



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

2013 Interim Report



*For identification purpose only

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IMPORTANT NOTICE

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

This Report was passed at the nineteenth meeting of the fifth session of the Board and the eleventh meeting of the fifth session of the Supervisory Committee. None of the Directors or Supervisors has any objection to this Report.

The 2013 interim financial report 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, accuracy and completeness of the financial report contained in this Report.

The Company had no profit distribution proposal or proposal on transfer of capital reserve fund into capital for the first half of 2013.

Forward-looking statements included in this Report, including future plans and development strategies, do not constitute a guarantee of the Company to investors. Investors shall be aware of the risks of investment.

Section I. DEFINITION

(I). DEFINITION

In this Report, unless the context otherwise requires, the following terms and expressions have the meanings set forth below.

“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.
“Group”	the Company and its subsidiaries
“CSRC”	the China Securities Regulatory Commission
“Director(s)”	the director(s) of Haitong Securities
“H Share(s)”	ordinary shares in the share capital of Haitong Securities with a 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
“Shanghai Stock Exchange”	the Shanghai Stock Exchange(上海證券交易所)
“Hong Kong Listing Rules”	the Rules Governing the Listing of Securities on the Hong Kong Stock Exchange
“Hong Kong Stock Exchange”	the Stock Exchange of Hong Kong Limited
“IFRS”	the International Financial Reporting Standards
“IPO”	initial public offering
“NSSF”	the National Council for Social Security Fund of the PRC

Section I. DEFINITION

“PRC GAAP”	generally accepted accounting principles in the PRC
“QFII”	Qualified Foreign Institutional Investor
“Reporting Period”	the 6-month period from 1 January 2013 to 30 June 2013
“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
“Supervisor(s)”	the supervisor(s) of Haitong Securities
“Supervisory Committee”	the supervisory committee of Haitong Securities
“Shenzhen Stock Exchange”	the Shenzhen Stock Exchange(深圳證券交易所)
“Code”	Corporate Governance Code and Corporate Governance Report of Appendix 14 to the Hong Kong Listing Rules
“Model Code”	Model Code for Securities Transactions by Directors of Listed Issuers of Appendix 10 to the Hong Kong Listing Rules

Section II. BASIC PARTICULARS OF THE COMPANY

1. Company Names

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

2. Legal Representative of the Company: Wang Kaiguo

3. Authorized Representatives of the Company: Wang Kaiguo, Jin Xiaobin

4. 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

5. 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

6. Joint Company Secretaries: Jin Xiaobin, Mok Mingwai

7. Company addresses

Registered address: Haitong Securities Building, No. 689 Guangdong Road, Shanghai, PRC
(Postal Code: 200001)
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

8. Principal place of business in Hong Kong: 21st Floor, Li Po Chun Chambers, 189 Des Voeux Road Central, Central, Hong Kong

9. Newspapers for information disclosure: China Securities Journal, Shanghai Securities News, Securities Times and Securities Daily

Website designated by the 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

10. 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

Section II. BASIC PARTICULARS OF THE COMPANY

11. 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

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

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

International Auditor: Deloitte Touche Tohmatsu

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

13. A Share Registrar: Shanghai Branch of China Securities Depository and Clearing Corporation Limited

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

H Share Registrar: Computershare Hong Kong Investor Services Limited

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

14. Changes in registration during the Reporting Period

During the Reporting Period, there is no change in registration for the Company.

Section III. SUMMARY OF ACCOUNTING DATA AND FINANCIAL INDICES

(I) MAJOR ACCOUNTING DATA AND FINANCIAL INDICES

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

1. Major accounting data and financial indices

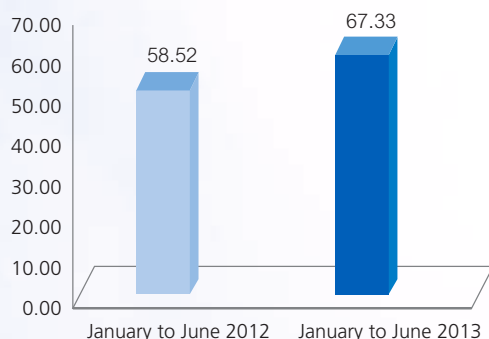
Items	January to June 2013	January to June 2012 ^{Note 1}	As compared to the last corresponding period
Results of operations (RMB'000)			<i>Increase</i>
Revenue and other income	6,733,084	5,852,401	15.05%
Profit before income tax	3,626,512	2,805,235	29.28%
Profit for the period attributable to owners of the Company	2,671,932	2,028,126	31.74%
Net cash from operating activities	4,676,149	4,235,779	10.40%
Amount per share (RMB/share)			<i>Increase</i>
Basic earnings per share	0.28	0.23	21.74%
Diluted earnings per share	0.28	0.23	21.74%
Indices of profitability			<i>Change</i>
Weighted average returns on net assets (%)	4.45	4.07	0.38 percentage points
Items	As at 30 June 2013	As at 31 December 2012 ^{Note 1}	As compared to the last corresponding period end
Indices of size (RMB'000)			<i>Increase</i>
Total assets	139,964,557	126,482,104	10.66%
Total liabilities	77,400,271	65,922,404	17.41%
Accounts payable to brokerage clients	37,633,553	36,956,823	1.83%
Equity attributable to owners of the Company	60,080,004	58,679,683	2.39%
Total share capital (share'000)	9,584,721	9,584,721	–
Net assets per share attributable to owners of the Company (RMB/share)	6.27	6.12	2.45%
Gearing ratio (%)*	38.86	32.35	6.51 percentage points

* Gearing ratio = (total liabilities – accounts payable to brokerage clients)/(total assets – accounts payable to brokerage clients)

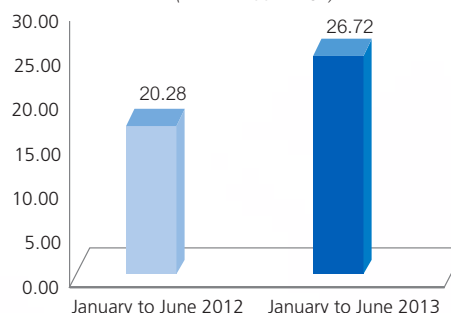
Note 1 As IFRS 10 has been effective since 1 January 2013, the condensed consolidated statement of financial position as of 31 December 2012 and the condensed consolidated income statement for the six months ended 30 June 2012 have been restated according to IFRS 10. The condensed consolidated financial statements have been presented based on the restated data. Please see Note 2 to Accountant's Report for details.

Section III. SUMMARY OF ACCOUNTING DATA AND FINANCIAL INDICES

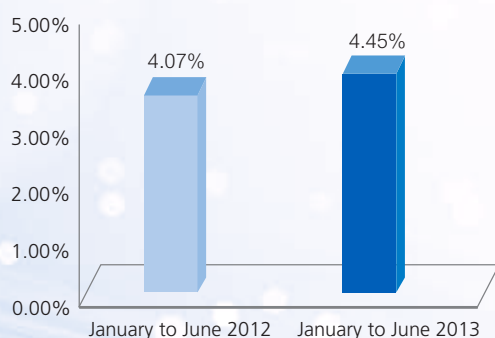
Revenue and other income (RMB in 100 million)



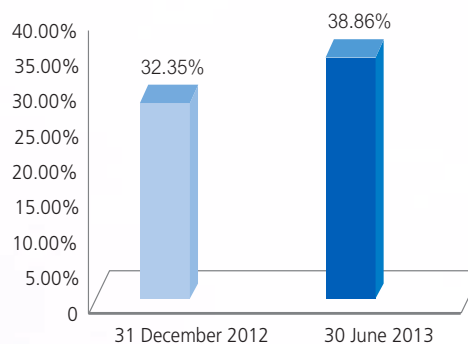
Profit for the period attributable to owners of the Company (RMB in 100 million)



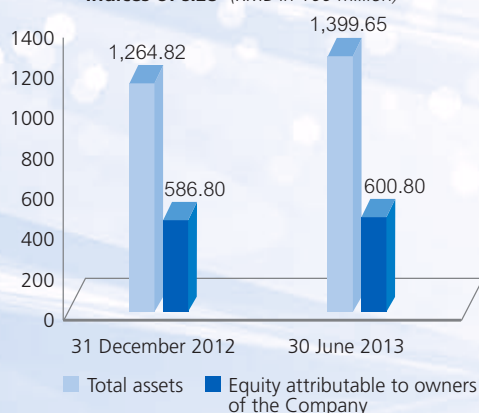
Weighted average returns on net assets



Gearing ratio



Indices of size (RMB in 100 million)



2. Particulars of major accounting data

During the Reporting Period, the profit for the period attributable to owners of the Company has increased by 31.74% as compared to the last corresponding period, mainly due to (1) the great results for the transformation of investment business: during the Reporting Period, the Company strengthened the scale of securities investment, conducted positive transformation such as quantitative trading investment and diversified the profit-making models of proprietary trading business, resulting in satisfactory earnings; (2) the Company positively expanded the innovative businesses with a great increase of business scale of margin financing and securities lending business, resulting in an increase in the profit of innovative businesses.

Section III. SUMMARY OF ACCOUNTING DATA AND FINANCIAL INDICES

(II) DIFFERENCES BETWEEN IFRS AND PRC GAAP

1. Differences in the profit for the period attributable to owners of the Company and equity attributable to owners of the Company between those disclosed in the financial statements in compliance with IFRS and PRC GAAP

Unit: RMB'000

	Profit for the period attributable to owners of the Company		Equity attributable to owners of the Company	
	Current period	Last period	End of period	Beginning of period
In accordance with IFRSs	2,671,932	2,028,126	60,080,004	58,679,683
Differences between subitems under IFRS and PRC GAAP				
Interest income	-7,175	-2,090		
Net investment gains	-14,309	-3,577		
Other income and gains	-157			
Brokerage transaction fees and other services expenses	4,426	1,823		
Other expenses	147	-761		
Differences in minority interests	10,489	1,995		
Investment revaluation reserve			8,727	2,148
Retained profits			-8,727	-2,148
Total differences attributable to the Company:	-6,579	-2,610		
In accordance with PRC GAAP	2,665,353	2,025,516	60,080,004	58,679,683

2. **The illustration of differences between IFRS and PRC GAAP**

There are some differences in the Company's profits for the period attributable to owners of the Company for January to June 2012 and January to June 2013 presented in the condensed consolidated financial statements prepared under IFRS and those prepared under PRC GAAP, while there are no differences in the equity attributable to owners of the Company as of 31 December 2012 and 30 June 2013. The differences are mainly due to the implementation of IFRS 10 – Consolidated Financial Statements (“IFRS 10”) from 1 January 2013 which was issued by IASB.

Pursuant to the provisions and related guidelines of IFRS 10, to prepare the financial report of the Interim Report 2013 for H Shares in accordance with IFRS, the Company is required to consolidate the asset management products, the administrator of which is asset management subsidiary, in which the Group invested its own funds, and which also conforms to the new control definition, then trace back to the number of the beginning of adjusted year and the compared number of the same period of last year. However, the Group recognized these asset management products in the available-for-sale investment items according to the PRC GAAP when preparing the financial report for A Shares for the same period. As the result of the differences of consolidation above, there are some differences in profits for the period attributable to owners of the Company between our financial report for H Shares and the one for A Shares. But such differences have been offset by the differences between other comprehensive incomes. Therefore, the equities attributable to owners of the Company under IFRS and PRC GAAP are the same.

China's Ministry of Finance has issued Accounting Standards for Business Enterprises No. 33 – Consolidated Financial Statements (Amended) (Exposure draft), the contents of which has the same trends with those of IFRS 10. Therefore, the Company believes that as the official issuance and implementation of Accounting Standards for Business Enterprises No. 33 – Consolidated Financial Statements (Amended), the timing differences of standard application between the financial report for A Shares and H Shares will be eliminated.

Section IV. REPORT OF THE BOARD OF DIRECTORS

(I) DISCUSSION AND ANALYSIS OF THE BOARD ON THE COMPANY'S OPERATION DURING THE REPORTING PERIOD

1. Overall operations of the Company

In the first half of 2013, the Company has been striving to explore and innovate new business, and at the same time to focus on the operation and management, which has brought a satisfactory operating results. The Company's traditional seller business, such as brokerage, investment banking and asset management, has further secured its leading position in the marketplace. The scale of the innovative business like margin financing and securities lending, the stock repo trading and stock pledge financing has been constantly expanded. The Company has become one of the first securities firms to obtain the qualification for running OTC business, so that the development of the Company's OTC business is leading in the industry. Also, the Company has well prepared for many innovative businesses which target to improve the basic functions as a securities company. In addition, the Company has further advanced the organization system and management innovation, and has basically completed the customer-focused adjustment of the department organization structures.

As at the end of June 2013, the total assets of the Group was RMB139.965 billion, while the equity attributable to owners of the Company was RMB60.08 billion. In the first half of 2013, the Group had profits for the period of RMB2.672 billion attributable to owners of the Company. Revenue and other income of the Group was RMB6.733 billion, including securities and futures brokerage business of RMB2.755 billion, accounting for 41%; proprietary trading of RMB1.944 billion, accounting for 29%; asset management business of RMB430 million, accounting for 6%; investment banking business of RMB369 million, accounting for 5%; direct investment business of RMB133 million, accounting for 2%; and overseas business of RMB607 million, accounting for 9%. The structure of the Company's revenue has been continually optimized. The percentage of revenue from innovative business has accounted for 24%, with an increase by ten percentage points compared to last year. In the first half of 2013, the major financial indices such as profits for the period and total equities of the Group all ranked the top in the domestic securities industry.

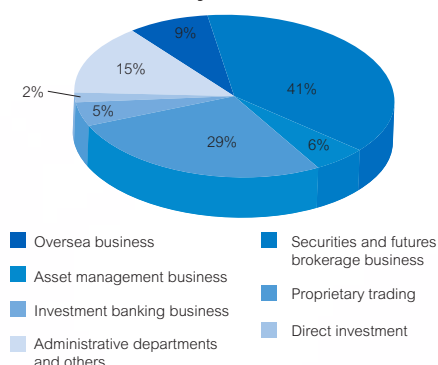
Main business table

Item	Segment Revenue	Segment Expenses	Segment margin	Increase/ decrease	Increase/ decrease	Increase/ decrease
				of segment revenue over the same period last year	of segment expenses over the same period last year	of segment margin over the same period last year
Securities and futures brokerage	2,754,598	1,322,810	51.98%	30.58%	5.41%	Increased by 11.47 percentage points
Proprietary trading	1,943,932	316,759	83.71%	52.91%	2.21%	Increased by 8.08 percentage points
Asset management	430,509	290,146	32.60%	-13.15%	-3.92%	Decreased by 6.48 percentage points
Investment banking	369,056	236,655	35.88%	-8.45%	16.24%	Decreased by 13.62 percentage points
Oversea business	607,149	383,397	36.85%	25.60%	10.51%	Increased by 8.62 percentage points
Direct investment	132,644	19,668	78.51%	207.64%	75.89%	Increased by 11.01 percentage points

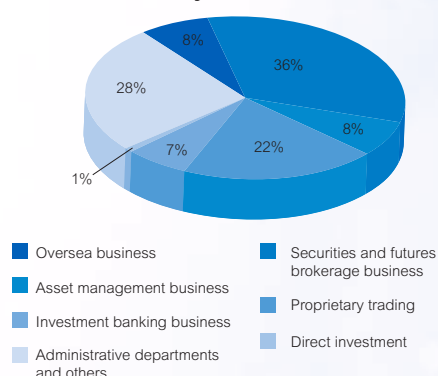
Unit: RMB'000

Section IV. REPORT OF THE BOARD OF DIRECTORS

The percentage of segment revenue of January to June 2013



The percentage of segment revenue of January to June 2012



2. Analysis of Our Principal Business Lines

A. Our Principal Business Lines

(1) Securities and futures brokerage business

The market position of retail business is stable. In the first half of 2013, the Company has achieved a market share of 5.24% in terms of total trading volume and 4.79% in terms of stock-based trading volume which ranks fourth in the market. In addition, the market share of stock-based trading volume increased by 0.25 percentage points over 2012, maintaining a growth with three years in a row.

The Company has put more effort into the institutional business service. The Company has strengthened its service efforts for financial institutions such as banks, funds, insurances and trusts, achieving an increase by 39.4% for the commission income from mutual funds year-on-year. The Company has paid close attention to the development of international institutional customers and won eight new QFII customers. Additionally, the Company has reinforced the introduction of research talents and the training of analysts' competence, constantly increased the kinds of research services and improved the quality of such services, which in turn has significantly improved the customer services and market influences.

The scale of margin financing and securities lending has expanded quickly. As of 30 June 2013, the balances of margin financing and securities lending of the Company amounted to RMB14.233 billion, with a market share of 6.40%, which achieved an increase in profits.

Futures business has developed rapidly. Haitong Futures Co., Ltd. (the "Haitong Futures") has put more expansion efforts on the institutional customers. The number of its customers and the account assets of the institutional customers both increased significantly. Besides, the futures asset management business has created a breakthrough.

In the first half of 2013, the profits before income tax generated from securities and futures brokerage business amounted to RMB1.432 billion, accounting for 39% of the overall total profits.

Section IV. REPORT OF THE BOARD OF DIRECTORS

(2) *Proprietary trading*

The Company has accelerated the progress of transformation for proprietary trading, optimized the capital allocation, seized the market opportunities and diversified its profit-making models. In the first half, segment revenues from proprietary trading increased by 52.91% over the same period of last year. Equity investments continually boosted the business transformation, and have obtained stable revenues by quantitative investment transactions such as active arbitrage, ETF arbitrage and Alpha Strategy. The Company also captured the market trends positively, so as to pursue the absolute benefit opportunities, and thus it has gained a respectable return. The fixed income business will change based on the market situation, and the Company has adjusted the scale of business accordingly. In addition, the Company has strengthened its research and development efforts for fixed income innovative products, to facilitate the transformation of fixed income business to FICC.

In the first half of 2013, the profits before income tax generated from proprietary trading business amounted to RMB1.627 billion, accounting for 45% of the overall total profits.

(3) *Asset management business*

The asset management subsidiary adopted a series of measures and has significantly increased the management scale. In the first half of 2013, the Company has totally launched 29 kinds of products, with the scale of active management reaching RMB10.0 billion, and launched an additional 67 targeted asset management plans, with the scale reaching RMB63.3 billion. The performance of products has been improved significantly with nine of them ranking at top 50% of the market. Additionally, the Company applied for the qualification of public fund business, and has submitted the relevant materials.

Public fund management scale of HFT Investment Management Co., Ltd. (the "HFT Investment Management") was RMB22.4 billion, while its asset management scale of enterprise annuity, separately managed accounts, social security portfolio, etc. was RMB41.9 billion in total.

The management scale of industrial investment fund amounted to RMB8.9 billion and the number of new investment projects was eight, with an increased investment amount of RMB292 million.

In the first half of 2013, the profits before income tax generated from asset management business amounted to RMB140 million, accounting for 4% of the overall total profits.

Section IV. REPORT OF THE BOARD OF DIRECTORS

(4) *Investment banking business*

The Company has continually boosted the transformation of investment banking business. In the first half of 2013, the Company underwrote 21 projects for equities and bonds with the amount financed of RMB48.12 billion: five non-public offering projects for equity financing business and one convertible bond project with the underwritten amount of RMB13.7 billion and 15 bond offering projects with the underwritten amount of RMB34.4 billion, which ranks the third in the market.

In the first half of 2013, the profits before income tax generated from investment banking business amounted to RMB132 million, accounting for 4% of the overall total profits.

(5) *Direct Investment Business*

The Group followed the investment trends in direct investment business prudently, and intensified post-investment management. In the first half, Haitong Capital Investment Co., Ltd. (the "Haitong Capital") invested in two new equity projects, with a total investment amount of RMB156 million; the total number of the investment projects was 61 while the total investment amount was RMB2.88 billion. Having faced the adverse situation of being blocked by IPO exiting channel, the Company actively explored various exiting channels such as buyback and M&A, and has successfully exited from one project with an amount of RMB163 million, which led to an increase by 207.64% for the revenue of direct investment business year-on-year.

In the first half of 2013, the profits before income tax generated from direct investment business amounted to RMB104 million, accounting for 3% of the overall total profits.

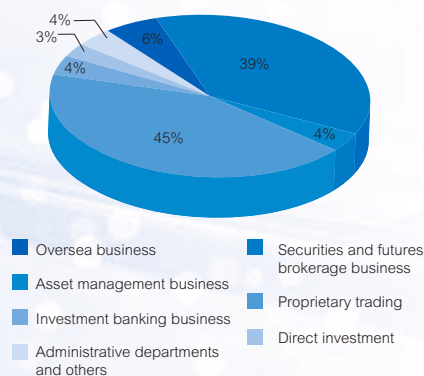
Section IV. REPORT OF THE BOARD OF DIRECTORS

(6) Overseas business

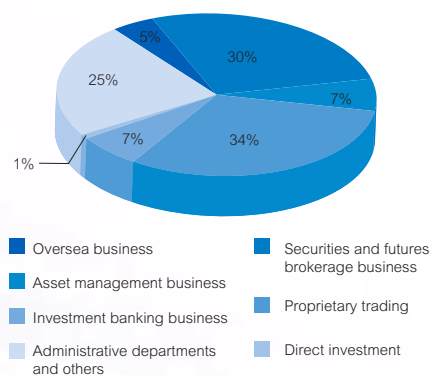
In the first half of 2013, Haitong International Holdings Limited (the “Haitong International Holdings”) realized a profit for the period of HK\$194 million attributable to owners of the company; the return on net assets was 4.54%, which set a record high. The market share of stock broking business in Hong Kong was 0.6%, with an increase by 0.08 percentage points year-on-year. The investment banking business has reached a new height: the Company has successfully completed many large investment banking projects such as Galaxy Securities, with a total underwritten amount of HK\$5.36 billion, ranking the second among the PRC securities firms. In addition, the Company positively applied for increasing the quota of RQFII with the accumulated amount approved of RMB3.9 billion. The Company actively prepared for the first RQFLP fund to set the stage for the scale expansion of foreign asset management. As of 30 June 2013, the scale of asset management amounted to RMB5.38 billion, with an increase by 28.1% over the end of last year.

In the first half of 2013, the profits before income tax generated from overseas business amounted to RMB224 million, accounting for 6% of the overall total profits.

The percentage of segment profit of January to June 2013



The percentage of segment profit of January to June 2012



B. Particulars on principal components of the Company's consolidated income statement

(1) Revenues and other income

In the first half of 2013, the revenue and other income realized by the Group totalled RMB6.733 billion, representing an increase of RMB881 million or 15.05% as compared to the same period of last year. The increase was mainly due to the steady development of all businesses and the stable increased income of innovative businesses with the development of innovative transformation, among which:

- commission and fee income amounted to RMB3.071 billion, accounting for 45.61% with an increase of 8.78% year-on-year, which was mainly due to the increase of commission and fee income from securities brokerage business and revenue from financial advisory and consultancy fee;
- interest income amounted to RMB1.614 billion, accounting for 23.97% with an increase of 11.31% year-on-year, which was mainly due to the increase in the interest income from the margin financing and securities lending business, and the interest income from financial assets held under resale agreements and held to maturity;

Section IV. REPORT OF THE BOARD OF DIRECTORS

- net investment gains amounted to RMB1.981 billion, accounting for 29.41% with an increase of 32.98% year-on-year, which was mainly due to the good earnings gained by the Company through conducting positive transformation such as quantitative trading investment and diversifying the profit-making models of proprietary trading business.

The Group's revenue and other income composition for the Reporting Period is as follows:

Item	January to June 2013		January to June 2012		Unit: RMB '000 Increase/Decrease	
	Amount	Composition	Amount	Composition	Amount	Percentage
Commission and fee income	3,071,052	45.61%	2,823,285	48.24%	247,767	8.78%
Interest income	1,613,655	23.97%	1,449,734	24.77%	163,921	11.31%
Net investment gains	1,980,541	29.41%	1,489,370	25.45%	491,171	32.98%
Other income and gains	67,836	1.01%	90,012	1.54%	-22,176	-24.64%
Total revenue and other income	6,733,084	100.00%	5,852,401	100.00%	880,683	15.04%

(2) Total expenses

In the first half of 2013, total expenses of the Group amounted to RMB3.137 billion, representing a slight increase of 1.92% year-on-year, mainly due to the increase in interest expenses, among which:

- interest expenses amounted to RMB560 million, representing an increase of 60.81% year-on-year, mainly because the Group properly increased the scale of repurchase business and of deposits taken from other financial institutions.
- other expenses primarily include operation expenses, business tax and surcharges and impairment loss on assets. During the Reporting Period, other expenses amounted to RMB890 million, representing a decrease of 10.73% year-on-year, mainly due to the decrease year-on-year in the impairment losses on available-for-sale investment.

Section IV. REPORT OF THE BOARD OF DIRECTORS

The components of total expenses of the Group in the first half of 2013 are shown as below:

Unit: RMB'000

Total expenses	January to June 2013	January to June 2012	Increase/Decrease	
			Amount	Percentage
Staff costs	1,113,384	1,118,151	-4,767	-0.43%
Interest expenses	559,610	348,003	211,607	60.81%
Brokerage transaction fees and other services expenses	257,082	326,910	-69,828	-21.36%
Depreciation and amortization	152,564	157,783	-5,219	-3.31%
Commission to account executives	164,454	130,191	34,263	26.32%
Other expenses	889,962	996,921	-106,959	-10.73%
Total	3,137,056	3,077,959	59,097	1.92%

C. Cash flows

From January to June 2013, the net increased amount of the Group's cash and cash equivalents was RMB3.410 billion, among which,

- (1) net cash from operating activities was RMB4.676 billion, mainly due to the effects of the profit before tax of RMB3.627 billion and increase of cash inflow of RMB1.867 billion in our working capital. The increase of the Group's working capital included:
 - a cash inflow of RMB3.460 billion as the result of the decrease of financial assets at fair value through profit or loss.
 - an increased cash inflow of RMB5.784 billion as the result of the expansion in scale of repurchase business and deposits taken from other financial institutions.

But the increase of working capital was partly offset by the substantial increase of advances to customers of cash outflow of RMB8.738 billion.

- (2) net cash used in investing activities was RMB2.464 billion, which was mainly attributable to a cash outflow of RMB2.394 billion as the result of the increase of fixed income investment by the Group.
- (3) net cash from financing activities was RMB1.198 billion, which was mainly attributable to a cash inflow of RMB1.000 billion as the result of the moderate increase in borrowings by the Group.

D. Research and development expenses

In order to facilitate the innovation of securities business, the adaptation to the new trading products and the application of new trading varieties, and to enhance the efficiencies of operation and management, the Company has invested RMB13.7043 million in the research and development of information systems management platform by self-development, cooperative development and entrusted development.

Section IV. REPORT OF THE BOARD OF DIRECTORS

E. Others

(1) *Details of material changes in the composition or sources of the profits*

During the Reporting Period, there were no material changes in the composition and sources of the Group's profits.

(2) *Analysis and description of various previous financing and significant asset reorganization events of the Company*

According to the approval issued by the CSRC (Zheng Jian Xu Ke [2011] No.1821), the Company issued H Shares on the Stock Exchange on 27 April 2012. As of 24 May 2012, the Company issued 1,356,900,000 H Shares at the price of HK\$10.60 per share. The aggregate application monies of HK\$14,383,000,000 have been paid up in Hong Kong dollars in cash, and net proceeds after deduction of issuing and listing fees is HK\$13,801,000,000. The above mentioned capital has been verified by Deloitte Touche Tohmatsu CPA LLP. (Special General Partnership) with capital verification report De Shi Bao (Yan) Zi (12) No. 0025. As of 30 June 2013, the proceeds raised by the Company from its H Shares had been utilized gradually according to the plan.

Utilization of proceeds provided capital support to the business of the Company, laid a solid foundation for its future development, and further enhanced its competitiveness.

In the first half of 2013, the weighted average return on net assets of the Group was 4.45%.

(3) *Explanation on progress of development strategies and business plans*

In the first half of 2013, the secondary market fell after a surge, and IPO has been in the stage of suspension. However, the innovative business, typically the margin financing and securities lending business, experienced rapid growth, and the stock market has been promoting the business transformation. Under the backdrop of transformation, the Company adhered to its strategy of being customer-oriented, reinforced the establishment of such four pillars as the Company's research, talent, IT and risk management and created Haitong as a domestically first-class and internationally influential financial service group, by taking brokerage business, investment banking business, asset management, and other intermediary businesses as the core, capital intermediary business and capital investment business as the two wings, and innovation and internationalization as the drive. In the first half of 2013, the Company's traditional seller businesses, such as brokerage business, investment banking and asset management, have further secured their leading position in the marketplace. The scale of the capital intermediary businesses like margin financing and securities lending, the stock repo trading, stock pledge financing and return swap have been constantly expanded. The innovation of business and organization system has achieved significant results.

Section IV. REPORT OF THE BOARD OF DIRECTORS

3. Assets and liabilities

At the end of June 2013, the total assets and the liabilities of the Group amounted to RMB139.965 billion and RMB77.4 billion, representing 10.66% and 17.41% increase compared with those at the beginning of the year respectively. The bank balance and cash and clearing settlement funds of the Group represented 43% of its total assets, financial assets at fair value through profit or loss, available-for-sale investments, receivables investments and other financial assets represented 32% of its total assets, advances to customers represented 14% of its total assets, financial assets held under resale agreements represented 3% of its total assets, while property and equipment represented 0.86% of its total assets only. Most of the assets were of good liquidity. The assets of the Group were in reasonable structure with relatively strong liquidity. Major items of the consolidated statement of financial position of the Group are as follows:

	As at 30		As at 31		Unit: RMB'000	
	June 2013	Composition	December 2012	Composition	Increase/Decrease Amount	Percentage
Non-current assets	13,335,660		9,800,367		3,535,293	36.07%
Of which: Available-for-sale investments	5,380,011	3.84%	3,202,231	2.53%	2,177,780	68.01%
Receivables investment	2,520,299	1.80%	1,278,302	1.01%	1,241,997	97.16%
Investments in associates	1,705,142	1.22%	1,727,890	1.37%	-22,748	-1.32%
Property and equipment	1,204,018	0.86%	1,134,459	0.90%	69,559	6.13%
Advances to customers	398,275	0.28%	-	-	398,275	
Current assets	126,628,897		116,681,737		9,947,160	8.53%
Of which: Bank balance and cash	53,938,418	38.54%	52,000,241	41.11%	1,938,177	3.73%
Financial assets at fair value through profit or loss	28,911,890	20.66%	32,386,381	25.61%	-3,474,491	-10.73%
Advances to customers	19,678,523	14.06%	11,338,687	8.96%	8,339,836	73.55%
Available-for-sale investments	5,033,112	3.60%	7,427,046	5.87%	-2,393,934	-32.23%
Financial assets held under resale agreements	4,253,266	3.04%	2,234,569	1.77%	2,018,697	90.34%
Receivables investment	3,159,603	2.26%	1,894,100	1.50%	1,265,503	66.81%
Total assets	139,964,557		126,482,104		13,482,453	10.66%
Current liabilities	77,219,054		65,772,441		11,446,613	17.40%
Of which: Accounts payable to brokerage clients	37,633,553	48.62%	36,956,823	56.06%	676,730	1.83%
Financial assets sold under repurchase agreements	18,635,040	24.08%	16,040,561	24.33%	2,594,479	16.17%
Borrowings	9,660,146	12.48%	8,626,314	13.09%	1,033,832	11.98%
Deposits taken from other financial institutions	5,340,000	6.90%	2,150,000	3.26%	3,190,000	148.37%
Other payables and accruals	5,530,705	7.15%	1,904,464	2.89%	3,626,241	190.41%
Net current assets	49,409,843		50,909,296		-1,499,453	-2.95%
Non-current liabilities	181,217	0.23%	149,963	0.23%	31,254	20.84%
Total liabilities	77,400,271		65,922,404		11,477,867	17.41%
Total equity	62,564,286		60,559,700		2,004,586	3.31%

* Percentages for assets and liabilities refer to the share of total assets and the share of total liabilities respectively.

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Non-current assets

As at the end of June 2013, the non-current assets of the Group increased by 36.07% to RMB13.336 billion as compared to the beginning of the year, mainly due to the increase in available-for-sale investment and receivables investment.

Current assets and liabilities

As at the end of June 2013, the net current assets of the Group decreased by RMB1.499 billion to RMB49.41 billion as compared to RMB50.909 billion as at the beginning of the year, representing a decrease of 2.95%, mainly because the growing of current liabilities was faster than that of current assets.

The increase in the Group's current liabilities was mainly because the Group properly increased the scales of financial assets sold under repurchase agreements, borrowings and deposits taken from other financial institutions and counter products payables increased.

The increase in the Group's current assets was mainly attributable to 1) the rapid development and faster growing of margin financing and securities lending business, resulting in the significant increase of advanced to customers; 2) the large increase of purchasing resale financial assets by the Company's innovative businesses such as the stock repo securities and securities pledged by stock held under resale agreements; 3) enhancement of the scale of fixed income investments, resulting in the increase of receivables investment.

Borrowings

As at 30 June 2013, the Group had total borrowings of RMB9.660 billion. The following table sets forth the details of the Group's borrowings as at the end of June 2013:

	As at 30 June 2013	<i>Unit: RMB'000</i> As at 31 December 2012
Secured short-term borrowings:		
Bank borrowings	2,086,961	1,714,948
Unsecured short-term borrowings:		
Bank borrowings	7,573,185	6,911,366
	9,660,146	8,626,314

Bank borrowings, borrowed by the subsidiaries in Hong Kong, of approximately RMB2,063,087,000 and RMB1,706,839,000 as at 30 June 2013 and 31 December 2012, respectively, were secured by the listed shares pledged to the Group as a security for advances to customers (with customers' consent) of RMB4,435,665,000 and RMB4,452,377,000 as at 30 June 2013 and 31 December 2012, respectively.

Section IV. REPORT OF THE BOARD OF DIRECTORS

All the bank borrowings of the Company's Hong Kong subsidiaries bear interest (which are also equal to the effective interest rate) at Hong Kong Interbank Offered Rate plus 0.45% to 2.21% per annum and 0.55% to 2% per annum or cost of funding plus interest of 0.85% per annum as at 30 June 2013 and 31 December 2012, respectively.

Bank borrowings are repayable on demand or within one year and incurred by the Company and the Company's Hong Kong subsidiaries. As at 30 June 2013, the Group's own fund amounted to RMB23.420 billion, which was far more than the interest-bearing liabilities such as borrowings and deposits taken from other financial institutions and therefore there was no liquidity risk.

Except for the liabilities disclosed in this Report, as at 30 June 2013, the Group did not have any outstanding mortgage, charges, bonds, other debt capital (issued or agreed to be issued), liabilities under acceptance or other similar indebtedness, hire purchase and finance lease commitment, guarantee or other material contingent liabilities.

Net capital

As at 30 June 2013, the net capital of the Company was RMB39.438 billion, and the ratio of net capital to net assets was 66.59%. 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 table of each risk control indicator of the Company

Item	As at 30 June 2013 RMB'000/ Percentage	As at 31 December 2012 RMB'000/ Percentage	Increase/ decrease
Net capital	39,438,216	39,007,731	1.10%
Net assets	59,223,916	57,972,896	2.16%
Total of risk capital reserves	3,162,396	2,730,633	15.81%
Net capital/total of risk capital reserves	1247.10%	1428.52%	Decrease by 181.42 percentage points
Net capital/net assets	66.59%	67.29%	Decrease by 0.70 percentage points
Net capital/liabilities	118.90%	161.10%	Decrease by 42.20 percentage points
Net capital/liabilities	178.55%	239.42%	Decrease by 60.87 percentage points
Proprietary equity securities and securities derivatives/net capital	19.50%	35.02%	Decrease by 15.52 percentage points
Proprietary fixed income securities/net capital	80.53%	66.30%	Increase by 14.23 percentage points

4. Analysis on core competitiveness

In the process of long-standing business operation, the Company has gradually formed its characteristic core competitiveness which is mainly embodied in:

Leading capital strength in the industry. The net capital of the Group is RMB60 billion, remaining its leading position in the top two in the domestic securities industry and providing a solid capital foundation for the rapid development of its business.

Section IV. REPORT OF THE BOARD OF DIRECTORS

The advantages of the comprehensive business platform. Our comprehensive business platform with a full license has strong scale effects and cross-selling ability: the main business indicators, such as the income and volume of brokerages, the income of investment banking business and the scale of share and debt underwriting business, as well as the overall scale of asset management, take the leading position in the industry; our successfully acquiring and integrating the previous Taifook Securities Group Limited provides a sophisticated platform for our overseas business.

The advantages of branch network and customer base. The Company has over 240 securities and futures branches inside and outside, spanning across nearly 30 provinces in PRC as well as Hong Kong and Macau; the Company has more than 4.6 million retail clients, and over 12,000 institutional and high net worth customers.

Leading innovative business in the industry. The Company has rapid development in OTC business, margin financing and securities lending business, stock repo trading, stock index futures brokerage business and direct investment business. These emerging businesses all have leading positions in the market.

The advantages of the brand name and talent. The Company has strong brand awareness and sufficient talents, all of which will help every business to go smoothly.

5. Analysis on investments

A. Direct investments

As of the end of the Reporting Period, available-for-sale investments of the Group included unlisted equity securities of RMB2.804 billion, representing an increase of RMB123 million, or 4.59%, as compared with the RMB2.681 billion as at the end of last year. The increase was mainly attributable to additional equity investments from the direct investment business of Haitong Capital. During the Reporting Period, the shareholding of investments of Haitong Capital in other non-financial entities was less than 20%.

Section IV. REPORT OF THE BOARD OF DIRECTORS

B. Securities investment

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	010213	02國債(13)	996,898.57	17,184,050	1,682,490.34	4.90	33,833.82
2	Treasury bonds	010107	21國債(7)	585,963.47	11,700,000	1,228,968.00	3.58	25,183.89
3	Treasury bonds	010308	03國債(8)	1,656,391.63	7,800,000	779,220.00	2.27	12,745.83
4	Financial bonds	120219	12國開19	-	5,000,000	498,271.00	1.45	1,757.35
5	Treasury bonds	1000013	10附息國債13	-	5,000,000	492,124.00	1.43	2,751.99
6	Debentures	1180057	11常州中小債	458,000.00	4,580,000	456,796.83	1.33	10,263.00
7	Financial bonds	120247	12國開47	-	4,400,000	440,583.44	1.28	2,887.16
8	Financial bonds	1116001	11深發展01	386,432.96	3,800,000	391,675.88	1.14	18,224.80
9	Debentures	1380007	13盤錦高新債	-	3,600,000	368,787.60	1.07	12,011.61
10	Financial bonds	120240	12國開40	-	3,600,000	360,057.96	1.05	2,143.86
Other securities investment holding as at the end of the period				32,773,805.59	/	27,611,108.62	80.48	473,337.44
Profit and loss for securities investment sold during the Reporting Period				/	/	/	/	940,847.41
Total				36,857,492.22	/	34,310,083.67	100	1,535,988.14

Note 1: 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 of the Group 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;

Note 2: The securities investment of this table refers to the investment in securities at fair value, including stocks, options, convertible bonds, etc. Investment in stocks only shows the accounting part of financial assets at fair value through profit or loss listed in the consolidated financial statement of the Group;

Note 3: Other securities investment refers to investment in other securities, other than the top ten securities;

Note 4: Profit and loss during the Reporting Period refers to net investment gains from holding such securities by the Group.

As at the end of the Reporting Period, the carrying value as at the end of the period for securities investment as stated in the table above amounted to RMB34.310 billion, representing a decrease of RMB2.708 billion as compared to the end of 2012 (RMB37.018 billion), mainly due to a reduction in the scale of the financial assets at fair value through profit or loss.

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C. Shareholding in other listed companies

Unit: RMB'000

Stock Code	Abbreviated name	Shareholding Initial investment cost	Shareholding as at the beginning of the period	Shareholding as at the end of the period	Carrying value as at the end of the period	Profit and loss during the Reporting Period	Changes in interests during the Reporting Period	Accounting items	Source of shares
600221	海南航空	803,362.37	3.23%	3.23%	795,643.78	19,693.89	-13,947.36	Available-for-sale investments	Non-public issuance of shares and purchase from secondary market
600498	烽火通信	127,400.00	1.04%	1.04%	164,487.03	1,600.00	38,015.27	Available-for-sale investments	Non-public issuance of shares
600016	民生銀行	44,209.80	0.03%	0.03%	68,263.24	82.82	4,241.56	Available-for-sale investments	Purchase from secondary market
002578	閩發鋁業	27,900.00	3.49%	3.49%	51,000.00	-	3,720.00	Available-for-sale investments	Listing of direct investment project
601318	中國平安	69,439.23	0.02%	0.02%	47,258.24	407.87	-10,737.11	Available-for-sale investments	Purchase from secondary market
601166	興業銀行	41,184.22	0.03%	0.02%	41,068.32	-	-4,003.95	Available-for-sale investments	Purchase from secondary market
600036	招商銀行	62,789.74	0.02%	0.02%	38,620.68	-420.77	-5,469.96	Available-for-sale investments	Purchase from secondary market
000002	萬科A	32,302.57	0.03%	0.03%	37,122.82	709.03	-763.18	Available-for-sale investments	Purchase from secondary market
600030	中信證券	40,568.01	0.03%	0.03%	31,979.86	-	-7,647.70	Available-for-sale investments	Purchase from secondary market
600000	浦發銀行	1,025,060.10	0.56%	0.02%	29,352.70	125,256.83	-11,875.96	Available-for-sale investments	Purchase from secondary market
Shareholding of other listed companies		2,186,612.34			946,362.69	100,349.71	8,119.56	Available-for-sale investments	Purchase from secondary market
Total		4,460,828.38			2,251,159.36	247,679.39	-348.83		

Note 1: This table only shows the accounting shareholdings in listed companies for available for-sale investments by the Group;

Note 2: Profit and loss during the Reporting Period refers to the impact on consolidated profit for the period during the Reporting Period caused by this investment.

As at the end of the Reporting Period, the carrying value as at the end of the period for shareholding in listed companies as stated in the table above amounted to RMB2.251 billion, representing a decrease of RMB1.692 billion as compared to the end of 2012 (RMB3.943 billion), mainly due to a reduction of shareholding in the available-for-sale equity investments.

Section IV. REPORT OF THE BOARD OF DIRECTORS

D. Equity participation in financial companies of the Company

Name	Initial investment cost (RMB'000)	Shareholdings		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		Accounting items	Source of shares
		as at the beginning of the period (%)	Shareholdings as at the end of the period (%)			during the Reporting Period (RMB'000)	during the Reporting Period (RMB'000)		
Fullgoal Fund Management Co., Ltd.	92,907.38	27.78%	27.78%	264,321.90	39,325.63	-1,745.44	Available-for-sale investments	Capital contribution for subscription	
HFT Investment Management	67,000.00	51.00%	51.00%	76,500.00	32,018.66	-1,837.44	Available-for-sale investments	Capital contribution for establishment of subsidiaries	
Haitong-Fortis Private Equity Fund Management Co., Ltd.	13,400.00	67.00%	67.00%	13,400.00	21,577.92	258.14	Available-for-sale investments	Capital contribution for establishment of subsidiaries	
Haitong Futures	699,191.78	66.67%	66.67%	699,191.78	31,000.73	0	Available-for-sale investments	Subsidiaries acquired through business combination not involving entities under common control	
Haitong International Holdings	3,494,038.00	100.00%	100.00%	3,494,038.00	154,419.49	-80,913.46	Available-for-sale investments	Capital contribution for establishment of subsidiaries	
Haitong Capital	5,750,000.00	100.00%	100.00%	5,750,000.00	84,608.95	-36,055.53	Available-for-sale investments	Capital contribution for establishment of subsidiaries	
Haitong Innovation Securities Investment Co., Ltd.	3,000,000.00	100.00%	100.00%	3,000,000.00	112,572.75	15,877.04	Available-for-sale investments	Capital contribution for establishment of subsidiaries	
Shanghai Haitong Securities Asset Management Company Ltd.	1,000,000.00	100.00%	100.00%	1,000,000.00	-11,217.79	1,726.83	Available-for-sale investments	Capital contribution for establishment of subsidiaries	
Total	14,116,537.15	/	/	14,297,451.68	464,306.34	-102,689.86	/		

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;

Note 2: Profit and loss during the Reporting Period refers to the effects of consolidated profit for the period during the Reporting Period caused by this investment;

Note 3: Changes in interests of owners during the Reporting Period refer to the effects of the consolidated interests during the Reporting Period caused by this investment.

Section IV. REPORT OF THE BOARD OF DIRECTORS

E. Use of proceeds

(1) Overall use of proceeds

With the approval by the CSRC, the Company completed the issuance of H Shares in 2012. The proceeds raised from its H Shares have been verified by Deloitte Touche Tohmatsu CPA LLP. (Special General Partnership) with capital verification report De Shi Bao (Yan) Zi (12) No. 0025.

During the Reporting Period, HK\$1.381 billion of proceeds of the Company used for replenishment of the working capital have been settled and utilized. HK\$4.85 billion of proceeds of the Company used for overseas business have been transferred to Hong Kong for subscription of convertible bonds issued by Haitong International Holdings.

As of 30 June 2013, the proceeds raised by the Company from its H Shares listing had been utilized gradually according to the plan as follows:

- 1) the part of HK\$8.979 billion (65% of the proceeds) to be used onshore had been fully transferred from offshore to onshore and put into use according to the use of proceeds plan.
- 2) the part of HK\$4.850 billion (35% of the proceeds) to be used overseas had been fully settled in Hong Kong to subscribe for the convertible bonds of Haitong International Holdings for overseas business.

Note: According to the Proposal on Subscription of Convertible Bonds for Capital Contributions to Haitong International Holdings considered and approved at the thirteenth meeting of the fifth session of the Board on 24 August 2012, the Board permitted the Company to subscribe for HK\$4.85 billion of convertible bonds directionally issued by its Hong Kong wholly-owned subsidiary Haitong International Holdings, to supplement the capital of Hong Kong subsidiary and further develop the overseas business, and to provide the fund support for the potential overseas merge and acquisition activities. In addition, the Board authorised the senior management of the Company to go through the approval process and deal with the matters on convertible bonds and redemption based on the need. During the Reporting Period, Haitong International Holdings had finished issuing HK\$4.85 billion of convertible bonds directionally to the Company.

Unit: RMB'100 million

Year of fund raising	Fund raising methods	Total proceeds	Total proceeds used this year	Total accumulated proceeds used	Unutilized proceeds	Use and purpose of unutilized proceeds
2012	IPO (H Shares)	112.66	50.30	112.66	-	-

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(2) Use of proceeds on committed projects

Unit: RMB'100 million

Name of committed project	Any changes in the project	Amount of proceeds scheduled to invest	Amount of proceeds invested in the year	Actual amount of proceeds invested	Whether in line with the schedule	Project progress	Expected revenue	Generation of revenue	Explanations	Reasons	
									Whether the expected revenue and revenue achieved	on failure to achieve the expected revenue	of changes and explanations on change in proceeds
Proceeds used for strategic acquisitions of overseas securities firms and/or further expansion of our overseas securities business	No	39.33	39.33	39.33	Yes	100%	-	0.75	-	-	-
Proceeds used to expand our margin financing and securities lending business	No	22.65	22.65	22.65	Yes	100%	-	0.83	-	-	-
Proceeds used to develop our alternative financial products investment business and other businesses as permitted by the PRC regulatory authorities	No	22.70	22.70	22.70	Yes	100%	-	1.15	-	-	-
Proceeds used for capital contributions to Haitong Capital Investment and the expansion of our direct investment and private equity funds management businesses	No	17.01	17.01	17.01	Yes	100%	-	0.37	-	-	-
Proceeds used for working capital and other general corporate purposes	No	10.97	10.97*	10.97*	Yes	100%	-	0.38	-	-	-

Note*: The actual amount of settlement is RMB1.135 billion. The differences from the intended amounts are caused by the exchange differences.

(3) Changes in fund-raising projects

There is no change in fund-raising projects, so that this clause does not apply.

F. Analysis on principal subsidiaries 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 2013, the total assets of HFT Investment Management amounted to RMB934 million and the equity attributable to owners of the company amounted to RMB760 million. In the first half of 2013, its net profit amounted to RMB65 million.

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

- (2) The registered capital of Fullgoal Fund Management Co., Ltd. (the "Fullgoal Fund Management") was RMB180 million, 27.775% of which was held by Haitong Securities. As at 30 June 2013, the total assets and the net assets of Fullgoal Fund Management amounted to RMB1.404 billion and RMB947 million respectively. In the first half of 2013, its net profit amounted to RMB152 million.

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

Section IV. REPORT OF THE BOARD OF DIRECTORS

- (3) The registered capital of Haitong-Fortis Private Equity Fund Management Co., Ltd. (the "Haitong-Fortis Private Equity Fund Management") was RMB20 million, of which 67% was held by Haitong Securities. As at 30 June 2013, the total assets and the net assets of Haitong-Fortis Private Equity Fund Management amounted to RMB197 million and RMB64 million respectively. In the first half of 2013, its net profit amounted to RMB32 million.

The main scope of business of Haitong-Fortis Private Equity Fund Management includes industrial investment fund management, investment advisory, and investment funds formation.

- (4) The registered capital of Haitong Futures was RMB1 billion, of which 66.667% was held by Haitong Securities. As at 30 June 2013, the total assets and the net assets of Haitong Futures amounted to RMB8.174 billion and RMB1.161 billion respectively. In the first half of 2013, its net profit amounted to RMB47 million.

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

- (5) The registered capital of Haitong International Holdings was HK\$4 billion, of which 100% was held by Haitong Securities. As at 30 June 2013, the total assets of Haitong International Holdings amounted to HK\$24.557 billion and the equity attributable to owners of the company amounted to HK\$5.717 billion. In the first half of 2013, its net profit amounted to HK\$261 million.

Through various of its subsidiaries, Haitong International Holdings' 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 was RMB5.75 billion, of which 100% was held by Haitong Securities. As at 30 June 2013, the total assets of Haitong Capital amounted to RMB6.235 billion and the equity attributable to owners of the company amounted to RMB6.002 billion. In the first half of 2013, its net profit amounted to RMB89 million.

The main scope of business of Haitong Capital includes using its own funds or establishing direct investment funds to make equity investments and debt investments in relation to equity in enterprises or investing in other investment funds in relation to equity investments; providing investment advisory, investment management and financial advisory services on equity investments to clients; and other businesses permitted by the CSRC.

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- (7) The registered capital of Haitong Innovation Securities Investment Co., Ltd. (the “Haitong Innovation Securities Investment”) was RMB3 billion, of which 100% was held by Haitong Securities. As at 30 June 2013, the total assets and the net assets of Haitong Innovation Securities Investment amounted to RMB3.988 billion and RMB3.215 billion respectively. In the first half of 2013, its net profit amounted to RMB113 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. (the “Haitong Asset Management”) was RMB1 billion, which 100% was held by Haitong Securities. As at 30 June 2013, the total assets and the net assets of Haitong Asset Management amounted to RMB1.068 billion and RMB1.000 billion respectively. In the first half of 2013, its net profit amounted to RMB-11 million.

The main scope of business of Haitong Asset Management is securities asset management business.

G. Development of innovative business

The Company treats innovation as the key driving force in promoting strategic transition, and constantly devotes more efforts to self-innovation, achieving a remarkable result. As the first securities company conducting OTC market business, the Company ranks the first in the industry in terms of both the accumulated issuance amount and scale of OTC market products. The balances of margin financing and securities lending of the Company for the end of June 2013 amounted to RMB14.2 billion, with an increase by 103% compared to the end of last year, resulting in the top ranking of the Company in the industry in terms of the business scale. The Company was one of the first securities firms to obtain the qualification for running collateralized repo businesses, the scale of which maintains a leading position in the market. In addition, the scale of innovative business, including pledged-bond repurchase business, stock repo trading and spot-future arbitrage, etc., also ranks top in the industry. In the first half of 2013, revenue contribution from innovative businesses of the Company climbed continually, effectively avoiding the adverse effect of revenue decline of traditional business.

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6. Risk Management

I. Risk exposures in operating activities of the Company

The Company 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 by the Company 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 the Company's brokerage business, underwriting business, proprietary trading investment and investments in asset management and derivative products. The Company's operation involves substantial uncertainty since it is highly dependent on the securities market environment.

In the first half of 2013, against a backdrop of sluggish market sentiment, Shanghai and Shenzhen index declined after a short term rebound of the end of last year. SSE Composite Index started from 2,289.51 points at the year beginning, and closed at 1,979.21 points at the end of June, with a decrease of 12.78% comparing with 2,269.13 points at the end of 2012. SZSE Component Index experienced a much larger decrease of 15.60%.

For market risk management, the Company focused on implementing diversified investment strategies. The Company took an effective control of market risk by conducting proper control and appropriate adjustment on trading positions in equity securities investment, 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 measurement model of VaR was based on variance/co-variance ("VCoV"), with a 95% confidence, and the target period was the next trading day. The source of data was from the positions held in proprietary equity securities, public data in securities market, etc. The ratio of VaR to net capital as at each month end in the first half of 2013 kept below 0.3%, the downward trend as a whole was likely to continue, and the risk was under control and bearable. 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.

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- B. Interest rate risk. Interest rate risk is the risk arising from changes in market interest rate. The Company's exposure to interest rate risk relates primarily to monetary deposits and bond investments. In the first half of 2013, the bond market was featured with ups and downs. China bond composite full-price index closed at point 112.58 at the end of June, representing a rise of 0.82% over the last-year-end point. The Company took control of the interest rate risk 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, with the support of the Company's liquidity. However, the whole portfolio duration was under control with little change and remaining relatively stable at each month-end. The duration at the end of June 2013 was 3.62, representing a slight increase compared with 3.56 at the end of 2012. As market grows, the Company is taking initiative to employ the financial instruments, such as interest rate swaps, to avoid interest rate risk.
- C. Exchange rate risk. Exchange rate risk is the risk arising from changes in foreign exchange rate. As the Company 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. After issuance of H Shares by the Company, in order to avoid the risk of weakness in Hong Kong dollars, hedging measures in exchange rates were implemented on the proceeds for proposed domestic use after the proceeds were remitted, which attained sound effect.

(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 Company's exposure to credit risk associated with financial products and transactions will change accordingly. Therefore, the Company's certain 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 and stock repo transaction business to customers, and the losses caused in bond investment by counterparty's default. In terms of securities brokerage business, credit risk can be effectively controlled under the PRC's current rules on trading and settlement in securities market, and trading of securities by 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 and stock repo transaction business, the Company 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

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placed an emphasis on diversified credit type 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. The Company insisted on employing appropriate settlement when conducting bond trading in inter-bank market, and promoting DVP settlement as many as possible. Therefore, the credit risk arising from counterparty's default was under control as well.

(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 Company'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 system of transaction settlement funds of the customers, acting trading securities collected by securities brokerage business were all monitored by custodian banks, which did not constitute the Company's liquidity risk. The Company took control of the ratio of fund appropriated to long-term assets and achieved scientific funds operations through strict funds management and collective decision mechanism, 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 Company 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 of the Company.

In general, the Company 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 the Company's 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.

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The Company adheres to improving the internal control management mechanism, completing the operational processes, strengthening the inspection and audit, intensifying the accountability system, reducing the possibility of operational risks and actively and properly dealing with the adverse effects. However, 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 Company operates is an intelligence-intensive industry, which means that ethical risk from staff is more material as compared to other industries. In the event that its staff commits crime, it will cause losses to the company's assets and in turn bring adverse affects to its reputation. The Company insisted on implementation of refined management, improved its business process, and strengthened the professional integrity and professional ethics education of staff, so as to well control and minimize the occurrence of operational risk.

II. Reflection of main risk factors in this Reporting Period

During the Reporting Period, the major risk faced by the Company was market risk, which particularly included the risk arising from the fair value change of available-for-sale investments and financial assets at FVTPL due to fluctuation of stock market prices. The scale of our securities investment in the first half of the year increased. The earning model of proprietary trading was diversified through active business transformation by quantifying the trading investment. The equity securities investment implemented the Stock Index Futures Hedging Business more effectively, so as to hedge the systematic risk. Attributable to an operation by laws, the Company has not experienced any material 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 Company 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 Company didn't experience any management risk bringing substantial affects. During the Reporting Period, the Company is steady in business, reasonable in assets allocation, good in financial situation and abundant in net assets.

III. Countermeasures and measures taken (or proposed to be taken) by the Company

In response to the above mentioned risks, the Company has targetedly taken or is taking a variety of measures to prevent and control related risks according to the recent situation of domestic and international market:

- (1) Adhere to the development strategy of international development and innovation, actively explore ways to enhance capital strength through equity financing and debt financing, etc., strengthen control of global financial market and improve the competitiveness of enterprises and overall risk management capabilities.

Through the steady progress of internationalization strategy and international business expansion, the Company is aimed at raising the international brand

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awareness of Haitong, promoting the diversification of business development, enhancing the competitiveness of enterprises, and improving risk management capability by the complementarity and comovement of domestic and foreign financial markets. In 2012, the Company smoothly issued H Shares, enhanced capital strength, improved corporate governance structure and optimized shareholder structure. Meanwhile, the group strategy has made new progress, and Haitong Innovation Securities Investment Co., Ltd. and Haitong Asset Management have been set up, which laid the foundation for further expansion of business scale and promotion of product innovation.

Since 2013, the Company has actively involved itself in innovative business, on the one hand, in order to achieve the strategic objective of transformation development, on the other hand, to accumulate experience, train the team and improve risk management capability through the interaction between business development and risk management. By taking advantage of benefits brought by global development, the Company is trying to strengthen the cooperation between parent companies and subsidiary companies home and abroad, study and explore ways and tools of risk hedging.

- (2) Insist on improving corporate governance structure. Continue to regulate operation of the general meeting of shareholders, to ensure that all shareholders, especially minority shareholders enjoy equal status; to standardize and improve operation of the Board, to give full play to the role of each special committee and independent directors, to give full play to the supervision role of the Supervisory Committee to the Board and managers.
- (3) Adhere to optimizing internal control system, strengthen its compliance and risk management, and keep the dynamic balance between innovative development and compliance and risk management.

In recent years, the Company has invited internationally renowned strategy consulting and IT consulting agencies many times to assist the development of group strategic development program. The construction of the Company's internal control system is constantly using the experience of international investment banks of mature financial markets. Thus, compliance, risk management and integration of internal control mechanism have been strengthened. According to the requirements of "Basic Standard for Enterprise Internal Control" and related guidelines, the Company continues to establish and improve the internal control measures of brokerage business, investment banking business, proprietary trading, customer asset management, securities margin trading, agreed repurchase securities transactions, IB business, overseas business and various innovative business, in order to strengthen the management and control of funds, accounting system, electronic information system, authorization, staff quality, subsidiary management, etc.. Moreover, further efforts were put on works for anti-money laundering and the construction of information isolation wall system. 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 overall risk management framework has been gradually improved, and the methods and procedures of risk management have been standardized.

The Company paid significant attention to identifying and assessing 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

Section IV. REPORT OF THE BOARD OF DIRECTORS

sure that business was operated with real time monitoring and risk alarm. During the innovative development, 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 Company 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.

- (4) Continue to improve net capital monitoring system, strengthen the net capital-oriented risk control indicator monitoring system, and optimize allocation between various businesses, so as to prevent and resolve the liquidity risk. At the same time, strengthen the application of sensitivity analysis and stress testing tools, providing risk assessment support for major business development and important decisions in a timely manner. With company funds deposited in the state-owned holding banks and listed joint-stock banks, financial security can be guaranteed. Efforts to improve efficient use of funds should be made under the premise of ensuring the safety of funds.
- (5) By focusing on institutional reform, team-building and marketing development, quality service and network construction, the Company is aimed at enhancing customer service and satisfaction comprehensively, and strong enough to withstand the impact of adverse changes in its market economic environment.
- (6) By strengthening the study of domestic and international macro-economy, economic industry and listed companies, the Company has improved control of market fluctuations; based on the judgment of the market, it has made real-time adjustments of proprietary trading scale, asset allocation structure, standardized the investment decision-making process, strengthened alternative library management of investment products, implemented strictly proprietary investment earnings only stop system and guarded against market risk and counterparty credit risk.
- (7) Increase system investment and strengthen the construction of IT governance. Fully survey the information system framework, search the blind spots in information management, strengthen system privileges management, and standardize the network construction of branches. At the same time, strengthen the upgrading and optimization of centralized trading, legal person settlement, marketing management, securities margin trading, stock index futures, human resources management, OA (Office Automation) system of the Company, promoting customer relationship management systems and database construction and providing strong support for business development.
- (8) Adhere to investor education and appropriate management. The Company insists on investor education, works on customer and product management at different levels, and reveals the risks to investors in a timely manner. At the same time, the Company integrates customer resources and enhances customer data analysis and service capabilities. The Company will make full use of the channels of customer service and the advantages of integration of resources, devotes to appropriate investor management, providing appropriate products and services for all types of customers.

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(II) PROPOSAL OF PROFIT DISTRIBUTION OR TRANSFER OF CAPITAL RESERVE FUND INTO CAPITAL

1. Implementation or adjustment of profit distribution proposal during the Reporting Period

The Company's 2012 profit distribution proposal was reviewed and approved by its shareholders at the 2012 annual general meeting, during which it was resolved that a cash dividends of RMB0.12 per share (inclusive of tax) was distributed to all shareholders on the basis of a total share capital of 9,584,721,180 shares at issue. Consequently, an aggregate cash dividend of RMB1,150,166,541.60 was distributed. The Company published an announcement relating to the implementation of 2012 profit distribution in the China Securities Journal, the Shanghai Securities News, the Securities Times, the Securities Daily and the respective websites of the Shanghai Stock Exchange and the Hong Kong Stock Exchange. As at 26 July 2013, the Company's 2012 profit distribution proposal was fully implemented.

2. Profit distribution proposal and proposal on transfer of capital reserve fund into capital for the interim period

The Company had no profit distribution proposal or proposal on transfer of capital reserve fund into capital for the first half of 2013.

(III) OTHER DISCLOSURES

During the Reporting Period, the Company had no other discloseable event not disclosed.

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(I) MATERIAL LITIGATION, ARBITRATION AND MATTERS COMMONLY QUESTIONED BY MEDIA

The Company was not involved in any material litigation and arbitration and did not have matters commonly questioned by media during the Reporting Period.

(II) BANKRUPTCY AND RESTRUCTURING RELATED MATTERS

The Company did not have bankruptcy and restructuring related matter during the Reporting Period.

(III) ASSETS TRANSACTIONS AND MERGER OF COMPANIES

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

(IV) EQUITY INCENTIVES OF THE COMPANY AND ITS EFFECT

The Company has not operated any equity incentive scheme during the Reporting Period.

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 five trading days immediately preceding the offer date; and (3) the nominal value of its shares. In relation to the changes of the 2002 Share Option Scheme, please refer to 2013 Interim Report of Haitong International Securities Group.

(V) SIGNIFICANT RELATED TRANSACTIONS

During the Reporting Period, the Company had no non-operating credit or indebtedness with related parties.

On 23 January 2013, the Company convened the fifteenth meeting (extraordinary meeting) of the fifth session of the Board, during which Proposal on Establishment and Management of Liaoning New Energy And Low-Carbon Industry Equity Investment Fund was considered and approved. Haitong Capital, the wholly-owned subsidiary of the Company, and Liaoning Energy Investment (Group) Limited Liability Company intended to establish Liaoning New Energy And Low-Carbon Industry Equity Investment Fund and its administration entity jointly. Such joint investment was a related transaction under the rules governing the listing of stocks on the Shanghai Stock Exchange but did not constitute a connected transaction under the Hong Kong Listing Rules, particulars of which was disclosed in the related transaction announcement “The Joint Investment by the Wholly-Owned Subsidiary and Related Party of Haitong Securities Co., Ltd.” issued on the website of the Shanghai Stock Exchange and the overseas regulatory announcement issued on the website of the Hong Kong Stock Exchange on the same date.

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So far, Haitong New Energy Equity Investment Management Co., Ltd, a corporation jointly established by Haitong Capital and Liaoning Energy Investment (Group) Co. Ltd., has obtained the business license on 22 July 2013, with a registered capital of RMB50 million and the business scope of equity investment management, venture investment management, industrial investment, venture investment, participation in establishing equity investment enterprise and venture investment enterprise and investment consultation. Liaoning Haitong New Energy And Low-Carbon Industry Equity Investment Fund Co., Ltd. has obtained its business license since 8 August 2013, with a registered capital of RMB1.0 billion. And its business scope includes investment in unlisted companies and non-public offering shares of listed companies, relevant information services, management in equity investment and venture investment, investment in equities, bond investment related to equity investment, industrial and venture investment, participation in establishing equity investment enterprise and venture investment enterprise, and investment consultation.

(VI) MATERIAL CONTRACTS AND THEIR PERFORMANCE

1. Trust, contracting and leasing matters

During the Reporting Period, the Company was not involved in any material trust, contracting or leasing matters.

2. Guarantees

On 13 August 2012, the Company convened the twelfth meeting (extraordinary meeting) of the fifth session of the Board through communication facilities, during which Proposal on Provision of Guarantee on Net Capital to Shanghai Haitong Securities Asset Management Company Ltd. was considered and approved. The Board approved the Company to provide a net capital guarantee commitment of not more than RMB1.5 billion to the asset management subsidiary at any time, to ensure the adequacy of its net capital. On 9 June 2013, Shanghai Branch of the CSRC issued No Comment Letter on the Provision of Net Capital Guarantee Commitment from Haitong Securities Co., Ltd. to Shanghai Haitong Securities Asset Management Company Ltd. (Hu Zheng Jian Ji Gou Zi [2013] No. 145), permitting the Company to provide the guarantee commitment of RMB800 million to the asset management subsidiary. The Company has deducted RMB800 million of the net capital and increased RMB800 million of the net capital of the asset management subsidiary correspondingly.

3. Other material contract

During the Reporting Period, the Company had no other discloseable material contract not disclosed.

(VII) PERFORMANCE OF UNDERTAKINGS

As of the end of the Reporting Period, no shareholder directly held more than 5% of the shares of the Company. During the Reporting Period, the Company had no relevant undertakings.

(VIII) APPOINTMENT AND DISMISSAL 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 2013, who will be responsible for provision of relevant domestic audit services and internal control audit in accordance with the PRC GAAP, for a term of one year. In addition, Deloitte Touche Tohmatsu CPA LLP. (Deloitte Touche Tohmatsu (德勤•關黃陳方會計師行) and Deloitte Touche Tohmatsu Certified Public Accountants LLP. (德勤華永會計師事務所) (Special General Partnership)) was re-appointed as the Company's external auditor for 2013 for a term of one year, who will be responsible for provision of relevant audit and review services in accordance with the IFRS.

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(IX) PUNISHMENT ON AND RECTIFICATION OF THE LISTED COMPANY, ITS DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT, SHAREHOLDERS WHO HELD MORE THAN 5% OF SHARES, DE FACTO CONTROLLER AND BUYER

As at the end of the Reporting Period, the Company had neither shareholder who held directly more than 5% of shares, nor de facto controller. During the Reporting Period, none of the Company, its Directors, Supervisors or senior management was subject to any examination, administrative punishment, being criticized through notification by the CSRC and public censures by any stock exchanges.

(X) CONVERTIBLE CORPORATE BONDS

On 9 July 2013, Haitong International Securities Group issued an Announcement on Proposed Issue of HK\$776,000,000 1.25% Convertible Bonds Due 2018, with the initial conversion price of HK\$ 4.0 per share. The issuance of the said convertible bonds was completed on 18 July 2013. Please refer to website of the Hong Kong Stock Exchange for details on the announcement.

In respect of the subscription of Haitong Securities for HK\$4.85 billion of convertible bonds directionally issued by Haitong International Holdings (the Hong Kong wholly-owned subsidiary of Haitong Securities), Haitong International Holdings had completed the issuance of convertible bonds directionally to the Company during the Reporting Period.

(XI) CORPORATE GOVERNANCE

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, the Company has during the Reporting Period strictly complied with the Code, observed all code provisions under the Code, if applicable, and followed most of the requirements of recommended best practices set out therein.

During the Reporting Period, the Company convened 16 meetings in total comprising one general meeting of shareholders, four Board meetings, three Supervisory Committee meetings, three audit committee meetings, two working conferences of independent non-executive Directors on annual report, one nomination, remuneration and assessment committee meeting, one development strategy and investment management committee meeting, 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, eight are non-executive Directors and seven 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 non-executive Directors.

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3. Supervisors and Supervisory Committee

Our Supervisory Committee currently consists of 11 Supervisors, among whom, four are employee representative Supervisors and seven are shareholder representative Supervisors. The qualification and formation 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.

4. Senior management

Procedures for the appointment of the Company's senior management are in compliance with the Company Law of PRC and the Articles of Association. 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, continues to focus on its consistent, healthy development.

6. Information disclosure and investor relations management

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. The Company can, strictly according to relevant provisions of Insider Registration System, strengthen the management of the Company's inside information and well organize the insider registration, with honest and professional management of investor relations. The Company's senior management participated in investors' services in person and the Company also appointed a full-time investor relations service team. In addition, the Company utilized various forms of communication, including setting up a hotline for investors, holding online interactions, e-mails, telephone conferences, receptions on-site, result briefing, investor presentation and road shows, etc., to strengthen its communication with its investors inside and outside, thereby further enhanced the Company's transparency. In the event named "I am a shareholder – minority investors visit the listed companies" organized by the Shanghai Stock Exchange, the Company was selected as one of them through Internet mass-election and voting by experts. Additionally, the Company successfully organized the event of "I am a shareholder – minority investors visit Haitong Securities", through which the Company communicated well with the shareholders.

7. 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, financial resource and technical support to its general compliance officer to carry out his duties to ensure effective compliance management. During the Reporting Period, the Company continued to implement internal control standardization, strengthen its internal control system, and strictly 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.

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(XII) 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 2013.

(XIII) DESCRIPTION OF OTHER SIGNIFICANT EVENTS

1. The Proposal on Issuance of Corporate Bonds was considered and passed at the 2012 annual general meeting on 27 May 2013. The Company has filed its application for public issuance of corporate bonds to the CSRC in mid June. As of now, no relevant approval has obtained yet.
2. The Proposal on Issuance of Short-term Financing Bills of Securities Companies was considered and passed at the 2012 annual general meeting on 27 May 2013. The Company has filed its application for provision of regulatory opinion on issuance of short-term financing bills of securities companies to the CSRC at the beginning of June. On 18 June, the CSRC provided the Letter of Regulatory Opinion on Application of the Company for the Issuance of Short-term Financing Bills. In late June, the Company has filed its application for issuance of short-term financing bills of securities companies for record to the People's Bank of China. As of now, no relevant approval has obtained yet.

3. The Company's securities branches

As of 30 June 2013, the Company had 24 branch offices and 203 securities branches. During the Reporting Period, the establishment and relocation of the Company's securities branches are as follows:

A. *The establishment of the securities branches*

The Company has completed the preparations of the establishment of Wenzhou Jinxiu Road Securities Branch according to Approval from Shanghai Securities Regulatory Bureau for establishment of a securities branch in Zhejiang by Haitong Securities Co., Ltd. (Hu Zheng Jian Ji Gou Zi [2012] No. 510), and obtained the Securities Operating Institution Operation License on 23 May 2013. The securities branch was established under the name of Wenzhou Jinxiu Road Securities Branch of Haitong Securities Co., Ltd., which is located in Room 106, Block 1, Ruikang Business Building, Jinxiu Road, Lucheng District, Wenzhou, Zhejiang Province.

B. *The relocation of the securities branches*

- (1) Suihua Anda Beisidaojie Securities Branch was relocated from the Side Building of Beisidaojie Passenger Station, Anda, Suihua, Heilongjiang, to No. 235 Niujie Street, Anda, Suihua, Heilongjiang, the name of which was changed to Branch of Haitong Securities Co., Ltd. in Niujie Street, Anda, Suihua.

Section V. SIGNIFICANT EVENTS

- (2) Shanghai Tianshan West Road Securities Branch was relocated from Room 203, 4/F, No. 155 Tianshan West Road, Changning District, Shanghai, to 1/F and 2/F, No. 169 Tianshan West Road, Changning District, Shanghai, the name of which was changed to Branch of Haitong Securities Co., Ltd. in Tianshan West Road, Changning District, Shanghai.
- (3) Wuhan Zhongbei Road Securities Branch was relocated from No.146 Zhongbei Road, Wuchang District, Wuhan, Hubei, to No. 259 Zhongbei Road, Wuchang District, Wuhan, Hubei, the name of which remained as Branch of Haitong Securities Co., Ltd. in Zhongbei Road, Wuhan.
- (4) Daqing Chengfeng Avenue Securities Branch was relocated from 3401 No. 432-454 Chengfeng Avenue, Ranghulu District, Daqing, Heilongjiang, to No. 126 Chengfeng Avenue, Ranghulu District, Daqing, Heilongjiang, the name of which remained as Branch of Haitong Securities Co., Ltd. in Chengfeng Avenue, Daqing.
- (5) Shanghai Zaoyang Road Securities Branch was relocated from Room 102, 1F & 12F, No. 108, Zaoyang Road, Putuo District, Shanghai, to 3F, Block 1, No. 182, Zaoyang Road, Putuo District, Shanghai, the name of which was changed to Branch of Haitong Securities Co., Ltd. in Zaoyang Road, Putuo District, Shanghai.
- (6) Suihua South Zhongzhi Road Securities Branch was relocated from Hongwei Street (No.9 South Zhongzhi Road), Beilin District, Suihua, Heilongjiang, to Block 16, Shijifangzhou, Kangzhuang Road, Beilin District, Suihua, Heilongjiang, the name of which was changed to Branch of Haitong Securities Co., Ltd. in Kangzhuang Road, Suihua.

4. The Collective Asset Management of the Company

From 1 January 2013 to the Disclosure Date of this Report, Haitong Asset Management increased 23 collective asset management plans.

As at 30 June 2013, Haitong Asset Management has set up and issued 34 collective assets management plans as following:

No.	Name	Establishment Date	Asset units (in units) (30 June 2013)
1	Haitong Prudent Value-added Collective Asset Management Scheme	28 March 2006	–
2	Haitong Jinzhongjin Collective Asset Management Scheme	30 June 2008	123,583,024.72
3	Haitong Jijihong Collective Asset Management Scheme	19 January 2009	40,749,367.35
4	Haitong Prudent Growth Collective Asset Management Scheme	28 August 2009	272,034,727.20
5	Haitong Emerging Growth Collective Asset Management Scheme	26 May 2010	161,611,738.42
6	Haitong Hailan Domestic Demand Value Selected Collective Asset Management Scheme	10 February 2011	700,788,391.52
7	Haitong Hailan Consumption Selected Collective Asset Management Scheme	3 August 2011	169,077,346.72

Section V. SIGNIFICANT EVENTS

No.	Name	Establishment Date	Asset units (in units) (30 June 2013)
8	Haitong Hailan Baoyi Collective Asset Management Scheme	18 November 2011	54,393,960.90
9	Haitong Hailan Quantitative Strengthened Collective Asset Management Scheme	29 March 2012	92,098,869.27
10	Haitong Hailan Baoyin Collective Asset Management Scheme	24 July 2012	10,719,185.92
11	Haitong Hailiang Alpha No. 1 Amount-limited and Specific Collective Asset Management Scheme	27 September 2012	19,575,264.96
12	Haitong Cash Winner Collective Asset Management Plan	29 November 2012	884,038,999.53
13	Haitong Winner Series – Long-term Winner Collective Asset Management Plan	24 December 2012	2,756,965,917.42
14	Haitong Long-term Wealth Collective Asset Management Plan	21 January 2013	12,150,740.00 (nominal value of RMB100 per unit)
15	Haitong Yingxin No. 1 Amount-limited and Specific Collective Asset Management Scheme	24 January 2013	67,710,000.00
16	Haitong Yingxin No. 2 Amount-limited and Specific Collective Asset Management Scheme	24 January 2013	129,940,000.00
17	Haitong Hailan Baorun Collective Asset Management Plan	8 March 2013	395,316,034.66
18	Haitong Creative Quantitative Trading No. 1 Amount-limited and Specific Asset Management Scheme	2 April 2013	51,000,495.83
19	Haitong Creative Quantitative Arbitrage No. 1 Amount-limited and Specific Asset Management Scheme	10 April 2013	499,505,827.50
20	Haitong Zhongrui Quantitative No. 1 Amount-limited and Specific Collective Asset Management Scheme	12 April 2013	98,602,480.89
21	Haitong Haifu No. 1 Amount-limited and Specific Asset Management Scheme	23 April 2013	3,390,700.00 (nominal value of RMB100 per unit)
22	Haitong Yueyuesheng Collective Asset Management Scheme	25 April 2013	539,404,849.33
23	Haitong Winner Series -Yueyuexin Collective Asset Management Scheme	10 May 2013	141,719,505.52
24	Haitong Winner Series -Jijixin Collective Asset Management Scheme	10 May 2013	126,658,271.61
25	Haitong Winner Series -Bannianxin Collective Asset Management Scheme	13 May 2013	190,575,759.19
26	Haitong Winner Series -Niannianxin Collective Asset Management Scheme	13 May 2013	207,224,096.83
27	Haitong Haifu No. 2 Amount-limited and Specific Asset Management Scheme	24 May 2013	5,000,000.00 (nominal value of RMB100 per unit)

Section V. SIGNIFICANT EVENTS

No.	Name	Establishment Date	Asset units (in units) (30 June 2013)
28	Haitong Jijisheng Collective Asset Management Scheme	29 May 2013	195,512,932.52
29	Haitong Banniansheng Collective Asset Management Scheme	29 May 2013	220,008,608.93
30	Haitong Nianniansheng Collective Asset Management Scheme	29 May 2013	219,864,144.96
31	Haitong Haihui Series - Xingshi No. 1 Collective Asset Management Scheme	29 May 2013	147,480,569.14
32	Haitong Haifu No. 3 Amount-limited and Specific Asset Management Scheme	5 June 2013	2,028,980.00 (nominal value of RMB100 per unit)
33	Haitong Chuangjin No. 1 Amount-limited and Specific Asset Management Scheme	27 June 2013	411,100.00 (nominal value of RMB100 per unit)
34	Haitong Hairong No. 1 Amount-limited and Specific Asset Management Scheme	28 June 2013	1,165,140.00 (nominal value of RMB100 per unit)

Haitong Prudent Value-added Collective Asset Management Scheme, Haitong Jinzhongjin Collective Asset Management Scheme, Haitong Yingxin No. 1 Amount-limited and Specific Collective Asset Management Scheme, Haitong Yingxin No. 2 Amount-limited and Specific Collective Asset Management Scheme and Haitong Chuangjin No. 1 Amount-limited and Specific Asset Management Scheme have been terminated respectively on 27 March 2009, 1 July 2013, 23 July 2013, 23 July 2013 and 28 July 2013.

In addition, Haitong Hairong No. 2 Amount-limited and Specific Asset Management Scheme was established on 2 July 2013, and Haitong Haixin No. 1 Collective Asset Management Scheme was established on 31 July 2013. As at the Disclosure Date of this Report, Haitong Asset Management has 31 Collective Schemes under normal operation.

Section VI. CHANGES IN SHARE AND PARTICULARS ABOUT SHAREHOLDERS

(I) CHANGES IN SHARE CAPITAL

1. Table of changes in share

A. Table of changes in share during the Reporting Period

	Before the change		Change (+, -)				After the change	
	Number of shares	Percentage (%)	New issuance (H Shares)	Transfer of state-owned Shares	Others	Sub-total	Number of shares	Percentage (%)
<i>Unit: share</i>								
I. Shares subject to trading moratorium								
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	-	-	-	-	-	-	-	-
II. Circulating shares not subject to trading moratorium								
1. RMB denominated ordinary shares	8,092,131,180	84.43	-	-	-	-	8,092,131,180	84.43
2. Foreign shares listed in the PRC	-	-	-	-	-	-	-	-
3. Foreign shares listed overseas	1,492,590,000	15.57	-	-	-	-	1,492,590,000	15.57
4. Others	-	-	-	-	-	-	-	-
Total number of circulating shares not subject to trading moratorium	9,584,721,180	100	-	-	-	-	9,584,721,180	100
III. Total	9,584,721,180	100	--	--	--	--	9,584,721,180	100

B. Changes in share

During the Reporting Period, the number of shares of the Company has no change.

2. Changes in shares subject to trading moratorium

The shares of the Company are circulating shares, and there are no shares subject to trading moratorium.

Section VI. CHANGES IN SHARE AND PARTICULARS ABOUT SHAREHOLDERS

(II) PARTICULARS ABOUT SHAREHOLDERS

1. The total number of shareholders

Total number of shareholders of the Company at the end of the Reporting Period was 402,778, among which 402,595 were holders of A Shares and 183 were registered holders of H Shares.

2. Shareholding of the top ten shareholders

A. As at 30 June 2013, 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	1,492,590,000	273,200	0	Nil
Bright Food (Group) Co., Ltd.	State-owned legal person	4.43	424,411,622	-25,808,404	0	210,000,000 (pledged)
Shanghai Haiyan Investment Management Company Limited	State-owned legal person	4.18	400,709,623	0	0	Nil
Shanghai Electric (Group) Corporation	State-owned shares	3.93	376,492,158	-1,175,100	0	Nil
Shenergy Group Company Limited	State-owned legal person	3.36	322,162,086	0	0	Nil
Shanghai Jiushi Corporation	State-owned legal person	2.45	235,247,280	0	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	1.93	185,279,853	-2,350,000	0	Nil
China Life Insurance Company Limited – Dividend – Individual Dividend – 005L – FH002 Shanghai	Domestic non state-owned legal person	1.87	178,881,493	11,091,734	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 H Shares and the shares held by the other shareholders are 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.

Section VI. CHANGES IN SHARE AND PARTICULARS ABOUT SHAREHOLDERS

B. The shareholding of the top ten shareholders of circulating shares of the Company not subject to trading moratorium as at 30 June 2013

Name of shareholder	Number of circulating shares not subject to trading moratorium held (shares)	Type of shares (A, B, H or others)
HKSCC Nominees Limited	1,492,590,000	H Share
Bright Food (Group) Co., Ltd.	424,411,622	A Share
Shanghai Haiyan Investment Management Company Limited	400,709,623	A Share
Shanghai Electric (Group) Corporation	376,492,158	A Share
Shenergy Group Company Limited	322,162,086	A Share
Shanghai Jiushi Corporation	235,247,280	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	185,279,853	A Share
China Life Insurance Company Limited – Dividend – Individual Dividend – 005L – FH002 Shanghai	178,881,493	A Share

(III) CHANGES IN THE CONTROLLING SHAREHOLDERS OR THE DE FACTO CONTROLLERS

Due to the diverse shareholding of the Company, 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.

Section VI. CHANGES IN SHARE AND PARTICULARS ABOUT SHAREHOLDERS

(IV) SUBSTANTIAL SHAREHOLDERS AND OTHER PERSONS' INTERESTS AND SHORT POSITIONS IN THE SHARES AND UNDERLYING SHARES

As at 30 June 2013, so far as the Directors, having made all reasonable enquiries, are aware, the following parties (other than the Directors, Supervisors and chief executives 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	Nature 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)	424,411,622	4.43	5.24	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	NSSF	H Share	Beneficial owners	104,446,800	1.09	7.00	Long position
4	JP Morgan Chase & Co.	H Share	Beneficial owners	5,880,600	0.06	0.39	Long position
			Beneficial owners	2,474,400	0.03	0.17	Short position
			Investment manager	32,157,600	0.34	2.15	Long position
			Custodian – corporation/ approved lending agent	50,842,750	0.53	3.41	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)	130,704,400	1.36	8.76	Long position
7	PAG Asia Capital GP I Limited	H Share	Investment manager (Note 2)	130,704,400	1.36	8.76	Long position
8	PAG Asia I LP	H Share	Interests in controlled corporation (Note 2)	130,704,400	1.36	8.76	Long position
9	PAG Capital Limited	H Share	Interests in controlled corporation (Note 2)	130,704,400	1.36	8.76	Long position
10	PAG Holdings Limited	H Share	Interests in controlled corporation (Note 2)	130,704,400	1.36	8.76	Long position
11	PAGAC Horseshoe Holding I SARL	H Share	Beneficial owners (Note 2)	130,704,400	1.36	8.76	Long position
12	Roseworth Investments Limited	H Share	Interests in controlled corporation (Note 2)	130,704,400	1.36	8.76	Long position
13	Shan Weijian	H Share	Interests in controlled corporation (Note 2)	130,704,400	1.36	8.76	Long position
14	Citigroup Inc.	H Share	Other	55,374,616	0.58	3.71	Long position
		H Share	Other	12,791,133	0.13	0.86	Short position
		H Share	Other	42,653,386	0.45	2.86	Lending pool
15	BlackRock, Inc.	H Share	Interests in controlled corporation	88,359,054	0.92	5.92	Long position
		H Share	Interests in controlled corporation	2,989,200	0.03	0.20	Short position

Section VI. CHANGES IN SHARE AND PARTICULARS ABOUT SHAREHOLDERS

Note 1: According to the information disclosed on the website of the Hong Kong Stock Exchange (www.hkex.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 the 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 Stock Exchange;

Note 2: Such 130,704,400 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 2013 required to be recorded in the register pursuant to Section 336 of the SFO.

(V) DIRECTORS, SUPERVISORS AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN THE SHARES, UNDERLYING SHARES OR DEBENTURES OF THE COMPANY AND ITS ASSOCIATED CORPORATIONS

As at 30 June 2013, 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 or 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, to be notified to the Company and the Hong Kong Stock Exchange.

(VI) REPURCHASE, SALE OR REDEMPTION OF THE 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 securities of the Company and its subsidiaries.

Section VII. PARTICULARS ABOUT DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND STAFF

(I) CHANGES IN SHAREHOLDING

1. Changes in shareholding of current and resigned Directors, Supervisors and senior management during the Reporting Period

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

2. Share incentives granted for Directors, Supervisors and senior management during the Reporting Period

The Company has not operated any share incentive scheme during the Reporting Period. None of the Directors, Supervisors or senior management has held any shares of the Company.

(II) CHANGES IN DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT OF THE COMPANY

1. Changes in Directors

On 26 March 2013, the Resolution on the Resignation of Mr. Qian Shizheng as the Director and Vice Chairman of the Company was passed at the sixteenth meeting of the fifth session of the Board. Mr. Qian Shizheng has tendered his resignation as the Director and Vice Chairman of the Company to the fifth session of the Board due to personal professional development. At the meantime, the Board passed the Resolution on Nomination of Mr. Xiao Suining as the Candidate of independent Director of the Company. The Board approved to nominate Mr. Xiao Suining as the independent non-executive Director of the Company. The resolution was reviewed and passed at the 2012 annual general meeting on 27 May 2013. The qualification of Mr. Xiao Suining being the independent non-executive Director of the Company has been approved by the regulatory authorities and his appointment has been effective since the date of the annual general meeting.

As at 30 June 2013, the Board was composed of 17 Directors, including two executive Directors, namely Mr. Wang Kaiguo and Mr. Li Mingshan; eight non-executive Directors, namely 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; seven independent non-executive Directors, namely Mr. Xia Bin, Mr. Chen Qiwei, Mr. Zhang Huiquan, Mr. Zhang Ming, Mr. Dai Genyou, Mr. Liu Chee Ming and Mr. Xiao Suining. The Directors were all elected by the shareholders at the general meeting of the Company for a term of three years, which is subject to re-elections.

2. Changes in Supervisors

On 26 March 2013, the Resolution on the Change of Supervisors was passed at the ninth meeting of the fifth session of the Supervisory Committee. Mr. Yuan Lingcai has tendered his resignation as the Supervisor of the Company to the Supervisory Committee due to personal professional development. At the meantime, the Supervisory Committee approved to nominate Mr. Li Lin as the candidate of Supervisor to the fifth session of the Supervisory Committee. The resolution was reviewed and passed at the 2012 annual general meeting on 27 May 2013. The qualification of Mr. Li Lin being the Supervisor of the Company has been approved by the regulatory authorities and his appointment has been effective since the date of the annual general meeting.

As at 30 June 2013, the Supervisory Committee was composed of eleven Supervisors, including four employee representative Supervisors, namely Mr. Yang Qingzhong, Mr. Wang Yimin, Ms. Qiu Xiaping and Mr. Du Hongbo; seven shareholder representative Supervisors, namely Mr. Li Lin, Mr. Dong Xiaochun, Mr. Wu Zhilin, Ms. Jin Yanping, Mr. Xu Qi, Mr. Xing Jianhua and Mr. Wang Yugui. Except for the employee representative Supervisors elected by the workers' congress, the shareholder representative Supervisors were elected by our shareholders at the general meeting of the Company for a term of three years, which is subject to re-elections.

On 22 August 2013, Mr. Wang Yugui tendered his resignation as the Supervisor of the Company to the Supervisory Committee due to reason of age.

Section VII. PARTICULARS ABOUT DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND STAFF

3. Changes in senior management

On 23 January 2013, the Company issued an Announcement on Mr. Shen Degao's Resignation as Deputy General Manager of the Company. Mr. Shen Degao has resigned as the deputy general manager of the Company due to reason of age.

As at 30 June 2013, the senior management of the Company was composed of 11 members, namely, Mr. Li Mingshan, 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.

On 22 August 2013, the Resolution on the Appointment of Mr. Fei Changjiang as the Deputy General Manager of the Company was reviewed and passed at the nineteenth meeting of the fifth session of the Board. So far, one senior management of the Company has been added.

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

The Company has adopted the standards as set out in the Model Code, 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 1 January 2013 to 30 June 2013. No noncompliance with the Model Code by the relevant employees was identified by the Company.

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

In May 2013, Mr. Wang Yugui resigned from the general manager of China Shipowners Mutual Assurance Association due to reason of age.

According to the Rule 13.51B of the Hong Kong Listing Rules, during the Reporting Period, no other related information of the Directors and Supervisors has changed materially.

(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)).

(VI) STAFF AND REMUNERATION POLICY

At the end of the Reporting Period, the Group had 6,964 employees, of whom 5,251 were from the Company, and 1,713 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.

Section VIII. INTERIM FINANCIAL REPORT AND THE REPORT ON REVIEW

- (I) The 2013 interim financial report has been reviewed by Deloitte Touche Tohmatsu. Please see Appendices of the Report for the report on review issued by Deloitte Touche Tohmatsu.
- (II) The interim financial report (Appendices).

Section IX. DOCUMENTS AVAILABLE FOR INSPECTION

- (I) The text of the Report with signature of the Legal Representative of the Company.
- (II) The text of the interim financial report.
- (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.

Section X. DISCLOSURE INFORMATION OF SECURITIES COMPANY

(I) ADMINISTRATIVE CONSENTS AND APPROVALS OBTAINED DURING THE REPORTING PERIOD

No.	Date of approval	Title and number of approval
1	1 February 2013	Approval from Hubei Securities Regulatory Bureau for Qualification of Bai Lili as the Head of a Securities Company's Branch (Wuhan Shisheng Road Securities Branch) (E Zheng Jian Ji Gou Zi [2013] No. 006)
2	21 February 2013	Approval for establishment of Haitong Baosheng bond-classified targeted asset management scheme by Shanghai Haitong Securities Asset Management Company Ltd. (Zheng Jian Xu Ke [2013] No.181)
3	2 March 2013	No Comment Letter on the Provision of Intermediary Business Referrals to Haitong Futures Co., Ltd by Zibo Huantai Dongyue Road Securities Branch of Haitong Securities Co., Ltd.
4	4 March 2013	Approval for Qualification of Li Yong as the Head of a Securities Company's Branch (Changchun Dajing Road Securities Branch)
5	6 March 2013	Approval for Qualification of He Qun as the Head of a Securities Company's Branch (Urumqi Xinyi Road Securities Branch) (Xin Zheng Jian Ju [2013] No. 022)
6	11 March 2013	No Comment Letter from Hubei Securities Regulatory Bureau on Tu Huiming as the Head of a Securities Company's Branch (Wuhan Jiangda Road Securities Branch) (E Zheng Jian Ji Gou Zi [2013] No. 015)
7	12 March 2013	Decision on approval for Qualification of Gao Ming as the Head of a Securities Company's Branch (Taian Daizong Street Securities Branch) (Lu Zheng Jian Xu Ke [2013] No. 007)
8	29 March 2013	Approval for Qualification of Chen Jie as the Head of a Securities Company's Branch (Hefei Huangshan Road Securities Branch) (Wan Zheng Jian Han Zi [2013] No. 071)
9	15 April 2013	Approval for Qualification of Li Lin as the Supervisor of a Securities Company (Hu Zheng Jian Ji Gou Zi [2013] No. 084)
10	18 April 2013	Decision on approval for Qualification of Jiao Xuefu as the Head of a Securities Company's Branch (Zaozhuang Taishan South Road Securities Branch) (Lu Zheng Jian Xu Ke [2013] No. 015)
11	22 April 2013	Approval for Qualification of Zhao Jianxiang as the Head of a Securities Company's Branch (General Manager of Jiangsu Branch) (Su Zheng Jian Ji Gou Zi [2013] No. 145)
12	22 April 2013	No Comment Letter from Gansu Securities Regulatory Bureau on change of Tianshui Xinhua Road Securities Branch of Haitong Securities Co., Ltd. to Type B branch (Gan Zheng Jian Han Zi [2013] No. 054)
13	10 May 2013	Approval for Qualification of Xiao Suining as the Independent Director of a Securities Company (Hu Zheng Jian Ji Gou Zi [2013] No. 100)
14	16 May 2013	Approval for Qualification of Wu Hongzhi as the Head of the Branch of Haitong Securities Co., Ltd. (Shanghai Laohumin Road Securities Branch) (Hu Zheng Jian Ji Gou Zi [2013] No. 099)

Section X. DISCLOSURE INFORMATION OF SECURITIES COMPANY

No.	Date of approval	Title and number of approval
15	27 May 2013	No Comment Letter from Gansu Securities Regulatory Bureau on reduction in operating area of Lanzhou Wudu Road Securities Branch of Haitong Securities Co., Ltd. (Gan Zheng Jian Han Zi [2013] No. 087)
16	18 June 2013	Letter of Regulatory Opinion on application for the Issue of Short-term commercial paper by Haitong Securities Co., Ltd. (Ji Gou Bu Bu Han [2013] No. 407)
17	8 July 2013	Approval for establishment of 92 branches by Haitong Securities Co., Ltd. (Hu Zheng Jian Ji Gou Zi [2013] No. 173)
18	15 July 2013	Approval for Qualification of Distribution Of Financial Products by Haitong Securities Co., Ltd. (Hu Zheng Jian Ji Gou Zi [2013] No. 180)

(II) RESULT OF CLASSIFICATION BY REGULATORY AUTHORITY

In 2013, the Company was rated by the relevant regulatory authority as a “Grade A, Category A” company.

By order of the Board
Haitong Securities Co., Ltd.
Wang Kaiguo
Chairman
22 August 2013

INTERIM FINANCIAL REPORT AND REPORT ON REVIEW OF CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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 condensed consolidated financial statements of Haitong Securities Co., Ltd. (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 56 to 104, which comprise the condensed consolidated statement of financial position as of 30 June 2013 and the related condensed consolidated statement of profit or loss, statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the six months ended 30 June 2013, 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 Standards Board. The directors of the Company are responsible for the preparation and presentation of these condensed consolidated financial statements in accordance with IAS 34. Our responsibility is to express a conclusion on these condensed consolidated financial statements 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 International Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity". A review of these condensed consolidated financial statements 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 International 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 these condensed consolidated financial statements are not prepared, in all material respects, in accordance with IAS 34.

Deloitte Touche Tohmatsu

Certified Public Accountants

Hong Kong

22 August 2013

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the six months ended 30 June 2013

	Notes	Six months ended 30 June	
		2013 RMB'000 (unaudited)	2012 RMB'000 (unaudited/ restated)
Revenue			
Commission and fee income	4	3,071,052	2,823,285
Interest income	5	1,613,655	1,449,734
Net investment gains	6	1,980,541	1,489,370
Total revenue		6,665,248	5,762,389
Other income and gains	7	67,836	90,012
Total revenue and other income		6,733,084	5,852,401
Depreciation and amortisation	8	(152,564)	(157,783)
Staff costs		(1,113,384)	(1,118,151)
Commission to account executives		(164,454)	(130,191)
Brokerage transaction fees and other services expenses	9	(257,082)	(326,910)
Interest expenses	10	(559,610)	(348,003)
Other expenses		(889,962)	(996,921)
Total expenses		(3,137,056)	(3,077,959)
Share of results of associates		30,484	30,793
Profit before income tax	11	3,626,512	2,805,235
Income tax expense	12	(827,621)	(655,690)
Profit for the period		2,798,891	2,149,545
Attributable to:			
Owners of the Company		2,671,932	2,028,126
Non-controlling interests		126,959	121,419
		2,798,891	2,149,545
Earnings per share (Expressed in RMB per share)			
– Basic	13	0.28	0.23
– Diluted	13	0.28	0.23

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2013

	Six months ended 30 June	
	2013 <i>RMB'000</i> (unaudited)	2012 <i>RMB'000</i> (unaudited/ restated)
Profit for the period	2,798,891	2,149,545
Other comprehensive income (expense):		
Items that may be reclassified subsequently to profit or loss:		
Available-for-sale investments		
Net fair value changes during the period	270,481	229,613
Reclassification adjustment to profit or loss on disposal/impairment	(332,970)	19,290
Income tax relating to components of other comprehensive income	10,397	(63,714)
Share of revaluation deficit of associates	(2,812)	(5,878)
Subtotal	(54,904)	179,311
Exchange differences arising on translation	(87,609)	22,320
Other comprehensive income (expense) for the period (net of tax)	(142,513)	201,631
Total comprehensive income for the period	2,656,378	2,351,176
Attributable to:		
Owners of the Company	2,551,196	2,225,544
Non-controlling interests	105,182	125,632
	2,656,378	2,351,176

The accompanying notes presented on pages 63 to 104 form part of these unaudited condensed consolidated financial statements.

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2013

	Notes	30.6.2013 RMB'000 (unaudited)	31.12.2012 RMB'000 (audited/ restated)
Non-current assets			
Property and equipment	14	1,204,018	1,134,459
Investment properties		88,479	90,143
Goodwill		631,173	642,398
Other intangible assets		270,294	289,243
Investments in associates	15	1,705,142	1,727,890
Held-to-maturity investments	16	542,039	651,858
Available-for-sale investments	17	5,380,011	3,202,231
Loan and receivable investments	18	2,520,299	1,278,302
Deferred tax assets	36	197,805	369,606
Restricted bank deposits	27	332,578	320,586
Other assets	19	65,547	93,651
Advances to customers	20	398,275	–
Total non-current assets		13,335,660	9,800,367
Current assets			
Advances to customers	20	19,678,523	11,338,687
Accounts receivable	21	1,519,689	1,113,355
Other receivables and prepayments	22	1,538,400	1,205,234
Available-for-sale investments	17	5,033,112	7,427,046
Loan and receivable investments	18	3,159,603	1,894,100
Held-to-maturity investments	16	228,181	4,861
Financial assets held under resale agreements	23	4,253,266	2,234,569
Financial assets at fair value through profit or loss	24	28,911,890	32,386,381
Derivative financial assets	34	46,477	31,866
Deposits with exchanges	25	2,628,252	3,995,291
Clearing settlement funds	26	5,693,086	3,050,106
Bank balances and cash	27	53,938,418	52,000,241
Total current assets		126,628,897	116,681,737
Total assets		139,964,557	126,482,104
Current liabilities			
Borrowings	29	9,660,146	8,626,314
Placements from other financial institutions	30	5,340,000	2,150,000
Accounts payable to brokerage clients	31	37,633,553	36,956,823
Other payables and accruals	32	5,530,705	1,904,464
Provisions		41,582	3,143
Tax liabilities		371,589	85,471
Financial assets sold under repurchase agreements	33	18,635,040	16,040,561
Financial liabilities at fair value through profit or loss		–	5,665
Derivative financial liabilities	34	6,439	–
Total current liabilities		77,219,054	65,772,441
Net current assets		49,409,843	50,909,296
Total assets less current liabilities		62,745,503	60,709,663

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2013

	<i>Notes</i>	30.6.2013 RMB'000 (unaudited)	31.12.2012 <i>RMB'000</i> (audited/ restated)
Equity			
Share capital	35	9,584,721	9,584,721
Capital reserve		32,375,496	32,376,205
Investment revaluation reserve		13,224	63,963
Translation reserve		(320,113)	(250,116)
General reserves		6,740,034	6,740,034
Retained profits		11,686,642	10,164,876
Equity attributable to owners of the Company		60,080,004	58,679,683
Non-controlling interests		2,484,282	1,880,017
Total equity		62,564,286	60,559,700
Non-current liabilities			
Deferred tax liabilities	36	181,217	149,963
Total equity and non-current liabilities		62,745,503	60,709,663

This unaudited condensed consolidated financial statements on pages 56 to 104 was approved for issue by the Board of Directors on 22 August 2013 and signed on its behalf by:

Wang Kaiguo
Chairman of Board

Li Mingshan
Executive Director and General Manager

Li Chuqian
Chief Financial Officer

The accompanying notes presented on pages 63 to 104 form part of these unaudited condensed consolidated financial statements.

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2013

	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	Retained profits RMB'000	Total subsidiaries RMB'000	Share of net assets of subsidiary RMB'000	Share option reserve of a subsidiary RMB'000	Total RMB'000	
Unaudited											
At 1 January 2013 (audited)	9,584,721	32,376,205	66,111	(250,116)	6,740,034	10,162,728	58,679,683	1,745,511	5,402	1,750,913	60,430,596
Accounting policy changes	-	-	(2,148)	-	-	2,148	-	129,104	-	129,104	129,104
At 1 January 2013 (restated)	9,584,721	32,376,205	63,963	(250,116)	6,740,034	10,164,876	58,679,683	1,874,615	5,402	1,880,017	60,559,700
Profit for the period	-	-	-	-	-	2,671,932	2,671,932	126,959	-	126,959	2,798,891
Other comprehensive income for the period	-	-	(50,739)	(69,997)	-	-	(120,736)	(21,777)	-	(21,777)	(142,513)
Total comprehensive income for the period	-	-	(50,739)	(69,997)	-	2,671,932	2,551,196	105,182	-	105,182	2,656,378
Changes of equity interests in subsidiaries	-	(709)	-	-	-	-	(709)	(33,040)	-	(33,040)	(33,749)
Capital injection by a non-controlling shareholder of a subsidiary	-	-	-	-	-	-	-	639,743	-	639,743	639,743
Cash dividend recognised as distribution (note 39)	-	-	-	-	-	(1,150,166)	(1,150,166)	(107,620)	-	(107,620)	(1,257,786)
At 30 June 2013	9,584,721	32,375,496	13,224	(320,113)	6,740,034	11,686,642	60,080,004	2,478,880	5,402	2,484,282	62,564,286
Unaudited											
At 1 January 2012 (audited)	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
Accounting policy changes	-	-	15,618	-	-	(15,618)	-	100,087	-	100,087	100,087
At 1 January 2012 (restated)	8,227,821	22,493,436	(529,614)	(250,809)	5,929,525	9,172,016	45,042,375	1,662,952	5,402	1,668,354	46,710,729
Profit for the period	-	-	-	-	-	2,028,126	2,028,126	121,419	-	121,419	2,149,545
Other comprehensive income for the period	-	-	179,426	17,992	-	-	197,418	4,213	-	4,213	201,631
Total comprehensive income for the period	-	-	179,426	17,992	-	2,028,126	2,225,544	125,632	-	125,632	2,351,176
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	-	-	-	-	-	-	-	25,491	-	25,491	25,491
Cash dividend recognised as distribution (note 39)	-	-	-	-	-	(1,234,173)	(1,234,173)	(86,800)	-	(86,800)	(1,320,973)
At 30 June 2012	9,584,721	32,357,677	(350,188)	(232,817)	5,929,525	9,965,969	57,254,887	1,725,645	5,402	1,731,047	58,985,934

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.

The accompanying notes presented on pages 63 to 104 form part of these unaudited condensed consolidated financial statements.

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2013

	Six months ended 30 June	
	2013 RMB'000 (unaudited)	2012 RMB'000 (unaudited/ restated)
OPERATING ACTIVITIES		
Profit before income tax	3,626,512	2,805,235
Adjustments for		
Interest expenses	559,610	348,003
Share of results of associates	(30,484)	(30,793)
Depreciation and amortisation	152,564	157,783
Reversal of impairment loss in respect of other receivables	(22,764)	(29,545)
Gain on loan and receivable investments and interest income from held-to-maturity investments	(226,633)	–
Gain on disposal of property and equipment and other intangible assets	406	(726)
Foreign exchange losses/(gains), net	49,939	(66,822)
Net gains arising from available-for-sale investments	(465,140)	(222,412)
Impairment loss in respect of available-for-sale investments	1,165	165,166
Operating cash flows before movements in working capital	3,645,175	3,125,889
Decrease/(increase) in deposits and reserve funds and deposits with exchanges	1,395,102	(482,876)
Increase in advances to customers	(8,738,111)	(1,888,545)
Decrease in accounts and other receivables and prepayments	139,767	41,209
Increase in financial assets held under resale agreements	(2,018,697)	(289,797)
Decrease/(increase) in financial assets at fair value through profit or loss and derivative financial assets	3,459,880	(1,744,501)
(Increase)/decrease in restricted fixed bank deposits	(11,992)	22,948
(Increase)/decrease in cash held on behalf of clients	(1,279,434)	2,608,438
Increase/(decrease) in accounts payable to brokerage clients and other payables and accruals	3,096,962	(2,013,360)
Increase in financial liabilities at fair value through profit or loss and derivative financial liabilities	774	7,566
Increase in financial assets sold under repurchase agreements	2,594,479	4,293,419
Increase in deposits taken from financial institutions	3,190,000	1,500,000
Increase in provisions	38,439	250
Cash generated from operations	5,512,344	5,180,640
Income taxes paid	(318,323)	(610,860)
Interest paid	(517,872)	(334,001)
NET CASH FROM OPERATING ACTIVITIES	4,676,149	4,235,779

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2013

	Note	Six months ended 30 June	
		2013 RMB'000 (unaudited)	2012 RMB'000 (unaudited/ restated)
INVESTING ACTIVITIES			
Dividends received from associates and other investments		–	52,495
Purchases of property and equipment and other intangible assets		(211,138)	(123,495)
Proceeds on disposal of property and equipment		3,258	7,552
Other cash received from investing activities		247,033	–
Increase in available-for-sale investments		138,110	(1,539,986)
Payment for other investment activities		(2,641,308)	(153,734)
NET CASH USED IN INVESTING ACTIVITIES		(2,464,045)	(1,757,168)
FINANCING ACTIVITIES			
Dividends paid		(46,116)	(45,074)
Purchase of additional interest in subsidiaries		(35,882)	–
Net proceeds from issue of H shares		–	11,278,328
Proceeds from issue of subsidiaries' shares		276,511	49,347
Borrowings raised (repaid) net of interest paid		1,000,184	(831,737)
Proceeds from other financing activities		3,634	804,902
NET CASH FROM FINANCING ACTIVITIES		1,198,331	11,255,766
NET INCREASE IN CASH AND CASH EQUIVALENTS		3,410,435	13,734,377
CASH AND CASH EQUIVALENTS			
AT BEGINNING OF THE PERIOD		16,361,970	17,267,139
Effect of foreign exchange rate changes		(108,712)	81,265
CASH AND CASH EQUIVALENTS			
AT END OF THE PERIOD	28	19,663,693	31,082,781

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2013

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 providing 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 2012 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.

New and revised International Financial Reporting Standards ("IFRSs") issued and applied

In the current interim period, the Group has applied the following new or revised IFRSs issued by the IASB, which are applicable for the Group's financial year beginning on 1 January 2013.

- IFRS 10 Consolidated Financial Statements;
- IFRS 11 Joint Arrangements;
- IFRS 12 Disclosure of Interests in Other Entities;
- Amendments to IFRS 10, IFRS 11 and IFRS 12 Consolidated Financial Statements, Joint Arrangements and Disclosure of Interest in Other Entities: Transition Guidance;
- IFRS 13 Fair Value Measurement;
- IAS 19 (as revised in 2011) Employee Benefits;
- IAS 28 (as revised in 2011) Investments in Associates and Joint Ventures;

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2013

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)

New and revised International Financial Reporting Standards (“IFRSs”) issued and applied (continued)

- Amendments to IFRS 7 Disclosures – Offsetting Financial Assets and Financial Liabilities;
- Amendments to IAS 32 Offsetting Financial Assets and Financial Liabilities;
- Amendments to IAS 1 Presentation of Items of Other Comprehensive Income;
- Amendments to IFRSs Annual Improvements to IFRSs 2009-2011 Cycle; and
- IFRIC-Int 20 Stripping Costs in the Production Phase of a Surface Mine.

Amendments to IAS 32 Offsetting Financial Assets and Financial Liabilities and Amendments to IFRS 7 Disclosures – Offsetting Financial Assets and Financial Liabilities

The amendments to IAS 32 clarify existing application issues relating to the offset of financial assets and financial liabilities requirements. Specifically, the amendments clarify the meaning of “currently has a legally enforceable right of set-off” and “simultaneous realisation and settlement”. The Group has early adopted IAS 32 for the first time in the current period and comparative amounts as at 1 January 2013 have been restated in accordance with the requirement set out in IAS 32 (see “summary of quantitative impact” of note 2).

The Group has applied the amendments to IFRS 7 Disclosures – Offsetting Financial Assets and Financial Liabilities for the first time in the current period. The amendments to IFRS 7 require entities to disclose information about rights of offset and related arrangements (such as collateral posting requirements) for financial instruments under an enforceable master netting agreement or similar arrangement.

The application of the amendments has no material impact on the Group’s profit or loss and other comprehensive income in the current and prior period. Details of disclosure are set out in note 45.

New and revised Standards on consolidation, joint arrangements, associates and disclosures.

In the current year, the Group has applied for the first time IFRS 10, IFRS 11, IFRS 12 and IAS 28 (as revised in 2011) together with the amendments to IFRS 10, IFRS 11 and IFRS 12 regarding the transitional guidance. IAS 27 (as revised in 2011) is not applicable to the Group as it deals only with separate financial statements.

The impact of the application of these standards is set out below.

Impact of the application of IFRS 10

IFRS 10 replaces the parts of IAS 27 Consolidated and Separate Financial Statements that deal with consolidated financial statements and SIC – 12 Consolidation – Special Purpose Entities. IFRS 10 changes the definition of control such that an investor has control over an investee when a) it has power over the investee, b) it is exposed, or has rights, to variable returns from its involvement with the investee and c) has the ability to use its power to affect its returns. All three of these criteria must be met for an investor to have control over an investee. Previously, control was defined as the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. Additional guidance has been included in IFRS 10 to explain when an investor has control over an investee. Specifically, such guidance is added when an entity with decision-making rights assesses whether it controls an investee, it shall determine whether it is a principal or an agent.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2013

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)

New and revised International Financial Reporting Standards (“IFRSs”) issued and applied (continued)

Impact of the application of IFRS 10 (continued)

The directors of the Company made an assessment as at the date of initial application of IFRS 10 (i.e. 1 January 2013) as to whether or not the Group has control over the asset management products in accordance with the new definition of control and the related guidance set out in IFRS 10. In certain asset management products, although operating within the parameters set out in the investee’s prospectus, the asset manager (the Group) has the current ability to make investment decisions that significantly affect the investee’s returns. Also, the combination of the Group’s investment in these asset management products and the remuneration as asset manager creates exposure to variability of returns from the activities of the asset management products that is of such significance that the Group is acting as a principal. Thus, the directors concluded that it has had control over these asset management products. Therefore, in accordance with the requirements of IFRS 10, these asset management products have been subsidiaries since the Group had control. Previously the asset management products were treated as available-for-sale investments.

Comparative amounts for 2012 and the related amounts as at 1 January 2012 have been restated in accordance with the relevant transitional provisions set out in IFRS 10 (see “summary of quantitative impact” of note 2).

IFRS 13 Fair Value Measurement

The Group has applied IFRS 13 for the first time in the current interim period. IFRS 13 establishes a single source of guidance for, and disclosures about, fair value measurements, and replaces those requirements previously included in various IFRSs. Consequential amendments have been made to IAS 34 to require certain disclosures to be made in the interim condensed consolidated financial statements.

The scope of IFRS 13 is broad, and applies to both financial instrument items and non-financial instrument items for which other IFRSs require or permit fair value measurements and disclosures about fair value measurements, subject to a few exceptions. IFRS 13 contains a new definition for ‘fair value’ and defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal (or most advantageous) market at the measurement date under current market conditions. Fair value under IFRS 13 is an exit price regardless of whether that price is directly observable or estimated using another valuation technique. Also, IFRS 13 includes extensive disclosure requirements.

In accordance with the transitional provisions of IFRS 13, the Group has applied the new fair value measurement and disclosure requirements prospectively. Disclosures of fair value information are set out in note 44.

IFRS 13 requires prospective application from 1 January 2013. In addition, specific transitional provisions were given to entities such that they need not apply the disclosure requirements set out in the Standard in comparative information provided for periods before the initial application of the Standard. In accordance with these transitional provisions, the Group has not made any new disclosures required by IFRS 13 for the 2012 comparative period. Other than the additional disclosures, the application of IFRS 13 has not had any material impact on the amounts recognised.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2013

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)

New and revised International Financial Reporting Standards (“IFRSs”) issued and applied (continued)

Amendments to IAS 1 Presentation of Items of Other Comprehensive Income

The Group has applied the amendments to IAS 1 Presentation of Items of Other Comprehensive Income for the first time in the current year. The amendments introduce new terminology, whose use is not mandatory, for the statement of comprehensive income and income statement. Under the amendments to IAS 1, the ‘statement of comprehensive income’ is renamed as the ‘statement of profit or loss and other comprehensive income’ and the ‘income statement’ is renamed as the ‘statement of profit or loss’. The amendments to IAS 1 retain the option to present profit or loss and other comprehensive income in either a single statement or in two separate but consecutive statements. However, the amendments to IAS 1 require items of other comprehensive income to be grouped into two categories in the other comprehensive income section: (a) items that will not be reclassified subsequently to profit or loss and (b) items that may be reclassified subsequently to profit or loss when specific conditions are met. Income tax on items of other comprehensive income is required to be allocated on the same basis – the amendments do not change the option to present items of other comprehensive income either before tax or net of tax. The amendments have been applied retrospectively, and hence the presentation of items of other comprehensive income has been modified to reflect the changes. Other than the above-mentioned presentation changes, the application of the amendments to IAS 1 does not result in any impact on profit or loss, other comprehensive income and total comprehensive income.

Amendments to IAS 34 Interim Financial Reporting

(as part of the Annual Improvements to IFRSs 2009-2011 Cycle)

The Group has applied the amendments to IAS 34 Interim Financial Reporting as part of the Annual Improvements to IFRSs 2009 – 2011 Cycle for the first time in the current interim period. The amendments to IAS 34 clarify that the total assets and total liabilities for a particular reportable segment would be separately disclosed in the interim financial statements only when the amounts are regularly provided to the chief operating decision maker (CODM) and there has been a material change from the amounts disclosed in the last annual financial statements for that reportable segment.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2013

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)

New and revised International Financial Reporting Standards ("IFRSs") issued and applied (continued)

Summary of quantitative impact

As mentioned above, the Group has applied the IFRS 10 in the current period. Pursuant to the standards, retrospective adjustments were made to certain items in assets, liabilities and equity as at 31 December 2012 and 1 January 2012, and certain items in profit or loss and other comprehensive income for the six months ended 30 June 2012 were restated. The comparative condensed consolidated financial statements are presented based on the restated figures and such adoption has no material impact to the basic earnings per share for the six months ended 30 June 2012 as previously reported.

Impact on profit for the period of the application of IFRS 10

	Six months ended 30 June	
	2013 RMB'000	2012 RMB'000
Increase in revenue		
Increase in interest income	7,175	2,090
Increase in net investment gains	14,309	3,577
Increase in other income and gains	157	–
Increase in brokerage transaction fees and other services expenses	(4,426)	(1,823)
(Increase)/decrease in other expenses	(147)	761
Increase in profit for the period	17,068	4,605
Increase in other comprehensive income for the period	–	–
Net increase in total comprehensive income for the interim period	17,068	4,605
Increase in profit/total comprehensive income attributable to:		
Owners of the Company	6,579	2,610
Non-controlling interests	10,489	1,995
	17,068	4,605

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2013

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)

New and revised International Financial Reporting Standards ("IFRSs") issued and applied (continued)

Summary of quantitative impact (continued)

Impact on assets, liabilities and equity as at 31 December 2012 of the application of IFRS 10 and amendment to IAS 32:

	31.12.2012 (previous reported) <i>RMB'000</i>	Adjustments <i>RMB'000</i>	31.12.2012 (restated) <i>RMB'000</i>
Non-current assets			
Available-for-sale investments	3,353,761	(151,530)	3,202,231
Current assets			
Other receivables and prepayments (<i>note</i>)	1,574,594	(369,360)	1,205,234
Financial assets held under resale agreements	2,193,569	41,000	2,234,569
Financial assets at fair value through profit or loss	32,163,594	222,787	32,386,381
Derivative financial assets	32,189	(323)	31,866
Deposits with exchanges	3,994,752	539	3,995,291
Clearing settlement funds	3,045,330	4,776	3,050,106
Bank balances and cash	51,991,465	8,776	52,000,241
Current liabilities			
Other payables and accruals	1,897,509	6,955	1,904,464
Financial liabilities at fair value through profit or loss (<i>note</i>)	385,059	(379,394)	5,665
Effect on net assets	60,430,596	129,104	60,559,700
Equity attributable to owners of the Company	58,679,683	–	58,679,683
Non-controlling interests	1,750,913	129,104	1,880,017
Effect on total equity	60,430,596	129,104	60,559,700

Note: The impact includes offsetting of RMB379,394,000 for stock index futures contracts. There is no other material impact to the condensed consolidated financial statements for adoption of amendment to IAS 32.

Except for the above, the accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 30 June 2013 are the same as those followed in the preparation of the 2012 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.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2013

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 be 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 the 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 for 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 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.

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 of them within a specified period, their fair value of these securities is estimated based on quoted market rates adjusted for specific features of the instrument. The estimation of fair value of these instruments includes some assumptions not supported by observable market prices or rates.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2013

3. KEY SOURCES OF ESTIMATION UNCERTAINTY (continued)

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 recoverability of the deferred tax assets 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.

Determination of consolidation scope

All facts and circumstances must be taken into consideration in the assessment of whether the Group, as an investor, controls the investee. The principle of control sets out the following three elements of control: (a) power over the investee; (b) exposure, or rights, to variable returns from involvement with the investee; and (c) the ability to use power over the investee to affect the amount of the investor's returns.

An investor's initial assessment of control or its status as a principal or an agent would not change simply because of a change in market conditions (e.g. a change in the investee's returns driven by market conditions), unless the change in market conditions changes one or more of the three elements of control listed above or changes the overall relationship between a principal and an agent. At the end of each reporting period, the Group assesses the variable returns arising from other equities and uses plenty of judgments, in combination with historical exposure to variable returns, to determine the consolidation scope.

4. COMMISSION AND FEE INCOME

	Six months ended 30 June	
	2013	2012
	RMB'000	RMB'000
	(unaudited)	(unaudited)
Commission on securities dealing and broking and handling fee income	1,786,267	1,601,482
Commission on futures and options contracts dealing and broking and handling fee income	203,217	244,491
Financial advisory and consultancy fee income	326,388	69,431
Underwriting and sponsor's fees	375,763	439,445
Asset management fee income	365,999	461,160
Commission on bullion contracts dealing	3,091	2,161
Others	10,327	5,115
	3,071,052	2,823,285

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2013

5. INTEREST INCOME

	Six months ended 30 June	
	2013 RMB'000 (unaudited)	2012 RMB'000 (unaudited/ restated)
Bank interest income	789,310	1,076,631
Interest income from advances to customers	678,191	346,354
Interest income from financial assets held under resale agreements (note)	90,990	14,960
Interest income from held-to-maturity investments	51,879	9,901
Other interest income	3,285	1,888
	1,613,655	1,449,734

Note: In the current period, interest income from financial assets held under resale agreements includes the interest income from those pre-agreed resale agreements with qualified investors in exchange, amounting to RMB84,218,000. The new business expanded in this period.

6. NET INVESTMENT GAINS

	Six months ended 30 June	
	2013 RMB'000 (unaudited)	2012 RMB'000 (unaudited/ restated)
Net gains arising from available-for-sale investments	465,140	222,412
Net gains arising from financial assets/financial liabilities at fair value through profit or loss	843,947	622,313
Fair value change of financial instruments at fair value through profit or loss	406,180	644,645
Gains from fair value hedge (note 34)	90,520	–
Net gains arising from loan and receivable investments	174,754	–
	1,980,541	1,489,370

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2013

7. OTHER INCOME AND GAINS

	Six months ended 30 June	
	2013 RMB'000 (unaudited)	2012 RMB'000 (unaudited/ restated)
Non-recurring government grants (note)	96,180	6,812
Rental income from investment properties	7,259	6,942
Foreign exchange (losses)/gains, net	(49,939)	66,822
Others	14,336	9,436
	67,836	90,012

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

8. DEPRECIATION AND AMORTISATION

	Six months ended 30 June	
	2013 RMB'000 (unaudited)	2012 RMB'000 (unaudited)
Depreciation for property and equipment	120,468	127,656
Depreciation for investment properties	1,664	1,664
Amortisation of other intangible assets	30,180	28,211
Amortisation of prepaid lease payments	252	252
	152,564	157,783

9. BROKERAGE TRANSACTION FEES AND OTHER SERVICES EXPENSES

	Six months ended 30 June	
	2013 RMB'000 (unaudited)	2012 RMB'000 (unaudited/ restated)
Securities and futures dealing and broking expenses	222,357	273,073
Services expenses for underwriting, sponsorship, and financial advisory, etc.	34,725	53,837
	257,082	326,910

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2013

10. INTEREST EXPENSES

	Six months ended 30 June	
	2013 RMB'000 (unaudited)	2012 RMB'000 (unaudited)
Interest on borrowings wholly repayable within five years:		
– bank loans and overdrafts	39,407	14,002
– placement from banks	72,320	50,840
– financial assets sold under repurchase agreements (note)	311,009	210,270
– accounts payable to brokerage clients	50,110	72,882
– placement from China Securities Finance Corporation Ltd.	51,695	–
– others	35,069	9
	559,610	348,003

Note: In the current year, interest expenses from financial assets sold under repurchase agreements includes the interest expenses for those repurchase agreements with qualified investors in exchange, amounting to RMB34,150,000. The new business expanded in this period.

11. PROFIT BEFORE INCOME TAX

	Six months ended 30 June	
	2013 RMB'000 (unaudited)	2012 RMB'000 (unaudited)
The Group's profit before income tax is arrived at after charging (crediting):		
Impairment loss in respect of available-for-sale investments (included in other expenses)	1,165	165,166
Reversal of impairment loss in respect of other receivables	(22,764)	(29,545)
Gain on disposal of property and equipment and other intangible assets	(406)	(726)
Operating lease rentals in respect of rented premises	141,794	127,554

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2013

12. INCOME TAX EXPENSE

	Six months ended 30 June	
	2013 RMB'000 (unaudited)	2012 RMB'000 (unaudited)
Current tax:		
PRC Enterprise Income Tax and other jurisdictions	593,435	525,314
Hong Kong Profits Tax	18,918	24,368
	612,353	549,682
Adjustments to current income tax in relation to prior years:		
PRC Enterprise Income Tax and other jurisdictions	1,868	1,604
Hong Kong Profits Tax	(52)	–
	1,816	1,604
Deferred tax:		
Current period	213,452	104,404
	827,621	655,690

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%.

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:

	Six months ended 30 June	
	2013 RMB'000 (unaudited)	2012 RMB'000 (unaudited)
Earnings for the purpose of basic and diluted earnings per share:		
Profit for the period attributable to owners of the Company	2,671,932	2,028,126
Number of shares:		
Number of shares in issue (2012: weighted average number of shares) ('000)	9,584,721	8,658,871

As of 30 June 2012, 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.

The computation of diluted earnings per share for the six months ended 30 June 2013 and 2012 does not assume the exercise of the listed subsidiary's outstanding share options as the exercise price of these options is higher than the average market price of the listed subsidiary during both periods.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2013

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
Unaudited							
COST							
As at 1 January 2013	870,063	589,132	717,244	155,235	144,877	4,945	2,481,496
Additions during the period	138,075	11,673	28,448	6,563	3,604	3,225	191,588
Disposals during the period	-	(1,116)	(11,497)	(1,770)	(3,930)	-	(18,313)
Transfer during the period	-	4,757	-	414	53	(5,224)	-
As at 30 June 2013	1,008,138	604,446	734,195	160,442	144,604	2,946	2,654,771
ACCUMULATED DEPRECIATION							
As at 1 January 2013	245,956	381,335	515,156	88,193	86,015	-	1,316,655
Provided for the period	14,320	40,914	46,233	10,154	8,829	-	120,450
Eliminated on disposals	-	(1,116)	(10,644)	(1,616)	(3,358)	-	(16,734)
As at 30 June 2013	260,276	421,133	550,745	96,731	91,486	-	1,420,371
ALLOWANCE FOR IMPAIRMENT LOSSES							
As at 1 January 2013 and 30 June 2013	30,382	-	-	-	-	-	30,382
CARRYING VALUES							
As at 30 June 2013	717,480	183,313	183,450	63,711	53,118	2,946	1,204,018
	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
Audited							
COST							
As at 1 January 2012	830,245	537,375	752,064	144,519	142,425	11,602	2,418,230
Additions during the period	46,242	45,446	77,725	17,901	9,823	26,526	223,663
Disposals during the period	(6,424)	(15,123)	(120,961)	(7,185)	(10,704)	-	(160,397)
Transfer during the period	-	21,434	8,416	-	3,333	(33,183)	-
As at 31 December 2012	870,063	589,132	717,244	155,235	144,877	4,945	2,481,496
ACCUMULATED DEPRECIATION							
As at 1 January 2012	224,098	309,609	522,899	75,740	78,365	-	1,210,711
Provided for the period	24,844	86,849	106,341	19,058	17,523	-	254,615
Eliminated on disposals	(2,986)	(15,123)	(114,084)	(6,605)	(9,873)	-	(148,671)
As at 31 December 2012	245,956	381,335	515,156	88,193	86,015	-	1,316,655
ALLOWANCE FOR IMPAIRMENT LOSSES							
As at 1 January 2012 and 31 December 2012	30,382	-	-	-	-	-	30,382
CARRYING VALUES							
As at 31 December 2012	593,725	207,797	202,088	67,042	58,862	4,945	1,134,459

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2013

15. INVESTMENTS IN ASSOCIATES

	30.6.2013 RMB'000 (unaudited)	31.12.2012 <i>RMB'000</i> <i>(audited)</i>
Cost of unlisted investments in associates	1,564,207	1,564,207
Share of post-acquisition profits and other comprehensive income, net of dividends received	140,935	163,683
	1,705,142	1,727,890

The Group has the following associates:

Name of associates	Place of establishment	Equity interest held by the Group		Principal activities
		As at 30 June 2013	As at 31 December 2012	
富國基金管理有限公司 Fullgoal Fund Management Co. Ltd.*	PRC	27.78%	27.78%	Provision of fund trading distribution services
海富金匯（天津）資本管理企業（有限合夥） HFT Jinhui (Tianjin) Capital Management Enterprise (Limited Partnership)**	PRC	65.00%	65.00%	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 ("Jilin")*	PRC	37.50%	37.50%	Investing in securities
西安航天新能源產業投資有限公司 Xi'an Aerospace and New Energy Industry Fund ("Xi'an Aerospace")*	PRC	37.00%	37.00%	Investing in securities
上海文化產業股權投資基金合夥企業（有限合夥） Shanghai Cultural Industries Investment Fund (Limited Partnership) (Cultural Industries Fund)**	PRC	45.49%	47.06%	Investing in securities

* The English translated name is for identification only.

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

* The associate was established in 2012. The Group made capital injection of RMB800,000,000 on its establishment, of which Haitong Chuangyi Asset Management Company Limited (海通創意資本管理有限公司) invested RMB100,000,000 and the remaining was invested by Haitong Capital Investment Co. Ltd. (海通開元投資有限公司).

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2013

16. HELD-TO-MATURITY INVESTMENTS

	30.6.2013 RMB'000 (unaudited)	31.12.2012 <i>RMB'000</i> (audited)
Debt securities listed in Hong Kong	770,220	656,719
Analysed as:		
Current assets	228,181	4,861
Non-current assets	542,039	651,858
	770,220	656,719

As at 30 June 2013, the fair value of the held-to-maturity investments was approximately RMB779,423,000 (31 December 2012: RMB682,213,000). These corporate bonds were issued by various corporate entities and carry coupon rate from 2.95% to 13.75% per annum with maturity dates ranging from 16 December 2013 to 22 May 2018.

17. AVAILABLE-FOR-SALE INVESTMENTS

	30.6.2013 RMB'000 (unaudited)	31.12.2012 <i>RMB'000</i> (audited/ restated)
Debt securities	1,686,722	2,251,859
Equity securities	5,054,968	6,615,504
Funds	1,570,783	1,296,724
Others (<i>note iii</i>)	2,100,650	465,190
	10,413,123	10,629,277
Analysed as:		
Listed in Hong Kong	11,650	6,767
Listed outside Hong Kong (primarily in the PRC)	3,572,291	5,858,786
Unlisted	6,829,182	4,763,724
	10,413,123	10,629,277
Analysed as:		
Listed equity securities (<i>note ii</i>)	2,251,160	3,934,431
Unlisted equity securities (<i>note i</i>)	2,803,808	2,681,073
	5,054,968	6,615,504
Analysed for reporting purpose as:		
Current assets	5,033,112	7,427,046
Non-current assets	5,380,011	3,202,231
	10,413,123	10,629,277

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2013

17. AVAILABLE-FOR-SALE INVESTMENTS (continued)

Note:

- (i) The unlisted equity 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, these equity securities are measured at cost less impairment at the reporting date.
- (ii) Included in the Group's listed equity securities of approximately RMB958,347,000 and RMB974,484,000 as at 30 June 2013 and 31 December 2012, respectively, are restricted shares listed in the PRC with a legally enforceable restriction on these securities that prevents the Group to dispose of within a specified period. The fair values of these securities have taken into account the instrument-specific restriction.
- (iii) The others comprise structured products and trust products where funds are mainly invested in listed securities or open ended funds and the Group's return of investment is tied to the result of such investment.

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.

As at 30 June 2013 and 31 December 2012, the Group has entered into securities lending arrangements with clients that resulted in the transfer of available-for-sale investments with total fair value of RMB223,239,000 and RMB661,409,000 to external clients, respectively, which did not result in the derecognition of the financial assets. RMB2,094,106,000 and RMB1,885,653,000 cash collateral was received from clients for such securities lending arrangements and margin financing activities carried out in the PRC, and reported under accounts payable to brokerage clients (note 31).

As at 30 June 2013, RMB1,240,133,000 available-for-sale securities were pledged to certain counterparties under repurchase agreements (31 December 2012: RMB2,251,859,000) (note 33).

18. LOAN AND RECEIVABLE INVESTMENTS

	30.6.2013 RMB'000 (unaudited)	31.12.2012 <i>RMB'000</i> (audited)
Structured products <i>(note)</i>	3,241,603	1,431,100
Trust products <i>(note)</i>	2,348,300	1,641,300
Bond	89,999	100,002
	5,679,902	3,172,402
Analysed for reporting purpose as:		
Current assets	3,159,603	1,894,100
Non-current assets	2,520,299	1,278,302
	5,679,902	3,172,402

Note: The above products comprise fixed-yield structured products and trust products, which are recoverable in determinable amounts by principle and interest according to the relevant agreements.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2013

19. OTHER ASSETS

	30.6.2013 RMB'000 (unaudited)	31.12.2012 RMB'000 (audited)
Foreclosed assets	6,500	6,500
Deposits with the Hong Kong Stock Exchange	1,196	1,216
Contributions to reserve funds of		
– HKFE Clearing Corporation Limited	7,242	7,311
– The SEHK Options Clearing House Limited	4,654	4,353
Deposits for trading rights	29,693	57,757
Prepaid lease payments	16,262	16,514
	65,547	93,651

20. ADVANCES TO CUSTOMERS

	30.6.2013 RMB'000 (unaudited)	31.12.2012 RMB'000 (audited)
Loans to margin clients (<i>note i</i>)	18,658,939	10,203,213
Other loans and advances (<i>note ii</i>)	1,417,859	1,135,474
Less: Allowance for doubtful debts	–	–
	20,076,798	11,338,687
Analysed for reporting purpose as:		
Current assets	19,678,523	11,338,687
Non-current assets	398,275	–
	20,076,798	11,338,687

Notes:

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

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 when the customers have to make good of the shortfall.

Advances to customers as at 30 June 2013 and 31 December 2012 were secured by the customers' securities to the Group as collateral with undiscounted market value of approximately RMB55,727,873,000 and RMB39,241,260,000, 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 was no impaired debt for the six months ended 30 June 2013 and the year ended 31 December 2012. The concentration of credit risk is limited due to the customer base being large and unrelated.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2013

20. ADVANCES TO CUSTOMERS (continued)

Notes: (continued)

- (ii) All other loans and advances are secured and/or backed by guarantees with contractual maturity from 3 months to 2 years. These loans bear interest at Hong Kong prime rate plus 5% or at a fixed rate of 2% to 11% per annum (31 December 2012: Hong Kong prime rate plus 4% to 7% or at a fixed rate of 9% per annum).

21. ACCOUNTS RECEIVABLE

	30.6.2013 <i>RMB'000</i> (unaudited)	31.12.2012 <i>RMB'000</i> (audited)
Accounts receivable from:		
– Cash clients	336,445	145,442
– Brokers, dealers and clearing houses	973,174	821,463
– Advisory and financial planning	5,114	6,735
– Asset and fund management	118,102	121,886
– Others	86,854	17,829
	1,519,689	1,113,355

There is no impaired accounts receivable for the six months ended 30 June 2013 and the year ended 31 December 2012. Ageing analysis of accounts receivable from the trade date is as follows:

	30.6.2013 <i>RMB'000</i> (unaudited)	31.12.2012 <i>RMB'000</i> (audited)
Between 0 and 3 months	1,480,144	1,084,554
Between 4 and 6 months	22,467	11,873
Between 7 and 12 months	13,535	13,953
Over 1 year	3,543	2,975
	1,519,689	1,113,355

The normal settlement terms for accounts receivable from clients and brokers, dealers and clearing houses are within two days after the 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 2013

22. OTHER RECEIVABLES AND PREPAYMENTS

	30.6.2013 RMB'000 (unaudited)	31.12.2012 <i>RMB'000</i> (audited/ restated)
Interest receivable	1,084,551	712,058
Dividend receivable	50,279	30
Expenses for underwriting business to be settled by clients	1,420	420
Other receivables and prepayments	895,221	1,012,818
	2,031,471	1,725,326
Less: Allowance for doubtful debts on other receivables	(493,071)	(520,092)
	1,538,400	1,205,234

23. FINANCIAL ASSETS HELD UNDER RESALE AGREEMENTS

	30.6.2013 RMB'000 (unaudited)	31.12.2012 <i>RMB'000</i> (audited/ restated)
Analysed by collateral type:		
Bonds	886,103	769,600
Stocks	3,367,163	1,464,969
	4,253,266	2,234,569
Analysed by market:		
Inter-Bank	–	415,000
Stock Exchange	4,253,266	1,819,569
	4,253,266	2,234,569

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2013

24. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	30.6.2013 <i>RMB'000</i>	31.12.2012 <i>RMB'000</i> (audited/ restated)
	(unaudited)	
Debt securities	26,253,846	17,935,540
Equity securities	1,702,766	7,359,125
Funds	955,278	7,091,716
	28,911,890	32,386,381
Analysed as:		
Listed in Hong Kong	21,006	7,944
Listed outside Hong Kong (primarily in the PRC)	16,609,058	17,042,982
Unlisted	12,281,826	15,335,455
	28,911,890	32,386,381

As at 30 June 2013, the Group has entered into securities lending arrangements with clients that resulted in the transfer of financial assets at fair value through profit or loss with a total fair value of RMB49,238,000 to external clients, which did not result in derecognition of the financial assets.

As at 30 June 2013, RMB17,489,674,000 trading securities were pledged to certain counterparties under repurchase agreements (31 December 2012: RMB15,836,958,000) (note 33).

25. DEPOSITS WITH EXCHANGES

	30.6.2013 <i>RMB'000</i>	31.12.2012 <i>RMB'000</i> (audited/ restated)
	(unaudited)	
Deposits with stock exchanges		
– Shanghai Stock Exchange	88,311	15,344
– Shenzhen Stock Exchange	55,539	418,883
	143,850	434,227
Deposits with futures and commodity exchanges		
– Shanghai Futures Exchange	1,105,297	1,124,119
– Dalian Commodity Exchange	343,478	334,245
– Zhengzhou Commodity Exchange	145,195	229,077
– China Financial Futures Exchange	736,509	1,776,497
– Shanghai Gold Exchange	10	10
	2,330,489	3,463,948
Guarantee fund		
– Guarantee fund paid to Shanghai Stock Exchange	17,499	–
– Guarantee fund paid to Shenzhen Stock Exchange	8,843	66,379
– Deposit with China Securities Finance Corporation Ltd.	127,571	30,737
	153,913	97,116
	2,628,252	3,995,291

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2013

26. CLEARING SETTLEMENT FUNDS

	30.6.2013 RMB'000 (unaudited)	31.12.2012 <i>RMB'000</i> (audited/ restated)
Clearing settlement funds held with clearing houses for:		
The Group	1,576,389	822,243
Clients	4,116,697	2,227,863
	5,693,086	3,050,106

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.

27. BANK BALANCES AND CASH

	30.6.2013 RMB'000 (unaudited)	31.12.2012 <i>RMB'000</i> (audited/ restated)
General accounts	23,419,882	20,860,313
Cash held on behalf of clients (<i>note i</i>)	30,851,114	31,460,514
	54,270,996	52,320,827
Less: Non-current restricted bank deposits (<i>note ii</i>)	(332,578)	(320,586)
	53,938,418	52,000,241

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

Notes:

- (i) The Group maintain segregated 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 31).
- (ii) The non-current restricted bank deposits are restricted for fund management general reserve purpose.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2013

28. CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprises the following:

	30.6.2013 RMB'000 (unaudited)	31.12.2012 <i>RMB'000</i> (audited/ restated)
Bank balances and cash – general account	23,419,882	20,860,313
Less: Restricted bank deposits	(332,578)	(320,586)
Net of: Temporary bank borrowings repayable on demand	(5,000,000)	(5,000,000)
Clearing settlement funds – the Group	1,576,389	822,243
	19,663,693	16,361,970

29. BORROWINGS

	30.6.2013 RMB'000 (unaudited)	31.12.2012 <i>RMB'000</i> (audited)
Secured short-term borrowings:		
Bank loans (<i>notes (i), (ii), (iii), (iv)</i>)	2,086,961	1,714,948
Unsecured short-term borrowings:		
Bank loans (<i>notes (iii), (iv)</i>)	7,573,185	6,911,366
	9,660,146	8,626,314

Notes:

- (i) The Group's Hong Kong subsidiaries had bank loans of approximately RMB2,063,087,000 and RMB1,706,839,000 as at 30 June 2013 and 31 December 2012, respectively which were secured by the listed shares pledged to the Group as collateral for advances to customers (with customers' consent) of approximately RMB4,435,665,000 and RMB4,452,377,000 as at 30 June 2013 and 31 December 2012, respectively (agreed by the client).
- (ii) As at 31 December 2012, secured bank loans of RMB8,109,000 are secured by bonds with a face value of RMB217,500,000. The secured bank loans were repaid in 2013.
- (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 0.45% to 2.21% per annum and 0.55% to 2% per annum or cost of fund plus 0.85% as at 30 June 2013 and 31 December 2012, respectively.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2013

30. PLACEMENTS FROM OTHER FINANCIAL INSTITUTIONS

	30.6.2013 RMB'000 (unaudited)	31.12.2012 RMB'000 (audited)
Placement from banks	2,000,000	1,150,000
Placement from China Securities Finance Corporation Ltd.	3,340,000	1,000,000
	5,340,000	2,150,000

As at 30 June 2013, all the placements from other financial institutions bear interest at the rates from 5.8% to 7.9% per annum with a short-term maturity of 1 month or less (31 December 2012: from 3.97% to 5.8% per annum with maturities of 1 month or less).

31. ACCOUNTS PAYABLE TO BROKERAGE CLIENTS

The majority of the accounts payable balances are 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 2013 and 31 December 2012, included in the Group's accounts payable to brokerage clients were approximately RMB2,094,106,000 and RMB1,885,653,000 cash collateral received from clients for securities lending and margin financing arrangements.

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

32. OTHER PAYABLES AND ACCRUALS

	30.6.2013 RMB'000 (unaudited)	31.12.2012 RMB'000 (audited/ restated)
Accrued staff cost	609,528	838,002
Business tax and other tax payable	127,516	113,077
Pending payable to open-fund issuers	124,630	11,860
Dividends payable	1,205,456	7,536
Over-the-Counter("OTC") products payable (note i)	2,317,621	–
Risk reserve regarding future brokerage business	105,061	92,111
Pending payable to clearing house	246,952	1,045
Others (note ii)	793,941	840,833
	5,530,705	1,904,464

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2013

32. OTHER PAYABLES AND ACCRUALS (continued)

Note:

- (i) Over-the-Counter (“OTC”) products are products traded by the Group with a specific counterparties or investors in the OTC market. The Group issued OTC debt instruments to the customers through the OTC market, and the Group has the repayment obligation according to the relevant product contracts. The maturity of the Group’s OTC products is 1 year or less.
- (ii) Others are mainly accrued operating expenses which are non-interest bearing and are repayable within one year.

33. FINANCIAL ASSETS SOLD UNDER REPURCHASE AGREEMENTS

	30.6.2013 RMB'000 (unaudited)	31.12.2012 <i>RMB'000</i> (audited)
Analysed as collateral type:		
Bonds	18,635,040	16,040,561
Analysed by market:		
Stock Exchange	10,909,582	7,481,059
Inter-bank market	7,725,458	8,559,502
	18,635,040	16,040,561

As of 30 June 2013, the above financial assets sold under repurchase agreements include those repurchase agreements entered into with qualified investors, which amounted to RMB1,236,382,000 (31 December 2012: RMB1,471,559,000) with maturities of 3 months or less.

Sale and repurchase agreements are transactions in which the Group sell a security and simultaneously agrees to repurchase it (or an asset that is substantially the same) at a fixed price on a future date. Since the repurchase prices are fixed, the Group is still exposed to substantially all the credit risks and market risks and rewards of those securities sold. These securities are not derecognized from the financial statements but regarded as “collateral” for the secured lending from these counterparties because the Group retains substantially all the risks and rewards of these securities. In addition, it recognises a financial liability for cash received.

As at 30 June 2013 and 31 December 2012, the Group enters into repurchase agreements with certain counterparties. The proceeds from selling such securities are presented as financial assets sold under repurchase agreements. As the Group does not have the legal title of the securities, it does not have the ability to use the transferred securities during the term of the arrangement.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2013

33. FINANCIAL ASSETS SOLD UNDER REPURCHASE AGREEMENTS (continued)

The following tables provides a summary of carrying amounts and fair values of the transferred financial assets that are not derecognised in their entirety and the associated liabilities:

As at 30 June 2013

	Financial assets at fair value through profit or loss RMB'000 (note 24)	Available-for-sale investments RMB'000 (note 17)	Total RMB'000
Carrying amount of transferred assets	17,489,674	1,240,133	18,729,807
Carrying amount of associated liabilities	17,401,182	1,233,858	18,635,040
Net position	88,492	6,275	94,767

As at 31 December 2012

	Financial assets at fair value through profit or loss RMB'000 (note 24)	Available-for-sale investments RMB'000 (note 17)	Total RMB'000
Carrying amount of transferred assets	15,836,958	2,251,859	18,088,817
Carrying amount of associated liabilities	14,049,192	1,991,369	16,040,561
Net position	1,787,766	260,490	2,048,256

34. DERIVATIVE INSTRUMENTS

	30.6.2013		31.12.2012	
	Assets RMB'000 (unaudited)	Liabilities RMB'000 (unaudited)	Assets RMB'000 (audited/ restated)	Liabilities RMB'000 (audited/ restated)
Stock index futures contracts (note i, note ii)	-	-	-	-
Interest swap contracts	46,477	6,439	17,159	-
Forward contracts	-	-	14,707	-
Total	46,477	6,439	31,866	-

Notes:

(i) Hedge

The stock index futures contracts outstanding as at 30 June 2013 and 31 December 2012 are used to hedge the exposure to the changes in fair values of certain available-for-sale investments. The index future contract of the Group is the standard CSI 300 stock index futures contracts listed in China Financial Futures Exchange.

Fair value hedge

The Group adopted hedging strategy, where by the Group used CSI 300 stock index future contract to hedge the market risk of the securities lent or to be lent to clients, which consist of stock portfolio with reference to that used by CSI 300 stock index.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2013

34. DERIVATIVE INSTRUMENTS (continued)

Notes: (continued)

(i) Hedge (continued)

At the inception of the hedge relationship, the Group have designated the CSI 300 stock index future contract as hedging instrument, and document the hedging relationship, risk management and hedge strategy. According to the effectiveness test of the fair value hedge by the Group, the hedge instruments are considered highly effective.

Included in the derivative financial instruments above are those designated as hedging instruments in a fair value hedge by the Group as follows:

	30.6.2013 RMB'000 (unaudited)	31.12.2012 RMB'000 (audited)
Fair value gain/(loss) on hedging instruments	489,500	(324,139)
Fair value (loss)/gain on hedged items	(398,980)	335,588
Total	90,520	11,449

(ii) CSI 300 stock index futures

Under the daily mark-to-market and settlement arrangement, any gains or losses of the Group's position in stock index futures ("SIF") were settled daily and the corresponding payments or receipts were included in "clearing settlement funds" as at 30 June 2013 and 31 December 2012. Accordingly, the net position of the SIF contracts in derivative instruments was nil at the end of reporting period.

Contract	30.06.2013	
	Contract value RMB'000	Fair value RMB'000
IF1307	2,071,684	352,426
IF1308	475,369	1,150
IF1309	187,730	9,160
IF1312	1,300	224
Total	2,736,083	362,960
Less: settlement		(362,960)
Net position of SIF contracts		–

Contract	31.12.2012	
	Contract value RMB'000	Fair value RMB'000
IF1301	8,336,120	(379,394)
Less: settlement		379,394
Net position of SIF contracts		–

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2013

35. 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 2013 (audited) and At 30 June 2013 (Unaudited)	8,092,131	8,092,131	1,492,590	1,492,590	9,584,721	9,584,721

36. 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:

	30.6.2013 RMB'000 (unaudited)	31.12.2012 RMB'000 (audited)
Deferred tax assets	197,805	369,606
Deferred tax liabilities	(181,217)	(149,963)
	16,588	219,643

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

	Financial assets held for trading RMB'000	Accelerated depreciation RMB'000	Derivative assets RMB'000	Accrued expense RMB'000	Available-for-sale investments RMB'000	Derivative liabilities RMB'000	Others RMB'000	Total RMB'000
Audited								
At 1 January 2012	119,659	(20,116)	(25,134)	85,022	279,441	-	2,210	441,082
Credit (charge) to profit or loss	(168,365)	4,689	21,457	(23,306)	47,876	94,793	(351)	(23,207)
Charge to other comprehensive income	-	-	-	-	(198,232)	-	-	(198,232)
At 31 December 2012	(48,706)	(15,427)	(3,677)	61,716	129,085	94,793	1,859	219,643
Unaudited								
(Charge) credit to profit or loss	(5,323)	1,724	(87,063)	(30,655)	(10,270)	(93,176)	11,311	(213,452)
Credit to other comprehensive income	-	-	-	-	10,397	-	-	10,397
At 30 June 2013	(54,029)	(13,703)	(90,740)	31,061	129,212	1,617	13,170	16,588

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2013

37. 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 2013 and 31 December 2012, the Group had total future minimum lease payments under non-cancellable operating leases in respect of rented premises falling due as follows:

	30.6.2013 <i>RMB'000</i> (unaudited)	31.12.2012 <i>RMB'000</i> (audited)
Within one year	190,653	181,873
In the second to fifth year, inclusive	342,617	335,957
Over five years	49,987	81,816
	583,257	599,646

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:

	30.6.2013 <i>RMB'000</i> (unaudited)	31.12.2012 <i>RMB'000</i> (audited)
Within one year	9,428	11,883
In the second to fifth year, inclusive	10,098	13,174
	19,526	25,057

38. CAPITAL COMMITMENTS

	30.6.2013 <i>RMB'000</i> (unaudited)	31.12.2012 <i>RMB'000</i> (audited)
Capital expenditure in respect of acquisition of property and equipment:		
– Contracted but not provided for	16,657	132,204
Capital expenditure in respect of equity investment		
– Contracted but not provided for	35,880	–
	52,537	132,204

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2013

39. DIVIDENDS

	30.6.2013 <i>RMB'000</i> (unaudited)	31.12.2012 <i>RMB'000</i> (audited)
Dividends recognised as distribution	1,150,166	1,234,173

Pursuant to the resolutions of the annual general meeting in 2012 and 2011, the Company declared a 2012 final dividend of RMB0.12 per share and 2011 final dividend of RMB0.15 per share respectively, satisfied by cash.

40. RELATED PARTY TRANSACTIONS

The Group had the following material transactions with the associate for the period ended 30 June 2013 and 2012:

	Six months ended 30 June	
	2013 <i>RMB'000</i> (unaudited)	2012 <i>RMB'000</i> (unaudited)
Broking fee income received and receivable from:		
– Fullgoal Fund Management Co. Ltd.	489	459
Interest expense paid and payable to:		
– Fullgoal Fund Management Co. Ltd.	(3)	(13)

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

	Six months ended 30 June	
	2013 <i>RMB'000</i> (unaudited)	2012 <i>RMB'000</i> (unaudited)
Financial advisory and consultancy fee income received and receivable from:		
– BNP	–	37,239
– SHINHAN BNP(HK)	639	–
– BNP Paribas Investment Partners Asia Ltd	32,362	–
Other operating expenses paid and payable to:		
– BNP Paribas Investment Partners Japan Ltd	166	317
– BNP Paribas Wealth Management Bank	16	11
– BNP Paribas Investment Partners Singapore Ltd	10	–

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2013

40. RELATED PARTY TRANSACTIONS (continued)

	30.6.2013 <i>RMB'000</i> (unaudited)	31.12.2012 <i>RMB'000</i> (audited)
Accounts receivable from:		
– BNP	–	25,099
– SHINHAN BNP(HK)	311	–
– BNP Paribas Investment Partners Asia Ltd	16,079	17,196
Accounts payable to:		
– BNP Paribas Investment Partners Japan Ltd	122	156
– BNP Paribas wealth management bank	8	7
– BNP Paribas Investment Partners Singapore Ltd	5	5

The followings are the material transactions between the Group's subsidiary, Haitong Capital Investment Co., Ltd., and the Group's associates, Jilin and Xi'an Aerospace and Cultural Industries Fund:

	Six months ended 30 June	
	2013 <i>RMB'000</i> (unaudited)	2012 <i>RMB'000</i> (unaudited)
Financial advisory and consultancy fee income received and receivable from:		
– Jilin	10,000	10,000
– Xi'an Aerospace	9,980	10,000
– Cultural Industries Fund	21,647	–

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

	Six months ended 30 June	
	2013 <i>RMB'000</i> (unaudited)	2012 <i>RMB'000</i> (unaudited)
Short-term benefits:		
– Fees, salaries, commission and bonuses	12,014	11,420
Post-employment benefits:		
– Employer's contribution to pension schemes/annuity plans	508	1,044
	12,522	12,464

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2013

41. SEGMENT REPORTING

The segment information provided to the chief operating decision maker for the six months ended 30 June 2013 and the six months ended 30 June 2012 are as follows:

Operating and reportable segments

For the six months ended 30 June 2013 (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
Segment revenue and results										
Revenue										
– External	2,440,530	424,743	1,943,932	363,948	132,560	762,444	597,091	6,665,248	–	6,665,248
– Inter-segment	300,315	6	–	4,504	83	191,477	10,011	506,396	(506,396)	–
Other income and gains	13,753	5,760	–	604	1	47,671	47	67,836	–	67,836
Segment revenue	2,754,598	430,509	1,943,932	369,056	132,644	1,001,592	607,149	7,239,480	(506,396)	6,733,084
Segment expenses	(1,322,810)	(290,146)	(316,759)	(236,655)	(19,668)	(889,269)	(383,397)	(3,458,704)	321,648	(3,137,056)
Segment results	1,431,788	140,363	1,627,173	132,401	112,976	112,323	223,752	3,780,776	(184,748)	3,596,028
Share of results of associates	–	(2)	–	–	(8,841)	39,327	–	30,484	–	30,484
Profit before income tax	1,431,788	140,361	1,627,173	132,401	104,135	151,650	223,752	3,811,260	(184,748)	3,626,512

For the six months ended 30 June 2012 (unaudited/restated)

	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
Segment revenue and results										
Revenue										
– External	1,839,486	491,204	1,271,277	401,490	42,967	1,265,322	450,643	5,762,389	–	5,762,389
– 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	495,697	1,271,277	403,133	43,116	1,620,645	483,393	6,426,772	(574,371)	5,852,401
Segment expenses	(1,254,953)	(301,973)	(309,917)	(203,587)	(11,182)	(956,844)	(346,922)	(3,385,378)	307,419	(3,077,959)
Segment results	854,558	193,724	961,360	199,546	31,934	663,801	136,471	3,041,394	(266,952)	2,774,442
Share of results of associates	–	(8)	–	–	(2,831)	33,632	–	30,793	–	30,793
Profit before income tax	854,558	193,716	961,360	199,546	29,103	697,433	136,471	3,072,187	(266,952)	2,805,235

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For the six months ended 30 June 2013

41. SEGMENT REPORTING (continued)

The analysis of the Group's assets by operating and reportable segment is as follows:

	30.6.2013 RMB'000 (unaudited)	31.12.2012 <i>RMB'000</i> (audited/ restated)
Securities and futures brokerage	58,770,862	47,918,461
Asset management	3,274,723	2,706,963
Proprietary Trading	41,690,013	36,190,722
Investment banking	267,327	428,099
Direct investment	4,620,287	4,589,822
Headquarters and others	101,741,901	98,588,484
Overseas operations	19,557,734	13,480,794
Segment Total	229,922,847	203,903,345
Eliminations	(91,861,237)	(79,518,737)
Investment in associates	1,705,142	1,727,890
Deferred tax assets	197,805	369,606
	139,964,557	126,482,104

The Group operates in two principal geographical areas, the PRC (excluding Hong Kong, Macau and Taiwan) and overseas, representing the locations of the 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. No single customer contributes more than 10% of the Group's income.

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For the six months ended 30 June 2013

42. 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 2013 and 31 December 2012 is as follows:

	Repayable on demand RMB'000	Less than 1 year RMB'000	More than 1 year but less than 5 years RMB'000	More than 5 years RMB'000	Total RMB'000
Unaudited					
As at 30 June 2013					
Assets					
Advances to customers	18,658,939	1,019,584	398,275	–	20,076,798
Bank balances and cash (including restricted bank deposits)	43,699,875	10,238,543	332,578	–	54,270,996
Clearing settlement funds (client money)	4,116,697	–	–	–	4,116,697
Debt securities classified as:					
Financial assets held for trading	–	2,027,154	8,317,306	15,909,386	26,253,846
Available-for-sale investments	–	–	565,039	1,121,683	1,686,722
Held-to-maturity investments	–	228,181	542,039	–	770,220
Loan and receivable investments	–	3,159,603	2,520,299	–	5,679,902
	66,475,511	16,673,065	12,675,536	17,031,069	112,855,181
Liabilities					
Borrowings from banks	5,000,000	4,660,146	–	–	9,660,146
Deposits taken from financial institutions	–	5,340,000	–	–	5,340,000
Accounts payable to brokerage clients (money held on behalf of clients only)	34,967,811	–	–	–	34,967,811
	39,967,811	10,000,146	–	–	49,967,957
Audited/Restated					
As at 31 December 2012					
Assets					
Advances to customers	10,203,213	1,135,474	–	–	11,338,687
Bank balances and cash (including restricted bank deposits)	36,108,581	15,891,660	320,586	–	52,320,827
Clearing settlement funds (client money)	2,227,863	–	–	–	2,227,863
Debt securities classified as:					
Financial assets held for trading	–	2,063,689	7,062,034	8,809,817	17,935,540
Available-for-sale investments	–	48,004	745,079	1,458,776	2,251,859
Held-to-maturity investments	–	4,861	651,858	–	656,719
Loan and receivable investments	–	1,894,100	1,278,302	–	3,172,402
	48,539,657	21,037,788	10,057,859	10,268,593	89,903,897
Liabilities					
Borrowings from banks	5,000,000	3,626,314	–	–	8,626,314
Placements from other financial institutions	–	2,150,000	–	–	2,150,000
Accounts payable to brokerage clients (money held on behalf of clients only)	33,688,377	–	–	–	33,688,377
	38,688,377	5,776,314	–	–	44,464,691

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For the six months ended 30 June 2013

43. FINANCIAL INSTRUMENTS

	30.6.2013 <i>RMB'000</i>	31.12.2012 <i>RMB'000</i> (audited/ restated)
	(unaudited)	
Financial assets		
Loans and receivables	95,703,173	78,880,502
Available-for-sale investments	10,413,123	10,629,277
Held-to-maturity investments	770,220	656,719
Financial assets at fair value through profit or loss	28,911,890	32,386,381
Derivative financial assets	46,477	31,866
	135,844,883	122,584,745
Financial liabilities		
Amortised cost	76,062,400	64,727,403
Financial liabilities at fair value through profit or loss	–	5,665
Derivative financial liabilities	6,439	–
	76,068,839	64,733,068

44. FINANCIAL RISK MANAGEMENT

The Group's major financial instruments include equity and debt investments, trusts, structured products, derivative instruments, advances to customers, accounts receivable, other receivables, financial assets held under resale agreements, clearing settlement funds, deposits with exchanges, bank balances and cash, pledged bank deposits, borrowings, placements from other 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 the 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 enter 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 2013

44. 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.

	30.6.2013 RMB'000 (unaudited)	31.12.2012 RMB'000 (audited)
Historical VaR (95%, one-day) by risk type		
Total VaR exposure	49,000	105,000

	Average Six months ended 30 June	
	2013 RMB'000 (unaudited)	2012 RMB'000 (unaudited)
Historical VaR (95%, one-day) by risk type		
Total VaR exposure	91,000	118,000

	Minimum Six months ended 30 June	
	2013 RMB'000 (unaudited)	2012 RMB'000 (unaudited)
Historical VaR (95%, one-day) by risk type		
Total VaR exposure	49,000	88,000

	Maximum Six months ended 30 June	
	2013 RMB'000 (unaudited)	2012 RMB'000 (unaudited)
Historical VaR (95%, one-day) by risk type		
Total VaR exposure	116,000	139,000

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For the six months ended 30 June 2013

44. FINANCIAL RISK MANAGEMENT (continued)

Market risk (continued)

Price risk (continued)

Value at Risk (VaR) analysis (continued)

The subsidiaries of the Company have utilised the sensitivity analysis of security price variation on net profit for the period and revaluation reserve, 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 other variables constant held, the impact on the profit for the period and investment revaluation reserve are as follows:

	30.6.2013 RMB'000 (unaudited)	30.6.2012 <i>RMB'000</i> (unaudited)
Profit for the period		
Increase by 10%	1,599	7,028
Decrease by 10%	(1,599)	(8,490)
Investment revaluation reserve		
Increase by 10%	4,298	22,152
Decrease by 10%	(4,298)	(20,690)

In the above analysis, management also considers the case of an available-for-sale equity investment where a reasonably possible downward fall in the equity price would lead to an impairment of the investment, 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 the 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 2013, the Group's Hong Kong subsidiaries, whose functional currency is Hong Kong dollar, have significant monetary assets denominated in RMB.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2013

44. FINANCIAL RISK MANAGEMENT (continued)

Market risk (continued)

Interest rate risk (continued)

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 2013 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 had strengthened/weakened against HKD by 5% with all other variables were held constant, the Group's profit for the six months ended 30 June 2013 would decrease/increase by RMB19,395,000 (for the six months ended 30 June 2012: 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 2012.

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 2013 and 30 June 2012 would decrease/increase by RMB290,684,000 and RMB150,134,000, 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 2013 and 30 June 2012 would decrease/increase by RMB23,720,000 and RMB7,189,000, respectively, mainly as a result of the changes in the fair value of available-for-sale debt investments.

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 2012.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2013

44. FINANCIAL RISK MANAGEMENT (continued)

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).

The Group uses valuation techniques to determine the fair value of financial instruments when unable to obtain the open market quotation in active markets.

The main parameters used in valuation techniques for financial instruments held by the Group include bond prices, interest rates, foreign exchange rates, equity and stocks prices, volatilities, correlations, early repayment rates, counterparty credit spreads and others, which are all observable and obtainable from open market.

Management determines the fair value of the Group's level 3 financial instruments using a variety of techniques, including examining correlations of these fair values with macro-economic factors, engaging external valuers, and using valuation models that incorporate unobservable inputs such as loss coverage ratios. The fair value measurement of these instruments will not change significantly if changing one or more of the unobservable inputs to reflect reasonably possible alternative assumptions. The Group has established internal control procedures to control the Group's exposure to such financial instruments.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2013

44. FINANCIAL RISK MANAGEMENT (continued)

Fair value of financial assets and liabilities (continued)

Financial instruments measured at fair value (continued)

Financial assets/ Financial liabilities	Classified as	Fair value as at 30 June 2013 In RMB'000	Fair value hierarchy	Basis of fair value measurement/Valuation technique(s) and key input(s)	Significant unobservable input(s)	Relationship of unobservable inputs to fair value
1) Interest rate swaps	Derivative instruments	6,439 (Liabilities)	Level 2	Discounted cash flow. Future cash flows are estimated based on forward interest rates (from observable yield curves at the end of the reporting period) and contracted interest rates, discounted at a rate that reflects the credit risk of various counterparties.	N/A	N/A
2) Equity investments (non-restricted shares), funds and debt investments listed in exchange	Financial assets at fair value through profit or loss	16,630,064	Level 1	Quoted bid prices in an active market.	N/A	N/A
	Available-for-sale investment	2,862,374				
3) Debt investment in interbank market	Financial assets at fair value through profit or loss	11,761,165	Level 2	Discounted cash flow. Future cash flows are estimated based on applying the interest yield curves of different types of bonds as the key parameter.	N/A	N/A
	Available-for-sale investment	592,709				
4) Unlisted Fund investment	Financial assets at fair value through profit or loss	520,661	Level 2	Based on the net asset values of the funds, determined with reference to observable(quoted) prices of underlying investment portfolio and adjustments of related expenses.	N/A	N/A
	Available-for-sale investment	1,039,796				
5) Investments in structure products, trust and other products (investing in equity or debt other than unlisted private equity)	Available-for-sale investment	2,102,050	Level 2	Shares of the net assets of the products, determined with reference to the net asset value of the products, calculated by observable(quoted) prices of underlying investment portfolio. and adjustments of related expenses.	N/A	N/A
6) Restricted shares and funds	Available-for-sale investment	1,013,786	Level 3	Discounted cash flow. The fair value is determined with reference to the quoted market prices with an adjustment of discount for lack of marketability.	Discount for lack of marketability	The higher the discount, the lower the fair value.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2013

44. FINANCIAL RISK MANAGEMENT (continued)

Fair value of financial assets and liabilities (continued)

Financial instruments measured at fair value (continued)

As at 30 June 2013 (unaudited)

	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000	Total RMB'000
Available-for-sale investments				
– Equity securities				
Manufacturing	406,859	–	210,147	617,006
Financial services	463,566	–	–	463,566
Transportation, storage and postal services	25,959	–	793,860	819,819
Mining	110,960	–	–	110,960
Others	239,809	1,400	–	241,209
– Debt securities				
Corporate bonds	1,094,013	367,437	–	1,461,450
Others	–	225,272	–	225,272
– Funds	521,208	1,039,796	9,779	1,570,783
– Other Investments				
Asset management plans	–	1,601,604	–	1,601,604
Trusts	–	499,046	–	499,046
Subtotal	2,862,374	3,734,555	1,013,786	7,610,715
Financial assets at fair value through profit or loss				
– Equity securities				
Manufacturing	949,298	–	–	949,298
Financial services	302,943	–	–	302,943
Telecommunication, software and information technology service	96,733	–	–	96,733
Transportation, storage and postal services	19,904	–	–	19,904
Wholesales and retail	33,100	–	–	33,100
Mining	81,624	–	–	81,624
Construction	56,191	–	–	56,191
Energy and water service	52,962	–	–	52,962
Real Estate	39,238	–	–	39,238
Irrigation, environment and Public facility service	29,289	–	–	29,289
Agriculture, forestry, fishing				
Animal husbandry	17,486	–	–	17,486
Others	23,998	–	–	23,998
– Debt securities				
Corporate bonds	10,398,521	7,873,804	–	18,272,325
Government bonds	4,094,160	692,437	–	4,786,597
Other bonds	–	3,194,924	–	3,194,924
– Funds	434,617	520,661	–	955,278
Subtotal	16,630,064	12,281,826	–	28,911,890
Derivative financial assets	–	46,477	–	46,477
Total	19,492,438	16,062,858	1,013,786	36,569,082
Derivative financial liabilities	–	6,439	–	6,439
Total	–	6,439	–	6,439

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2013

44. FINANCIAL RISK MANAGEMENT (continued)

Fair value of financial assets and liabilities (continued)

Financial instruments measured at fair value (continued)

There were no transfers between instruments in Level 1 and Level 2 during the six months ended 30 June 2013.

The following table represents the changes in Level 3 available-for-sale investments for the six months ended 30 June 2013.

	Restricted Equity Securities		Restricted fund	Trust	Total
	Manufacturing industry	Transportation industry			
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At beginning of the period	860,684	113,800	9,010	250,000	1,233,494
Total gains or losses					
– in other comprehensive income	(21,164)	50,687	769	–	30,292
Settlement	–	–	–	(250,000)	(250,000)
At end of the period	839,520	164,487	9,779	–	1,013,786

45. OFFSETTING FINANCIAL ASSETS AND FINANCIAL LIABILITIES

Financial assets subject to offsetting, enforceable master netting arrangements and similar agreements:

As at 30 June 2013	(a)	(b)	(c)=(a)-(b)	(d)	(e)=(c)-(d)	
				Related amounts not set off in the statement of financial position		
<i>in RMB'000</i>						
		Gross amounts of recognised financial liabilities set off in the statements of financial position	Net amounts of financial assets presented in the statement of financial position	(d)(i) Financial instruments	(d)(ii) Cash collateral received	Net amount
Description	Gross amounts of recognised financial assets					
Derivative instruments (note 34)	409,437	(362,960)	46,477	–	–	46,477

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45. OFFSETTING FINANCIAL ASSETS AND FINANCIAL LIABILITIES (continued)

Financial liabilities subject to offsetting, enforceable master netting arrangements and similar agreements:

As at 30 June 2013	(a)	(b)	(c)=(a)-(b)	(d)	(e)=(c)-(d)	
				Related amounts not set off in the statement of financial position		
<i>in RMB'000</i>						
Description	Gross amounts of recognised financial liabilities	Gross amounts of recognised financial assets set off in the statements of financial position	Net amounts of financial liabilities presented in the statement of financial position	(d)(i) Financial instruments	(d)(ii) Cash collateral received	Net amount
Derivative (note 34)	6,439	–	6,439	–	–	6,439
Pending payable to clearing house (note 32)	1,068,271	(821,319)	246,952	–	–	246,952

The Group has entered into master netting arrangements with counterparties for the derivative instruments and also with clearing house for un-settled trades.

Except for the enforceable master netting arrangements and the offset-right of the financial assets under the similar agreements disclosed above, the collaterals of which, such as financial assets held under resale agreement, financial assets sold under repurchase agreement, borrowing collateral by cash, advances to customers and etc., are disclosed in the corresponding notes, which are generally not on the net basis in financial position. However, the risk exposure associated with favorable contracts is reduced by a master netting arrangement to the extent that if a default occurs, all amounts with the counterparty are terminated and settled on a net basis.

46. SUBSEQUENT EVENT

On 9 July 2013, one of the Company's subsidiaries, "HISGL", the Company's subsidiary listed in the Hong Kong Stock Exchange, entered into a subscription agreement with the Hongkong and Shanghai Banking Corporation Limited ("HSBC") under which HSBC agrees to subscribe and pay for, or to procure subscribers to subscribe and pay for, convertible bonds of HK\$776 million principal amount with interest at 1.25% per annum. The convertible bonds is subsequently issued at par on 18 July 2013 and listed on Singapore Exchange Securities Trading Limited on 19 July 2013.

The redemption price of the convertible bonds at maturity on 18 July 2018 is 112.89% of the principal. At any time between 27 August 2013 and up to the close of business on the tenth day prior to the maturity date, the convertible bonds can be converted into fully paid ordinary shares of the HISGL with a par value of HKD0.10 each at an initial conversion price of HK\$4 per share (subject to adjustments) at the option of the holders of the convertible bonds.

HISGL intends to use the proceeds of the convertible bonds to fund the expansion of business operations and general corporate purposes.

Haitong Securities Co., Ltd has entered into a letter of comfort in favour of the bondholders whereby it will undertake that during the term of the Bonds, inter alia, it will own, directly or indirectly, at least 51% of the share capital of HISGL and it will use its best endeavours to procure the HISGL to perform the HISGL's obligations under the trust deed and the Bonds.

Details of the convertible-bonds are set out in the announcement of HISGL dated on 13 July 2013.