-sale investments	–	–	40,748	70,190	110,938
	<u>95,820,597</u>	<u>110,012</u>	<u>2,872,470</u>	<u>3,610,806</u>	<u>102,413,885</u>
<b>Liabilities</b>					
Borrowings from banks	–	856,474	–	–	856,474
Accounts payable to brokerage clients (money held on behalf of clients only)	<u>65,064,154</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>65,064,154</u>
	<u>65,064,154</u>	<u>856,474</u>	<u>–</u>	<u>–</u>	<u>65,920,628</u>

	Repayable on demand <i>RMB'000</i>	Less than 1 year <i>RMB'000</i>	More than 1 year but less than 5 years <i>RMB'000</i>	More than 5 years <i>RMB'000</i>	Total <i>RMB'000</i>
<b>As at 31 December 2010</b>					
Assets					
Advances to customers	5,814,456	–	–	–	5,814,456
Bank balances and cash (including restricted bank deposits)	56,899,043	1,158,272	260,801	–	58,318,116
Clearing settlement funds (client money)	19,981,907	–	–	–	19,981,907
Debt securities classified as:					
Financial assets held for trading	–	635,798	4,687,264	3,655,103	8,978,165
Available-for-sale investments	–	39,905	108,558	130,059	278,522
	<u>82,695,406</u>	<u>1,833,975</u>	<u>5,056,623</u>	<u>3,785,162</u>	<u>93,371,166</u>
Liabilities					
Borrowings from banks	–	2,825,406	–	–	2,825,406
Bank overdrafts	11,821	–	–	–	11,821
Accounts payable to brokerage clients (money held on behalf of clients only)	61,534,840	–	–	–	61,534,840
	<u>61,546,661</u>	<u>2,825,406</u>	<u>–</u>	<u>–</u>	<u>64,372,067</u>

	Repayable on demand <i>RMB'000</i>	Less than 1 year <i>RMB'000</i>	More than 1 year but less than 5 years <i>RMB'000</i>	More than 5 years <i>RMB'000</i>	Total <i>RMB'000</i>
<b>As at 30 June 2011</b>					
Assets					
Advances to customers	6,529,170	–	–	–	6,529,170
Bank balances and cash (including restricted bank deposits)	49,723,691	1,476,722	297,170	–	51,497,583
Clearing settlement funds (client money)	2,890,309	–	–	–	2,890,309
Debt securities classified as:					
Financial assets held for trading	–	2,200,838	5,675,991	4,869,936	12,746,765
Available-for-sale investments	–	–	38,050	181,993	220,043
	<u>59,143,170</u>	<u>3,677,560</u>	<u>6,011,211</u>	<u>5,051,929</u>	<u>73,883,870</u>
Liabilities					
Borrowings from banks	–	3,313,091	–	–	3,313,091
Accounts payable to brokerage clients (money held on behalf of clients only)	43,876,390	–	–	–	43,876,390
	<u>43,876,390</u>	<u>3,313,091</u>	<u>–</u>	<u>–</u>	<u>47,189,481</u>

## 57. FINANCIAL INSTRUMENTS

## Categories of financial instruments

## Group

	As at 31 December			As at
	2008	2009	2010	30 June
	RMB'000	RMB'000	RMB'000	2011
				RMB'000
<b>Financial assets</b>				
Loans and receivable	61,087,217	98,686,564	90,562,449	77,180,974
Available-for-sale investments	1,233,427	6,648,505	6,938,257	8,226,731
Fair value through profit or loss				
– Held for trading	9,760,737	12,896,752	15,018,084	17,340,566
Held-to-maturity financial assets	1,009,847	–	–	–
	<u>61,087,217</u>	<u>98,686,564</u>	<u>90,562,449</u>	<u>77,180,974</u>
<b>Financial liabilities</b>				
Amortised cost	34,893,776	74,252,425	67,930,114	57,846,935
Fair value through profit or loss				
– Held for trading	–	–	–	90,019
	<u>34,893,776</u>	<u>74,252,425</u>	<u>67,930,114</u>	<u>57,846,935</u>

## Company

	As at 31 December			As at
	2008	2009	2010	30 June
	RMB'000	RMB'000	RMB'000	2011
				RMB'000
<b>Financial assets</b>				
Loans and receivable	57,802,824	84,564,440	71,819,189	59,617,186
Available-for-sale investments	1,185,464	6,007,468	5,233,707	6,037,959
Fair value through profit or loss				
– Held for trading	9,760,737	12,845,060	14,913,359	17,053,224
Held-to-maturity financial assets	997,286	–	–	–
	<u>57,802,824</u>	<u>84,564,440</u>	<u>71,819,189</u>	<u>59,617,186</u>
<b>Financial liabilities</b>				
Amortised cost	34,035,846	65,616,290	55,384,407	45,102,801
Fair value through profit or loss				
– Held for trading	–	–	–	90,019
	<u>34,035,846</u>	<u>65,616,290</u>	<u>55,384,407</u>	<u>45,102,801</u>

**58. FINANCIAL RISK MANAGEMENT**

The Group and the Company's major financial instruments include equity and debt investments, advances to customers, accounts receivable, other receivables, amount due from / to a subsidiary, financial assets held under resale agreements, clearing settlement funds, bank balances and cash, pledged bank deposits, borrowings, financial assets sold under repurchase agreements, accounts payable to brokerage clients and other payables. Details of the financial instruments are disclosed in respective notes. The risks associated with these financial instruments include market risk (price risk, currency risk and interest rate risk), credit risk and liquidity risk. The policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

**Market risk**

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in economic environment. Market risk comprises three types of risks: price risk, currency risk and interest rate risk.

The Group and the Company's exposures to market risk include price risk, currency risk and interest rate risk.

***Price risk***

Price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate as a result of changes in market prices (other than those arising from interest rate risk or foreign exchange risk), whether caused by factors specific to an individual investment, its issuer, or all factors affecting equity instruments traded in the market.

The Group and the Company are exposed to price risk arising from individual investment classified as financial assets held for trading and available-for-sale investments. The directors of the Company manage the exposure by closely monitoring the portfolio of investments and have started hedging exposure by entering into derivatives contracts in 2010.

Price risk exposures are measured using value-at-risk (VaR) at the Company level.

There has been no change to the Company's exposure to market risks or the manner in which it manages and measures the risk.

***Value at Risk (VaR) analysis***

The VaR risk measure estimates the potential loss over a given holding period for a specified confidence level. The VaR methodology is a statistically defined, probability-based approach that takes into account market volatilities as well as risk diversification by recognising offsetting positions and correlations between products and markets. Risks can be measured consistently across all markets and products, and risk measures can be aggregated to arrive at a single risk number. The one-day 95% VaR number used by the Group reflects the 95% probability that the daily loss will not exceed the reported VaR.

VaR methodologies employed to calculate the month end risk numbers include the historical approach.

Historical VaR (95%, one-day) by risk type	As at 31 December			As at 30 June
	2008	2009	2010	2011
	RMB'000	RMB'000	RMB'000	RMB'000

Total VaR exposure	71,000	409,000	175,000	116,000
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## Average

Historical VaR (95%, one-day) by risk type	Year ended 31 December			Six months ended 30 June
	2008	2009	2010	2011
	RMB'000	RMB'000	RMB'000	RMB'000

Total VaR exposure	133,000	231,000	223,000	148,000
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## Minimum

Historical VaR (95%, one-day) by risk type	Year ended 31 December			Six months ended 30 June
	2008	2009	2010	2011
	RMB'000	RMB'000	RMB'000	RMB'000

Total VaR exposure	71,000	73,000	173,000	116,000
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## Maximum

Historical VaR (95%, one-day) by risk type	Year ended 31 December			Six months ended 30 June
	2008	2009	2010	2011
	RMB'000	RMB'000	RMB'000	RMB'000

Total VaR exposure	252,000	438,000	278,000	185,000
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The subsidiaries of the Company have utilised the effect of stock price variation on net profit and revaluation reserve within the period, rather than VaR methodology, to manage and analyse the price risk. When reporting internally to the key management on risk, the management estimates that reasonable possible change in price is 10%. If the prices of the respective equity instruments had been 10% higher/lower, and held other variables constant, the impacts to the profit for the year/period and investment revaluation reserve are as follows:

	Year ended 31 December			Six months ended 30 June
	2008	2009	2010	2011
	RMB'000	RMB'000	RMB'000	RMB'000
<b>Profit for the year/period</b>				
Increase by 10%	—	3,695	5,692	5,426
Decrease by 10%	—	(3,695)	(5,692)	(5,426)
<b>Investment revaluation reserve</b>				
Increase by 10%	—	2,704	14,357	13,949
Decrease by 10%	—	(2,704)	(14,357)	(13,949)

In management's opinion, the sensitivity analysis is unrepresentative of inherent price risk as the year end exposure does not reflect the exposure during the year/period.

***Currency risk***

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate as a result of changes in foreign exchange rates.

The Group's currency risk arises principally from its leveraged foreign exchange business carried out through HISGL.

The other amounts of financial assets and liabilities of the Group are substantially denominated in the functional currency of the respective entity within the Group. As such, the Group's currency risk exposure is considered insignificant.

***Interest rate risk***

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The Group and the Company's exposure to interest rate risk relates primarily to the Group and the Company's bank deposits, advances to customers, amount due from/to a subsidiary, clearing settlement funds, debt securities, accounts payable to brokerage clients and borrowings. Management actively monitors the Group and the Company's net interest rate exposure through setting limits on the level of mismatch of interest rate repricing and duration gap and aims at maintaining an interest rate spread, such that the Group and the Company are always in a net interest-bearing asset position and derive net interest income.

Fluctuations of prevailing rate quoted by the People's Bank of China and Hong Kong Inter-bank Offered Rate are the major sources of the Group and the Company's cash flow interest rate risk.

The Group and the Company's exposures to interest rates on financial liabilities are detailed in the liquidity risk management section of this note.

***Sensitivity analysis***

The sensitivity analysis below has been determined based on the exposure to interest rates for variable rate financial assets and liabilities. The analysis is prepared assuming the financial instruments outstanding at the end of the reporting period were outstanding for the whole year. When reporting to the management on the interest rate risk, the Company will adopt a 50 basis points increase or decrease for sensitivity analysis, while considering the reasonably possible change in interest rates.

**Group**

If interest rates had been 50 basis points higher/lower and all other variables were held constant, the Group's:

- Profit for the year ended 31 December 2008 would increase/decrease by RMB27,097,000 and would decrease/increase for the years ended 31 December 2009, 31 December 2010 and the six months ended 30 June 2011 by RMB18,188,000, RMB42,460,000, and RMB123,905,000, respectively. This is mainly attributable to the Group's exposure to interest rates on its bank balances, accounts payable to brokerage clients and held for trading debt securities; and
- Investment revaluation reserve for the years ended 31 December 2008, 2009 and 2010 and the six months ended 30 June 2011 would decrease/increase by nil, RMB3,200,000, RMB5,515,000, and RMB5,175,000, respectively, mainly as a result of the changes in the fair value of available-for-sale debt investments.

**Company**

If interest rates had been 50 basis points higher/lower and all other variables were held constant, the Company's:

- Profit for the year ended 31 December 2008 would increase/decrease by RMB19,830,000, and for the years ended 31 December 2009 and 2010 and the six months ended 30 June 2011 would decrease/increase by RMB34,706,000, RMB60,368,000, and RMB137,279,000, respectively. This is mainly attributable to the Company's exposure to interest rates on its bank balances, held for trading debt securities and accounts payable to brokerage clients; and
- Investment revaluation reserve for the years ended 31 December 2008, 2009 and 2010 and the six months ended 30 June 2011 would decrease/increase by nil, RMB3,200,000, RMB5,515,000, and RMB5,175,000, respectively, mainly as a result of the changes in the fair value of available-for-sale debt investments.

**Credit risk**

The Group and the Company take on exposure to credit risk, which is the risk that a counterparty will be unable to pay amounts in full when due. The tables below show the maximum credit risk exposure of the Group and the Company, being the carrying amount of the respective recognised financial assets before the effect of mitigation through the use of collateral.

**Group**

	As at 31 December			As at 30 June
	2008	2009	2010	2011
	RMB'000	RMB'000	RMB'000	RMB'000
Advances to customers	29,734	2,034,977	5,814,456	6,529,170
Accounts receivable	82,091	677,077	980,221	1,458,279
Other receivables and prepayments	382,419	358,507	447,497	1,044,457
Held-to-maturity financial assets	1,009,847	—	—	—
Available-for-sale debt investments	—	110,938	278,522	220,043
Financial assets held under resale agreements	—	—	2,120,000	10,143,491
Financial assets at fair value through profit or loss	7,843,053	6,528,138	8,978,165	12,746,765
Deposits with exchanges	369,855	1,374,951	2,373,425	2,655,787
Clearing settlement funds	2,776,762	5,749,123	20,424,736	3,726,401
Bank balances and cash	57,079,562	88,246,912	58,057,315	51,200,413
Restricted bank deposits	102,453	184,844	260,801	297,170
Other assets	264,341	60,173	83,998	125,806
Maximum credit exposure	<u>69,940,117</u>	<u>105,325,640</u>	<u>99,819,136</u>	<u>90,147,782</u>

**Company**

	As at 31 December			As at 30 June
	2008	2009	2010	2011
	RMB'000	RMB'000	RMB'000	RMB'000
Advances to customers	—	—	2,091,136	2,640,042
Other receivables and prepayments	281,033	223,941	295,705	946,003
Amount due from a subsidiary	—	—	637,300	226,533
Available-for-sale debt investments	—	110,938	270,472	211,993
Financial assets held under resale agreements	—	—	2,120,000	10,143,491
Held-to-maturity financial assets	997,286	—	—	—
Financial assets at fair value through profit or loss	7,843,053	6,528,138	8,951,939	12,534,164
Deposits with exchanges	249,699	672,582	790,909	1,355,138
Clearing settlement funds	2,670,734	5,511,975	19,652,583	2,889,189
Bank balances and cash	54,565,462	78,115,546	46,185,659	41,368,892
Other assets	35,896	40,396	45,897	47,898
Maximum credit exposure	<u>66,643,163</u>	<u>91,203,516</u>	<u>81,041,600</u>	<u>72,363,343</u>

Credit exposures arise principally from investments in debt securities, advances to customers, accounts receivable, clearing settlement funds and bank balances which are included in the Group and the Company's asset portfolios.

Credit exposure arising from investments in debt securities include downgrading of credit rating of the debt securities and/or of its underlying issuers and default of payments by the issuers. The Group and the Company have implemented a policy of not investing in any debt securities rated by reputable credit rating agency at a rating below A-3 and BBB for short-term tenor and for medium to long-term tenor, respectively. Management also closely monitors the credit ratings of respective debt securities on a regular basis and the financial soundness of the underlying issuers.

The Group and the Company provide clients with margin financing for securities transactions and securities lending to clients, which are secured by clients' securities or deposits held as collateral. Management has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. Each client has a maximum credit limit based on the quality of collateral held and the financial background of the client. In addition, the Group and the Company review the recoverable amount of each individual at the end of the reporting period to ensure that adequate impairment losses are made for irrecoverable amounts. Margin calls are made when the trades of margin clients exceed their respective limits. Any such excess is required to be made good within the next trading day. Failure to meet margin calls may result in the liquidation of the client's positions. The Group and the Company seek to maintain strict control over its outstanding receivables.

The Group seeks to maintain tight control over its outstanding accounts receivable in order to minimise credit risk. Overdue balances are regularly monitored by management. Accounts receivable from cash clients which are neither past due nor impaired represent unsettled client trades on various securities exchanges transacted on the last two business days prior to the respective reporting date. Such receivable balances are neither past due nor impaired as they are within the normal market convention.

Accounts receivable from cash clients which are past due but not impaired represent client trades on various securities exchanges which are unsettled beyond the settlement date. When the cash clients failed to settle on settlement date, the Group and the Company has a right to force-sell the collateral underlying the securities transactions. The outstanding accounts receivable from cash clients as at 31 December 2008, 2009 and 2010 and 30 June 2011 are considered not to be impaired after taking into consideration the recoverability from collateral. Collateral held against such receivables are publicly traded securities.

The credit risk on liquid funds is limited because the counterparties are banks with high credit ratings assigned by international credit-rating agencies.

Other than concentration of credit risk on liquid funds which are deposited with several banks with high credit ratings, the Group and the Company's major credit exposures are with counterparties domiciled in the PRC as of 31 December 2008, 2009 and 2010 and 30 June 2011.

### **Liquidity risk**

Liquidity risk is the risk that the Group and the Company will encounter difficulty in meeting obligations associated with its financial liabilities. Prudent liquidity risk management includes maintaining sufficient cash, the availability of funding from the market in the capacity of a financial institution, and the ability to close out market positions. As part of the measures to safeguard liquidity, the Group has maintained substantial long-term and other stand-by banking facilities, diversifying the funding sources and spacing out the maturity dates.

### ***Undiscounted cash flows by contractual maturities***

The table below presents the cash flows payable by the Group under non-derivative financial liabilities held for managing liquidity risk by remaining contractual maturities at the reporting date. The amounts disclosed in the table are the contractual undiscounted cash flows. The table includes both interest and principal cash flows.

# APPENDIX I

# ACCOUNTANTS' REPORT

## Group

As at 31 December 2008

	On demand RMB'000	Less than 3 months RMB'000	3 months to 1 year RMB'000	Total RMB'000
Accounts payable to brokerage clients	33,777,667	–	–	33,777,667
Other payables	493,226	–	12,883	506,109
Financial assets sold under repurchase agreements	–	610,018	–	610,018
	<u>34,270,893</u>	<u>610,018</u>	<u>12,883</u>	<u>34,893,794</u>

As at 31 December 2009

	On demand RMB'000	Less than 3 months RMB'000	3 months to 1 year RMB'000	Total RMB'000
Borrowings	220,120	856,564	–	1,076,684
Accounts payable to brokerage clients	66,510,310	69,860	–	66,580,170
Other payables	759,466	–	14,695	774,161
Financial assets sold under repurchase agreements	–	5,822,629	–	5,822,629
	<u>67,489,896</u>	<u>6,749,053</u>	<u>14,695</u>	<u>74,253,644</u>

As at 31 December 2010

	On demand RMB'000	Less than 3 months RMB'000	3 months to 1 year RMB'000	Total RMB'000
Borrowings	96,913	2,826,305	–	2,923,218
Accounts payable to brokerage clients	63,462,147	110,292	109,915	63,682,354
Other payables	1,307,591	–	17,849	1,325,440
	<u>64,866,651</u>	<u>2,936,597</u>	<u>127,764</u>	<u>67,931,012</u>

As at 30 June 2011

	On demand RMB'000	Less than 3 months RMB'000	3 months to 1 year RMB'000	Total RMB'000
Borrowings	–	3,397,070	–	3,397,070
Accounts payable to brokerage clients	46,427,675	–	544,239	46,971,914
Other payables	487,182	–	9,486	496,668
Financial assets sold under repurchase agreements	–	6,984,317	–	6,984,317
	<u>46,914,857</u>	<u>10,381,387</u>	<u>553,725</u>	<u>57,849,969</u>

**Company***As at 31 December 2008*

	<b>On demand</b> <i>RMB'000</i>	<b>Less than 3 months</b> <i>RMB'000</i>	<b>3 months to 1 year</b> <i>RMB'000</i>	<b>Total</b> <i>RMB'000</i>
Accounts payable to brokerage clients	32,963,902	–	–	32,963,902
Other payables	449,061	–	12,883	461,944
Financial assets sold under repurchase agreements	–	610,018	–	610,018
	<u>33,412,963</u>	<u>610,018</u>	<u>12,883</u>	<u>34,035,864</u>

*As at 31 December 2009*

	<b>On demand</b> <i>RMB'000</i>	<b>Less than 3 months</b> <i>RMB'000</i>	<b>3 months to 1 year</b> <i>RMB'000</i>	<b>Total</b> <i>RMB'000</i>
Accounts payable to brokerage clients	59,473,774	–	–	59,473,774
Other payables	306,321	–	14,695	321,016
Financial assets sold under repurchase agreements	–	5,822,629	–	5,822,629
	<u>59,780,095</u>	<u>5,822,629</u>	<u>14,695</u>	<u>65,617,419</u>

*As at 31 December 2010*

	<b>On demand</b> <i>RMB'000</i>	<b>Less than 3 months</b> <i>RMB'000</i>	<b>3 months to 1 year</b> <i>RMB'000</i>	<b>Total</b> <i>RMB'000</i>
Accounts payable to brokerage clients	54,101,905	–	109,915	54,211,820
Other payables	1,134,738	–	17,849	1,152,587
Amount due to a subsidiary	20,000	–	–	20,000
	<u>55,256,643</u>	<u>–</u>	<u>127,764</u>	<u>55,384,407</u>

*As at 30 June 2011*

	<b>On demand</b> <i>RMB'000</i>	<b>Less than 3 months</b> <i>RMB'000</i>	<b>3 months to 1 year</b> <i>RMB'000</i>	<b>Total</b> <i>RMB'000</i>
Accounts payable to brokerage clients	37,284,631	–	544,239	37,828,870
Other payables	281,441	–	9,486	290,927
Amount due to a subsidiary	904	–	–	904
Financial assets sold under repurchase agreements	–	6,984,317	–	6,984,317
	<u>37,566,976</u>	<u>6,984,317</u>	<u>553,725</u>	<u>45,105,018</u>

**Fair value of financial assets and liabilities**

The fair value of financial assets and financial liabilities are determined as follows:

- the fair value of financial assets with standard terms and conditions and traded in active liquid markets are determined with reference to quoted market bid prices;
- the fair value of derivative instruments is calculated using quoted prices. Where such prices are not available, use is made of discounted cash flow analysis using the applicable yield curve for the duration of the instruments for non-optional derivatives, and option pricing models for optional derivatives; and
- the fair value of other financial assets and financial liabilities (excluding those described above) is determined in accordance with generally accepted pricing models based on discounted cash flow analysis.

The directors of the Company consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the Group and the Company's statements of financial position approximate their fair values.

***Financial instruments measured at fair value***

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable.

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active market for identical assets or liabilities.
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

**Group***As at 31 December 2008*

	<b>Level 1</b> <i>RMB'000</i>	<b>Level 2</b> <i>RMB'000</i>	<b>Level 3</b> <i>RMB'000</i>	<b>Total</b> <i>RMB'000</i>
Available-for-sale investments	877,606	154,875	93,100	1,125,581
Financial assets at fair value through profit or loss	1,426,468	8,334,269	–	9,760,737
	<u>2,304,074</u>	<u>8,489,144</u>	<u>93,100</u>	<u>10,886,318</u>

*As at 31 December 2009*

	<b>Level 1</b> <i>RMB'000</i>	<b>Level 2</b> <i>RMB'000</i>	<b>Level 3</b> <i>RMB'000</i>	<b>Total</b> <i>RMB'000</i>
Available-for-sale investments	1,562,629	545,661	4,133,097	6,241,387
Financial assets at fair value through profit or loss	3,662,334	9,234,418	–	12,896,752
	<u>5,224,963</u>	<u>9,780,079</u>	<u>4,133,097</u>	<u>19,138,139</u>

*As at 31 December 2010*

	<b>Level 1</b> <i>RMB'000</i>	<b>Level 2</b> <i>RMB'000</i>	<b>Level 3</b> <i>RMB'000</i>	<b>Total</b> <i>RMB'000</i>
Available-for-sale investments	3,740,349	1,104,354	1,188,769	6,033,472
Financial assets at fair value through profit or loss	5,253,236	9,764,848	–	15,018,084
	<u>8,993,585</u>	<u>10,869,202</u>	<u>1,188,769</u>	<u>21,051,556</u>

*As at 30 June 2011*

	<b>Level 1</b> <i>RMB'000</i>	<b>Level 2</b> <i>RMB'000</i>	<b>Level 3</b> <i>RMB'000</i>	<b>Total</b> <i>RMB'000</i>
Available-for-sale investments	4,908,047	778,089	950,171	6,636,307
Financial assets at fair value through profit or loss	9,094,440	8,246,128	–	17,340,568
	<u>14,002,487</u>	<u>9,024,217</u>	<u>950,171</u>	<u>23,976,875</u>
Financial liabilities at fair value through profit or loss	<u>90,019</u>	<u>–</u>	<u>–</u>	<u>90,019</u>

**Company***As at 31 December 2008*

	<b>Level 1</b> <i>RMB'000</i>	<b>Level 2</b> <i>RMB'000</i>	<b>Level 3</b> <i>RMB'000</i>	<b>Total</b> <i>RMB'000</i>
Available-for-sale investments	877,605	108,313	93,100	1,079,018
Financial assets at fair value through profit or loss	<u>1,426,468</u>	<u>8,334,269</u>	<u>–</u>	<u>9,760,737</u>
	<u><u>2,304,073</u></u>	<u><u>8,442,582</u></u>	<u><u>93,100</u></u>	<u><u>10,839,755</u></u>

*As at 31 December 2009*

	<b>Level 1</b> <i>RMB'000</i>	<b>Level 2</b> <i>RMB'000</i>	<b>Level 3</b> <i>RMB'000</i>	<b>Total</b> <i>RMB'000</i>
Available-for-sale investments	1,540,637	249,282	4,119,038	5,908,957
Financial assets at fair value through profit or loss	<u>3,613,065</u>	<u>9,231,995</u>	<u>–</u>	<u>12,845,060</u>
	<u><u>5,153,702</u></u>	<u><u>9,481,277</u></u>	<u><u>4,119,038</u></u>	<u><u>18,754,017</u></u>

*As at 31 December 2010*

	<b>Level 1</b> <i>RMB'000</i>	<b>Level 2</b> <i>RMB'000</i>	<b>Level 3</b> <i>RMB'000</i>	<b>Total</b> <i>RMB'000</i>
Available-for-sale investments	3,713,104	402,221	1,013,846	5,129,171
Financial assets at fair value through profit or loss	<u>5,151,119</u>	<u>9,762,240</u>	<u>–</u>	<u>14,913,359</u>
	<u><u>8,864,223</u></u>	<u><u>10,164,461</u></u>	<u><u>1,013,846</u></u>	<u><u>20,042,530</u></u>

*As at 30 June 2011*

	<b>Level 1</b> <i>RMB'000</i>	<b>Level 2</b> <i>RMB'000</i>	<b>Level 3</b> <i>RMB'000</i>	<b>Total</b> <i>RMB'000</i>
Available-for-sale investments	4,774,781	394,416	764,227	5,933,424
Financial assets at fair value through profit or loss	<u>8,809,495</u>	<u>8,243,729</u>	<u>–</u>	<u>17,053,224</u>
	<u><u>13,584,276</u></u>	<u><u>8,638,145</u></u>	<u><u>764,227</u></u>	<u><u>22,986,648</u></u>
Financial liabilities at fair value through profit or loss	<u>90,019</u>	<u>–</u>	<u>–</u>	<u>90,019</u>

There were no transfers between instruments in Level 1 and Level 2 during the years ended 31 December 2008, 2009 and 2010 and for the six months ended 30 June 2011.

The following table represents the changes in Level 3 available-for-sale investments for the years ended 31 December 2008, 2009 and 2010 and the six months ended 30 June 2011.

**Group**

	Year ended 31 December			Six months ended 30 June 2011
	2008	2009	2010	
	RMB'000	RMB'000	RMB'000	RMB'000
At beginning of the year/period	1,250,691	93,100	4,133,097	1,188,769
Recognised in other comprehensive income	(149,490)	815,960	33,272	75,862
Purchases	272,690	3,291,100	917,560	350,970
Transfer into Level 3*	–	200,310	55,000	27,900
Transfer out of Level 3	(1,280,791)	(267,373)	(3,950,160)	(693,330)
At end of the year/period	<u>93,100</u>	<u>4,133,097</u>	<u>1,188,769</u>	<u>950,171</u>

\* Investment was originally stated at cost and was subsequently measured at fair value.

**Company**

	Year ended 31 December			Six months ended 30 June 2011
	2008	2009	2010	
	RMB'000	RMB'000	RMB'000	RMB'000
At beginning of the year/period	1,250,691	93,100	4,119,038	1,013,846
Recognised in other comprehensive income	(149,490)	809,401	(120,727)	92,741
Purchases	272,690	3,291,100	917,560	350,970
Transfer into Level 3*	–	192,810	–	–
Transfer out of Level 3	(1,280,791)	(267,373)	(3,902,025)	(693,330)
At end of the year/period	<u>93,100</u>	<u>4,119,038</u>	<u>1,013,846</u>	<u>764,227</u>

\* Investment was originally stated at cost and was subsequently measured at fair value.

**Capital management**

The Group's objectives when managing capital are:

- To safeguard the Group's ability to continue as a going concern so that it can continue to provide returns for shareholders and benefits for other stakeholders;
- To support the Group's stability and growth;
- To maintain a strong capital base to support the development of its business; and
- To comply with the capital requirements under the PRC and Hong Kong regulations.

In accordance with Administrative Measures for Risk Control Indicators of Securities Companies (Revision 2008) (the "Administrative Measures") issued by the China Securities Regulatory Commission (CSRC), the Company is required to meet the following standards for risk control indicators on a continual basis:

1. The ratio between its net capital and the sum of its various risk capital provisions shall be no less than 100% ("Ratio 1");

2. The ratio between its net capital and its net assets shall be no less than 40% ("Ratio 2");
3. The ratio between its net capital and its liabilities shall be no less than 8% ("Ratio 3");
4. The ratio between its net assets and its liabilities shall be no less than 20% ("Ratio 4");
5. The ratio between the value of equity securities, derivatives held and its net capital shall not exceed 100% ("Ratio 5"); and
6. The ratio between the value of fixed income securities held and net capital shall not exceed 500% ("Ratio 6").

Net capital refers to net assets minimises risk adjustments on certain types of assets as defined in the Administrative Measures.

As at 31 December 2008, 2009 and 2010 and 30 June 2011, the Company has maintained the above ratios as follows:

	As at 31 December			As at
	2008	2009	2010	30 June 2011
Net capital (RMB'000)	34,145,384	34,390,881	32,459,539	33,270,527
Ratio 1	1221.32%	779.24%	571.67%	497.95%
Ratio 2	89.33%	79.84%	74.02%	74.32%
Ratio 3	1600.34%	440.93%	1232.45%	349.78%
Ratio 4	1791.59%	552.26%	1665.01%	470.64%
Ratio 5	3.20%	25.28%	26.87%	36.97%
Ratio 6	31.49%	29.53%	36.31%	42.35%

Certain subsidiaries of the Group are also subject to capital requirements under the PRC and Hong Kong regulations, imposed by the CSRS and the Hong Kong Securities and Futures Commission, respectively. There is no non-compliance on capital requirements during the years ended 31 December 2008, 2009 and 2010 and six months ended 30 June 2011 by these regulated subsidiaries.

The capital of the Group mainly comprises its total equity.

## 59. LITIGATIONS

As at 31 December 2008, 2009 and 2010 and 30 June 2011, the Group has several outstanding litigations with potential claims with maximum total amount of approximately RMB133.8 million, RMB9.9 million, RMB10.1 million and RMB7.9 million, respectively, of which RMB110.6 million, RMB8.8 million, RMB6.9 million and RMB4.8 million, respectively were accounted for and provided in the Financial Information based on directors' best estimate of the amount required to settle the claims. Certain outstanding litigations as at respective reporting date were settled subsequently. For details, please refer to note 39.

In previous year, the branch of the Company has involved in a few interrelated legal proceedings arising from one case that related to stock trading dispute. Pursuant to the final judgment of the Higher People's Court of Hubei made in 2009, the relevant case had been closed, and the Company was ordered to pay a compensation of approximately RMB26.3 million (excluding interests ordered in the final judgment). The Company had performed the obligated compensation, and provision had be reflected in the financial statements at the period which it occurred. In November 2011, the Company has received a summons from the Supreme People's Court, stating that the PRC Supreme People's Procuratorate had filed a formal protest for the above case to the PRC Supreme People's Court, and the PRC Supreme People's Court had decided to start the retrial process. Pursuant to the written protest, the maximum possible claim faced by the Company in this case will be an additional amount of RMB26.8 million (excluding the interest ordered to be incurred by the Company pursuant to the judgment of the retrial). Based on the advice of the legal counsel, the Company considered that the final judgment of Higher People's Court of Hubei conformed to the principles of fairness and shall be maintained. Based on this expectation, no outflow of economic benefits should be made to settle the obligation and accordingly, no provision for any potential liabilities has been made in this respect.

**H. SUBSEQUENT EVENT**

On 23 June 2011, the Group's wholly owned subsidiary Haitong International Holdings Limited ("HIHL") signed the loan capitalisation agreement (the "Agreement") with Haitong International Securities Group Limited ("HISGL"). Pursuant to the Agreement, HIHL will subscribe 200,000,000 shares (the "Capitalisation Shares") at HKD4.25 per share by way of capitalisation of the HKD850,000,000 out of total outstanding amount of intercompany loans due from HISGL to HIHL as at 23 June 2011. The Capitalisation Shares represent (i) approximately 27.96% of the issued share capital of the HISGL and (ii) approximately 21.85% of HISGL's entire issued share capital as enlarged by the issue of the Capitalisation Shares.

The Group had no other material events for disclosure subsequent to 30 June 2011 and up to the date of this report.

**I. DIRECTORS', SENIOR MANAGEMENT'S AND SUPERVISORS' EMOLUMENTS**

Under the arrangement presently in force, the aggregate amount of the directors', senior management's and supervisors' remunerations, including discretionary bonus, for the year ending 31 December 2011, is estimated to be approximately RMB77,883,000.

**J. SUBSEQUENT FINANCIAL STATEMENTS**

No audited financial statements of the Group, the Company or any of the companies now comprising the Group have been prepared in respect of any period subsequent to 30 June 2011 and up to the date of this report. No dividend or other distribution had been declared, made or paid by the Company or any of the companies now comprising the Group in respect of any period subsequent to 30 June 2011.

Yours faithfully,

**Deloitte Touche Tohmatsu**  
*Certified Public Accountants*  
*Hong Kong*