



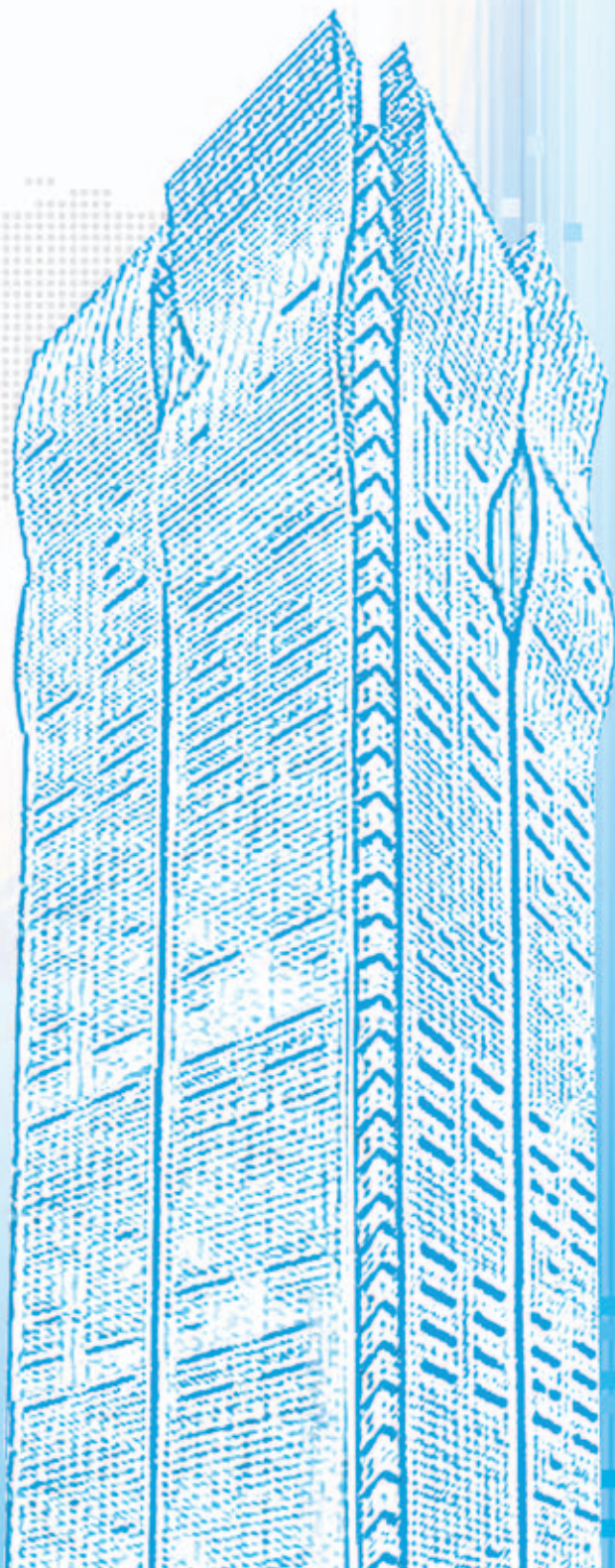
# 海通证券股份有限公司 HAITONG SECURITIES CO., LTD.\*

*(A joint stock limited company incorporated in the People's Republic of China with limited liability)*

Stock Code: 6837

## Interim Report 2012

*\*For identification purpose only*





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## I. IMPORTANT NOTICE

The Board, the Supervisory Committee, Directors, Supervisors and senior management of the Company represent and warrant that this interim report (this "Report") does not contain any false records, misleading statements or material omission and jointly and severally take full responsibility as to the truthfulness, accuracy and completeness of the content herein.

This Report was passed at the thirteenth meeting of the fifth session of the Board and the sixth meeting of the fifth session of the Supervisory Committee. Li Gewei (Director) and Xia Bin (independent Director) did not attend this Board meeting due to other engagements. Li Gewei (Director) appointed Wang Kaiguo (Chairman) to vote on his behalf and Xia Bin (independent Director) appointed Dai Genyou (independent Director) to vote on his behalf. None of the Directors and Supervisors has any objection on this Report.

The 2012 interim financial information of the Company was prepared in accordance with the IFRS and was reviewed by Deloitte Touche Tohmatsu. All the financial data in this Report were presented in RMB unless otherwise indicated.

No appropriation of funds on a non-recurring basis by the Company's controlling shareholders, if any, or their respective related parties has occurred. The Company did not provide external guarantees which were in violation of stipulated decision-making procedures.

Mr. Wang Kaiguo (Chairman) and Mr. Li Chuqian (Chief Financial Officer responsible for the accounting affairs) declare that they represent and warrant the truthfulness and completeness of the financial report contained in this Report.



## II. BASIC PARTICULARS OF THE COMPANY

### (I) Company Names

Legal Chinese name: 海通證券股份有限公司  
 Legal English name: Haitong Securities Company Limited  
 Abbreviation in English: Haitong Securities Co.,Ltd.

### (II) Legal Representative of the Company: Wang Kaiguo

### (III) Authorized Representatives of the Company: Wang Kaiguo, Jin Xiaobin

### (IV) Board Secretary: Jin Xiaobin

Correspondence address: 12/F, Haitong Securities Building, No. 689 Guangdong Road, Shanghai, PRC  
 (Postal Code: 200001)  
 Tel: 8621-23219000  
 Fax: 8621-63410707  
 E-mail: jinxb@htsec.com

### (V) Joint Company Secretaries: Jin Xiaobin, Mok Mingwai

### (VI) Representative of securities affairs: Sun Tao

Correspondence address: 12/F, Haitong Securities Building, No. 689 Guangdong Road, Shanghai, PRC  
 (Postal Code: 200001)  
 Tel: 8621-23219000  
 Fax: 8621-63410627  
 E-mail: sunt@htsec.com

### (VII) Company addresses

Registered address: Haitong Securities Building, No. 689 Guangdong Road, Shanghai, PRC (Postal Code: 200001) (approved by the general meeting of the Company's shareholders and under the procedure of alteration)  
 Business address: Haitong Securities Building, No. 689 Guangdong Road, Shanghai, PRC (Postal Code: 200001)  
 Internet website: <http://www.htsec.com>  
 E-mail: [haitong@htsec.com](mailto:haitong@htsec.com)

### (VIII) Principal place of business in Hong Kong

21st Floor, Li Po Chun Chambers, 189 Des Voeux Road Central, Central, Hong Kong

### (IX) Newspapers for information disclosure: China Securities Journal, Shanghai Securities News, Securities Times and Securities Daily

Websites designated by CSRC for publication of periodic reports: <http://www.sse.com.cn>  
 Website designated by the Hong Kong Stock Exchange for publication of periodic reports: <http://www.hkexnews.com.hk>  
 Place where periodic reports of the Company are available: Office of the Board, 12/F, Haitong Securities Building, No. 689 Guangdong Road, Shanghai, PRC

### (X) Places of listing, stock names and codes

A Share: Shanghai Stock Exchange	Stock name: Haitong Securities	Stock code: 600837
H Share: Hong Kong Stock Exchange	Stock name: Haitong Securities	Stock code: 6837



## II. BASIC PARTICULARS OF THE COMPANY

**(XI) Legal Advisor to the Company, as to PRC law:** Grandall Law Firm (Shanghai)

**Legal Advisor to the Company, as to Hong Kong law:** Clifford Chance

**(XII) Domestic Auditor:** BDO China Shu Lun Pan Certified Public Accountants LLP (Special General Partnership)

Address: 4/F, 61 Nanjing Road East, Shanghai

**International Auditor:** Deloitte Touche Tohmatsu

Address: 35/F, One Pacific Place, 88 Queensway, Hong Kong

**(XIII) A Share Registrar:** Shanghai Branch of China Securities Depository and Clearing Corporation Limited

Address: 36/F, China Insurance Building, 166 Lujiazui East Road, Pudong New Area, Shanghai

**H Share Registrar:** Computershare Hong Kong Investor Services Limited

Address: 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong

**(XIV) Other relevant information**

1. Initial date of registration: 2 February 1993  
Initial place of registration: No. 800 Tianshan Road, Shanghai
2. Changes in industrial and commercial registration:
  - (1) First change**  
Registration date: 11 November 2002  
Registered address: No. 838 Zhangyang Road, Pudong New Area, Shanghai
  - (2) Second change**  
Registration date: 6 July 2007  
Registered name: Haitong Securities Co., Ltd.  
Registered Legal Representative: Wang Kaiguo  
Registered capital: RMB3,389,272,910  
Registered paid-in capital: RMB3,389,272,910  
Registered address: No. 98 Central Huaihai Road, Shanghai  
Registered scope of business: Trading of securities (including domestically listed foreign shares) on behalf of clients, principal and interest repayment and dividends payment for securities on behalf of clients, securities custodial services, authentication of share certificates, account opening and registration on behalf of clients, securities proprietary trading business, securities (including domestically listed foreign shares) underwriting (including acting as a lead underwriter), securities investment consultation (including financial consultancy), entrusted investment management and other businesses approved by the CSRC.



## II. BASIC PARTICULARS OF THE COMPANY

**(3) Third change**

Registration date: 21 November 2007  
Registered capital: RMB4,113,910,590  
Registered paid-in capital: RMB4,113,910,590

**(4) Fourth change**

Registration date: 11 June 2008  
Registered capital: RMB8,227,821,180  
Registered paid-in capital: RMB8,227,821,180

**(5) Fifth change**

Registration date: 3 June 2009  
Registered scope of business: Securities brokerage; securities proprietary trading business; securities underwriting and sponsoring; securities investment advisory; financial consultation relating to securities trading and investment activities; securities asset management; direct investment business; securities investment fund consignment; provision of intermediary introduction business for the futures companies; and other businesses approved by the CSRC.

**(6) Sixth change**

Registration date: 22 March 2010  
Registered scope of business: Securities brokerage; securities proprietary trading business; securities underwriting and sponsoring; securities investment advisory; financial consultation relating to securities trading and investment activities; securities asset management; direct investment business; securities investment fund consignment; provision of intermediary introduction business for the futures companies; margin financing and securities lending business; and other businesses approved by the CSRC.

**(7) Seventh change**

Registration date: 11 April 2012  
Registered scope of business: Securities brokerage; securities proprietary trading business; securities underwriting and sponsoring; securities investment advisory; financial consultation relating to securities trading and investment activities; securities asset management; direct investment business; securities investment fund consignment; provision of intermediary introduction business for the futures companies; margin financing and securities lending business; other businesses approved by the CSRC; and the Company is permitted to establish subsidiaries that are primarily focused on outbound investments including investments in financial products.

3. Registration number of corporate business license: 310000000016182  
Registration number of tax certificate: 31010113220921X  
Organisation code: 13220921X



### III. FINANCIAL SUMMARY

(All of the accounting data and financial indexes set out in this Report are prepared in accordance with IFRS)

#### 1. MAJOR ACCOUNTING DATA AND FINANCIAL INDEXES

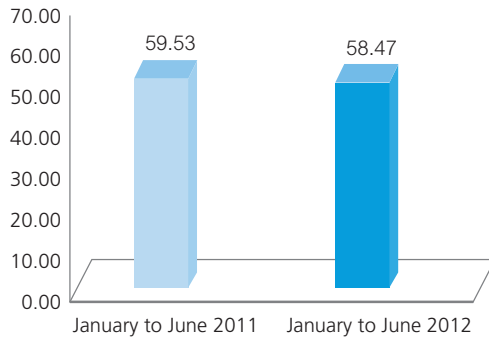
Items	January to June 2012	January to June 2011	As compared to the last corresponding period
<b>Results of operations (RMB'000)</b>			
			<i>Increase (%)</i>
Revenue and other income	<b>5,846,734</b>	5,953,082	-1.79%
Profit before income tax	<b>2,800,630</b>	3,063,120	-8.57%
Profit for the period attributable to owners of the Company	<b>2,025,516</b>	2,234,781	-9.36%
Net cash from (used in) operating activities	<b>4,231,625</b>	-3,213,355	
<b>Amount per share (RMB/share)</b>			
			<i>Increase (%)</i>
Basic earnings per share	<b>0.23</b>	0.27	-14.81%
Diluted earnings per share	<b>0.23</b>	0.27	-14.81%
<b>Indexes of profitability (%)</b>			
			<i>Change</i>
Weighted average returns on net assets (%)	<b>4.07%</b>	4.92%	-0.85 percentage point
<b>Items</b>			
	<b>30 June 2012</b>	31 December 2011	As compared to the last corresponding period end
<b>Indexes of size (RMB'000)</b>			
			<i>Increase (%)</i>
Total assets	<b>115,513,812</b>	98,976,911	16.71%
Total liabilities	<b>56,607,279</b>	52,366,269	8.10%
Accounts payable to brokerage clients	<b>35,343,997</b>	38,013,807	-7.02%
Equity attributable to owners of the Company	<b>57,254,887</b>	45,042,375	27.11%
<b>Total share capital (share'000)</b>	<b>9,584,721</b>	8,227,821	16.49%
<b>Net assets per share attributable to owners of the Company (RMB/share)</b>			
			<i>Change</i>
	<b>5.97</b>	5.47	9.14%
<b>Gearing ratio (%)<sup>1</sup></b>	<b>27%</b>	24%	3 percentage points

<sup>1</sup> Gearing ratio = (total liabilities – accounts payable to brokerage clients)/(total assets – accounts payable to brokerage clients)

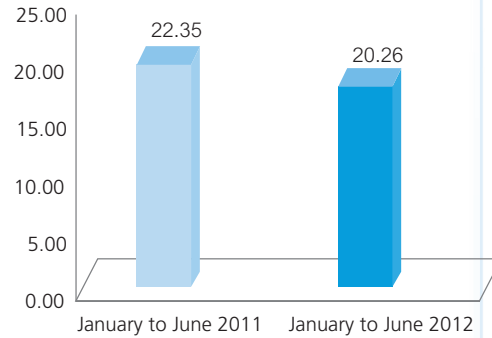


### III. FINANCIAL SUMMARY

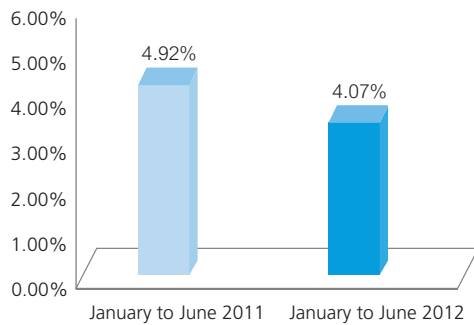
Revenue and other income (RMB in 100 million)



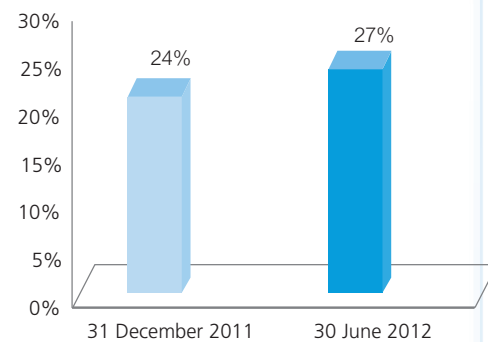
Profit for the period attributable to owners of the Company (RMB in 100 million)



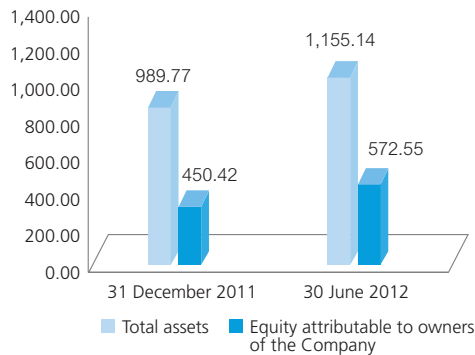
Weighted average returns on net assets (%)



Gearing ratio (%)



Indexes of size (RMB in 100 million)



## 2. DIFFERENCES BETWEEN IFRS AND PRC GAAP

There is no difference between the profits for the six months ended 30 June 2012 and 2011, and the net assets as of 30 June 2012 and 31 December 2011 included in the consolidated financial statements of the Company prepared in accordance with IFRS and those items for and as of the same periods included in the consolidated financial statements of the Company prepared in accordance with the PRC GAAP.





## IV. CHANGES IN SHARE CAPITAL AND PARTICULARS ABOUT SHAREHOLDERS

### (I) TABLE OF CHANGES IN SHARE OF THE COMPANY DURING THE REPORTING PERIOD

During the Reporting Period, the changes in share of the Company due to the issuance of H Shares are as follows:

	Before the change		Changes (+, -)				After the change	
	Number of shares	Percentage (%)	New issuance (H Shares)	Transfer of state-owned Shares		Sub-total	Number of shares	Percentage (%)
					Others			
<i>Unit: share</i>								
<b>I. Shares subject to trading moratorium</b>								
1. Shares held by state	-	-	-	-	-	-	-	-
2. Shares held by state-owned legal persons	-	-	-	-	-	-	-	-
3. Shares held by other domestic investors	-	-	-	-	-	-	-	-
Including: shares held by domestic non state-owned legal persons	-	-	-	-	-	-	-	-
Shares held by domestic natural persons	-	-	-	-	-	-	-	-
4. Shares held by foreign investors	-	-	-	-	-	-	-	-
Including: shares held by foreign legal persons	-	-	-	-	-	-	-	-
Shares held by foreign natural persons	-	-	-	-	-	-	-	-
Total number of shares subject to trading moratorium	-	-	-	-	-	-	-	-
<b>II. Circulating shares not subject to trading moratorium</b>								
1. RMB denominated ordinary shares	8,227,821,180	100	-	-135,690,000	-	-135,690,000	8,092,131,180	84.43
2. Foreign shares listed in the PRC	-	-	-	-	-	-	-	-
3. Foreign shares listed overseas	-	-	1,356,900,000	-	-	1,356,900,000	1,356,900,000	14.16
4. Shares transferred to the NSSF and converted to H Shares pursuant to the regulations in the reduction of state-owned shares	-	-	-	135,690,000	-	135,690,000	135,690,000	1.42
Total number of circulating shares not subject to trading moratorium	8,227,821,180	100	-	-	-	1,356,900,000	9,584,721,180	100
<b>III. Total</b>	<b>8,227,821,180</b>	<b>100</b>	<b>1,356,900,000</b>	<b>-</b>	<b>-</b>	<b>1,356,900,000</b>	<b>9,584,721,180</b>	<b>100</b>

Note: The Company issued 1,229,400,000 foreign shares listed overseas (H Shares) on 27 April 2012 and the related over-allotment option was partially exercised on 19 May 2012 (an aggregate of 127,500,000 H Shares were issued and listed on 22 May 2012), resulting in the issuance of an aggregate of 1,356,900,000 H Shares. During the period, 25 state-owned shareholders of the Company, including SIIC Shanghai (Holding) Co., Ltd., transferred a portion of their shareholding (A Shares), based on 10% of H Shares actually issued in the IPO, to the NSSF, and converted them to H Shares. A total of 135,690,000 A Shares were converted. As at the end of the Reporting Period, there were 8,092,131,180 A Shares and 1,492,590,000 H Shares. The total number of the Company's A Shares and H Shares was 9,584,721,180.



## IV. CHANGES IN SHARE CAPITAL AND PARTICULARS ABOUT SHAREHOLDERS

### (II) THE TOTAL NUMBER OF SHAREHOLDERS AND THEIR SHAREHOLDINGS

- Total number of shareholders of the Company at the end of the Reporting Period was 445,595, among which 445,346 were holders of A Shares and 249 were registered holders of H Shares.
- As at 30 June 2012, shareholding of the top ten shareholders of the Company

Name of the shareholder	Type of the shareholder	Percentage (%)	Total number of shares held (shares)	Changes in the number of shares during the Reporting Period (shares)	Number of shares subject to trading moratorium held (shares)	Number of shares subject to pledge or freeze (shares)
Hong Kong Securities Clearing Company Nominees Limited (the "HKSCC Nominees Limited")	Foreign legal person	15.57	1,492,261,600	1,492,261,600	0	Nil
Bright Food (Group) Co., Ltd.	State-owned legal person	4.83	463,192,078	-19,494,504	0	Nil
Shanghai Haiyan Investment Management Company Limited	State-owned legal person	4.18	400,709,623	-15,710,945	0	Nil
Shanghai Electric (Group) Corporation	State owned shares	3.94	377,667,258	-14,807,504	0	Nil
Shenergy Group Company Limited	State-owned legal person	3.36	322,162,086	-16,002,056	0	Nil
Shanghai Jiushi Corporation	State-owned legal person	2.44	233,747,280	-9,164,718	0	Nil
Shanghai Friendship Group Incorporated Company	Domestic non state-owned legal person	2.24	214,471,652	0	0	Nil
Shanghai Lansheng Corporation	State-owned legal person	1.99	190,950,000	0	0	Nil
Wenhui-Xinmin United Press Group	State-owned legal person	1.96	187,629,853	-18,238,016	0	Nil
SIIC Shanghai (Holding) Co., Ltd.	State-owned legal person	1.90	182,411,139	-144,158,847	0	Nil

- Note:*
- Among the H shareholders of the Company, HKSCC Nominees Limited held the H Shares on behalf of the holders who did not register such shares under their names.
  - In the above table, the shares held by HKSCC Nominees Limited are foreign shares listed overseas (H Shares) and the shares held by the other shareholders are RMB denominated ordinary A Shares.
  - The nature of the Company's A Shareholders represents that of accounts registered by such shareholders in Shanghai branch of China Securities Depository and Clearing Corporation Limited.



## IV. CHANGES IN SHARE CAPITAL AND PARTICULARS ABOUT SHAREHOLDERS

3. The shareholding of the top ten shareholders of circulating shares of the Company not subject to trading moratorium as at 30 June 2012

<b>Name of shareholder</b>	<b>Number of circulating shares not subject to trading moratorium held (shares)</b>	<b>Type of shares (A, B, H or others)</b>
HKSCC Nominees Limited	1,492,261,600	H Share
Bright Food (Group) Co., Ltd.	463,192,078	A Share
Shanghai Haiyan Investment Management Company Limited	400,709,623	A Share
Shanghai Electric (Group) Corporation	377,667,258	A Share
Shenergy Group Company Limited	322,162,086	A Share
Shanghai Jiushi Corporation	233,747,280	A Share
Shanghai Friendship Group Incorporated Company	214,471,652	A Share
Shanghai Lansheng Corporation	190,950,000	A Share
Wenhui-Xinmin United Press Group	187,629,853	A Share
SIIC Shanghai (Holding) Co., Ltd.	182,411,139	A Share

### (III) CHANGES IN THE CONTROLLING SHAREHOLDERS AND THE DE FACTO CONTROLLERS

As at 30 June 2012, there was no controlling shareholder or de facto controller (excluding HKSCC Nominees Limited) in the Company.

### (IV) PLEDGE AND FREEZE OF SHARES OF SHAREHOLDERS WITH SHAREHOLDINGS OF 5% OR ABOVE

Due to the diverse shareholding of the Company, as at 30 June 2012, no shareholder directly held more than 5% of the shares of the Company (excluding HKSCC Nominees Limited). HKSCC Nominees Limited held shares on behalf of H shareholders who did not register the H Shares under their names.

### (V) DISCLOSURE OF INTERESTS

1. **Directors, Supervisors and chief executive's (i.e. General Manger of the Company) interests and short positions in the shares, underlying shares or debentures of the Company and its associated corporations**

As at 30 June 2012, according to the information obtained by the Company and so far as the Directors are aware, none of the Directors, Supervisors or chief executive of the Company had any interest and short positions in the shares, underlying shares and debentures of the Company or its associated corporation (within the meaning of Part XV of the SFO), which shall be notified to the Company and the Hong Kong Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which is taken or deemed to have under such provisions of the SFO) or which would be required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or would be required, pursuant to the Model Code for Securities Transactions by Directors of Listed Companies (set out in Appendix 10 to the Hong Kong Listing Rules), to be notified to the Company and the Hong Kong Stock Exchange.



## IV. CHANGES IN SHARE CAPITAL AND PARTICULARS ABOUT SHAREHOLDERS

### 2. Substantial shareholders and other persons' interests and short positions in the shares and underlying shares

As at 30 June 2012, so far as the Directors, having made all reasonable enquiries, are aware, the following parties (other than the Directors, Supervisors and chief executive of the Company) had an interest or short position in the shares or underlying shares, which is required to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO and has been entered in the register kept by the Company according to section 336 of the SFO.

No.	Name of Substantial shareholders	Type of share	Type of interests	Number of shares held (shares)	Percentage of total issued shares of the Company (%)	Percentage of total issued A Shares/ H Shares of the Company (%)	Long position (Note 3)/ short position (Note 4)/ interest in lending pool
1	Bright Food (Group) Co., Ltd.	A Share	Beneficial owners (Note 1)	463,192,078	4.83	5.72	Long position
2	Shanghai Haiyan Investment Management Company Limited	A Share	Beneficial owners (Note 1)	400,709,623	4.18	4.95	Long position
3	NFFS	H Share	Beneficial owners	124,137,200	1.30	8.32	Long position
4	JPMorgan Chase & Co.	H Share	Investment manager and custodian – corporation / approved lending agent	83,352,800	0.87	5.58	Long position
			Custodian – corporation / approved lending agent	63,944,000	0.67	4.28	Lending pool
5	Capital Research and Management Company	H Share	Investment manager	75,000,000	0.78	5.02	Long position
6	Pacific Alliance Group Limited	H Share	Interests in controlled corporation (Note 2)	219,704,400	2.29	14.72	Long position
7	PAG Asia Capital GP I Limited	H Share	Investment manager (Note 2)	219,704,400	2.29	14.72	Long position
8	PAG Asia I LP	H Share	Interests in controlled corporation (Note 2)	219,704,400	2.29	14.72	Long position
9	PAG Capital Limited	H Share	Interests in controlled corporation (Note 2)	219,704,400	2.29	14.72	Long position
10	PAG Holdings Limited	H Share	Interests in controlled corporation (Note 2)	219,704,400	2.29	14.72	Long position
11	PAGAC Horseshoe Holding I (HK) Limited	H Share	Interests in controlled corporation (Note 2)	219,704,400	2.29	14.72	Long position
12	PAGAC Horseshoe Holding I Limited	H Share	Interests in controlled corporation (Note 2)	219,704,400	2.29	14.72	Long position
13	PAGAC Horseshoe Holding I SARL	H Share	Beneficial owners (Note 2)	219,704,400	2.29	14.72	Long position



## IV. CHANGES IN SHARE CAPITAL AND PARTICULARS ABOUT SHAREHOLDERS

*Note 1:* According to the information disclosed on the website of the Hong Kong Stock Exchange ([www.hkexnews.com.hk](http://www.hkexnews.com.hk)), an aggregate of 482,686,582 A Shares are held by Bright Food (Group) Co., Ltd., and an aggregate of 416,420,568 A Shares are held by Shanghai Haiyan Investment Management Company Limited. Under Section 336 of the SFO, forms disclosing of interests shall be submitted by shareholders of the Company upon satisfaction of certain conditions. Changes of shareholders' shareholdings in the Company are not required to inform the Company and Hong Kong Stock Exchange, except for the satisfaction of certain conditions. Therefore, there could be difference between substantial shareholders' latest shareholdings in the Company and the shareholdings submitted to Hong Kong Stock Exchange.

*Note 2:* Such 219,704,400 shares represent the same block of shares.

*Note 3:* A shareholder has a "long position" if such shareholder has an interest in shares, including interests through holding, writing or issuing financial instruments (including derivatives) under which: (i) such shareholder has a right to take the underlying shares; (ii) such shareholder is under an obligation to take the underlying shares; (iii) such shareholder has a right to receive money if the price of the underlying shares increases; or (iv) such shareholder has a right to avoid or reduce a loss if the price of the underlying shares increases.

*Note 4:* A shareholder has a "short position" if such shareholder borrows shares under a securities borrowing and lending agreement, or holds, writes or issues financial instruments (including derivatives) under which: (i) such shareholder has a right to require another person to take the underlying shares; (ii) such shareholder is under an obligation to deliver the underlying shares; (iii) such shareholder has a right to receive money if the price of the underlying shares declines; or (iv) such shareholder has a right to avoid or reduce a loss if the price of the underlying shares declines.

Save as disclosed above, the Company is not aware of any other person (other than the Directors, Supervisors and chief executive of the Company) having any interests or short positions in the shares or underlying shares of the Company as at 30 June 2012 required to be recorded in the register pursuant to Section 336 of the SFO.



## V. PARTICULARS ABOUT DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND STAFF

### (I) CHANGES IN SHAREHOLDING OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

During the Reporting Period, none of the Directors, Supervisors and senior management held any shares of the Company.

### (II) APPOINTMENT OR DISMISSAL OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT DURING THE REPORTING PERIOD

#### 1. Changes in Directors

During the Reporting Period, there was no change in the Directors of the Company.

As at 30 June 2012, the Board of the Company was composed of 17 Directors, including 2 Executive Directors, namely Mr. Wang Kaiguo and Mr. Li Mingshan; 9 Non-executive Directors, namely Mr. Qian Shizheng, Mr. Zhuang Guowei, Mr. Zhou Donghui, Mr. He Jianyong, Mr. Zhang Jianwei, Mr. Xu Chao, Mr. Wang Hongxiang, Mr. Li Gewei and Mr. Feng Huang; and 6 Independent Non-executive Directors, namely Mr. Xia Bin, Mr. Chen Qiwei, Mr. Zhang Huiquan, Mr. Zhang Ming, Mr. Dai Genyou and Mr. Liu Chee Ming. The Directors were all elected by our Shareholders at the shareholders' meetings of the Company for a term of three years, which is subject to re-elections.

#### 2. Changes in Supervisors

During the Reporting Period, there was no change in the Supervisors of the Company.

As at 30 June 2012, the Supervisory Committee of the Company was composed of 11 Supervisors, including 4 Employee Supervisors, namely Mr. Wang Yimin, Mr. Yang Qingzhong, Mr. Du Hongbo and Ms. Qiu Xiaping; 7 Non-Employee Supervisors, namely Mr. Yuan Lingcai, Mr. Dong Xiaochun, Mr. Wu Zhilin, Ms. Jin Yanping, Mr. Xu Qi, Mr. Xing Jianhua and Mr. Wang Yugui. Except for the Employee Supervisors elected by the workers' congress, Non-Employee Supervisors were elected by our Shareholders at the shareholders' meeting of the Company for a term of three years, which is subject to re-elections.

#### 3. Changes in senior management

According to the legal procedures, on 14 March 2012, the Company convened the seventh meeting of the fifth session of the Board during which the Resolutions on Appointment of Mr. Wu Bin, Mr. Li Xunlei, and Mr. Hiroki Miyazato as Deputy General Manager of the Company and the Resolution on Appointment of Mr. Li Jianguo and Mr. Chen Chunqian as Assistants to General Manager of the Company were considered and approved, pursuant to which, the Board appointed Mr. Wu Bin, Mr. Li Xunlei, who concurrently served as chief economist of the Company, and Mr. Hiroki Miyazato as deputy general managers of the Company, and Mr. Li Jianguo and Mr. Chen Chunqian as assistants to general manager of the Company.

As at 30 June 2012, the senior management of the Company was composed of 12 members, namely Mr. Li Mingshan, Mr. Shen Degao, Mr. Ji Yuguang, Mr. Ren Peng, Mr. Wu Bin, Mr. Li Xunlei, Mr. Hiroki Miyazato, Mr. Jin Xiaobin, Mr. Wang Jianye, Mr. Li Chuqian, Mr. Li Jianguo and Mr. Chen Chunqian.



## V. PARTICULARS ABOUT DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND STAFF

### (III) DEALINGS IN SECURITIES BY DIRECTORS, SUPERVISORS AND RELEVANT EMPLOYEES

The Company has adopted the standards as set out in the Model Code for Securities Transactions by Directors of Listed Issuers ("Model Code") contained in Appendix 10 to the Hong Kong Listing Rules, as the code of conduct of the Company regarding securities transactions by the Directors, Supervisors and relevant employees. The Company, having made enquiries to all Directors and Supervisors, confirmed that they had been in compliance with the requirements of the above mentioned Model Code, during the period from 27 April 2012, the H Shares listing date of the Company, to 30 June 2012. No non-compliance with the Model Code by the relevant employees was identified by the Company.

### (IV) MATERIAL CHANGES IN RELATED INFORMATION OF DIRECTORS AND SUPERVISORS

Mr. Qian Shizheng, Vice Chairman of the Company, resigned as an executive director and Deputy President of Shanghai Industrial Holdings Limited (a company listed on the Hong Kong Stock Exchange and its stock code is 363) with effect from 25 April 2012, and ceased to be an executive director of Shanghai Industrial Urban Development Group Limited (a company listed on the Hong Kong Stock Exchange and its stock code is 563) with effect from 27 April 2012. Mr. Zhang Jianwei, Director of the Company, resigned as a director of Shanghai Highly (Group) Co., Ltd. (a company listed on the Shanghai Stock Exchange and its stock code is 600619) with effect from 5 April 2012.

Mr. Dong Xiaochun, Supervisor of the Company, became Board Secretary of Shanghai Friendship Group Incorporated Company (a company listed on the Shanghai Stock Exchange and its stock code is 600827) on 5 March 2012. Ms. Jin Yanping, Supervisor of the Company, resigned as a director of Shanghai Lansheng Corporation (a company listed on the Shanghai Stock Exchange and its stock code is 600826) with effect from 29 June 2012.

### (V) PARTICULARS OF SERVICE CONTRACTS WITH DIRECTORS AND SUPERVISORS

Pursuant to Rules 19A.54 and 19A.55 of the Hong Kong Listing Rules, the Company has entered into a contract with each of our Directors and Supervisors in respect of, among other things, compliance with the relevant laws and regulations and observation of the Articles of Association and provisions on arbitration. Save as disclosed above, the Company has not entered into, and does not propose to enter into any service contracts with any of our Directors or Supervisors in their respective capacities as Directors/Supervisors (other than contracts expiring or terminable by the employer within one year without the payment of compensation (other than statutory compensation)).



## V. PARTICULARS ABOUT DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND STAFF

### (VI) STAFF AND REMUNERATION POLICY

At the end of the Reporting Period, the Group had 6,985 employees, of whom 5,372 were from the Company, and 1,613 were from subsidiaries.

The Company emphasizes talent attraction, motivation, training and retention, and focuses on the external competitiveness of its remuneration level and the internal fairness of its remuneration system. We implement a remuneration system under which remunerations are determined based on the market levels and the individual performance appraisal results. The remuneration package generally comprises basic salary, allowance, variable bonus, and staff benefits. Under the applicable laws and regulations in the PRC, the Company enters into a labor contract and establishes employment relationship with each of its employees. A labor contract contains the provisions relating to contract term, working hours, rest and vacation, labor remuneration and insurance benefits, labor protection and conditions, as well as modification and termination of the contract.

Under the applicable laws and regulations of the PRC, the Company purchased various social insurance policies (endowment insurance, medical insurance, unemployment insurance, work-related injury insurance and maternity insurance) and established housing funds for its employees, and made social insurance and housing fund contributions in full in accordance with applicable regulations. Meanwhile, the Company also established a corporate annuity system which provides supplemental pension protection in accordance with applicable regulations.





## VI. REPORT OF THE BOARD OF DIRECTORS

### (I) DISCUSSION AND ANALYSIS OF THE OPERATIONS

#### 1. Overall Operations

In the first half of 2012, due to the complicated and grim global economic environment, the growth of the PRC economy has slowed down and the capital market continued to be depressed. However, with the vigorous support from the shareholders and under the leadership of the Board, the management of the Company, together with its staff seized appropriate opportunities and successfully completed the listing of H Shares on the Hong Kong Stock Exchange. The Company satisfied requisite financial indicators, and all of its business lines maintained a balanced development, operated in compliance with applicable laws and regulations and managed risks effectively. The Company achieved sound operating results and received an “AA” rating, the highest regulatory rating, from the CSRC for the past five consecutive years. The Company was awarded an “AAA” credit rating and continuously received various honours, such as Excellent Board of PRC Listed Company.

As at 30 June 2012, the Group had total assets of RMB115.514 billion, and net assets of RMB57.255 billion (attributable to the owners of the Company), and the Company had net capital of RMB39.312 billion. In the first half of 2012, the Group’s revenue and other income amounted to RMB5.847 billion, and net profit amounted to RMB2.026 billion (attributable to the owners of the Company).

#### 2. Analysis of Our Principal Business Lines

##### (1) *Securities and futures brokerage business*

In the first half of 2012, the profit before income tax generated from securities and futures brokerage business amounted to RMB855 million, representing 31% of the Group’s profit before income tax. The Company ranked the fourth in the PRC in terms of brokerage trading volume of stocks and funds, representing 4.37% of the total market share, an increase of 0.24 percentage point over the same period of last year.

**Our retail brokerage business grew rapidly with significant increase in terms of market share.** Despite the increasingly competitive conditions in retail brokerage market, the implementation of measures such as product innovation and business transformation has promoted the rapid development of the Company’s businesses. In the first half of 2012, the Company gained 110,000 new customers and had a market share of 6.86%. The Company’s new businesses continued to maintain their leading positions in the industry. For example, both daily balances of margin financing and securities lending ranked the first; the balance of stock repo ranked the first; and the value of bond collateralized repo with quotes had top ranking in the industry. The geographic coverage of our branch network was further optimized. Nine securities brokerage branches were established in the PRC, including one in Zhongshan, Guangdong province, of which five have commenced operations. As at the end of the Reporting Period, the Company had 198 securities brokerage branches and four more were under preparation, which has effectively extended the Company’s network coverage to new markets in the PRC.



## VI. REPORT OF THE BOARD OF DIRECTORS

**The ability in provision of institutional brokerage services improved steadily.** With the integration of resources and increased efforts in the provision of institutional services such as funds and insurance companies, the Company entered into new lease transactions with six insurance agencies in the first half of 2012. With significantly increased market share of block trades, the Company ranked the second in terms of its trading volume in the industry, representing 8.7% of the total market share. The Company took advantage of opportunities to vigorously expand its QFII customer base in the industry. Therefore, the Company had five new QFII customers and two new RQFII customers.

**Profit from futures brokerage business increased.** In the first half of 2012, net profit from Haitong Futures Co., Ltd. (the "Haitong Futures") experienced a substantial increase over the same period of last year. The daily average customer equity generated from futures business amounted to RMB5.5 billion. We had top ranking in terms of stock index futures trading volume in the market, representing 6.75% of the total market share. As at the end of the Reporting Period, the Company had 25 futures brokerage branches in the PRC.

### (2) *Proprietary trading*

In the first half of 2012, the Group recorded a profit before income tax of RMB961 million in proprietary trading by adapting to changing market conditions, proactively promoting the investment business transformation and improving the fund utilization efficiency. Of the total profit, a revenue and other income of RMB1,062 million was generated from fixed income investments through seizing opportunities in the debt markets and reasonably increasing the leverage ratios. Equity and derivatives investments (hedging business) in aggregate recorded a revenue and other income of RMB209 million.

### (3) *Asset management business*

As at 30 June 2012, the total assets managed by the Group was RMB100.4 billion, of which RMB76.7 billion was managed by HFT Investment Management Co., Ltd. (the "HFT Investment Management"), RMB16.45 billion was managed by our customer asset management department, and RMB7.25 billion was managed by industrial investment funds.

The assets managed under the mutual fund of HFT Investment Management amounted to RMB30.1 billion; and the total AUM of products such as enterprise annuity, investment advisory and social security portfolio amounted to RMB46.6 billion. In the first half of 2012, asset management business recorded a revenue and other income of RMB284 million and a net profit of RMB75 million (generated by HFT Investment Management).

With active efforts put into product innovation, market exploration and subsidiary establishment, our customer asset management department has successfully launched a collective asset management scheme, and obtained approval for two additional asset management schemes in the first half of 2012. Meanwhile, it actively engaged in business innovation which resulted in innovative products such as "cash winner (現金赢家)" having successfully obtained professional accreditation.



## VI. REPORT OF THE BOARD OF DIRECTORS

The Company's equity investment management business also grew rapidly in the first half of 2012. The assets managed by Haitong Chuangxin Capital Management Company Limited (the "Haitong Chuangxin Management") amounted to RMB1 billion with seven new investment projects. The assets managed by Haitong-Fortis Private Equity Fund Management Co., Ltd. (the "Haitong-Fortis PE Management") amounted to RMB5.45 billion with three new investment projects. In addition, the assets managed by Haitong Jihe Private Equity Investment Fund Management Company Limited (the "Haitong Jihe Management") amounted to RMB800 million with two new investment projects.

### **(4) Investment banking business**

In the first half of 2012, despite adverse factors such as lower price to earning ratios of IPOs and slowdown in the offerings of securities, the Company focused on expanding its debt underwriting business, actively gathering project resources and strengthening the development of its sales teams, thereby ensuring the stable growth of its investment banking business. During the first half of 2012, the Company underwrote 19 projects with an aggregate amount underwritten of RMB60.7 billion and recorded a profit before income tax of RMB200 million.

The Company made great breakthroughs in its debt underwriting business. In the first half of 2012, it underwrote 15 debt issuances with an aggregate amount underwritten of RMB58.8 billion, and recorded a revenue and other income of RMB246 million, which set a record high. It now has one debt financing project to be launched while there are 15 projects pending for approval. In the first half of 2012, the Company underwrote four equity offerings with an aggregate amount underwritten of RMB1.9 billion and recorded a revenue and other income of RMB136 million. Currently, we have six IPO projects to be launched, 41 IPO projects to be approved, and 2 merger and acquisition projects to be launched.

### **(5) Direct equity investment business**

In the first half of 2012, Haitong Capital Investment Co., Ltd. (the "Haitong Capital Investment"), the Company's wholly-owned direct investment subsidiary, invested in 16 projects with a total investment amount of RMB830 million. From its inception through 30 June 2012, Haitong Capital Investment had invested in 52 projects with a total investment amount of RMB2.4 billion.

### **(6) Overseas business**

In the first half of 2012, Haitong International Holdings Limited (the "Haitong International Holdings"), our subsidiary, recorded a profit before income tax of HK\$167 million, and underwrote seven projects with a total amount underwritten of HK\$6.33 billion, ranking the first among investment banks with PRC background. Taking advantage of the opportunities from the launch of RQFII initiative, Haitong International Holdings successfully launched its first RQFII product and its AUM amounted to HK\$4.2 billion.



## VI. REPORT OF THE BOARD OF DIRECTORS

A summary of the Group's segment revenue, segment expenses and changes in profit is as follows: Taking advantage of the market opportunities, proprietary fixed income business achieved a respectable return in the first half of 2012 and the segment revenue generated from proprietary trading business increased by 58.37% over the same period of last year. Due to the rapid development of margin financing and securities lending business, the interest income from advances to customers increased in the first half of 2012 compared to the same period of last year. Affected by the continued depression in securities market and the increasing competition in traditional brokerage business, profit from securities brokerage business decreased in the first half of 2012 and segment revenue from securities and futures brokerage business declined 19.87% compared to the same period of last year. Finally, revenue from equity underwriting business decreased in the first half of 2012 and segment revenue from investment banking business decreased by 35.46% compared to the same period of last year due to the impact of adverse factors such as lower price to earning ratios of IPOs and slowdown in the offerings of securities.

### 3. Analysis on principal components of the Company's consolidated income statement

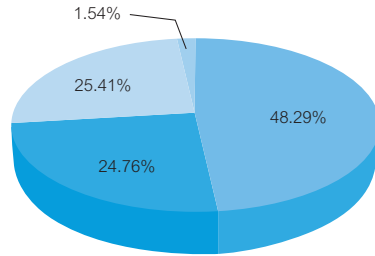
In the first half of 2012, the Group recorded profit before income tax of RMB2.801 billion, representing a decrease of 8.57% over the same period of last year. The principal components of the Group's income statement are as follows:

Item	January to June 2012	unit: RMB'000	
		January to June 2011	Change (%)
Commission and fee income	<b>2,823,285</b>	3,689,617	-23.48%
Interest income	<b>1,447,643</b>	1,205,484	20.09%
Net investment gains	<b>1,485,794</b>	997,185	49.00%
Other income and gains	<b>90,012</b>	60,796	48.06%
Total expenses	<b>3,076,897</b>	2,924,010	5.23%
Share of results of associates	<b>30,793</b>	34,048	-9.56%
Profit before income tax	<b>2,800,630</b>	3,063,120	-8.57%
Income tax expenses	<b>655,690</b>	723,994	-9.43%
Profit for the period attributable to owners of the Company	<b>2,025,516</b>	2,234,781	-9.36%



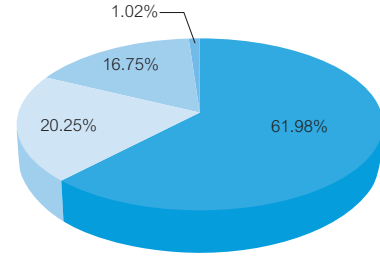
## VI. REPORT OF THE BOARD OF DIRECTORS

**Composition of revenue and other income  
January to June 2012**



■ Commission and fee income
 ■ Interest income  
■ Net investment gains
 ■ Other income and gains

**Composition of revenue and other income  
January to June 2011**



■ Commission and fee income
 ■ Interest income  
■ Net investment gains
 ■ Other income and gains

### (1) Composition of revenue and other income

In the first half of 2012, the Group recorded revenue and other income of RMB5.847 billion, representing a decrease of 1.79% over the same period of last year, of which commission and fee income accounted for 48.29%, representing a decrease of 13.69 percentage points over the same period of last year, and net investment gains accounted for 25.41%, representing an increase of 8.66 percentage points over the same period of last year. The Group's revenue and other income composition for the Reporting Period is as follows:

*Unit: RMB'000*

Item	January to June 2012		January to June 2011		Increase/Decrease	
	Amount	Percentage %	Amount	Percentage %	Amount	Percentage %
Commission and fee income	2,823,285	48.29%	3,689,617	61.98%	-866,332	-23.48%
Interest income	1,447,643	24.76%	1,205,484	20.25%	242,159	20.09%
Net investment gains	1,485,794	25.41%	997,185	16.75%	488,609	49.00%
Other income and gains	90,012	1.54%	60,796	1.02%	29,216	48.06%
<b>Total revenue and other income</b>	<b>5,846,734</b>	<b>100.00%</b>	<b>5,953,082</b>	<b>100.00%</b>	<b>-106,348</b>	<b>-1.79%</b>



## VI. REPORT OF THE BOARD OF DIRECTORS

### *Commission and fee income*

The Group's commission and fee income decreased by 23.48% to RMB2.823 billion in the first half of 2012 compared to the same period of last year, primarily due to a decrease in securities brokerage trading volume and commission rate and a decrease in revenue from domestic securities brokerage business as negatively affected by the prevalent conditions in the capital markets.

The decrease was partially offset by the increase in futures brokerage fee and commission income and in our asset management fees.

### *Interest income*

The Group's interest income increased by 20.09% to RMB1.448 billion in the first half of 2012 compared to the same period of last year, primarily due to an increase in interest income from the Group's margin financing and securities lending business and bank deposits.

The increase in interest income from margin financing and securities lending business was mainly attributable to the rapid development of the Group's margin financing and securities lending business and the substantial increase in the average value of margin financing during the Reporting Period. The increase in interest income from bank deposits was mainly attributable to the Company's continuous enhancement on managing liquid funds and adoption of effective measures to increase return on liquid funds.

### *Net investment gains*

The Group's net investment gains increased by 49.00% to RMB1.486 billion in the first half of 2012 compared to the same period of last year, primarily due to an increase in fair value change of financial instruments at fair value through profit or loss.

During the Reporting Period, the fair value change of financial instruments at fair value through profit or loss was RMB637 million, primarily due to an increase in the fair value of debt securities.

### *Other income and gains*

The Group's other income and gains increased by 48.06% to RMB90 million in the first half of 2012 compared to the same period of last year, primarily due to increased foreign exchange gains arising from the appreciated exchange rate at the end of the Period.



## VI. REPORT OF THE BOARD OF DIRECTORS

### (2) Total expenses

The Group's total expenses increased by RMB153 million, or 5.23%, to RMB3.077 billion in the first half of 2012 compared to the same period of last year, primarily due to increase in interest expenses. The components of total expenses of the Group during the Reporting Period are shown as below:

*Unit: RMB'000*

Item	January to June 2012 Amount	January to June 2011 Amount	Increase/Decrease	
			Amount	Percentage (%)
Staff costs	<b>1,118,151</b>	1,105,270	12,881	1.17%
Brokerage transaction fees and other services expenses	<b>325,087</b>	392,362	-67,275	-17.15%
Interest expenses	<b>348,003</b>	184,026	163,977	89.11%
Depreciation and amortization	<b>157,783</b>	147,889	9,894	6.69%
Commission to account executives	<b>130,191</b>	151,194	-21,003	-13.89%
Other expenses	<b>997,682</b>	943,269	54,413	5.77%
<b>Total</b>	<b>3,076,897</b>	2,924,010	152,887	5.23%

### Interest expenses

The Group's interest expenses increased by 89.11% to RMB348 million in the first half of 2012 compared to the same period of last year, primarily due to an increase in our interest expenses arising from financial assets sold under repurchase agreements and deposits taken from other financial institutions.



## VI. REPORT OF THE BOARD OF DIRECTORS

### 4. Analysis on principal components of consolidated statement of financial position

As at 30 June 2012, total assets of the Group increased by 16.71% to RMB115.514 billion as compared to the beginning of the year. Total liabilities of the Group increased by 8.10% to RMB56.607 billion as compared to the beginning of the year. Total equity of the Group increased by 26.38% to RMB58.907 billion as compared to the beginning of the year. Major items of the statement of financial position of the Group are as follows:

	As at 30 June 2012	As at 31 December 2011	Unit: RMB'000	
			Increase/Decrease Amount	Percentage (%)
<b>Non-current assets</b>	<b>7,430,246</b>	6,162,961	1,267,285	20.56%
Of which: Property and equipment	<b>1,141,096</b>	1,177,137	-36,041	-3.06%
Available-for-sale investments	<b>3,269,228</b>	1,933,565	1,335,663	69.08%
<b>Current assets</b>	<b>108,083,566</b>	92,813,950	15,269,616	16.45%
Of which: Bank balances and cash	<b>60,145,976</b>	50,571,034	9,574,942	18.93%
Financial assets at fair value through profit or loss	<b>22,349,157</b>	20,605,107	1,744,050	8.46%
Available-for-sale investments	<b>7,361,102</b>	6,826,646	534,456	7.83%
Financial assets held under resale agreements	<b>895,697</b>	605,900	289,797	47.83%
<b>Total assets</b>	<b>115,513,812</b>	98,976,911	16,536,901	16.71%
<b>Current liabilities</b>	<b>56,495,582</b>	52,294,251	4,201,331	8.03%
Of which: Accounts payable to brokerage clients	<b>35,343,997</b>	38,013,807	-2,669,810	-7.02%
Financial assets sold under repurchase agreements	<b>13,817,953</b>	9,524,534	4,293,419	45.08%
Deposits taken from financial institutions	<b>1,500,000</b>	–	1,500,000	
Borrowings	<b>1,702,995</b>	2,520,730	-817,735	-32.44%
Other payables and accruals	<b>3,766,174</b>	1,818,960	1,947,214	107.05%
<b>Net current assets</b>	<b>51,587,984</b>	40,519,699	11,068,285	27.32%
<b>Non-current liabilities</b>	<b>111,697</b>	72,018	39,679	55.10%
<b>Total liabilities</b>	<b>56,607,279</b>	52,366,269	4,241,010	8.10%
<b>Total equity</b>	<b>58,906,533</b>	46,610,642	12,295,891	26.38%





## VI. REPORT OF THE BOARD OF DIRECTORS

### (1) *Non-current assets*

As at 30 June 2012, the Group's non-current assets increased by 20.56% to RMB7.430 billion as compared to the beginning of the year, mainly due to the increase of available-for-sale investments. During the Reporting Period, Haitong Capital Investment, a wholly-owned subsidiary of the Company, has actively conducted the direct investment business, resulting in an increase of the available-for-sale investments compared to the same period of last year.

### (2) *Current assets and liabilities*

As at 30 June 2012, the Group's net current assets increased to RMB51.588 billion, compared to RMB40.520 billion as at the beginning of the year, representing an increase of RMB11.068 billion, or 27.32%, mainly because the increase in current assets was larger than that in current liabilities.

The increase in the Group's current assets was mainly attributable to the increase of: 1) bank balances and cash, 2) advances to customers, 3) financial assets at fair value through profit or loss, and 4) financial assets held under resale agreements.

The increase of bank balances and cash was mainly attributable to 1) the proceeds raised from issuance of H Shares and 2) the increase of the scale of financial assets sold under repurchase agreements and the deposits taken from financial institutions. We sold financial assets under repurchase agreements and took deposits from other financial institutions to enhance the management of liquid funds and earn a higher return through financial leverages.

The increase in advances to customers was mainly attributable to the rapid development and the increased scale of our margin financing and securities lending business.

The financial assets held under resale agreements increased, mainly as a result of larger trading scale under resale agreements purchased to earn a better return.

The increase of the Group's current liabilities was mainly attributable to the increase in financial assets sold under repurchase agreements and deposits taken from financial institutions, which was offset by the decrease in the accounts payable to brokerage clients and the borrowings by its Hong Kong subsidiaries.

### (3) *Non-current liabilities*

The Group's non-current liabilities primarily consisted of deferred tax liabilities, the increase of which was mainly attributable to the increase in fair value of the financial assets at fair value through profit or loss, resulting in the increase of taxable temporary differences.



## VI. REPORT OF THE BOARD OF DIRECTORS

### (4) Borrowings

As at 30 June 2012, the Group had total borrowings of RMB1,703 million. The following table sets forth the details of the Group's borrowings as at the dates indicated:

	<b>As at 30 June 2012 RMB'000 (Unaudited)</b>	As at 31 December 2011 RMB'000 (Audited)
Secured short-term borrowings:		
Bank loans	<b>855,981</b>	1,741,384
Unsecured short-term borrowings:		
Bank loans	<b>847,014</b>	779,346
	<b>1,702,995</b>	2,520,730

As at 30 June 2012, the Group's borrowings were either repayable on demand or due within one year and were primarily denominated in Hong Kong dollars and incurred by the Group's Hong Kong subsidiaries. As at 30 June 2012, the Group's own capital amounted to RMB30.647 billion, which was substantially more than interest-bearing liabilities, including the Group's borrowings and deposits taken from other financial institutions. Therefore, the Group was not exposed to any liquidity risk.

Except for the liabilities as disclosed in this Report, our Group did not have any outstanding mortgages, charges, debentures, other debt capital (issued or agreed to be issued), liabilities under acceptance or other similar indebtedness, hire purchase and finance lease commitments, guarantees, or other material contingent liabilities as at 30 June 2012.

### 5. Financial position and quality of assets

In 2012, the Company successfully listed its H Shares on the Hong Kong Stock Exchange. The Company issued an aggregate of 1,356,900,000 H Shares and received total proceeds of HK\$14.383 billion, strengthening its financial position. As at 30 June 2012, the Group's total assets amounted to RMB115.514 billion, representing an increase of RMB16.537 billion, or 16.71%, as compared to the beginning of the year. The Group's bank balances and cash and clearing settlement funds represented 56.15% of the total assets. Financial assets at fair value through profit or loss represented 19.35% of the total assets. Available-for-sale investments represented 9.20% of the total assets. Property and equipment and investment properties represented 1.07% of the total assets. Most of the assets were of good liquidity. The assets of the Group were in reasonable structure with strong liquidity.

As at 30 June 2012, total liabilities of the Group amounted to RMB56.607 billion, representing an increase of RMB4.241 billion as compared to the beginning of the year.

*(Note: For the main reasons for the changes in financial position of the Group, please refer to Analysis on principal components of consolidated statement of financial position)*



## VI. REPORT OF THE BOARD OF DIRECTORS

As at 30 June 2012, the total share capital of the Company was 9.585 billion shares, while the net asset amounted to RMB56.868 billion. The net capital of the Company was RMB39.312 billion, and the ratio of net capital to net assets was 69.13%. The Company's assets were of excellent quality and all risk control indicators of the Company met the requirements of Administrative Measures for the Risk Control Indicators of Securities Companies (《證券公司風險控制指標管理辦法》).

The net capital and relevant risk control indicators of the Company are as follows:

Item	As at 30 June 2012 RMB'000	As at 31 December 2011 RMB'000	Increase/decrease
Net capital	<b>39,312,169</b>	31,342,596	25.43%
Net assets	<b>56,867,500</b>	44,686,906	27.26%
Total of risk capital reserves	<b>3,956,146</b>	5,939,888	-33.40%
Net capital/total of risk capital reserves	<b>993.70%</b>	527.66%	Increase by 466.04 percentage points
Net capital/net assets	<b>69.13%</b>	70.14%	Decrease by 1.01 percentage points
Net capital/liabilities	<b>216.58%</b>	282.82%	Decrease by 66.24 percentage points
Net assets/liabilities	<b>313.30%</b>	403.23%	Decrease by 89.93 percentage points
Proprietary equity securities and securities derivatives/net capital	<b>35.77%</b>	38.09%	Decrease by 2.32 percentage points
Proprietary fixed income securities/net capital	<b>47.91%</b>	60.35%	Decrease by 12.44 percentage points

### 6. Operation and results of the principal holding companies and non-controlling companies

- (1) The registered capital of HFT Investment Management was RMB150 million, 51% of which was held by Haitong Securities. As at 30 June 2012, total assets and net assets of HFT Investment Management amounted to RMB865 million and RMB668 million, respectively. From January to June 2012, its net profit was RMB75 million (generated by HFT Investment Management).

The main scope of business of HFT Investment Management includes fund raising, fund sales, asset management and other businesses permitted by the CSRC.

- (2) The registered capital of Fullgoal Fund Management Co., Ltd. ("Fullgoal Fund Management") was RMB180 million, of which 27.775% was held by Haitong Securities. As at 30 June 2012, total assets and net assets of Fullgoal Fund Management amounted to RMB977 million and RMB841 million, respectively. From January to June 2012, its net profit was RMB129 million.

The main scope of business of Fullgoal Fund Management includes fund raising, fund sales, asset management and other businesses permitted by CSRC.



## VI. REPORT OF THE BOARD OF DIRECTORS

- (3) The registered capital of Haitong-Fortis PE Management was RMB20 million, of which 67% was held by Haitong Securities. As at 30 June 2012, total assets and net assets of Haitong-Fortis PE Management amounted to RMB357 million and RMB143 million, respectively. From January to June 2012, its net profit was RMB73 million.

The main scope of business of Haitong-Fortis PE Management includes industrial investment fund management, investment advisory and investment fund formation.

- (4) The registered capital of Haitong Futures was RMB1 billion, of which 66.667% was held by Haitong Securities. As at 30 June 2012, total assets and net assets of Haitong Futures amounted to RMB6.822 billion and RMB1.164 billion, respectively. From January to June 2012, its net profit amounted to RMB64 million.

The main scope of business of Haitong Futures includes commodity futures brokerage, financial futures brokerage and futures investment advisory services.

- (5) The authorised capital of Haitong International Holdings was HK\$4 billion, all of which was held by Haitong Securities. As at 30 June 2012, total assets of Haitong International Holdings amounted to HK\$13.203 billion, and the net assets attributable to Haitong International Holdings amounted to HK\$4.028 billion. From January to June 2012, its net profit amounted to HK\$90 million (generated by Haitong International Holdings).

Through various of its subsidiaries, Haitong International Holdings's main business scope includes securities and futures brokerage, investment banking, M&A financing, asset management, market research and other businesses authorized by Hong Kong securities regulatory rules.

- (6) The registered capital of Haitong Capital Investment was RMB4 billion, all of which was held by Haitong Securities. As at 30 June 2012, total assets and net assets of Haitong Capital Investment amounted to RMB4.392 billion and RMB4.238 billion, respectively. From January to June 2012, it achieved a net profit of RMB25 million (generated by Haitong Capital Investment).

The main scope of business of Haitong Capital Investment includes using its own funds to make equity investments in domestic enterprises; providing financial advisory services on equity investments to clients; establishing direct investment funds, raising and managing clients' funds and making equity investments; using unutilized capital to invest in highly liquid securities with low risks, such as national bonds, investment-grade corporate bonds, money market funds and central bank bills, and securities investment funds, collective asset management schemes or targeted asset management schemes for the purpose of cash management based on the premise of effective risk management and maintenance of liquidity; and other businesses permitted by the CSRC.



## VI. REPORT OF THE BOARD OF DIRECTORS

- (7) Haitong Innovation Securities Investment Co., Ltd. (“Haitong Innovation Securities Investment”) was incorporated in April 2012, and its registered capital was RMB3 billion, all of which was held by Haitong Securities. As at 30 June 2012, total assets and net assets of Haitong Innovation Securities Investment amounted to RMB3.009 billion and RMB3.006 billion, respectively. From April to June 2012, its net profit was RMB6 million.

The main scope of business of Haitong Innovation Securities Investment includes financial products investment, securities investment, investment advisory and investment management.

- (8) The registered capital of Shanghai Haitong Securities Asset Management Company Ltd. was RMB1 billion, all of which was held by Haitong Securities. It has completed the requisite industrial and commercial registration and was granted a business license and License for Securities Business (《經營證券業務許可證》). Its principal business is securities asset management.

### (II) RISK MANAGEMENT

The Group places a great emphasis on risk prevention and control, and prioritizes the matters of compliance and risk control throughout its operation and management. The Group seeks to measure risks through various approaches, differentiates and evaluates all kinds of risks by selection and classification, and establishes a monitoring system based on risk control indicators, such as net capital, to ensure a due and prudent asset allocation and regulate business procedures so as to strengthen the prevention and management of all kinds of risks at all times. The Company builds its “stable and conservative” risk control philosophy based on its operation philosophy of “being pragmatic, pioneering, stable and excellent”.

#### 1. Risk exposures in operating activities

The Group is exposed to risks mainly associated to market risk, credit risk, liquidity risk and operational risk. Specifically, they are represented in the following aspects:

##### (1) Market risk

- A. Risks associated with price volatility of securities assets. It is the risk that losses may be incurred due to changes in the Company’s securities dealings and the market value of securities invested. Market risk includes securities price risk, interest rate and exchange rate fluctuation risk and commodities price risk involved in brokerage business, underwriting business, proprietary trading investment and investments in asset management and derivative products. The Group’s operation involves substantial uncertainty since it is highly dependent on the securities market environment.



## VI. REPORT OF THE BOARD OF DIRECTORS

In the first half of 2012, under the highly complicated and severe international economic environment, continued depression was seen in PRC capital market. The overall domestic market was weak and volatile. SSE Composite Index started from 2,199 points at the year beginning to reach a high of 2,478 points after going up and down twice, and closed at 2,225 points at the end of June, with a slight increase of 1.18% in the first half of 2012. A similar trend was seen in SZSE Component Index, with an increase of 6.52%. Dragged by the uncertainty over European debt, investor sentiment in the Hong Kong market remained depressed in the first half, and transactions in the Hong Kong stock market continued to shrink. Both the spot market and the derivatives market experienced a significant decline compared to the same period of last year. In the first half of 2012, the average daily trading volume of the market amounted to RMB59.067 billion, representing a decrease of 21% as compared to RMB74.395 billion of the same period of last year, while the average daily trading volume of futures and options in the derivatives market was 501,899 contracts, representing a year-on-year decrease of 5%.

For market risk management, the Group insisted on implementing diversified investment strategies. In terms of equity securities investment, the Company took an effective control of market risk by conducting proper control on trading positions and participating in stock index futures with the purpose of hedging. To monitor the impact of market risk on the value of equity securities, the Company kept a regular track of changes in value at risk (the "VaR") of trading position in equity securities. The Company's subsidiaries have utilized the effect of security price variation on net profit and investment revaluation reserve within the period to analyze the price risk. With the ratio of VaR to net capital of the Company's positions held in proprietary equity securities as at each month end in the first half of 2012 kept below 0.5%, the risk was under control and bearable. The sensitivity analysis of security price on net profit and investment revaluation reserve of the subsidiaries also suggested that the risk was under control.

However, the employment of these managing tools remained subject to the impact of the validity of investment and hedging strategies. The validity of methodologies was restricted when there were negative changes on market liquidity, and the correlation between the prices of securities and hedging derivatives had an influence on the validity of hedging strategies as well.



## VI. REPORT OF THE BOARD OF DIRECTORS

- B. Interest rate risk. Interest rate risk is the risk arising from changes in market interest rate. The Group's exposure to interest rate risk relates primarily to monetary deposits and bond investments. In the first half of 2012, bond market in China as a whole continued a trend as seen at last year-end and rose largely starting from May. Due to the fact that CPI peaked and begun to drop, reduced deposit reserve requirement ratio and lowering of interest rate, the overall market liquidity tended to relax and there has been a steady rise in the bond market. China Bond Composite Index (full price) rose step by step from 111.24 points at last year-end to 112.94 points at the end of June 2012, with an increase of 1.5% over the first half of the year. The Group took control of the interest rate risk in proprietary business mostly by employing methodologies such as size control and investment portfolio to make a reasonable allocation of assets, and by evaluating interest rate risk through regular estimation of indicators such as duration, convexity and DV01 of the investment portfolio. The scale of investment by non-equity securities proprietary business of the Company tended to go upwards based on the trends in bond market during the first half year. The portfolio duration was under control with little change and remaining relatively stable at each month-end. As market grows, the Group will take initiative to employ effective financial instruments to avoid interest rate risk.
- C. Exchange rate risk. Exchange rate risk is the risk arising from changes in foreign exchange rate. As the Group expands across the globe, exchange rate risk has emerged gradually. The Company has been carrying out tracing research on foreign exchange market so as to support its exploration of offshore business. To avoid risk arising from Renminbi appreciation, the Company opened a Renminbi account in Hong Kong. With the development of international business, the Company will, after further considering the factor of exchange rate, employ appropriate instruments while allocating foreign currencies to avoid risk.

### (2) *Credit risk*

Credit risk is the risk that the Company may incur losses when a counterparty or an issuer whose securities are held by the Company is unable to discharge its contract obligations, or when the third party's credit quality deteriorates while the Company is holding the securities issued by it. Credit risk and market risk are somehow correlated. Under the volatile market environment, the level of the Group's exposure to credit risk associated with financial products and transactions will change accordingly. Therefore, certain the Group's monitoring and preventing measures against market risk play a role in the management of credit risk.

Generally speaking, credit risk exposed to securities firms in the industry mainly relates to the trading of securities on behalf of the customers, provision of margin financing and securities lending services to customers, and the losses caused in bond investment by counterparty's default. Credit risk can be effectively controlled under the PRC's current rules on trading and settlement in securities market, and trading of securities by domestic securities firms on behalf of the customers is settled in full by security deposit for the sake of risk avoidance. With respect to margin financing and securities lending business, the Group took control of credit risk involved in the business through the establishment and enforcement of various strict systems and measures in several aspects such as credit reference checks, credit approval, mark-to-market and margin call. The Company placed an emphasis on diversified credit type proprietary fixed income securities investment, investing main products with higher credit ratings, and kept a close track of the operations condition and credit rating changes in investees, therefore, credit risk associated with the subject of investment was well under control.



## VI. REPORT OF THE BOARD OF DIRECTORS

### (3) *Liquidity risk*

Liquidity risk is the risk that the Company's liquidity may not be adequate due to the fund appropriation when the Company's core business is unable to generate revenue continuously, or under the circumstance that major events emerge in the industry or market. Liquidity risk arises from securities firm's operations process under the influence of macroeconomic policies, market changes, operations status and credit standing, or mismatched asset-liability structure of the Company. In addition, there may be a low fund turnover and liquidity concerns in a securities firm due to its large amount underwriting by investment banking business, over-sized investment by proprietary trading and over investment in long-term assets.

The management of the Group's liquidity risk focused on the overall financial condition, the balance of its own funds, and appropriation and liquidity of long-term funds. Upon the implementation of third-party custody, accounts payable to brokerage clients received by domestic securities brokerage business were all monitored by custodian banks, which did not constitute liquidity risk. The Group took control of the ratio of fund appropriated to long-term assets and achieved scientific funds operations through strict funds management, controlled the size of proprietary investments, made stock investments under the principle of investment diversification, paid attention to the percentage of investment to all tradable shares, and prevented the liquidity risk arising from individual stocks, made bond investments mainly in interest rate products and bonds with high credit rating and placed an emphasis on diversified positions and reasonable residual maturity. To enhance the liquidity, the Group maintained cooperative relationships with various commercial banks, and carried out financing activities through borrowed funds, stock collateral loans, repurchases and other ways as approved by competent authorities to resolve short-term capital requirements.

In general, the Group held substantial reserve assets with strong liquidity and excellent financial indicators, and thus the liquidity risk was relatively low.

### (4) *Operational risk*

Operational risk generally contains risk arising from human-error in operation, imperfect internal procedure, malfunction or deficiency of information system as well as trading malfunction, together with the risk of losses occurred due to any external fraud behavior. Currently, information technology (the "IT") risk constitutes the major part of operational risk, given that IT plays a crucial role in business development and management of securities trading, settlement and services. Unreliable system, imperfect network technology and data deviation would result in losses to the Company. Although the Company has set up relatively perfect internal control system pursuant to the provisions of the Guidance for the Internal Control of Securities Companies issued by the CSRC, it provides no guarantee that economic losses, legal disputes and default risks which are likely to arise from operation error and deliberate omission can be avoided completely. Besides, the securities industry where the Group operates is a intelligence-intensive industry, which means that ethical risk from staff is more material as compared to other industries. In the event that its staff commit ethical crime, it will cause losses to the company's assets and in turn bring adverse affects to its reputation. The Group insisted on improving its internal control management system and operational procedures, consolidated its accountability systems and strengthened its code of conduct and carrier ethical education, so as to minimise the occurrence of operational risk and the adverse impact thereof.





## VI. REPORT OF THE BOARD OF DIRECTORS

### 2. Major risk factors in the Reporting Period

During the Reporting Period, the major risk faced by the Group was market risk, which particularly included the fair value change of available-for-sale investments and financial assets at FVTPL due to fluctuation of stock market prices and decline of commission income for brokerage business arising from furious market competition. Attributable to an operation by laws, the Group has not experienced any default risk. Through continuous consolidation in construction and maintenance of IT system, together with regular and irregular inspection and maintenance in respect of such system pursuant to relevant operational management procedures, the Group guaranteed reliable, steady and safe operation of IT system without occurrence of technical risk. By strengthening the enforcement of its respective rules and regulations and dedicating to improve each system and procedure, the Group didn't experience any management risk bringing substantial affects. As at the end of the Reporting Period, the Company recorded net capital and net assets of RMB39.312 billion and RMB56.868 billion respectively, representing the ratio of net capital to net assets of 69.13%. The operational risk of the Company was controlled at a relatively low level, as the Company benefited from the relatively high quality assets, standardized business operation, reasonable assets allocation as well as healthy financial position. All of the risk control indicators met the regulatory requirements.

### 3. Promotion of the risk management strategy and specific measures

In response to the aforesaid risks, the Group has adopted various measures to prevent and control risks:

- (1) The Group has been insisting on the development strategy oriented for being international and innovative. The Group has actively sought for effective ways of reinforcing its capital strengths, such as equity financing and debt financing. Its internal control and risk management systems were established pursuant to the international standards, so as to enhance its overall risk management.

By stably propelling its international strategy and expanding its international business, the Group has gained a wider international recognition of Haitong brand and a diversified business operation, becoming more flexible in adaptation to the global financial market developments. Through implementing the risk management strategy by geographic regions and business segments, the ability of risk prevention of the Group was enhanced. In the first half of 2012, new progress was achieved by the Group for its international strategy, and its issuance of H Shares was successfully completed, thus resulting in enhanced capital strengths, completed corporate governance structure and improved shareholders structure. Also, its group strategy recorded further progress upon the completion of establishment of two subsidiaries, Haitong Innovation Securities Investment Co., Ltd. and Shanghai Haitong Securities Asset Management Company Ltd., which laid foundation for further expansion of business scale and driving forward of products innovation.



## VI. REPORT OF THE BOARD OF DIRECTORS

- (2) The Group focused on improving its internal control system and meeting the requirements as set out in the Guidelines on the Internal Control of Enterprises and its implementation guidance jointly promulgated by five ministries of the PRC.

In recent years, the Group has invited internationally well-known institutions specializing in strategy consultation and IT consultation for many times to assist in formulating its strategic development plan. By learning experiences from the international investment banks in matured financial markets, the Group established its own internal control system, which in turn strengthened the integration of compliance, risk management and internal control. In addition, the Group continued to take measures aiming to improve the internal control in respect of various business lines including brokerage business, investment banking business, proprietary trading, client assets management, margin financing and securities lending, the stock repo trading, IB business as well as overseas business. General risk management structure has been gradually improved through strengthening its control over fund management, accounting system, e-information system, authorization, staff quality, anti-money laundering and management over subsidiaries. The Group is conducting an overall internal review in accordance with the Guidelines on the Internal Control of Enterprises and its implementation guidance, expecting to find the key risk exposures of its business lines and to improve internal control procedures. Once issues and deficiencies found, the Company would make corresponding corrections and adjustments, so as to increase the effectiveness of internal control.

- (3) The Company continued to improve its corporate governance structure. With continuous efforts in standardizing the operation of its general meetings, the interests of all shareholders, especially the minority shareholders, were protected and they enjoyed equal rights. Operation of the Board has been standardized and improved, with full utilization of the various board committees and independent directors. Besides, the Supervisory Committee conducted full supervision over the Board and manager-level officers of the Company.
- (4) The Company strengthened its compliance and risk management. The Company continued to improve its risk management and internal control structure under five levels. Moreover, further efforts were put on works for anti-money laundering and for continuous improvement in construction of information isolation wall system connecting brokerage business, proprietary trading, asset management business, investment banking business and innovative business. With more attention paid to compliance monitoring, the Company managed to avoid illegal conducts such as insider dealing, conflict of interests and transfer of benefits.

The Group paid significant attention to identifying of risk exposures for new products and new businesses, and standardizing operational procedures. Monitoring system was improved continuously from time to time, in order to make sure that business was operated with real time monitoring and risk alarm. Various businesses received more inspections, so as to promise the effective implementation of relevant systems, procedures and risk management measures. Aiming to building an adequate corporate culture with lawful and compliance operation, the Group strengthened the compliance trainings for its staffs, particularly to raise their awareness of compliance and their ability of risk management by advocating and building such compliance culture with full and active participation from staffs.



## VI. REPORT OF THE BOARD OF DIRECTORS

- (5) By focusing on organization reform, team building, market expansion, high quality services and outlets construction, the Group completely advanced its ability to serve the clients and meet their needs, which in turn resulted in a steady increase of its market share. The Group would continue to increase research on international and domestic macro-economic environments, industrial economy and listed companies, making it more adaptable to market fluctuation. Based on its estimates on market conditions, the Group has adjusted the proprietary trading scope and assets allocation structure from time to time. The Group also conducted strict management on its investment products and strict implementation of its stop-profit and stop-loss system applied to its proprietary investments, in order to effectively prevent market risks.
- (6) As to net capital, the Company continued to improve the related monitoring system, enhance the monitoring system of the net capital-based risk control indicators and optimize net capital allocation efficiency among different business lines, so as to prevent and solve liquidity risks. Besides, the Company provided risk assessment supports for its major business development and significant decision-making by strengthen its sensitivity analysis and the application of stress test instruments. Since the majority of its funds was placed in state-owned banks and listed joint-stock banks, safety of funds can be guaranteed. Given the priority of safety of funds, the Company managed to improve the utilization efficiency of funds.
- (7) The Company allocated more resources for system construction for the governance and construction of IT system. An overall review was conducted on the Group's information system structure, so as to find any blind-spot issues in information management, strengthen the management of accessing to information system, and standardize network construction of the branches. In addition, the Company would concentrate on upgrading systems concerning centralized trading, settlement of legal persons, marketing management, margin financing and securities lending, stock index futures, human resources management and OA. Great efforts were also made for improving customer relationship management system and preparation of data warehouse, providing strong supports for business development.
- (8) The Group insisted on investor education and suitability management. The Group has insisted on investor education and informed them of risks concerned. Meanwhile, the Group also integrated its client resources to improve the data analysis ability and the relevant services. Benefiting from its customer service channels and the resources integration, the Group was able to provide customers with suitable products and services when conducting management in respect of investor suitability.

### (III) PROBLEMS OCCURRING IN OPERATIONS AND THEIR SOLUTIONS

First, our traditional securities brokerage business has faced severe challenges; revenue from our branches continued to decrease over time; costs remained at a relatively high level; and profitability of our branches has diminished.



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Second, there has been a need for qualified professionals, in particular those who are involved in research, asset management and investment. We intend to improve our remuneration incentive system in order to attract such professionals.

In view of the above problems, we will primarily adopt the following measures, which are deemed to be the direction of our future development:

Capitalizing on opportunities arising from the listing of our H Shares, we will focus on our customers, further accelerate product innovation, propel business restructuring, and expedite organizational innovation. In the meantime, we plan to accelerate domestic and overseas business integration by further consolidating our domestic and overseas resources. We will continue to improve our profitability and comprehensive competitiveness through innovation, transformation and development.

### (IV) INVESTMENTS DURING THE REPORTING PERIOD

#### 1. Use of total proceeds raised during the Reporting Period

During the Reporting Period, the Company completed the listing of its H Shares and raised proceeds of HK\$14.383 billion. As at 30 June 2012, the proceeds raised by the Company from its H Shares listing have not been utilized.

The intended use of proceeds by the Company from its H Shares listing is the same as that was previously disclosed in the related prospectus, and there has been no change thus far. In the second half of 2012, the Company will use the proceeds raised from its H Shares listing in accordance with its development strategies, market conditions, and intended use of such proceeds.

#### 2. Investment activities of the Company during the Reporting Period

##### (1) *Establishment of Haitong Innovation Securities Investment Co., Ltd. by investment*

According to the Proposal on Establishment of Haitong Innovation Securities Investment Co., Ltd. (tentative name) considered and approved at the second meeting of the fifth session of the Board, in April 2012, the Company, with an initial investment of RMB3 billion, established its subsidiary, Haitong Innovation Securities Investment Co., Ltd. having a registered capital of RMB3 billion.

##### (2) *Establishment of Shanghai Haitong Securities Asset Management Company Ltd. by investment*

According to the Proposal on Establishment of Shanghai Haitong Securities Asset Management Company Ltd. (tentative name) considered and approved at the third meeting of the fifth session of the Board, in June 2012, the Company, with an initial investment of RMB1 billion, established its subsidiary, Shanghai Haitong Securities Asset Management Company Ltd. having a registered capital of RMB1 billion.



## VI. REPORT OF THE BOARD OF DIRECTORS

### (V) FORMULATION AND IMPLEMENTATION OF CASH DIVIDEND POLICY DURING THE REPORTING PERIOD

The Articles of Association stipulates its profit distribution policy, which states that “the Company adopts a continuous, stable and aggressive profit distribution policy, which focuses on providing reasonable investment returns to the Shareholders. The Company may, according to its profit, and taking into account the actual situation as well as current and long-term benefit of the Company, distribute dividend by way of cash or shares. In principle, the Company will distribute cash dividend for a given year with earnings. If no cash distribution proposal has been submitted for a particular year with earnings, the Company will state the reasons for not distributing such profit and the usage of the profit retained in the Company’s relevant periodic report. The Company may distribute interim dividend. The accumulated cash distribution of profit for the last three years of the Company is not less than 30% of the average annual distributable profit for the last three years.”

The Company’s profit distribution for the year of 2011 was conducted strictly in compliance with the provisions of the Articles of Association. The basis and ratio of profit distribution were clear and specific, and its relevant decision-making procedures and mechanisms were complete and comprehensive. The due diligence of the independent directors played an effective role. Minority shareholders had ample opportunities to express their opinions and voice their demands, and their legal rights were fully protected. The profit distribution scheme for the year of 2011, approved after consideration at the seventh meeting of the fifth session of the Board and the 2011 general meeting of the Company’s shareholders, was implemented on 23 August 2012.

### (VI) SHARE OPTION SCHEME

The Company does not operate any share option scheme. A subsidiary of the Company, Haitong International Securities Group Limited (“Haitong International Securities Group”) (listed on the Hong Kong Stock Exchange, stock code: 665) adopted a share option scheme (the “2002 Share Option Scheme”) on 23 August 2002, which was valid and effective for a period of 10 years commencing from the date of adoption and expired on 22 August 2012. According to the 2002 Share Option Scheme, options could be granted to any full time employees, executive and non-executive directors of Haitong International Securities Group and any of its subsidiaries or associates. The exercise price of the share options was determinable by the directors of Haitong International Securities Group, and should be at least the highest of (1) the closing price of its shares as stated in the Hong Kong Stock Exchange’s daily quotations sheet on the offer date; (2) the average closing price of its shares as stated in the Hong Kong Stock Exchange’s daily quotations sheets for 5 trading days immediately preceding the offer date; and (3) the nominal value of its shares. For further information, please refer to 2012 interim report of Haitong International Securities Group.



## VII. SIGNIFICANT EVENTS

### (I) CORPORATE GOVERNANCE

On 27 April 2012, the Company successfully listed its H Shares on the Hong Kong Stock Exchange after which it became an “A+H” securities company when its shares were simultaneously traded on the stock exchanges in both Shanghai and Hong Kong. Based on the long-term commitment for sound corporate governance structure, the Company strictly complied with the laws, rules and regulatory documents in the PRC and Hong Kong where its shares are listed and traded, refined and improved the Company’s risk-management compliance and internal control systems so that its general meeting of the shareholders, the Board, the Supervisory Committee and senior management would discharge their respective responsibilities to make sure that the Company is operated legally and soundly. Because the procedures for holding the Company’s general meetings, Board meetings, Supervisory Committee meetings and the voting mechanisms with respect thereto are legal and valid, the information disclosures are true, accurate, complete, timely and fair, investor relations management is standard and professional, and corporate governance is scientific, standard and transparent, the Company became a sample stock of governance model of Shanghai Stock Exchange Company Limited, a sample stock of SSE 50 Index, SSE 180 Index, and CSI 300 Index. The Company will become one of the constituent shares of Hang Seng China H-Financials Index and Hang Seng Mainland 100 Index on 10 September 2012.

During the Reporting Period, the Company’s operation and management are standard and in compliance with the Code of Corporate Governance for Listed Companies, the Rules for Governance of Securities Companies, the Regulatory Rules for Securities Companies, and laws and regulations of the CSRC. In the meantime, save as disclosed below, the Company has, since its H Shares listing on 27 April 2012, strictly complied with Corporate Governance Code, if applicable, as set out in Appendix 14 to the Hong Kong Listing Rules (the “HKSE Corporate Governance Code”), observed all code provisions under the HKSE Corporate Governance Code, and followed most of the requirements of recommended best practices set out therein.

Our Directors are aware that, effective from 1 April, 2012, the recommended best practice of arranging appropriate insurance cover in respect of legal actions against directors has been upgraded to a code provision in the HKSE Corporate Governance Code. Our Directors are also aware that, effective from its H Shares listing on 27 April 2012, the Company is expected to comply with such code provision. While the Company is committed to achieving high standards of corporate governance and to complying with the code provisions as set out in the HKSE Corporate Governance Code, we are advised by our PRC legal advisors, Grandall Law Firm (Shanghai), that insurance cover in respect of legal actions against directors shall be approved at general meeting under the Company Law of the People’s Republic of China. Prior to the listing in Hong Kong, upon careful consideration, our Directors decided to delay the compliance with such code provision and submit the relevant insurance plans for our Shareholders’ approval at our 2011 annual general meeting, which was held on 28 June 2012 for the following 2 reasons: (1) the deviation from such code provision would be for a short period of time, taking into consideration that our H Shares listing date was expected to be on 27 April 2012 and our 2011 annual general meeting was expected to be held by June 2012; and (2) to convene an extraordinary general meeting of the Company’s shareholders approximately two months before our 2011 annual general meeting solely to approve such insurance plans would incur undue administrative cost on the part of our Company and be unduly burdensome for the Company.



## VII. SIGNIFICANT EVENTS

The 2011 annual general meeting of the Company was successfully held on 28 June 2012. "The resolution regarding liability insurance coverage of Directors, Supervisors and senior management of the Company" was approved in the meeting. According to such resolution, the Company proposes to purchase liability insurance for the Directors, Supervisors and senior management with the total premium of not more than USD200,000 per annum. The Board has preliminarily decided on the insurance company to be engaged and will sign a relevant agreement as soon as possible.

The Company was accredited with "AA" regulatory rating for the fifth consecutive year, the highest rating given to a PRC securities company. The Board was awarded as Excellent Board of PRC Listed Company for the fourth consecutive year. In addition, the Company received numerous other awards and recognitions such as the Award of Information Disclosure for Corporate Governance for companies listed on the Shanghai Stock Exchange, the Best Securities Company, the Best Sponsor, the Best Investment Bank in GEM Board, the Golden Bull Prize for Investment Bank in PRC, etc.

During the Reporting Period, the Company convened 17 meetings in total comprising one general meeting of shareholders, five Board meetings, one Supervisory Committee meeting, three audit committee meetings, two working conferences on annual report of independent Directors, one nomination, remuneration and assessment committee meeting, two development strategy and investment management committee meetings, and one compliance and risk control committee meeting.

### 1. Shareholders and general meetings

The Company convenes general meetings in accordance with the requirements under the Articles of Association and Rules of Procedures of the General Meeting, to ensure that all shareholders are treated equally and are able to fully exercise their rights.

### 2. Directors and Board of directors

The Company engages and changes its Directors according to the relevant provisions under the Articles of Association. The number and qualification of the Directors are in compliance with the applicable laws and regulations. The Board now comprises 17 Directors, among whom two are Executive Directors, nine are Non-executive Directors and six are Independent Non-executive Directors. All Directors are able to perform their obligations in due diligence and protect the interests of the Company and that of all shareholders. Development strategy and investment management committee, audit committee, compliance and risk control committee, and nomination, remuneration and assessment committee are all established under the Board. Each committee has specific work allocations and clear accountabilities and operates in high efficiency. Out of these four committees, except for the development strategy and investment management committee, which is chaired by our Chairman, each of the other three committees is chaired by independent Directors.

### 3. Supervisors and Supervisory Committee

Our Supervisory Committee currently consists of 11 Supervisors, among whom, four are employee representative Supervisors and seven are non-employee representative Supervisors. The qualification and identity of Supervisors are in compliance with applicable laws and regulations. All Supervisors of the Company are able to perform their obligations in due diligence, monitor the legality and compliance of the performance of duties by the Company's financing department, Board members and senior management and provide recommendations and suggestions to the Board and senior management regarding relevant matters.



## VII. SIGNIFICANT EVENTS

### 4. Senior management

Procedures for the appointment of the Company's senior management are in compliance with the Company Law of the People's Republic of China and the Articles of Associations. In addition, according to the applicable laws and regulations and with the authorizations from the Board, the Company's senior management is able to operate the Company in compliance and with a view towards maximizing shareholders' value and social benefits.

### 5. Stakeholders

The Company fully respects and protects the legal interest of all of its stakeholders and, together with them, continue to focus on its consistent, healthy development.

### 6. Information disclosure and transparency

During the Reporting Period, the Company was able to disclose relevant information in a manner that is true, accurate, complete, timely and fair in accordance with the applicable laws, regulations and regulatory documents in the PRC and Hong Kong where its shares are listed. In the meantime, the Company also proactively and promptly disclosed significant events through announcements and ensured high transparency by holding conferences to elaborate on its performance, conducting telephone conference and investors meetings or communicating via the internet. The Company has specifically created a position for managing investor relations and established a service hotline. Senior management and the investor relations staff utilized various forms of communication, including direct telephone calls, emails, web chats, telephone conferences, investors reception, investors visits, and participation in investor conferences, to strengthen its communication with its investors, thereby further enhanced the Company's transparency.

### 7. Implementation of internal control standardization

During the Reporting Period, the Company fully commenced the implementation of internal control standardization. It established leadership groups and working groups for the implementation of internal control standardization. Furthermore, the Company formulated a Working Plan for Implementation of Internal Control Standardization at the beginning of the year. In the meantime, it also vigorously implemented such plans by providing funds and human resources. According to the Basic Standards for Enterprise Internal Control and the supplementary guidelines, Guidance for the Internal Control of Securities Companies, and the regulatory requirements in the PRC securities industry, the Company persistently streamlined its procedures for each business and management system. During the Reporting Period, the Company's implementation of internal control standardization was in line with our plan set out at the beginning of the year. Subsequently, the Company will, under the professional support from various external advisory bodies, further standardize its internal control measures, rectify defects and complete transformation, including establishing a comprehensive internal control system, conducting self assessment and auditing.





## VII. SIGNIFICANT EVENTS

### 8. Building of compliance system

During the Reporting Period, the Company strictly complied with the requirements of CSRC, took into account its real situation and endlessly improved its compliance management system. The Company's general compliance officer strictly performed compliance management obligations according to applicable laws and regulations. There is no direct order given to, or interference of works performed by, general compliance officer, which constitutes a violation of obligations or procedures by the shareholders, Directors and senior management of the Company. The Company provided human resource, material resource and financial resource support to its general compliance officer to carry out his duties to ensure effective compliance management. During the Reporting Period, the Company continued to manage compliance of all of its business lines. It established a system of compliance review, monitoring and inspection and assessment. In addition, the Company strived to effectively implement a comprehensive internal control system, procedures and risk management measures, to strengthen compliance training of its staff, to emphasize a compliance culture that, led by the example of its senior management, encourages full and active compliance by all of its employees. It intended to create corporate value through compliance and enhance staff's compliance awareness and risk management capacity in order to establish a corporate culture that deems compliance operation as a core part.

### (II) IMPLEMENTATION OF PROFIT DISTRIBUTION PROPOSALS DURING THE REPORTING PERIOD, AND PROFIT DISTRIBUTION PROPOSAL AND PROPOSAL ON TRANSFER OF CAPITAL RESERVE FUND INTO CAPITAL FOR THE FIRST HALF OF 2012

The Company's 2011 profit distribution proposal was reviewed and approved by its shareholders at the 2011 annual general meeting, during which it was resolved that a cash dividends of RMB1.50 per 10 A Shares (inclusive of tax) was distributed to all holders of A Shares on the basis of a total share capital of 8,227,821,180 A Shares at issue as of 31 December 2011. Consequently, an aggregate cash dividend of RMB1,234,173,177.00 was distributed. On 13 August 2012, the Company published an announcement relating to the implementation of 2011 profit distribution in the China Securities Journal, the Shanghai Securities News, the Securities Times, the Securities Daily and the respective websites of Shanghai Stock Exchange and the Hong Kong Stock Exchange. The record date with respect to this distribution was 16 August 2012, the ex-dividend date was 17 August 2012 and the cash dividend payment date was 23 August 2012. As at 23 August 2012, the Company's 2011 profit distribution proposal was fully implemented.

The Company had no profit distribution proposal or proposal on transfer of capital reserve fund into capital for the first half of 2012.

### (III) MATERIAL LITIGATION AND ARBITRATION

The Company was not involved in any material litigation or arbitration during the Reporting Period.



## VII. SIGNIFICANT EVENTS

### (IV) SECURITIES INVESTMENT, SHAREHOLDING IN OTHER LISTED COMPANIES, AND EQUITY PARTICIPATION IN NON-LISTED FINANCIAL COMPANIES

#### 1. Securities investment

Unit: RMB'000

No.	Type of securities	Stock Code	Abbreviate Name	Initial investment cost (RMB'000)	Number of shares held (share)	Carrying value as at the end of the period (RMB'000)	Percentage of total securities investment at the end of the period (%)	Profit and loss during the Reporting Period (RMB'000)
1	Treasury bonds	010308	03國債(8)	1,611,498.41	16,054.00	1,622,577.78	6.34%	41,809.76
2	Treasury bonds	010213	02國債(13)	842,638.95	8,790.00	858,783.00	3.36%	15,722.19
3	Fund	510300	華泰柏瑞 滬深300ETF	538,530.37	202,769.73	503,882.78	1.97%	-35,965.09
4	Trust		上海國際信託 “現金豐利”	500,000.00	501,098.96	502,197.57	1.96%	2,197.57
5	Debentures	1180057	11常州中小債	408,000.00	4,080.00	408,065.28	1.59%	6,737.42
6	Debentures	112093	11亞迪01	400,000.00	4,000.00	400,000.00	1.56%	632.80
7	Debentures	1182339	11方正MTN3	351,062.24	3,400.00	351,622.56	1.37%	669.71
8	Debentures	1080119	10無錫城投債	349,789.83	3,500.00	350,061.25	1.37%	5,247.02
9	Stocks	000629	攀鋼鈦鈹	496,379.92	52,250.00	343,805.00	1.34%	25,403.00
10	Fund	159919	嘉實滬深 300ETF	352,511.59	352,536.13	329,621.28	1.29%	-34,162.33
Other securities investment holding as at the end of the period				19,770,283.74	/	19,932,591.06	77.85%	1,022,564.33
Profit and loss for securities investment sold during the Reporting Period				/	/	/	/	258,602.14
<b>Total</b>				<b>25,620,695.06</b>	<b>/</b>	<b>25,603,207.56</b>	<b>100.00%</b>	<b>1,309,458.52</b>

- Note:
- The sequence of this table is based on the percentage of the carrying value as at the end of the Reporting Period attributed to the total securities investment as at the end of the Reporting Period, and this table only shows the top ten securities of the Group as at the end of the Reporting Period;
  - The securities investment of this table refers to the investment in stocks, options, convertible bonds, etc. Investment in stocks only shows the part of financial assets at FVTPL listed in the consolidated statement of financial position of the Group;
  - Other securities investment refers to investment in other securities, other than the top ten securities;
  - Profit and loss during the Reporting Period includes net investment gains from holding such securities by the Group.



## VII. SIGNIFICANT EVENTS

### 2. Shareholding in other listed companies

Unit: RMB'000

Stock Code	Abbreviate Name	Initial investment cost	Shareholding in the company	Carrying value as at the end of the period	Profit and loss during the Reporting Period	Changes in interests of owners during the Reporting Period	Accounting items	Source of shares
600000	浦發銀行	1,041,705.65	0.57%	860,553.17	-1,716.21	-31,035.28	Available-for-sale investments	Non-public issuance of shares and purchase from secondary market
600522	中天科技	979,470.29	10.51%	631,881.80	8,230.84	-25,762.54	Available-for-sale investments	Underwriting from investment bank
600580	臥龍電氣	379,710.76	4.97%	171,363.64	3,078.39	-	Available-for-sale investments	Underwriting from investment bank
000878	雲南銅業	379,466.52	1.43%	362,924.58	-36.44	36,050.97	Available-for-sale investments	Non-public issuance of shares and purchase from secondary market
000572	海馬汽車	305,610.00	3.71%	198,860.00	-	3,050.00	Available-for-sale investments	Non-public issuance of shares
000001	平安銀行 (originally 深發展A)	283,033.46	0.73%	566,684.50	-	-13,746.01	Available-for-sale investments	Shares with sales and distribution limit in equity division reform and purchase from secondary market
600166	福田汽車	185,586.69	0.73%	146,394.25	2,429.18	26,886.03	Available-for-sale investments	Non-public issuance of shares and purchase from secondary market
002111	威海廣泰	171,217.68	5.00%	130,589.75	-	2,611.80	Available-for-sale investments	Underwriting from investment bank
603001	奧康國際	109,529.08	1.07%	115,585.39	-	6,056.31	Available-for-sale investments	Off-line application
601318	中國平安	71,728.45	0.02%	64,236.30	0.47	637.78	Available-for-sale investments	Purchase from secondary market
Shareholding of other listed companies		2,242,655.41		1,832,671.72	79,912.81	100,151.15		
Total		6,149,713.98		5,081,745.09	180,891.94	20,051.23		

- Note: 1. This table only shows the shareholdings in listed companies for available-for-sale investments by the Group as at the end of Reporting Period;
2. Profit and loss during the Reporting Period refers to the effects of consolidated net profit during the Reporting Period caused by this investment.



## VII. SIGNIFICANT EVENTS

### 3. Equity participation in non-listed financial companies of the Company

Unit: RMB'000

Name	Initial investment cost (RMB'000)	Number of shares held (Share)	Shareholding in the company (%)	Carrying value as at the end of the period (RMB'000)	Profit and loss during the Reporting Period (RMB'000)	Changes in interests of owners during the Reporting Period (RMB'000)	Accounting items	Source of shares
Fullgoal Fund Management Co., Ltd.	92,907.38	49,995.00	27.775%	238,893.06	33,631.76	1,858.06	Investment in associates	Capital contribution
HFT Investment Management Co., Ltd.	67,000.00	76,500.00	51.00%	76,500.00	38,136.50	112.20	Long-term equity investment	Capital contribution
Haitong-Fortis Private Equity Fund Management Co., Ltd.	13,400.00	13,400.00	67.00%	13,400.00	48,629.36	-	Long-term equity investment	Capital contribution
Haitong Futures Co., Ltd.	699,191.78	666,670.00	66.667%	699,191.78	42,479.40	-	Long-term equity investment	Capital contribution
Haitong International Holdings Limited	3,494,038.00	4,000,000.00	100.00%	3,494,038.00	73,576.93	13,904.11	Long-term equity investment	Capital contribution
Haitong Capital Investment Co., Ltd.	4,000,000.00	4,000,000.00	100.00%	4,000,000.00	25,133.22	7,220.65	Long-term equity investment	Capital contribution
Haitong Innovation Securities Investment Co., Ltd.	3,000,000.00	3,000,000.00	100.00%	3,000,000.00	5,792.55	-249.70	Long-term equity investment	Capital contribution
Shanghai Haitong Securities Asset Management Company Ltd.	1,000,000.00	1,000,000.00	100.00%	1,000,000.00	-	-	Long-term equity investment	Capital contribution

- Note:
1. Financial companies include commercial banks, securities companies, insurance companies, trust companies, and future brokerage companies. This table only shows the shareholdings in non-listed financial companies held by the Company;
  2. Profit and loss during the Reporting Period refers to the effects of consolidated net profit during the Reporting Period caused by this investment;
  3. Changes in interests of owners during the Reporting Period refer to the effects of the consolidated interests of owners during the Reporting Period caused by this investment.

### (V) ASSETS TRANSACTIONS

The Company was not involved in any material asset acquisition, asset disposal, asset swap or merger during the Reporting Period.

### (VI) SIGNIFICANT CONNECTED TRANSACTIONS

During the Reporting Period, the Company had no significant connected transactions and there was no non-operating credit or indebtedness with related parties.



## VII. SIGNIFICANT EVENTS

### (VII) MATERIAL CONTRACTS AND THEIR PERFORMANCE

1. During the Reporting Period, the Company was not involved in any material trust, contracting or leasing matters;
2. During the Reporting Period, the Company had no material guarantees;
3. During the Reporting Period, the Company had no cash or asset entrusted to others for management;
4. During the Reporting Period, there was no other material contract which should be disclosed but not yet disclosed.

### (VIII) REPURCHASE, SALE OR REDEMPTION OF THE LISTED SECURITIES OF THE COMPANY AND ITS SUBSIDIARIES

During the Reporting Period, neither the Company nor any of its subsidiaries has repurchased, sold or redeemed any listed securities of the Company or its subsidiaries.

### (IX) CASH FLOWS WITH RELATED PARTIES AND EXTERNAL GUARANTEES

Pursuant to the requirements under the “Notice Concerning the Regulation on the Flow of Funds Between Listed Companies and Their Related Parties and the Provision of Guarantees by Listed Companies to External Parties” (Zheng Jian Fa [2003] No. 56) issued by the CSRC and the State-owned Assets Supervision and Administration Commission of the State Council, the cash flows with related parties and external guarantees of the Company were as follows:

1. As at 30 June 2012, no funds were utilized by the substantial shareholders of the Company and their affiliated enterprises.
2. As at 30 June 2012, there was no flow of funds between the Company and their substantial shareholders and other related parties.
3. As at 30 June 2012, there was no external guarantee provided by the Company.

### (X) UNDERTAKINGS OF THE COMPANY OR ITS SHAREHOLDERS HOLDING MORE THAN 5% (INCLUDING 5%) OF THE SHARES OF THE COMPANY

During the Reporting Period, the Company did not have any related undertakings. As at the end of the Reporting Period, no shareholder directly held more than 5% of the shares of the Company.

### (XI) APPOINTMENT OF ACCOUNTING FIRMS

During the Reporting Period, the Company re-appointed BDO China Shu Lun Pan Certified Public Accountants LLP (Special General Partnership) as its external auditor for 2012, who will be responsible for the provision of relevant domestic audit services in accordance with the PRC GAAP, for a term of one year. In addition, Deloitte Touche Tohmatsu was appointed as the Company’s external auditor for a term of one year who will be responsible for the provision of relevant audit and review services in accordance with the IFRS.



## VII. SIGNIFICANT EVENTS

### (XII) PUNISHMENT ON AND RECTIFICATION OF THE LISTED COMPANY, ITS DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT, SHAREHOLDERS AND DE FACTO CONTROLLER

During the Reporting Period, none of the Company, its Directors, Supervisors, senior management, shareholders and de facto controlling person(s) was subject to any investigation by competent authorities, mandatory measures taken by judicial and disciplinary departments, being handed over to judicial authorities or criminal liabilities, nor was any of them subject to any examination and administrative punishment by the CSRC, prohibition from the securities markets, being criticized or deemed as ineligible persons, punishment by other administrative bodies or public censures by any stock exchanges.

### (XIII) CLASSIFICATION AND RATING RESULTS ON THE COMPANY BY REGULATORY AUTHORITIES

In recognition of the Company's strong capital position, effective risk management and internal control systems, the Company was rated Class "AA" by CSRC again in 2012, the highest rating given to a PRC securities firm to date. So far, the Company has received such rating for the past five consecutive years.

### (XIV) ADMINISTRATIVE PERMISSIONS OF THE COMPANY

#### 1. Administrative permissions of securities branches during the Reporting Period

As at 30 June 2012, the Company had a total of 20 branch offices and 198 securities branches. In addition, four new securities branches were under preparation.

Newly established branch office	Newly established branch	Relocation of branch	Relocation of branch office
0	9	5	0

#### (1) Administrative permissions of newly established securities branches during the Reporting Period

No.	Branch	Address	No. of approval document	Date of approval	Date of license obtaining
1	Zaozhuang Taishan Middle Road Securities Branch of Haitong Securities Co., Ltd.	No. 111, Taishan Middle Road, Xuecheng District, Zaozhuang, Shandong	Hu Zheng Jian Ji Gou Zi [2011] No. 603	30 December 2011	22 March 2012
2	Mianyang Youxian Securities Branch of Haitong Securities Co., Ltd.	No. 66, East Section of Yihuan Road, Youxian District, Mianyang, Sichuan	Hu Zheng Jian Ji Gou Zi [2011] No. 603	30 December 2011	22 March 2012
3	Guilin Lijiang Road Securities Branch of Haitong Securities Co., Ltd.	4F, No. 4, Lijiang Road, Qixing District, Guilin, Guangxi	Hu Zheng Jian Ji Gou Zi [2011] No. 603	30 December 2011	22 March 2012
4	Yulin Yuyang Securities Branch of Haitong Securities Co., Ltd.	No. 41, Fushi Road, Yuyang District, Yulin, Shaanxi	Hu Zheng Jian Ji Gou Zi [2011] No. 603	30 December 2011	22 March 2012
5	Hengyang Zhengyang South Road Securities Branch of Haitong Securities Co., Ltd.	6F, Chongye Commercial Plaza, No. 2, Zhengyang South Road, Yanfeng District, Hengyang, Hunan	Hu Zheng Jian Ji Gou Zi [2011] No. 603	30 December 2011	22 March 2012
6	Zhongshan Yuelai South Road Securities Branch of Haitong Securities Co., Ltd.	No. 18, Yuelai South Road, Zhongshan, Guangdong	Hu Zheng Jian Ji Gou Zi [2012] No. 170	4 May 2012	Under preparation and to be processed subsequently
7	Baoding Dongfeng East Road Securities Branch of Haitong Securities Co., Ltd.	No. 215, Dongfeng East Road, Beishi District, Baoding, Hebei	Hu Zheng Jian Ji Gou Zi [2012] No. 170	4 May 2012	Under preparation and to be processed subsequently



## VII. SIGNIFICANT EVENTS

No.	Branch	Address	No. of approval document	Date of approval	Date of license obtaining
8	Shaoyang Daijia Road Securities Branch of Haitong Securities Co., Ltd.	Northwestern Corner of Daijia Road and Gongyuan Road, Daxiang District, Shaoyang, Hunan	Hu Zheng Jian Ji Gou Zi [2012] No. 170	4 May 2012	Under preparation and to be processed subsequently
9	Fu'an Yangtou Plaza North Road Securities Branch of Haitong Securities Co., Ltd.	No. 6, Yangtou Plaza North Road, Fu'an, Fujian	Hu Zheng Jian Ji Gou Zi [2012] No. 170	4 May 2012	Under preparation and to be processed subsequently

### (2) Administrative permissions of relocation of securities branches during the Reporting Period

No.	Name of branch before relocation	Name of branch after relocation	New address	No. of approval document	Date of approval	Date of license obtaining
1	Ningbo Baizhang East Road Securities Branch of Haitong Securities Co., Ltd.	Ningbo Baizhang East Road Securities Branch of Haitong Securities Co., Ltd.	11F, No. 787, Baizhang East Road, Ningbo	Yong Zheng Jian Fa [2011] No. 164	16 December 2011	2 February 2012
2	Tianjin Changjiang Road Securities Branch of Haitong Securities Co., Ltd.	Tianjin Xiaguang Road Securities Branch of Haitong Securities Co., Ltd.	Ningtai Plaza, No. 1, Xiaguang Road, Nankai District, Tianjin	Jin Zheng Jian Ji Gou Zi [2012] No. 1	12 January 2012	29 February 2012
3	Nanning Renmin East Road Securities Branch of Haitong Securities Co., Ltd.	Nanning Xinmin Road Securities Branch of Haitong Securities Co., Ltd.	1 & 2F, No. 59, Xinmin Road, Nanning	Gui Zheng Jian Han [2012] No. 35	8 March 2012	11 April 2012
4	Urumqi Youhao North Road Securities Branch of Haitong Securities Co., Ltd.	Urumqi Xinyi Road Securities Branch of Haitong Securities Co., Ltd.	No. 359, Xinyi Road, Xinshi District, Urumqi	Xin Zheng Jian Ju [2012] No. 39	29 March 2012	17 April 2012
5	Huai'an Huaihai North Road Securities Branch of Haitong Securities Co., Ltd.	Huai'an Huaihai South Road Securities Branch of Haitong Securities Co., Ltd.	1,4 & 5F, No. 50, Huaihai North Road, Huai'an	Su Zheng Jian Ji Gou Zi [2012] No. 204	15 May 2012	20 June 2012

### 2. Administrative permissions of the collective wealth management business during the Reporting Period

As at the end of the Reporting Period, the Company had eight collective asset management schemes under operation with an aggregate management units of 2.092 billion and an aggregate asset management scale of RMB1.741 billion. On 27 April 2012, Haitong Hailiang Alpha No. 1 Amount-limited and Specific Collective Asset Management Scheme was approved by the CSRC with the Approval for Establishment of Haitong Hailiang Alpha No. 1 Amount-limited and Specific Collective Asset Management Scheme by Haitong Securities Co., Ltd. (Zheng Jian Xu Ke [2012] No. 580); on 6 June 2012, Haitong Hailan Baoyin Collective Asset Management Scheme was approved by the CSRC with the Approval for Establishment of Haitong Hailan Baoyin Collective Asset Management Scheme by Haitong Securities Co., Ltd. (Zheng Jian Xu Ke [2012] No. 767). During the Reporting Period, Haitong Hailan Quantitative Strengthened Collective Asset Management Scheme was announced to be established on 29 March 2012 with initial raised funds of RMB178 million.



## VII. SIGNIFICANT EVENTS

### (XV) OTHER SIGNIFICANT EVENTS DURING THE REPORTING PERIOD AND SUBSEQUENT EVENTS

#### 1. Matters related to issuance and listing of H Shares in Hong Kong

On 27 April 2012, an aggregate of 1,352,340,000 overseas listed foreign shares (H Shares) comprising 1,229,400,000 H shares issued by the Company and 122,940,000 H Shares transferred to the NSSF by the relevant 25 state-owned shareholders of the Company for the purpose of reduction of state-owned shares and converted into H Shares were listed and commenced trading on the main board of the Hong Kong Stock Exchange. On 19 May 2012, joint global coordinators for the Company's IPO of H Shares partially exercised the over-allotment option and the Company issued 127,500,000 additional H Shares, which were subsequently listed and traded on the main board of the Hong Kong Stock Exchange on 22 May 2012. The relevant state-owned shareholders of the Company undertook a similar reduction of state-owned shares and transferred 12,750,000 domestic shares (A Shares) of the Company held by them in the aggregate (equivalent to 10% of the number of H Shares issued additionally pursuant to the partial exercise of the Over-allotment Option) to the NSSF.

Following the completion of the issuance of H Shares, the total number of shares of the Company was 9,584,721,180, among which 8,092,131,180 were A Shares and 1,492,590,000 were H Shares. The stock short name of H Shares is: “海通證券” (in Chinese) and “HAITONG SEC” (in English) and the stock code of H Shares is “6837”.

#### 2. Establishment of Haitong Innovation Securities Investment Co., Ltd.

During the Reporting Period, Haitong Innovation Securities Investment Co., Ltd. was established with a registered capital of RMB3 billion. Haitong Innovation Securities Investment Co., Ltd. is an alternative investment subsidiary of the Company that was formed in accordance with the relevant requirements of the Regulations on Investment Scopes of the Proprietary Trading Business of Securities Companies and the Relevant Matters, and its main business scope is financial products investment, securities investment, investment consultation and investment management.

#### 3. Establishment of Shanghai Haitong Securities Asset Management Company Ltd.

In March 2012, the Company received the Approval on Establishment of A Securities Asset Management Subsidiary by Haitong Securities Company, Ltd. from the CSRC (Zheng Jian Xu Ke [2012] No. 418), approving establishment of a wholly-owned securities asset management subsidiary by the Company. After active preparations, Shanghai Haitong Securities Asset Management Co., Ltd. completed the requisite industrial and commercial registration and obtained business license on 26 June 2012 with a registered capital of RMB1 billion. It has already obtained the Permit for Business Operations of Securities Business. Its principal business scope is securities asset management.





## VII. SIGNIFICANT EVENTS

### 4. Establishment of Shanghai Cultural Industry Equity Investment Fund

In March 2012, the Company received the Letter of No Objection on the Establishment of Shanghai Cultural Industry Equity Investment Fund by Haitong Capital Investment Co., Ltd. from the Institution Department of the CSRC (Ji Gou Bu Han [2012] No.139), which states that the CSRC has no objection on the establishment of Shanghai Cultural Industry Equity Investment Fund (a temporary name) and its administrative institution, Haitong Leading Capital Management Co., Ltd. (a temporary name), by Haitong Capital Investment.

Haitong Leading Capital Management Co., Ltd., the administrative institution of Shanghai Cultural Industry Equity Investment Fund obtained business license from the Industrial and Commercial Bureau of Shanghai on 29 June 2012 with a registered capital of RMB120 million. The establishment of Shanghai Cultural Industry Equity Investment Fund is in progress.

5. There has been no other significant events and subsequent events which should be disclosed by the Company during the Reporting Period.

## (XVI) AUDIT COMMITTEE

We have established an audit committee in compliance with Chapter 3 of the Hong Kong Listing Rules. The audit committee comprises Mr. Zhang Ming (committee chairman), Mr. Dai Genyou, Mr. Chen Qiwei, Mr. Zhang Huiquan, Mr. Zhou Donghui, Mr. Xu Chao and Mr. Wang Hongxiang. The audit committee is mainly responsible for the facilitating communication between the Company's internal and external audit functions, monitoring and reviewing their respective work products, and providing professional advice to the Board. Our audit committee has reviewed and confirmed the interim financial report for the year 2012.

## (XVII) INFORMATION DISCLOSURE INDEX

As at the end of the Reporting Period, the information disclosed in the China Securities Journal, the Shanghai Securities News, the Securities Times, the Securities Daily, and on the websites of the Shanghai Stock Exchange ([www.sse.com.cn](http://www.sse.com.cn)) and of the Company ([www.htsec.com](http://www.htsec.com)) by the Company was as follows:

No.	Subject	Date of publication
1	Announcement on Approval for Establishment of Five Securities Branches by Haitong Securities	10 January 2012
2	Announcement on the Financial Data for December 2011 of Haitong Securities (only on the websites of the Shanghai Stock Exchange and of the Company)	12 January 2012
3	Announcement on the Preliminary Financial Data for 2011 of Haitong Securities	17 January 2012
4	Announcement on the Financial Data for January 2012 of Haitong Securities (only on the websites of the Shanghai Stock Exchange and of the Company)	7 February 2012
5	Announcement on the Financial Data for February 2012 of Haitong Securities (only on the websites of the Shanghai Stock Exchange and of the Company)	7 March 2012
6	Announcement on the Resolutions of the Seventh Meeting of the Fifth Session of the Board of Directors of Haitong Securities	16 March 2012



## VII. SIGNIFICANT EVENTS

No.	Subject	Date of publication
7	Announcement on the Resolutions of the Fourth Meeting of the Fifth Session of the Supervisory Committee of Haitong Securities	16 March 2012
8	Annual Report of Haitong Securities (only on the websites of the Shanghai Stock Exchange and of the Company)	16 March 2012
9	Summary of Annual Report of Haitong Securities	16 March 2012
10	Explanation on the Special Audit on the Capital Occupation by Controlling Shareholders and Other Related Parties of Haitong Securities (only on the website of the Shanghai Stock Exchange)	16 March 2012
11	Implementation Scheme of Internal Control Standards of Haitong Securities (only on the website of the Shanghai Stock Exchange)	16 March 2012
12	Corporate Social Responsibility Report for 2011 of Haitong Securities (only on the website of the Shanghai Stock Exchange)	16 March 2012
13	Internal Control Evaluation Report for 2011 of Haitong Securities (only on the website of the Shanghai Stock Exchange)	16 March 2012
14	Internal Control Assurance Report of Haitong Securities (only on the website of the Shanghai Stock Exchange)	16 March 2012
15	Announcement on Approval for Establishment of Shanghai Cultural Industry Equity Investment Fund by Haitong Capital Investment Co., Ltd. of Haitong Securities	29 March 2012
16	Announcement on the Financial Data for March 2012 of Haitong Securities (only on the websites of the Shanghai Stock Exchange and of the Company)	7 April 2012
17	Announcement on the Resolutions of the Eighth Meeting (the Extraordinary Meeting) of the Fifth Session of the Board of Directors of Haitong Securities	17 April 2012
18	Prospectus of H Shares of Haitong Securities (in English) (only on the websites of the Shanghai Stock Exchange and of the Company)	18 April 2012
19	Announcement on Approval for Establishment of Securities Asset Management Subsidiary by Haitong Securities	18 April 2012
20	Informative Announcement on Hong Kong Public Offering of H Shares of Haitong Securities	18 April 2012
21	Formal Notice of Global Offering of H Shares of Haitong Securities (in Chinese) (only on the websites of the Shanghai Stock Exchange and of the Company)	18 April 2012
22	Prospectus of H Shares of Haitong Securities (in Chinese) (only on the websites of the Shanghai Stock Exchange and of the Company)	18 April 2012
23	Formal Notice of Global Offering of H Shares of Haitong Securities (in English) (only on the websites of the Shanghai Stock Exchange and of the Company)	18 April 2012
24	Announcement on Public Issue Price of Overseas Listed Foreign Shares (H Shares) of Haitong Securities	21 April 2012
25	Announcement on Reduction of State-owned Shares Relating to Offering of Overseas Listed Foreign Shares (H Shares) of Haitong Securities	26 April 2012
26	Announcement on Establishment of "Haitong Chuangxin Securities Investment Co., Ltd." of Haitong Securities	26 April 2012



## VII. SIGNIFICANT EVENTS

<b>No.</b>	<b>Subject</b>	<b>Date of publication</b>
27	Announcement on Listing and Trading of Overseas Listed Foreign Shares (H Shares) of Haitong Securities	27 April 2012
28	The First Quarterly Report of Haitong Securities	28 April 2012
29	Announcement on the Resolutions of the Ninth Meeting (the Extraordinary Meeting) of the Fifth Session of the Board of Directors of Haitong Securities	28 April 2012
30	Announcement on the Financial Data for April 2012 of Haitong Securities (only on the websites of the Shanghai Stock Exchange and of the Company)	8 May 2012
31	Announcement on the Resolutions of the Tenth Meeting (the Extraordinary Meeting) of the Fifth Session of the Board of Directors of Haitong Securities	10 May 2012
32	Notice of 2011 Annual General Meeting of Haitong Securities	11 May 2012
33	Announcement on Approval for Establishment of Four Securities Branches by Haitong Securities	11 May 2012
34	Announcement on Partial Exercise of Over-allotment Option of Haitong Securities	21 May 2012
35	Announcement on Reduction of Stated-owned Shares and Change of Shares upon Partial Exercise of the Over-allotment Option of Haitong Securities	25 May 2012
36	Information of 2011 Annual General Meeting of Haitong Securities (only on the websites of the Shanghai Stock Exchange and of the Company)	6 June 2012
37	Announcement on the Financial Data for May 2012 of Haitong Securities (only on the websites of the Shanghai Stock Exchange and of the Company)	7 June 2012
38	Indicative Announcement regarding the Convening of the 2011 Annual General Meeting of Haitong Securities	12 June 2012
39	Announcement on the Resolutions of the Eleventh Meeting (the Extraordinary Meeting) of the Fifth Session of the Board of Directors of Haitong Securities	15 June 2012
40	Announcement on the Resolutions of 2011 Annual General Meeting of Haitong Securities	29 June 2012
41	Legal Opinions as Witnessed by Lawyers on 2011 Annual General Meeting of Haitong Securities (only on the websites of the Shanghai Stock Exchange and of the Company)	29 June 2012

*Note:* The "date of publication" in the above table refers to the date of publication of relevant announcements in the China Securities Journal, the Shanghai Securities News, the Securities Times and the Securities Daily and the date of publication on the Shanghai Stock Exchange, and in the Hong Kong Stock Exchange refers to the morning of the "date of publication" or the evening of the previous date.



## VII. SIGNIFICANT EVENTS

During the Reporting Period, the information disclosed on the website of the Hong Kong Stock Exchange (<http://www.hkexnews.hk>) and of the Company ([www.htsec.com](http://www.htsec.com)) by the Company was as follows:

No.	Subject	Date of publication
1	Application Forms for Hong Kong Public Offering of H Shares of Haitong Securities (White Form, Yellow Form and Green Form)	17 April 2012
2	WPIP for Global Offering of H Shares of Haitong Securities	17 April 2012
3	Formal Notice of Global Offering of H Shares of Haitong Securities (in Chinese)	17 April 2012
4	Prospectus of H Shares of Haitong Securities (in Chinese)	17 April 2012
5	Announcement on Public Issue Price of Overseas Listed Foreign Shares (H Shares) of Haitong Securities	20 April 2012
6	Formal Notice of Global Offering of H Shares of Haitong Securities	26 April 2012
7	The First Quarterly Report for the Year 2012	27 April 2012
8	Announcement on the Change of Registered Address and the Amendment to the Articles of Association	27 April 2012
9	Articles of Association, Terms of Reference of the Nomination, Remuneration and Assessment Committee under the Board of Directors, Terms of Reference of the Development Strategy and Investment Management Committee under the Board of Directors, Terms of Reference of the Compliance and Risk Management Committee under the Board of Directors, Terms of Reference of the Audit Committee under the Board of Directors and List of Directors and their Roles and Functions	27 April 2012
10	Announcement on the Financial Data for April 2012	7 May 2012
11	Monthly Return of Equity Issuer on Movements in Securities for the Month ended 30 April 2012	8 May 2012
12	Announcement on the Resolutions of the Tenth Meeting (the Extraordinary Meeting) of the Fifth Session of the Board of Directors of Haitong Securities	9 May 2012
13	Notice of Annual General Meeting, Form of Proxy of Holders of H Shares, Reply Slip for Holders of H Shares for Attending the Annual General Meeting, Request Form, Notification Letter, Reply Form, Elections of Language and Means of Receipt of Corporate Communications	10 May 2012
14	Announcement on Approval for Establishment of Four Securities Branches by Haitong Securities	10 May 2012
15	Partial Exercise of Over-allotment Option, Stabilization Actions and End of Stabilization Period	21 May 2012
16	Announcement on Reduction of Stated-owned Shares and Change of Shares upon Partial Exercise of the Over-allotment Option of Haitong Securities	25 May 2012
17	Monthly Return of Equity Issuer on Movements in Securities for the Month ended 31 May 2012	5 June 2012
18	Circular of the Annual General Meeting for the Year 2011, Notification Letter to Registered Shareholder and Non-registered Shareholder, Request Form to Registered Shareholder and Non-registered Shareholder	5 June 2012
19	Announcement on the Financial Data for May 2012	6 June 2012
20	Indicative Announcement regarding the Convening of the 2011 Annual General Meeting	11 June 2012
21	Announcement on the Resolutions of the Eleventh Meeting (the Extraordinary Meeting) of the Fifth Session of the Board of Directors of Haitong Securities	14 June 2012
22	Poll Results of Annual General Meeting Held on 28 June 2012 of Haitong Securities	28 June 2012



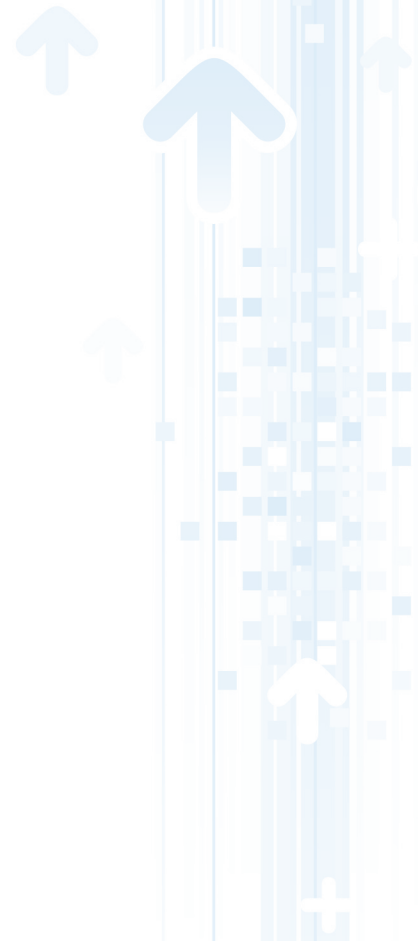
## VIII. INTERIM FINANCIAL INFORMATION AND THE REPORT ON REVIEW

- (I) The 2012 interim financial information has been reviewed by Deloitte Touche Tohmatsu (see Appendices for the report on review).
- (II) The interim financial statements and the notes thereto (Appendices).



## IX. DOCUMENTS AVAILABLE FOR INSPECTION

- (I) The text of the interim report with signature of the Legal Representative of the Company.
- (II) The text of the interim financial information.
- (III) The text of the report on review issued by Deloitte Touche Tohmatsu.
- (IV) All original copies of the documents and announcements of the Company published during the Reporting Period in the media designated by the CSRC for information disclosures.
- (V) Other relevant information.





## X. DEFINITION

"A Share(s)"	domestic shares of the Company, with a nominal value of RMB1.00 each, which are subscribed for or credited as paid up in Renminbi and are listed for trading on the Shanghai Stock Exchange
"Articles of Association" or "Articles"	the articles of association of Haitong Securities, as amended
"Board"	the board of Directors of Haitong Securities
"China" or "PRC"	the People's Republic of China excluding, for the purpose of this Report, Hong Kong, Macau and Taiwan
"Company" or "Haitong Securities"	Haitong Securities Co., Ltd.
"CSI 300 Index"	a capitalization-weighted stock market index designed to replicate the performance of 300 stocks traded on the Shanghai Stock Exchange and the Shenzhen Stock Exchange, which is compiled by the China Securities Index Company, Ltd. (中證指數有限公司)
"CSRC"	the China Securities Regulatory Commission
"Directors(s)"	the director(s) of Haitong Securities
"Group"	the Company and its subsidiaries (or the Company and one or more of its subsidiaries, as the context may require)
"H Share(s)"	ordinary shares in the share capital of Haitong Securities with nominal value of RMB1.00 each, which are subscribed for and traded in HK dollars and are listed on the Hong Kong Stock Exchange
"HK\$" or "HK dollars" or "Hong Kong dollars"	Hong Kong dollars, the lawful currency of Hong Kong
"Hong Kong Stock Exchange"	the Stock Exchange of Hong Kong Limited
"IFRS"	the International Financial Reporting Standards
"IPO"	initial public offering
"Listing Rules" or "Hong Kong Listing Rules"	the Rules Governing the Listing of Securities on the Hong Kong Stock Exchange (as amended from time to time)
"NSSF"	the National Council for Social Security Fund of the PRC (中華人民共和國全國社會保障基金理事會)
"PRC GAAP"	generally accepted accounting principles in the PRC



## X. DEFINITION

“QFII”	Qualified Foreign Institutional Investor
“Reporting Period”	the 6-month period from 1 January 2012 to 30 June 2012
“RMB” or “Renminbi”	Renminbi, the lawful currency of the PRC
“RQFII”	Renminbi Qualified Foreign Institutional Investor
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) as amended, supplemented or otherwise modified from time to time
“SSE 180 Index”	an index of 180 representative stocks that are traded on the Shanghai Stock Exchange
“SSE 50 Index”	an index of 50 representative stocks that are traded on the Shanghai Stock Exchange
“Supervisor(s)”	member(s) of the Supervisory Committee
“Supervisory Committee”	the supervisory committee of Haitong Securities

By order of the Board  
**Haitong Securities Co., Ltd.**  
**WANG Kaiguo**  
Chairman  
24 August 2012





## REPORT ON REVIEW OF INTERIM FINANCIAL INFORMATION

# Deloitte.

## 德勤

TO THE BOARD OF DIRECTORS OF

**HAITONG SECURITIES CO., LTD.**

*(Incorporated in the People's Republic of China with limited liability)*

### Introduction

We have reviewed the interim financial information set out on pages 57 to 92, which comprises the condensed consolidated statement of financial position of Haitong Securities Co., Ltd. (the "Company") and its subsidiaries as of 30 June 2012 and the related condensed consolidated income statement, statement of comprehensive income, statement of changes in equity and statement of cash flows for the six months ended 30 June 2012, and certain explanatory notes. The Main Board Listing Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and International Accounting Standard 34 "Interim Financial Reporting" ("IAS 34") issued by the International Accounting Standard Board. The directors of the Company are responsible for the preparation and presentation of this interim financial information in accordance with IAS 34. Our responsibility is to express a conclusion on this interim financial information based on our review, and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

### Scope of Review

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Hong Kong Institute of Certified Public Accountants. A review of interim financial information consists 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.

### Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the interim financial information is not prepared, in all material respects, in accordance with IAS 34.

**Deloitte Touche Tohmatsu**

*Certified Public Accountants*

Hong Kong

24 August 2012



## CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended 30 June 2012

	<i>Notes</i>	<b>1.1.2012 to 30.6.2012 RMB'000 (unaudited)</b>	1.1.2011 to 30.6.2011 RMB'000 (audited)
<b>Revenue</b>			
Commission and fee income	4	<b>2,823,285</b>	3,689,617
Interest income	5	<b>1,447,643</b>	1,205,484
Net investment gains	6	<b>1,485,794</b>	997,185
Total revenue		<b>5,756,722</b>	5,892,286
Other income and gains	7	<b>90,012</b>	60,796
Total revenue and other income		<b>5,846,734</b>	5,953,082
Depreciation and amortisation	8	<b>(157,783)</b>	(147,889)
Staff costs		<b>(1,118,151)</b>	(1,105,270)
Commission to account executives		<b>(130,191)</b>	(151,194)
Brokerage transaction fees and other services expenses	9	<b>(325,087)</b>	(392,362)
Interest expenses	10	<b>(348,003)</b>	(184,026)
Other expenses		<b>(997,682)</b>	(943,269)
Total expenses		<b>(3,076,897)</b>	(2,924,010)
Share of results of associates		<b>30,793</b>	34,048
Profit before income tax	11	<b>2,800,630</b>	3,063,120
Income tax expense	12	<b>(655,690)</b>	(723,994)
Profit for the period		<b>2,144,940</b>	2,339,126
Attributable to:			
Owners of the Company		<b>2,025,516</b>	2,234,781
Non-controlling interests		<b>119,424</b>	104,345
		<b>2,144,940</b>	2,339,126
Earnings per share (Expressed in RMB per share)			
– Basic	13	<b>0.23</b>	0.27
– Diluted	13	<b>0.23</b>	0.27



## CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2012

	<b>1.1.2012 to 30.6.2012 RMB'000 (unaudited)</b>	1.1.2011 to 30.6.2011 RMB'000 (audited)
Profit for the period	<b>2,144,940</b>	2,339,126
Other comprehensive income (expense):		
Available-for-sale investments		
Net fair value changes during the period	<b>233,043</b>	237,240
Reclassification adjustment to profit or loss on disposal/impairment	<b>18,470</b>	(513,496)
Income tax relating to components of other comprehensive income	<b>(63,714)</b>	42,894
Share of revaluation profit (deficit) of associates	<b>(5,878)</b>	(3,207)
Exchange differences arising on translation	<b>181,921</b>	(236,569)
	<b>22,320</b>	(95,070)
Other comprehensive income (expense) for the period (net of tax)	<b>204,241</b>	(331,639)
<b>Total comprehensive income for the period</b>	<b>2,349,181</b>	2,007,487
Attributable to:		
Owners of the Company	<b>2,225,544</b>	1,923,919
Non-controlling interests	<b>123,637</b>	83,568
	<b>2,349,181</b>	2,007,487



## CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2012

	Notes	30.6.2012 RMB'000 (unaudited)	31.12.2011 RMB'000 (audited)
<b>Non-current assets</b>			
Property and equipment	14	1,141,096	1,177,137
Investment properties		91,808	93,472
Goodwill		645,829	642,280
Other intangible assets		300,361	308,027
Investments in associates	15	898,534	926,114
Held-to-maturity investments	16	269,416	–
Available-for-sale investments	17	3,269,228	1,933,565
Deferred tax assets	35	384,661	513,100
Restricted bank deposits	26	303,771	326,719
Other assets	18	125,542	242,547
<b>Total non-current assets</b>		<b>7,430,246</b>	6,162,961
<b>Current assets</b>			
Advances to customers	19	8,351,222	6,462,677
Accounts receivable	20	786,974	872,552
Other receivables and prepayments	21	813,846	740,182
Available-for-sale investments	17	7,361,102	6,826,646
Financial assets held under resale agreements	22	895,697	605,900
Financial assets at fair value through profit or loss	23	22,349,157	20,605,107
Deposits with exchanges	24	2,661,761	2,177,814
Clearing settlement funds	25	4,717,831	3,952,038
Bank balances and cash	26	60,145,976	50,571,034
<b>Total current assets</b>		<b>108,083,566</b>	92,813,950
<b>Total assets</b>		<b>115,513,812</b>	98,976,911
<b>Current liabilities</b>			
Borrowings	28	1,702,995	2,520,730
Deposits taken from financial institutions	29	1,500,000	–
Accounts payable to brokerage clients	30	35,343,997	38,013,807
Other payables and accruals	31	3,766,174	1,818,960
Provisions		498	248
Tax liabilities		356,399	415,972
Financial assets sold under repurchase agreements	32	13,817,953	9,524,534
Financial liabilities at fair value through profit or loss		7,566	–
<b>Total current liabilities</b>		<b>56,495,582</b>	52,294,251
<b>Net current assets</b>		<b>51,587,984</b>	40,519,699
<b>Total assets less current liabilities</b>		<b>59,018,230</b>	46,682,660



## CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2012

	<i>Notes</i>	<b>30.6.2012</b> <b>RMB'000</b> <b>(unaudited)</b>	31.12.2011 <i>RMB'000</i> (audited)
<b>Equity</b>			
Share capital	33	<b>9,584,721</b>	8,227,821
Capital reserve		<b>32,357,677</b>	22,493,436
Investment revaluation reserve		<b>(363,196)</b>	(545,232)
Translation reserve		<b>(232,817)</b>	(250,809)
General reserves	34	<b>5,929,525</b>	5,929,525
Retained profits		<b>9,978,977</b>	9,187,634
<hr/>			
Equity attributable to owners of the Company		<b>57,254,887</b>	45,042,375
Non-controlling interests		<b>1,651,646</b>	1,568,267
<hr/>			
<b>Total equity</b>		<b>58,906,533</b>	46,610,642
<hr/>			
<b>Non-current liabilities</b>			
Deferred tax liabilities	35	<b>111,697</b>	72,018
<hr/>			
<b>Total equity and non-current liabilities</b>		<b>59,018,230</b>	46,682,660



# CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2012

	Attributable to owners of the Company						Non-controlling interests				Total equity RMB'000
	Share capital RMB'000	Capital reserve RMB'000 (Note a)	Investment revaluation reserve RMB'000	Translation reserve RMB'000	General reserves RMB'000 (Note 34)	Retained profits RMB'000	Total RMB'000	Share of net assets of subsidiaries RMB'000	Share option reserve of a subsidiary RMB'000	Total RMB'000	
<b>Unaudited</b>											
At 1 January 2012	8,227,821	22,493,436	(545,232)	(250,809)	5,929,525	9,187,634	45,042,375	1,562,865	5,402	1,568,267	46,610,642
Profit for the period	-	-	-	-	-	2,025,516	2,025,516	119,424	-	119,424	2,144,940
Other comprehensive income for the period	-	-	182,036	17,992	-	-	200,028	4,213	-	4,213	204,241
Total comprehensive income for the period	-	-	182,036	17,992	-	2,025,516	2,225,544	123,637	-	123,637	2,349,181
Changes of equity interests in subsidiaries	-	-	-	-	-	-	-	(1,630)	-	(1,630)	(1,630)
Issuance of shares, net (note b)	1,356,900	9,864,241	-	-	-	-	11,221,141	-	-	-	11,221,141
Capital injection by a non-controlling shareholder of a subsidiary	-	-	-	-	-	-	-	49,347	-	49,347	49,347
Cash dividend recognised as distribution (Note 38)	-	-	-	-	-	(1,234,173)	(1,234,173)	(87,975)	-	(87,975)	(1,322,148)
At 30 June 2012	9,584,721	32,357,677	(363,196)	(232,817)	5,929,525	9,978,977	57,254,887	1,646,244	5,402	1,651,646	58,906,533
<b>Audited</b>											
At 1 January 2011	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 (Note 38)	-	-	-	-	-	(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

**Notes:**

- Capital reserve of the Group represents primarily (i) the share premium arisen from the issuance of the Company's shares and (ii) the difference between the considerations paid or received over the proportionate share of net assets attributable to the changes of the Group's equity interest in subsidiaries without loss of control.
- During the six months ended 30 June 2012, the Company issued 1,356,900,000 H shares which were listed on the Main Board of the Hong Kong Stock Exchange Limited at the price of HKD10.60 per share.



## CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2012

	<b>1.1.2012 to 30.6.2012 RMB'000 (unaudited)</b>	1.1.2011 to 30.6.2011 RMB'000 (audited)
<b>OPERATING ACTIVITIES</b>		
Profit before income tax	<b>2,800,630</b>	3,063,120
Adjustments for		
Interest expenses	<b>348,003</b>	184,026
Share-based payment expenses	–	5,402
Share of results of associates	<b>(30,793)</b>	(34,048)
Depreciation and amortisation	<b>157,783</b>	147,889
Reversal of impairment loss in respect of other receivables	<b>(29,545)</b>	(978)
Gain on disposal of property and equipment and other intangible assets	<b>(726)</b>	(239)
Foreign exchange gains, net	<b>(66,822)</b>	(34,637)
Net gains arising from available-for-sale investments	<b>(222,412)</b>	(569,290)
Impairment loss in respect of available-for-sale investments	<b>165,166</b>	–
Operating cash flows before movements in working capital	<b>3,121,284</b>	2,761,245
(Increase)/decrease in deposits and reserve funds and deposits with exchanges	<b>(482,876)</b>	(323,918)
(Increase)/decrease in advances to customers	<b>(1,888,545)</b>	(828,815)
(Increase)/decrease in accounts and other receivables and prepayments	<b>41,209</b>	(701,492)
(Increase)/decrease in financial assets held under resale agreements	<b>(289,797)</b>	(8,023,491)
(Increase)/decrease in financial assets at fair value through profit or loss	<b>(1,744,050)</b>	(2,322,482)
(Increase)/decrease in restricted fixed bank deposits	<b>22,948</b>	(36,369)
(Increase)/decrease in cash held on behalf of clients	<b>2,608,438</b>	17,564,654
Increase/(decrease) in accounts payable to brokerage clients and other payables and accruals	<b>(2,013,360)</b>	(17,411,814)
Increase/(decrease) in financial liabilities at fair value through profit or loss	<b>7,566</b>	90,019
Increase/(decrease) in financial assets sold under repurchase agreements	<b>4,293,419</b>	6,982,100
Increase/(decrease) in deposits taken from financial institutions	<b>1,500,000</b>	–
Increase/(decrease) in provisions	<b>250</b>	(2,093)
Cash generated from (used in) operations	<b>5,176,486</b>	(2,252,456)
Income taxes paid, net	<b>(610,860)</b>	(795,875)
Interest paid	<b>(334,001)</b>	(165,024)



## CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2012

Note	<b>1.1.2012 to 30.6.2012 RMB'000 (unaudited)</b>	1.1.2011 to 30.6.2011 RMB'000 (audited)
	<b>4,231,625</b>	(3,213,355)
<b>NET CASH FROM (USED IN) OPERATING ACTIVITIES</b>		
<b>INVESTING ACTIVITIES</b>		
Dividends received from associates and other investments	52,495	51,995
Purchases of property and equipment and intangible assets	(123,495)	(153,904)
Proceeds on disposal of property and equipment	7,552	13,085
Capital injection to associates	–	(370,000)
Increase in available-for-sale investments	(1,539,986)	(1,368,027)
Payment for other investment activities	(153,734)	–
	<b>(1,757,168)</b>	(1,826,851)
<b>NET CASH USED IN INVESTING ACTIVITIES</b>		
<b>FINANCING ACTIVITIES</b>		
Dividends paid	(45,074)	(1,315,468)
Purchase of subsidiaries' shares	–	(11,126)
Net proceeds from issue of H shares	11,278,328	–
Proceeds from issue of subsidiaries' shares	49,347	25,751
Borrowings (repaid) raised net of interest paid	(831,737)	466,751
Proceeds from (payment for) other financing activities	804,902	(318,450)
	<b>11,255,766</b>	(1,152,542)
<b>NET CASH FROM (USED IN) FINANCING ACTIVITIES</b>		
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>		
	<b>13,730,223</b>	(6,192,748)
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF THE PERIOD</b>		
	<b>17,267,139</b>	15,777,118
Effect of foreign exchange rate changes	81,265	(10,668)
	<b>31,078,627</b>	9,573,702
<b>CASH AND CASH EQUIVALENTS AT END OF THE PERIOD</b>	<b>31,078,627</b>	9,573,702

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## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2012

### 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 (the "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 listing reference name changed to "Haitong Securities". On 27 April 2012, the Company issued H shares which were listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Hong Kong Stock Exchange").

The Company and its subsidiaries (the "Group") 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 condensed consolidated financial statements are presented in Renminbi ("RMB"), which is also the functional currency of the Company.

### 2. BASIS OF PREPARATION AND ACCOUNTING POLICIES

The unaudited condensed consolidated financial statements have been prepared in accordance with International Accounting Standard ("IAS") 34 "Interim Financial Reporting" issued by the International Accounting Standards Board ("IASB") as well as with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

The condensed consolidated financial statements of the Group should be read in conjunction with its 2011 annual financial statements underlying the preparation of the accountants' report in Appendix I to in the prospectus of the Company dated 17 April 2012 in connection with the initial listing of the H shares of the Company on the Hong Kong Stock Exchange (the "2011 Annual Financial Statements").

The condensed consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments, which are measured at fair value.

In the current interim period, the Group has applied, for the first time, the following amendments to International Financial Reporting Standards ("IFRSs") issued by the IASB:

- Amendments to IFRS 7 Financial Instruments: Disclosures – Transfers of Financial Assets; and
- Amendments to IAS 12 Deferred Tax – Recovery of Underlying Assets.

The application of the above amendments to IFRSs in the current interim period has had no material effect on the amounts reported in these condensed consolidated financial statements and/or disclosures set out in these condensed consolidated financial statements.

The directors of the Company considers that the application of amendments to IFRS 7 may increase the disclosure requirements for transactions involving transfers of financial assets in its 2012 annual financial statements. These amendments are intended to provide greater transparency around risk exposures when a financial asset is transferred but the transferor retains some level of continuing exposure in the asset. The amendments also require disclosures where transfers of financial assets are not evenly distributed throughout the period.



## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2012

### 2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)

The accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 30 June 2012 are the same as those followed in the preparation of the 2011 Annual Financial Statements.

The preparation of condensed consolidated financial statements requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the accounting policies of the Group. Areas where assumptions and estimates are significant to these condensed consolidated financial statements are disclosed in note 3.

### 3. KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, 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.

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

The determination of whether an available-for-sale investment is impaired requires significant judgement. 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. In making this judgement, the Group evaluates the duration and extent to which the fair value of an investment is less than its cost. In assessing whether it is prolonged, the decline is evaluated against the period in which the fair value of the asset has been below its original cost at initial recognition. In assessing whether it is significant, the decline in fair value is evaluated against the original cost of the asset at initial recognition. The Group also takes into account other factors, such as the historical data on market volatility and the price of the specific investment, significant changes in technology, markets, economics or the law, as well as industry and sector performance and the financial information regarding the investee that provides evidence that the cost of the equity securities may not be recovered. Judgement is also required to determine whether historical performance remains representative of current and future economic conditions.



## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2012

### 3. KEY SOURCES OF ESTIMATION UNCERTAINTY (continued)

#### *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 include 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 and corresponding credit would be recognised in profit or loss for the period.

### 4. COMMISSION AND FEE INCOME

	<b>1.1.2012 to 30.6.2012 RMB'000 (unaudited)</b>	1.1.2011 to 30.6.2011 RMB'000 (audited)
Commission on securities dealing and broking and handling fee income	<b>1,601,482</b>	2,348,438
Commission on futures and options contracts dealing and broking and handling fee income	<b>244,491</b>	181,105
Financial advisory and consultancy fee income	<b>69,431</b>	153,304
Underwriting and sponsors fees	<b>439,445</b>	562,169
Asset management fee income	<b>461,160</b>	437,378
Commission on bullion contracts dealing	<b>2,161</b>	4,913
Others	<b>5,115</b>	2,310
	<b>2,823,285</b>	3,689,617

### 5. INTEREST INCOME

	<b>1.1.2012 to 30.6.2012 RMB'000 (unaudited)</b>	1.1.2011 to 30.6.2011 RMB'000 (audited)
Bank interest income	<b>1,076,481</b>	937,725
Interest income from advances to customers	<b>346,354</b>	229,188
Interest income from financial assets held under resale agreements	<b>14,669</b>	35,878
Interest income from held-to-maturity investments	<b>9,901</b>	-
Other interest income	<b>238</b>	2,693
	<b>1,447,643</b>	1,205,484



## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2012

### 6. NET INVESTMENT GAINS

	<b>1.1.2012 to 30.6.2012 RMB'000 (unaudited)</b>	1.1.2011 to 30.6.2011 RMB'000 (audited)
Net gains arising from available-for-sale investments	222,412	569,290
Net gains arising from financial assets/financial liabilities held for trading and derivatives	626,135	717,150
Fair value change of financial instruments at fair value through profit or loss		
– financial assets/financial liabilities held for trading	581,477	(203,682)
– derivatives	55,770	(85,573)
	<b>1,485,794</b>	997,185

### 7. OTHER INCOME AND GAINS

	<b>1.1.2012 to 30.6.2012 RMB'000 (unaudited)</b>	1.1.2011 to 30.6.2011 RMB'000 (audited)
Non-recurring government grants (Note)	6,812	3,332
Rental income from investment properties	6,942	7,342
Others	76,258	50,122
	<b>90,012</b>	60,796

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.

### 8. DEPRECIATION AND AMORTISATION

	<b>1.1.2012 to 30.6.2012 RMB'000 (unaudited)</b>	1.1.2011 to 30.6.2011 RMB'000 (audited)
Depreciation for property and equipment	127,656	123,250
Depreciation for investment properties	1,664	1,729
Amortisation of other intangible assets	28,211	22,658
Amortisation of prepaid lease payments	252	252
	<b>157,783</b>	147,889



## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2012

### 9. BROKERAGE TRANSACTION FEES AND OTHER SERVICES EXPENSES

	<b>1.1.2012 to 30.6.2012 RMB'000 (unaudited)</b>	1.1.2011 to 30.6.2011 RMB'000 (audited)
Securities and futures dealing and broking expenses	<b>253,020</b>	353,804
Services expenses for underwriting, sponsorship, and financial advisory, etc.	<b>72,067</b>	38,558
	<b>325,087</b>	392,362

### 10. INTEREST EXPENSES

	<b>1.1.2012 to 30.6.2012 RMB'000 (unaudited)</b>	1.1.2011 to 30.6.2011 RMB'000 (audited)
Interest on borrowings wholly repayable within five years:		
– bank loans and overdrafts	<b>14,002</b>	12,275
– deposits taken from financial institutions	<b>50,840</b>	–
– financial assets sold under repurchase agreements	<b>210,270</b>	64,470
– accounts payable to brokerage clients	<b>72,882</b>	105,016
– others	<b>9</b>	2,265
	<b>348,003</b>	184,026

### 11. PROFIT BEFORE INCOME TAX

	<b>1.1.2012 to 30.6.2012 RMB'000 (unaudited)</b>	1.1.2011 to 30.6.2011 RMB'000 (audited)
The Group's profit before income tax is arrived at after charging (crediting):		
Auditors' remuneration	<b>4,591</b>	4,365
Impairment loss in respect of available-for-sale investments (included in other expenses)	<b>165,166</b>	–
Reversal of impairment loss in respect of other receivables	<b>(29,545)</b>	(978)
Gain on disposal of property and equipment and other intangible assets	<b>(726)</b>	(239)
Operating lease rentals in respect of rented premises	<b>127,554</b>	113,775
Foreign exchange gains, net (included in other income)	<b>(66,822)</b>	(34,637)



## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2012

### 12. INCOME TAX EXPENSE

	<b>1.1.2012 to 30.6.2012 RMB'000 (unaudited)</b>	1.1.2011 to 30.6.2011 RMB'000 (audited)
Current tax:		
PRC Enterprise Income Tax and other jurisdictions	<b>525,314</b>	837,678
Hong Kong Profits Tax	<b>24,368</b>	13,651
	<b>549,682</b>	851,329
Adjustments in respect of current income tax in relation to prior years:		
PRC Enterprise Income Tax and other jurisdictions	<b>1,604</b>	(5,369)
Hong Kong Profits Tax	–	(446)
	<b>1,604</b>	(5,815)
Deferred tax:		
Current period	<b>104,404</b>	(121,520)
	<b>655,690</b>	723,994

Under the Law of the People's Republic of China (the "PRC") on Enterprise Income Tax (the "EIT Law") and Implementation Regulation of the EIT Law, the tax rate is 25%. For the six months ended 30 June 2011, according to "Notification of the State Council on Carrying out the Transitional Preferential Policies Concerning Enterprise Income Tax" (Guo Fa [2007] No.39), branches set up in Shenzhen and Haikou in the PRC were subject to tax rate of 24%.

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

### 13. EARNINGS PER SHARE

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

	<b>1.1.2012 to 30.6.2012 RMB'000 (unaudited)</b>	1.1.2011 to 30.6.2011 RMB'000 (audited)
Earnings for the purpose of basic earnings per share:		
Profit for the period attributable to owners of the Company	<b>2,025,516</b>	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	–	(219)
Earnings for the purpose of diluted earnings per share	<b>2,025,516</b>	2,234,562
Number of shares:		
Weighted average number of shares ('000)	<b>8,658,871</b>	8,227,821

The weighted average number of shares for the purpose of basic and diluted earnings per share has been adjusted for the H shares issued during the six months ended 30 June 2012.



## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2012

### 14. PROPERTY AND EQUIPMENT

	Leasehold land and buildings RMB'000	Leasehold improvements RMB'000	Electronic equipment RMB'000	Motor vehicles RMB'000	Furniture, fixtures and equipment RMB'000	Construction in progress RMB'000	Total RMB'000
<b>Unaudited</b>							
<b>COST</b>							
As at 1 January 2012	830,245	537,375	752,064	144,519	142,425	11,602	2,418,230
Additions during the period	6,242	19,959	42,590	10,876	4,673	13,132	97,472
Disposals during the period	(6,414)	(15,123)	(23,922)	(1,661)	(3,768)	-	(50,888)
Transfer during the period	-	3,274	-	-	140	(3,414)	-
As at 30 June 2012	830,073	545,485	770,732	153,734	143,470	21,320	2,464,814
<b>ACCUMULATED DEPRECIATION</b>							
As at 1 January 2012	224,098	309,609	522,899	75,740	78,365	-	1,210,711
Provided for the period	12,410	43,368	54,291	9,195	8,392	-	127,656
Eliminated on disposals	(3,005)	(15,123)	(21,981)	(1,253)	(3,669)	-	(45,031)
As at 30 June 2012	233,503	337,854	555,209	83,682	83,088	-	1,293,336
<b>ALLOWANCE FOR IMPAIRMENT LOSSES</b>							
As at 1 January 2012 and 30 June 2012	30,382	-	-	-	-	-	30,382
<b>CARRYING VALUES</b>							
As at 30 June 2012	566,188	207,631	215,523	70,052	60,382	21,320	1,141,096
	Leasehold land and buildings RMB'000	Leasehold improvements RMB'000	Electronic equipment RMB'000	Motor vehicles RMB'000	Furniture, fixtures and equipment RMB'000	Construction in progress RMB'000	Total RMB'000
<b>Audited</b>							
<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 year	11,679	27,091	99,996	22,245	16,134	62,708	239,853
Disposals during the year	(26,357)	(81,304)	(62,302)	(6,794)	(9,787)	-	(186,544)
Transfer during the year	3,768	60,307	1,779	-	956	(63,042)	3,768
As at 31 December 2011	830,245	537,375	752,064	144,519	142,425	11,602	2,418,230
<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 year	24,691	78,977	109,495	17,312	17,017	-	247,492
Eliminated on disposals	(12,597)	(81,304)	(58,637)	(5,753)	(8,078)	-	(166,369)
As at 31 December 2011	224,098	309,609	522,899	75,740	78,365	-	1,210,711
<b>ALLOWANCE FOR IMPAIRMENT LOSSES</b>							
As at 1 January 2011 and 31 December 2011	30,382	-	-	-	-	-	30,382
<b>CARRYING VALUES</b>							
As at 31 December 2011	575,765	227,766	229,165	68,779	64,060	11,602	1,177,137



## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2012

### 15. INVESTMENTS IN ASSOCIATES

	<b>30.6.2012</b> <b>RMB'000</b> <b>(unaudited)</b>	31.12.2011 <i>RMB'000</i> (audited)
Cost of unlisted investments in associates	<b>764,207</b>	764,207
Share of post-acquisition profits and other comprehensive income, net of dividends received	<b>134,327</b>	161,907
	<b>898,534</b>	926,114

The Group has the following associates:

Name of associates	Place of incorporation/ establishment	Equity interest held by the Group		Principal activities
		As at 30 June 2012	As at 31 December 2011	
富國基金管理有限公司 Fullgoal Fund Management Co. Ltd.*	PRC	<b>27.78%</b>	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	<b>65.00%</b>	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	<b>37.50%</b>	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*	PRC	<b>37.00%</b>	37.00%	Investing in securities

\* 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.





## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2012

### 16. HELD-TO-MATURITY INVESTMENTS

	<b>30.6.2012</b> <b>RMB'000</b> <b>(unaudited)</b>	31.12.2011 <i>RMB'000</i> <i>(audited)</i>
Unlisted corporate bonds	<b>269,416</b>	–

These corporate bonds were issued by various corporate entities, carry coupon rate from 2.95% to 13.50% per annum, with maturity dates ranging from 16 December 2013 to 4 May 2017.

### 17. AVAILABLE-FOR-SALE INVESTMENTS

	<b>30.6.2012</b> <b>RMB'000</b> <b>(unaudited)</b>	31.12.2011 <i>RMB'000</i> <i>(audited)</i>
Debt securities	<b>406,874</b>	507,743
Equity securities	<b>7,687,697</b>	7,644,569
Funds and others	<b>2,535,759</b>	607,899
	<b>10,630,330</b>	8,760,211
Analysed as:		
Listed in Hong Kong	<b>25,502</b>	58,253
Listed outside Hong Kong (primarily in the PRC)	<b>6,076,427</b>	6,211,410
Unlisted	<b>4,528,401</b>	2,490,548
	<b>10,630,330</b>	8,760,211
Analysed as:		
Listed equity securities	<b>5,081,745</b>	6,071,117
Unlisted equity securities	<b>2,605,952</b>	1,573,452
	<b>7,687,697</b>	7,644,569
Analysed for reporting purpose as:		
Current assets	<b>7,361,102</b>	6,826,646
Non-current assets	<b>3,269,228</b>	1,933,565
	<b>10,630,330</b>	8,760,211

The equity interest in unlisted securities held by the Group 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 impairment at the reporting date.

Included in the Group's listed equity securities of approximately RMB725,765,000 and RMB1,423,849,000 as at 30 June 2012 and 31 December 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 instrument-specific restriction.



## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2012

### 17. AVAILABLE-FOR-SALE INVESTMENTS (continued)

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'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's investments in equity securities without restriction, exchange-traded funds and debt securities are determined with reference to their quoted prices as at the end of the period.

As at 30 June 2012 and 31 December 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 RMB297,201,000 and RMB254,128,000 to external clients, respectively, which did not result in derecognition of the financial assets. RMB1,051,146,000 and RMB837,988,000 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 30).

### 18. OTHER ASSETS

	<b>30.6.2012</b> <b>RMB'000</b> <b>(unaudited)</b>	31.12.2011 <i>RMB'000</i> <i>(audited)</i>
Foreclosed assets	<b>6,500</b>	6,500
Deposits with the Hong Kong Stock Exchange	<b>1,223</b>	1,216
Contributions to reserve funds of		
– HKFE Clearing Corporation Limited	<b>2,353</b>	1,216
– The SEHK Options Clearing House Limited	<b>4,606</b>	7,396
Deposits for trading rights	<b>52,095</b>	51,520
Other bond investments	<b>42,001</b>	157,683
Prepaid lease payments	<b>16,764</b>	17,016
	<b>125,542</b>	242,547

### 19. ADVANCES TO CUSTOMERS

	<b>30.6.2012</b> <b>RMB'000</b> <b>(unaudited)</b>	31.12.2011 <i>RMB'000</i> <i>(audited)</i>
Loans to margin clients	<b>8,351,222</b>	6,462,677
Less: Allowance for doubtful debts	–	–
	<b>8,351,222</b>	6,462,677

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



## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2012

### 19. ADVANCES TO CUSTOMERS (continued)

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 30 June 2012 and 31 December 2011 were secured by the customers' securities to the Group as collateral with undiscounted market value of approximately RMB27,757,825,000 and RMB22,610,397,000, respectively.

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 six months ended 30 June 2012 and the year ended 31 December 2011. The concentration of credit risk is limited due to the customer base being large and unrelated.

### 20. ACCOUNTS RECEIVABLE

	<b>30.6.2012</b> <b>RMB'000</b> <b>(unaudited)</b>	31.12.2011 <i>RMB'000</i> (audited)
Accounts receivable from:		
– Cash clients	<b>77,754</b>	42,757
– Brokers, dealers and clearing house	<b>513,261</b>	684,661
– Advisory and financial planning	<b>5,925</b>	3,980
– Asset and fund management	<b>170,595</b>	125,391
– Others	<b>19,439</b>	15,763
	<b>786,974</b>	872,552

There are no impaired accounts receivable for the six months ended 30 June 2012 and the year ended 31 December 2011. Ageing analysis of accounts receivable from the trade date is as follows:

	<b>30.6.2012</b> <b>RMB'000</b> <b>(unaudited)</b>	31.12.2011 <i>RMB'000</i> (audited)
Between 0 and 3 months	<b>770,639</b>	859,783
Between 4 and 6 months	<b>9,650</b>	5,558
Between 7 and 12 months	<b>4,365</b>	3,816
Over 1 year	<b>2,320</b>	3,395
	<b>786,974</b>	872,552

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.



## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2012

### 21. OTHER RECEIVABLES AND PREPAYMENTS

	<b>30.6.2012</b> <b>RMB'000</b> <b>(unaudited)</b>	31.12.2011 <i>RMB'000</i> (audited)
Interest receivable	541,891	448,730
Dividend receivable	12	274
Expenses for underwriting business to be settled by clients	2,734	420
Other receivables and prepayments	778,393	827,065
	<b>1,323,030</b>	1,276,489
Less: Allowance for doubtful debts on other receivables	<b>(509,184)</b>	(536,307)
	<b>813,846</b>	740,182

### 22. FINANCIAL ASSETS HELD UNDER RESALE AGREEMENTS

	<b>30.6.2012</b> <b>RMB'000</b> <b>(unaudited)</b>	31.12.2011 <i>RMB'000</i> (audited)
Analysed as collateral type:		
Bonds	500,400	573,900
Stock	395,297	32,000
	<b>895,697</b>	605,900
Analysed by market:		
Shanghai Stock Exchange	<b>895,697</b>	605,900

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

	<b>30.6.2012</b> <b>RMB'000</b> <b>(unaudited)</b>	31.12.2011 <i>RMB'000</i> (audited)
Held for trading:		
Debt securities	17,722,888	14,803,400
Equity securities	1,783,383	1,508,502
Funds	2,674,950	4,185,923
Derivatives	167,936	107,282
	<b>22,349,157</b>	20,605,107
Analysed as:		
Listed in Hong Kong	37,940	5,585
Listed outside Hong Kong (primarily in the PRC)	13,037,194	10,085,516
Unlisted	9,274,023	10,514,006
	<b>22,349,157</b>	20,605,107



## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2012

### 23. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS (continued)

The above investments include unlisted fund investments, which were classified as held for trading financial assets, with underlying investments mainly consist of publicly traded equities listed in Hong Kong and the PRC. The fair value of the Group'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's listed equity securities, exchange-traded funds and unlisted debt securities are determined by reference to their quoted prices as at the reporting date.

The Group's derivatives mainly comprise index futures contracts and swap contracts.

### 24. DEPOSITS WITH EXCHANGES

	<b>30.6.2012</b> <b>RMB'000</b> <b>(unaudited)</b>	31.12.2011 <i>RMB'000</i> (audited)
Deposits with stock exchanges		
– Shanghai Stock Exchange	<b>14,543</b>	20,158
– Shenzhen Stock Exchange	<b>513,999</b>	536,414
	<b>528,542</b>	556,572
Deposits with futures and commodity exchanges		
– Shanghai Futures Exchange	<b>762,689</b>	638,247
– Dalian Commodity Exchange	<b>183,933</b>	98,619
– Zhengzhou Commodity Exchange	<b>191,616</b>	145,162
– China Financial Futures Exchange	<b>928,332</b>	695,825
	<b>2,066,570</b>	1,577,853
Guarantee fund paid to Shenzhen Stock Exchange	<b>66,649</b>	43,389
	<b>2,661,761</b>	2,177,814

### 25. CLEARING SETTLEMENT FUNDS

	<b>30.6.2012</b> <b>RMB'000</b> <b>(unaudited)</b>	31.12.2011 <i>RMB'000</i> (audited)
Clearing settlement funds held with clearing houses for:		
House	<b>1,341,798</b>	1,537,006
Clients	<b>3,376,033</b>	2,415,032
	<b>4,717,831</b>	3,952,038

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



## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2012

### 26. BANK BALANCES AND CASH

	<b>30.6.2012</b> <b>RMB'000</b> <b>(unaudited)</b>	31.12.2011 <i>RMB'000</i> (audited)
House accounts ( <i>note i</i> )	<b>30,647,385</b>	17,525,952
Cash held on behalf of clients ( <i>note ii</i> )	<b>29,802,362</b>	33,371,801
Less: Non-current restricted bank deposits ( <i>note iii</i> )	<b>60,449,747</b> <b>(303,771)</b>	50,897,753 (326,719)
	<b>60,145,976</b>	50,571,034

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

Notes:

- (i) Included in the house accounts as at 30 June 2012 and 31 December 2011 are pledged bank deposits of approximately RMB606,785,000 and RMB1,469,100,000, respectively, used as a security of borrowings (note 28), carry interest ranging from 0.52% to 2.20% per annum and 0.52% to 4.00% per annum respectively, and have a maturity of one month to three months.
- (ii) The Group maintain bank accounts with banks to hold clients' deposits arising from normal business transactions. The Group have recognised the corresponding amount in accounts payable to brokerage clients (note 30).
- (iii) The non-current restricted bank deposits are restricted for fund management risk reserve purpose.

### 27. CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprises the following:

	<b>30.6.2012</b> <b>RMB'000</b> <b>(unaudited)</b>	31.12.2011 <i>RMB'000</i> (audited)
Bank balances and cash – house	<b>30,647,385</b>	17,525,952
Less: Pledged bank deposits and fixed deposits	<b>(606,785)</b>	(1,469,100)
Restricted bank deposits	<b>(303,771)</b>	(326,719)
Clearing settlement funds – house	<b>1,341,798</b>	1,537,006
	<b>31,078,627</b>	17,267,139



## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2012

### 28. BORROWINGS

	<b>30.6.2012</b> <b>RMB'000</b> <b>(unaudited)</b>	31.12.2011 <i>RMB'000</i> (audited)
Secured short-term borrowings:		
Bank loans ( <i>notes (i), (ii), (iii), (iv)</i> )	<b>855,981</b>	1,741,384
Unsecured short-term borrowings:		
Bank loans ( <i>notes (iii), (iv)</i> )	<b>847,014</b>	779,346
	<b>1,702,995</b>	2,520,730

Notes:

- i. Bank overdrafts and bank loans, borrowed by the subsidiaries in Hong Kong, of approximately RMB317,936,000 and RMB525,334,000 as at 30 June 2012 and 31 December 2011, respectively, are secured by the listed shares pledged to the Group as securities for advances to customers (with customers' consent) of approximately RMB1,199,480,000 and RMB1,705,713,000 as at 30 June 2012 and 31 December 2011, respectively.
- ii. As at 30 June 2012 and 31 December 2011, secured bank loans of RMB538,045,000 and RMB1,216,050,000, respectively, are secured by the Group's short-term time deposits placed at financial institutions.
- iii. Bank loans and other loans are repayable on demand or within 1 year.
- iv. 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 1.70% per annum and 0.41% to 1.75% per annum as at 30 June 2012 and 31 December 2011, respectively.

### 29. DEPOSITS TAKEN FROM FINANCIAL INSTITUTIONS

	<b>30.6.2012</b> <b>RMB'000</b> <b>(unaudited)</b>	31.12.2011 <i>RMB'000</i> (audited)
Deposits taken from banks	<b>1,500,000</b>	–

As at 30 June 2012, all the deposits taken from banks bear interest at the rate from 3.61% to 3.73% per annum with a short-term maturity within one month.



## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2012

### 30. 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 banks and at clearing houses by the Group.

As at 30 June 2012 and 31 December 2011, included in the Group's accounts payable to brokerage clients were approximately RMB1,051,146,000 and RMB837,988,000 cash collateral received from clients for securities lending and margin financing arrangement.

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

### 31. OTHER PAYABLES AND ACCRUALS

	<b>30.6.2012</b> <b>RMB'000</b> <b>(unaudited)</b>	31.12.2011 <i>RMB'000</i> (audited)
Accrued staff cost	<b>893,942</b>	911,275
Business tax and other tax payable	<b>123,848</b>	221,267
Funds payable to securities issuers	<b>688,265</b>	–
Dividends payable	<b>1,313,649</b>	36,576
Others	<b>746,470</b>	649,842
	<b>3,766,174</b>	1,818,960

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

### 32. FINANCIAL ASSETS SOLD UNDER REPURCHASE AGREEMENTS

	<b>30.6.2012</b> <b>RMB'000</b> <b>(unaudited)</b>	31.12.2011 <i>RMB'000</i> (audited)
Analysed as collateral type:		
Bonds	<b>13,817,953</b>	9,524,534
Analysed by market:		
Shanghai Stock Exchange	<b>6,693,592</b>	6,460,234
Inter-bank market	<b>7,124,361</b>	3,064,300
	<b>13,817,953</b>	9,524,534





## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2012

### 33. SHARE CAPITAL

	Listed A shares		Listed H shares		Total	
	Number of share '000	Amount RMB'000	Number of share '000	Amount RMB'000	Number of share '000	Amount RMB'000
Registered, issued and fully paid at RMB1.0 per share:						
At 1 January 2011 and 31 December 2011 (audited)	8,227,821	8,227,821	–	–	8,227,821	8,227,821
Issuance of H Shares	(135,690)	(135,690)	1,492,590	1,492,590	1,356,900	1,356,900
At 30 June 2012 (unaudited)	<b>8,092,131</b>	<b>8,092,131</b>	<b>1,492,590</b>	<b>1,492,590</b>	<b>9,584,721</b>	<b>9,584,721</b>

In April 2012, upon the approval of the Hong Kong Stock Exchange, the Company has completed its initial public offering of 1,229,400,000 H shares, which are listed on the Main Board of the Hong Kong Stock Exchange. In May 2012, the joint global coordinators exercised the over-allotment option and thus the Company had issued an additional 127,500,000 H shares and are also listed on the Main Board of the Hong Kong Stock Exchange.

Moreover, according to the Interim Measures of the State Council of the PRC (the "State Council") on the Management of Reducing State-owned Shares and Raising Social Security Funds issued by the State Council and the relevant approvals of State-owned Assets Supervision and Administration Commission of the State Council, existing shareholders of the state-owned shares of the Company has reduced their state-owned shares and transferred an aggregate amount of 135,690,000 A shares of the Company to the National Council for Social Security Fund of the PRC, and such shares were converted into H shares on a one-for-one basis.

### 34. 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 for loss-covering purpose.

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 covering trading losses and shall not be converted into dividends or increasing capital.



## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2012

### 35. DEFERRED TAXATION

For the purpose of presentation in the Group's condensed consolidated statement 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:

	<b>30.6.2012</b> <b>RMB'000</b> <b>(unaudited)</b>	31.12.2011 <i>RMB'000</i> (audited)
Deferred tax assets	<b>384,661</b>	513,100
Deferred tax liabilities	<b>(111,697)</b>	(72,018)
	<b>272,964</b>	441,082

The following are the major deferred tax assets (liabilities) recognised and movements thereon in the relevant year/period:

	Financial assets held for trading <i>RMB'000</i>	Accelerated depreciation <i>RMB'000</i>	Derivative assets <i>RMB'000</i>	Accrued expense <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>
<b>Audited</b>								
At 1 January 2011	(22,527)	(17,259)	–	59,597	(157,461)	1,112	1,994	(134,544)
Credit (charge) to profit or loss	142,186	(2,857)	(25,134)	25,425	103,644	(1,112)	216	242,368
Credit to other comprehensive income	–	–	–	–	333,258	–	–	333,258
At 31 December 2011	119,659	(20,116)	(25,134)	85,022	279,441	–	2,210	441,082
<b>Unaudited</b>								
(Charge) credit to profit or loss	<b>(140,672)</b>	<b>(41)</b>	<b>(13,942)</b>	<b>13,023</b>	<b>37,053</b>	–	<b>175</b>	<b>(104,404)</b>
Charge to other comprehensive income	–	–	–	–	<b>(63,714)</b>	–	–	<b>(63,714)</b>
At 30 June 2012	<b>(21,013)</b>	<b>(20,157)</b>	<b>(39,076)</b>	<b>98,045</b>	<b>252,780</b>	–	<b>2,385</b>	<b>272,964</b>

### 36. 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 30 June 2012 and 31 December 2011, the Group had total future minimum lease payments under non-cancellable operating leases in respect of rented premises falling due as follows:

	<b>30.6.2012</b> <b>RMB'000</b> <b>(unaudited)</b>	31.12.2011 <i>RMB'000</i> (audited)
Within one year	<b>168,988</b>	210,016
In the second to fifth year, inclusive	<b>309,299</b>	344,461
Over five years	<b>68,196</b>	59,586
	<b>546,483</b>	614,063



## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2012

### 36. OPERATING LEASE ARRANGEMENTS (continued)

#### *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:

	<b>30.6.2012</b> <b>RMB'000</b> <b>(unaudited)</b>	31.12.2011 <i>RMB'000</i> (audited)
Within one year	<b>7,631</b>	9,947
In the second to fifth year, inclusive	<b>19,253</b>	18,966
	<b>26,884</b>	28,913

### 37. CAPITAL COMMITMENT

	<b>30.6.2012</b> <b>RMB'000</b> <b>(unaudited)</b>	31.12.2011 <i>RMB'000</i> (audited)
Capital expenditure in respect of acquisition of property and equipment:		
– Contracted but not provided for	<b>18,645</b>	21,960

### 38. DIVIDENDS

	<b>30.6.2012</b> <b>RMB'000</b> <b>(unaudited)</b>	31.12.2011 <i>RMB'000</i> (audited)
Dividends recognised as distribution	<b>1,234,173</b>	1,234,173

Pursuant to the resolution of annual general meeting 2011 and 2010, the Company declared 2011 and 2010 final dividend of RMB0.15 per share, satisfied by cash.



## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2012

### 39. RELATED PARTY TRANSACTIONS

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:

	<b>1.1.2012 to 30.6.2012 RMB'000 (unaudited)</b>	1.1.2011 to 30.6.2011 RMB'000 (audited)
Financial advisory and consultancy fee income received and receivable from:		
– BNP	<b>37,239</b>	41,986
	<b>30.6.2012 RMB'000 (unaudited)</b>	31.12.2011 RMB'000 (audited)
Accounts receivable from:		
– BNP	<b>25,099</b>	24,683

The followings are the material transactions between the Group's subsidiary, Haitong Capital Investment Co., Ltd., and the Group's associates, Jilin Modern Agricultural and Emerging Markets Investment Fund Limited ("Jilin") and Xi'an Aerospace and New Energy Industry Fund ("Xi'an Aerospace"):

	<b>1.1.2012 to 30.6.2012 RMB'000 (unaudited)</b>	1.1.2011 to 30.6.2011 RMB'000 (audited)
Financial advisory and consultancy fee income:		
– Jilin	<b>10,000</b>	20,000
– Xi'an Aerospace	<b>10,000</b>	16,820

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

	<b>1.1.2012 to 30.6.2012 RMB'000 (unaudited)</b>	1.1.2011 to 30.6.2011 RMB'000 (audited)
Short-term benefits:		
– Fees, salaries, commission and bonuses	<b>11,420</b>	16,024
Post-employment benefits:		
– Employer's contribution to pension schemes/annuity plans	<b>1,044</b>	350
	<b>12,464</b>	16,374



## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2012

### 40. SEGMENT REPORTING

The segment information provided to the chief operating decision maker, being the board of directors of the Company, by operating and reportable segments for the six months ended 30 June 2012 and the six months ended 30 June 2011 is as follows:

#### Operating and reportable segment

##### For the six months ended 30 June 2012 (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>										
Revenue										
– External	1,839,486	485,537	1,271,277	401,490	42,967	1,265,322	450,643	5,756,722	–	5,756,722
– Inter-segment	262,136	56	–	943	149	266,952	44,135	574,371	(574,371)	–
Other income and gains	7,889	4,437	–	700	–	88,371	(11,385)	90,012	–	90,012
Segment revenue	2,109,511	490,030	1,271,277	403,133	43,116	1,620,645	483,393	6,421,105	(574,371)	5,846,734
Segment expenses	(1,254,953)	(300,911)	(309,917)	(203,587)	(11,182)	(956,844)	(346,922)	(3,384,316)	307,419	(3,076,897)
Segment result	854,558	189,119	961,360	199,546	31,934	663,801	136,471	3,036,789	(266,952)	2,769,837
Share of results of associates	–	(8)	–	–	(2,831)	33,632	–	30,793	–	30,793
Profit before income tax	854,558	189,111	961,360	199,546	29,103	697,433	136,471	3,067,582	(266,952)	2,800,630

##### For the six months ended 30 June 2011 (audited)

	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>										
Revenue										
– 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



## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2012

### 40. SEGMENT REPORTING (continued)

#### *Operating and reportable segment (continued)*

Below is the analysis of the assets according to operating and reportable segment:

	<b>30.6.2012</b> <b>RMB'000</b> <b>(unaudited)</b>	31.12.2011 <i>RMB'000</i> (audited)
Securities and futures brokerage	<b>44,850,112</b>	48,167,107
Asset management	<b>2,424,951</b>	1,311,585
Proprietary Trading	<b>32,631,234</b>	25,996,744
Investment banking	<b>496,844</b>	959,543
Direct investment	<b>3,627,513</b>	3,529,474
Headquarters and others	<b>99,008,090</b>	88,294,868
Overseas operations	<b>10,761,093</b>	11,487,414
Segment Total	<b>193,799,837</b>	179,746,735
Eliminations	<b>(79,569,220)</b>	(82,209,038)
Investment in associates	<b>898,534</b>	926,114
Deferred tax assets	<b>384,661</b>	513,100
	<b>115,513,812</b>	98,976,911

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.



## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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### 41. 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 30 June 2012 and 31 December 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>Unaudited</b>					
<b>As at 30 June 2012</b>					
Assets					
Advances to customers	8,351,222	–	–	–	8,351,222
Bank balances and cash (including restricted bank deposits)	44,169,771	15,976,205	303,771	–	60,449,747
Clearing settlement funds (client money)	3,376,033	–	–	–	3,376,033
Debt securities classified as:					
Financial assets held for trading	–	298,786	8,999,027	8,425,075	17,722,888
Available-for-sale investments	–	–	61,170	345,704	406,874
Held-to-maturity investments	–	–	269,416	–	269,416
Bond investments (included in other assets)	–	–	42,001	–	42,001
	<b>55,897,026</b>	<b>16,274,991</b>	<b>9,675,385</b>	<b>8,770,779</b>	<b>90,618,181</b>
Liabilities					
Borrowings from banks	–	1,702,995	–	–	1,702,995
Deposits taken from financial institutions	–	1,500,000	–	–	1,500,000
Accounts payable to brokerage clients (money held on behalf of clients only)	33,178,395	–	–	–	33,178,395
	<b>33,178,395</b>	<b>3,202,995</b>	<b>–</b>	<b>–</b>	<b>36,381,390</b>
<b>Audited</b>					
<b>As at 31 December 2011</b>					
Assets					
Advances to customers	6,462,677	–	–	–	6,462,677
Bank balances and cash (including restricted bank deposits)	43,349,176	7,221,858	326,719	–	50,897,753
Clearing settlement funds (client money)	2,415,032	–	–	–	2,415,032
Debt securities classified as:					
Financial assets held for trading	–	–	5,696,683	9,106,717	14,803,400
Available-for-sale investments	–	–	30,000	477,743	507,743
Bond investments (included in other assets)	–	–	157,683	–	157,683
	<b>52,226,885</b>	<b>7,221,858</b>	<b>6,211,085</b>	<b>9,584,460</b>	<b>75,244,288</b>
Liabilities					
Borrowings from banks	2,073,224	447,506	–	–	2,520,730
Accounts payable to brokerage clients (money held on behalf of clients only)	35,786,833	–	–	–	35,786,833
	<b>37,860,057</b>	<b>447,506</b>	<b>–</b>	<b>–</b>	<b>38,307,563</b>



## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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### 42. FINANCIAL INSTRUMENTS

	<b>30.6.2012</b> <b>RMB'000</b> <b>(unaudited)</b>	31.12.2011 <i>RMB'000</i> (audited)
Financial assets		
Loans and receivables	<b>78,776,119</b>	65,879,726
Available-for-sale investments	<b>10,630,330</b>	8,760,211
Held-to-maturity investments	<b>269,416</b>	–
Financial assets at fair value through profit or loss		
– Financial assets held for trading	<b>22,349,157</b>	20,605,107
Financial liabilities		
Amortised cost	<b>55,113,329</b>	50,745,489
Financial liabilities at fair value through profit or loss		
– Financial liabilities held for trading	<b>7,566</b>	–

### 43. FINANCIAL RISK MANAGEMENT

The Group's major financial instruments include equity and debt investments, advances to customers, accounts receivable, other receivables, financial assets held under resale agreements, clearing settlement funds, bank balances and cash, pledged bank deposits, borrowings, deposits taken from financial institutions, financial assets sold under repurchase agreements, accounts payable to brokerage clients and other payables. 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'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 is 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. The Group hedges exposure by entering into derivatives contracts to hedge against the exposure arising from the securities lending activities.

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.





## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2012

### 43. FINANCIAL RISK MANAGEMENT (continued)

#### Market risk (continued)

#### Price risk (continued)

#### 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 Company reflects the 95% probability that the daily loss will not exceed the reported VaR.

The following VaR methodologies apply to the Company.

Starting from 1 January 2012, VaR methodologies employed to calculate the month end risk numbers include the variance – covariance approach. Prior to 1 January 2012, VaR methodologies employed to calculate the month end risk numbers included the historical approach.

	<b>30.6.2012</b>	31.12.2011
	<b>RMB'000</b>	<b>RMB'000</b>
	<b>(unaudited)</b>	<b>(audited)</b>
<b>Historical VaR (95%, one-day) by risk type</b>		
Total VaR exposure	<b>88,000</b>	166,000
	<b>Average</b>	
	<b>1.1.2012 to</b>	1.1.2011 to
	<b>30.6.2012</b>	30.6.2011
	<b>RMB'000</b>	<b>RMB'000</b>
	<b>(unaudited)</b>	<b>(audited)</b>
<b>Historical VaR (95%, one-day) by risk type</b>		
Total VaR exposure	<b>118,000</b>	148,000
	<b>Minimum</b>	
	<b>1.1.2012 to</b>	1.1.2011 to
	<b>30.6.2012</b>	30.6.2011
	<b>RMB'000</b>	<b>RMB'000</b>
	<b>(unaudited)</b>	<b>(audited)</b>
<b>Historical VaR (95%, one-day) by risk type</b>		
Total VaR exposure	<b>88,000</b>	116,000
	<b>Maximum</b>	
	<b>1.1.2012 to</b>	1.1.2011 to
	<b>30.6.2012</b>	30.6.2011
	<b>RMB'000</b>	<b>RMB'000</b>
	<b>(unaudited)</b>	<b>(audited)</b>
<b>Historical VaR (95%, one-day) by risk type</b>		
Total VaR exposure	<b>139,000</b>	185,000



## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2012

### 43. FINANCIAL RISK MANAGEMENT (continued)

#### Market risk (continued)

#### Price risk (continued)

#### Value at Risk (VaR) analysis (continued)

The subsidiaries of the Company have utilised the effect of security 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 reasonably 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 period and investment revaluation reserve are as follows:

	<b>30.6.2012</b> <b>RMB'000</b> <b>(unaudited)</b>	30.6.2011 <b>RMB'000</b> <b>(audited)</b>
Profit for the period		
Increase by 10%	<b>7,028</b>	5,426
Decrease by 10%	<b>(8,490)</b>	(5,426)
Investment revaluation reserve		
Increase by 10%	<b>22,152</b>	13,949
Decrease by 10%	<b>(20,690)</b>	(13,949)

In the above analysis, management also considers the case of an available-for-sale equity investment that a reasonably possible downward fall in the equity price would lead the investment to be impaired, the effect of loss would be shown as affecting profit or loss and the cumulative loss previously recognised in investment revaluation reserve would be reclassified to profit or loss, but an equivalent upward shift in the equity price would be shown as affecting investment revaluation reserve.

In the case that an available-for-sale equity investment that has already been impaired, a reasonably possible downward fall in the equity price may continue to be recognised in profit or loss but an equivalent upward shift in the equity price would be shown as affecting investment revaluation reserve.

In management's opinion, the sensitivity analysis is unrepresentative of inherent price risk as the reporting period end exposure does not reflect the exposure during the 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 other amounts of financial assets and liabilities of the Group are denominated in the functional currency of the respective entity within the Group except that as at 30 June 2012, the Group's Hong Kong subsidiaries, whose functional currency is Hong Kong dollar, have significant monetary assets denominated in the RMB.



## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2012

### 43. FINANCIAL RISK MANAGEMENT (continued)

#### *Market risk (continued)*

##### *Currency risk (continued)*

The Company received proceeds in HKD from issuance of H shares for its initial public offering on the Main Board of the Hong Kong Stock Exchange. The Company hedges its exposure to HKD by entering into foreign exchange contracts by coordinating with the State Administration of Foreign Exchange in the PRC on a timely basis.

##### *Sensitivity analysis*

The sensitivity analysis below has been determined based on the exposure to foreign exchange rates for financial assets and liabilities mainly denominated in HKD for the Company and in RMB for the Group's Hong Kong subsidiaries. The analysis is prepared assuming the financial instruments outstanding at 30 June 2012 were outstanding for the whole period. When reporting to the management on the currency risk, the Company will adopt a 50 basis points increase or decrease for sensitivity analysis, while considering the reasonably possible change in RMB/HKD.

If RMB strengthened/weakened against HKD by 5% with all other variables were held constant, the Group's profit for the six months ended 30 June 2012 would decrease/increase by RMB528,182,000.

##### *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's exposure to interest rate risk relates primarily to the Group's bank deposits, advances to customers, clearing settlement funds, held to maturity investments, debt securities, accounts payable to brokerage clients, deposits taken from financial institutions and borrowings. There has been no changes in the interest rate risk management policies since 31 December 2011.

##### *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 period were outstanding for the whole period. 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.

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

- Profit for the six months ended 30 June 2012 and 30 June 2011 would decrease/increase by RMB150,134,000 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 six months ended 30 June 2012 and 30 June 2011 would decrease/increase by RMB7,189,000 and RMB5,175,000, respectively, mainly as a result of the changes in the fair value of available-for-sale debt investments.



## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2012

### 43. FINANCIAL RISK MANAGEMENT (continued)

#### *Credit risk*

The Group takes on exposure to credit risk, which is the risk that a counterparty will be unable to pay amounts in full when due.

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's asset portfolios. There has been no change in the credit risk management policies since 31 December 2011.

#### *Liquidity risk*

Liquidity risk is the risk that the Group 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.

#### *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 and financial liabilities with standard terms and conditions and traded in active liquid markets are determined with reference to quoted market bid prices and ask prices, respectively;
- 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's statement 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).



## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2012

### 43. FINANCIAL RISK MANAGEMENT (continued)

#### *Fair value of financial assets and liabilities (continued)*

#### *Financial instruments measured at fair value (continued)*

#### **As at 30 June 2012 (unaudited)**

	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000	Total RMB'000
Available-for-sale investments	5,520,841	1,617,177	881,335	8,019,353
Financial assets at fair value through profit or loss	13,075,133	9,274,024	–	22,349,157
	<b>18,595,974</b>	<b>10,891,201</b>	<b>881,335</b>	<b>30,368,510</b>
Financial liabilities at fair value through profit or loss	7,566	–	–	7,566

#### **As at 31 December 2011 (audited)**

	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000	Total RMB'000
Available-for-sale investments	5,393,570	961,228	836,056	7,190,854
Financial assets at fair value through profit or loss	10,091,102	10,514,005	–	20,605,107
	15,484,672	11,475,233	836,056	27,795,961

There were no transfers between instruments in Level 1 and Level 2 during 30 June 2012 and 31 December 2011.

The following table represents the changes in Level 3 available-for-sale investments for the six months ended 30 June 2012 and for the year ended 31 December 2011.

	30.6.2012 RMB'000 (unaudited)	31.12.2011 RMB'000 (audited)
At beginning of the period/year	836,056	1,188,769
Recognised in other comprehensive income	96,249	(193,854)
Purchases	300,000	762,470
Transfer out of Level 3 to Level 1	(350,970)	(921,329)
At end of the period/year	<b>881,335</b>	836,056



海通证券股份有限公司  
HAITONG SECURITIES CO., LTD.\*

*\*For identification purpose only*