

# Daiwa

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## Capital Markets

### Daiwa Capital Markets Hong Kong Limited

#### First Addendum to the Base Listing Document relating to

#### Non-collateralised Structured Products

to be issued by

### Daiwa Capital Markets Hong Kong Limited

*(incorporated with limited liability in Hong Kong)*

Daiwa Capital Markets Hong Kong Limited (**Issuer**) has published this document in respect of warrants on single equities (**single equities warrants**), warrants on a single fund (**fund warrants**), warrants on a single index (**index warrants** and, together with the single equities warrants and the fund warrants, the **warrants**), callable bull/bear contracts on single equities (**equity callable bull/bear contracts**), callable bull/bear contracts on a single fund (**fund callable bull/bear contracts**) and callable bull/bear contracts on a single index (**index callable bull/bear contracts**, and, together with the equity callable bull/bear contracts and the fund callable bull/bear contracts, the **CBBCs**) and any other structured products approved by The Stock Exchange of Hong Kong Limited (**stock exchange**) from time to time (such other structured products, together with the warrants and the CBBCs, being referred to as the **structured products**) to be issued by the Issuer in series (each, a **series**) from time to time and listed on the stock exchange.

Hong Kong Exchanges and Clearing Limited, The Stock Exchange of Hong Kong Limited and Hong Kong Securities Clearing Company Limited (**HKSCC**) take no responsibility for the contents of this document, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this document.

This document, for which the Issuer accepts full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the **rules**) for the purpose of giving information with regard to the Issuer. You must read this document in conjunction with our base listing document dated 3 July 2014 (as amended, supplemented or updated from time to time, the **base listing document**). The Issuer, having made all reasonable enquiries, confirms that to the best of its knowledge and belief the information contained in this document is accurate and complete in all material respects and not misleading or deceptive, and there are not other matters the omission of which would make any statement herein or this document misleading.

Additional terms and conditions relating to each series of our structured products will be set out in a supplemental listing document (each, a **supplemental listing document**) which will be supplemental to, and should be read in conjunction with, this document and the base listing document.

The structured products involve derivatives. Investors should not invest in the structured products unless they fully understand and are willing to assume the risks associated with them.

**Investors are warned that the price of the structured products may fall in value as rapidly as it may rise and holders may sustain a total loss of their investment. Prospective purchasers should therefore ensure that they understand the nature of the structured products and carefully study the risk factors set out in the base listing document and the relevant supplemental listing document and, where necessary, seek professional advice, before they invest in the structured products.**

**The structured products constitute general unsecured contractual obligations of the Issuer and are obligations of no other person and will rank equally among themselves with all the other unsecured obligations of the Issuer (save for those obligations preferred by law) upon liquidation. If you purchase the structured products you are relying upon the creditworthiness of the Issuer and have no rights under the structured products against, as applicable, the underlying asset, any company which has issued the underlying asset or any company which sponsors the underlying asset or whose securities are comprised in the underlying asset. If the Issuer becomes insolvent or defaults on its obligations under the structured products, you may not be able to recover all or even part of the amount due under the structured products (if any).**

## IMPORTANT INFORMATION

If you are in any doubt as to any of the contents of this document, you should consult your stockbroker or other registered dealer in securities, bank manager, solicitor, professional accountant or other professional adviser.

### What is this document about?

This document contains the updated information in relation to us and the unaudited interim report of the Issuer for the period ended 30 September 2014. This document is a supplement to the base listing document.

You should read this document together with the base listing document and the relevant supplemental listing document (including any addendum to such supplemental listing document to be issued by us from time to time) (together, the **listing documents**) before investing in any structured product.

### Where can you inspect the relevant documents?

We undertake during the period in which our structured products are listed on the stock exchange to make available to you for inspection at the office of Daiwa Capital Markets Hong Kong Limited, which is presently at Level 28, One Pacific Place, 88 Queensway, Hong Kong:

- (a) a copy of this document and the base listing document, together with any other addendum or successor to the base listing document (both the English version and the Chinese translation);
- (b) a copy of the applicable supplemental listing document of any issue of structured products (both the English version and the Chinese translation);
- (c) a copy of our latest publicly available annual report and interim report or quarterly financial statements (if any); and
- (d) a copy of the consent letter of the auditors from our auditors referred to in the base listing document and any addendum or successor to the base listing document (if any).

我們保證閣下可於結構性產品在聯交所上市的期間在大和資本市場香港有限公司辦事處(目前地址為香港金鐘道88號太古廣場第1期28樓)查閱下列文件：

- (a) 本文件及基礎上市文件，連同基礎上市文件之任何其他增編或續編(英文版本及中文譯本)；
- (b) 結構性產品的適用補充上市文件(英文版本及中文譯本)；
- (c) 我們最近期公開的年報及中期報告或季度財務報表(如有)；及
- (d) 基礎上市文件及基礎上市文件之任何增編或續編(如有)所述我們的核數師的同意書。

### Is the Issuer regulated by the Hong Kong Monetary Authority referred to in Rule 15A.13(2) or the Securities and Futures Commission referred to in Rule 15A.13(3)?

The Issuer is regulated by the Securities and Futures Commission for the conduct of the business in dealing in securities in Hong Kong.

### What are the Issuer's credit ratings?

As at the date of this document, the Issuer is not rated by any credit rating agency.

### Is the Issuer subject to any litigation?

Except as set out in this document, neither the Issuer nor any of the Issuer's group companies are aware of any litigation or claims of material importance in the context of the issue of the Warrants pending or threatened against the Issuer or the Issuer's group companies.

### Has our financial position changed since last financial year-end?

Except as set out in this document, there has been no material adverse change in our or our group companies' financial or trading positions since 31 March 2014.

### Where can you find out information about us?

You may visit [www.hk.daiwacm.com](http://www.hk.daiwacm.com) to obtain general corporate information about us, and on the website of the group of companies to which we belong at [www.daiwa-grp.jp](http://www.daiwa-grp.jp).

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## UPDATED INFORMATION ABOUT US

### Board of Directors

With effect from 15 August 2014, the names and titles of the current members of our Board of Directors are set out below:

<i>Name</i>	<i>Title</i>
Tetsuo Akuzawa	Chairman
Hironori Oka	President and Chief Executive Officer
Terence Patrick Mackey	Deputy President and Chief Operating Officer
Shinji Shibuya	Managing Director

The business and service of process address of each member of our Board of Directors is Level 28, One Pacific Place, 88 Queensway, Hong Kong, except for Shinji Shibuya whose business and service of process address is 1-9-1, Marunouchi, Chiyoda-ku, Tokyo, 100-6751, Japan.

## **UNAUDITED INTERIM REPORT OF THE ISSUER FOR THE PERIOD ENDED 30 SEPTEMBER 2014**

The information set out in this section is the reproduction of the unaudited interim report of the Issuer for the period ended 30 September 2014 (**interim report 2014**). Page references in this section refer to page numbers in the interim report 2014.

The principal accounting policies adopted in the preparation of the interim report 2014 are consistent with the Issuer's usual accounting policies and procedures.

Our interim report 2014 is available for inspection at our offices at Level 28, One Pacific Place, 88 Queensway, Hong Kong. You may also visit our website at [www.dcmw.com.hk/en/](http://www.dcmw.com.hk/en/) to access such report.

Daiwa Capital Markets Hong Kong Limited  
大和資本市場香港有限公司

Unaudited Interim Financial Report  
for the six months ended 30 September 2014

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**Statement of comprehensive income**  
**for the six months ended 30 September 2014**  
*(Expressed in United States dollars)*

	<i>Note</i>	<i>Six months ended 30 September</i>	
		<i>2014</i>	<i>2013</i>
<b>Turnover</b>	3	\$ 48,380,446	\$ 52,482,940
Other revenue	4	24,384,935	23,688,449
Other net income	4	1,723,061	1,439,504
Staff costs	5	(28,320,505)	(32,981,328)
Depreciation	9	(5,217,920)	(4,770,373)
Other operating expenses		<u>(45,098,930)</u>	<u>(50,162,144)</u>
<b>Loss from operations</b>		\$ (4,148,913)	\$ (10,302,952)
Finance costs	6(a)	<u>(140,421)</u>	<u>(2,078,588)</u>
<b>Loss before and after taxation for the period</b>	6	\$ (4,289,334)	\$ (12,381,540)
<b>Other comprehensive income for the period</b>			
<i>Items that may be reclassified subsequently to profit or loss:</i>			
Available-for-sale securities: net movement in the investment valuation reserve		<u>72,632</u>	<u>240,468</u>
<b>Total comprehensive income for the period</b>		<u>\$ (4,216,702)</u>	<u>\$ (12,141,072)</u>

The notes on pages 6 to 21 form part of this interim financial report.



## Balance sheet at 30 September 2014

(Expressed in United States dollars)

	<i>Note</i>	<i>30 September 2014</i>	<i>31 March 2014</i>
<b>Non-current assets</b>			
Intangible assets	8	\$ 383,263	\$ 383,582
Fixed assets	9	15,812,968	20,224,584
Available-for-sale securities	10	3,081,001	3,017,287
Other non-current deposits		4,322,869	5,095,883
		\$ 23,600,101	\$ 28,721,336
<b>Current assets</b>			
Financial assets at fair value through profit or loss	11	\$ 14,866,663	\$ 15,676,914
Receivables from reverse repurchase agreements	12	36,621,179	38,946,641
Accounts receivable	13, 21	1,100,113,488	1,130,382,620
Other receivables and prepayments	21	23,839,297	20,087,716
Cash and cash equivalents	15	468,875,994	520,007,700
		\$ 1,644,316,621	\$ 1,725,101,591
<b>Current liabilities</b>			
Financial liabilities at fair value through profit or loss	16	\$ 9,630,855	\$ 15,676,094
Amount due to a fellow subsidiary	14	36,579,709	38,903,001
Accounts payable	17, 21	1,072,459,119	1,130,650,591
Accruals and other payables	21	43,052,913	58,182,413
		\$ 1,161,722,596	\$ 1,243,412,099
<b>Net current assets</b>		\$ 482,594,025	\$ 481,689,492
<b>NET ASSETS</b>		\$ 506,194,126	\$ 510,410,828

**Balance sheet at 30 September 2014 (continued)**  
*(Expressed in United States dollars)*

	<i>Note</i>	<i>30 September 2014</i>	<i>31 March 2014</i>
<b>CAPITAL AND RESERVE</b>			
Share capital	19	\$ 697,860,644	\$ 697,860,644
General reserve	20(a)	12,008,165	12,008,165
Investment revaluation reserve	20(b)	1,035,216	962,584
Accumulated losses		<u>(204,709,899)</u>	<u>(200,420,565)</u>
<b>TOTAL EQUITY</b>		<u>\$ 506,194,126</u>	<u>\$ 510,410,828</u>

The notes on pages 6 to 21 form part of this interim financial report.

## Statement of changes in equity for the six months ended 30 September 2014 (Expressed in United States dollars)

	<i>Share capital</i>	<i>General reserve</i>	<i>Investment revaluation reserve</i>	<i>Accumulated losses</i>	<i>Total</i>
<b>At 1 April 2014</b>	\$ 697,860,644	\$ 12,008,165	\$ 962,584	\$ (200,420,565)	\$ 510,410,828
Loss for the period	\$ -	\$ -	\$ -	\$ (4,289,334)	\$ (4,289,334)
Other comprehensive income	-	-	72,632	-	72,632
Total comprehensive income for the period	\$ -	\$ -	\$ 72,632	\$ (4,289,334)	\$ (4,216,702)
<b>At 30 September 2014</b>	\$ 697,860,644	\$ 12,008,165	\$ 1,035,216	\$ (204,709,899)	\$ 506,194,126
<b>At 1 April 2013</b>	\$ 557,860,644	\$ 12,008,165	\$ 478,535	\$ (182,285,767)	\$ 388,061,577
Loss for the period	\$ -	\$ -	\$ -	\$ (12,381,540)	\$ (12,381,540)
Other comprehensive income	-	-	240,468	-	240,468
Total comprehensive income for the period	\$ -	\$ -	\$ 240,468	\$ (12,381,540)	\$ (12,141,072)
<b>At 30 September 2013</b>	\$ 557,860,644	\$ 12,008,165	\$ 719,003	\$ (194,667,307)	\$ 375,920,505

The notes on pages 6 to 21 form part of this interim financial report.

**Condensed cash flow statement  
for the six months ended 30 September 2014**  
*(Expressed in United States dollars)*

	<i>Note</i>	<i>Six months ended 30 September</i>	
		<i>2014</i>	<i>2013</i>
Net cash used in operating activities		\$ (51,576,419)	\$ (38,986,089)
Net cash generated from investing activities		585,134	(56,546)
Net cash used in financing activities		<u>(140,421)</u>	<u>(2,078,588)</u>
Net decrease in cash and cash equivalents		\$ (51,131,706)	\$ (41,121,223)
Cash and cash equivalents at 1 April	15	<u>485,007,700</u>	<u>516,768,772</u>
Cash and cash equivalents at 30 September	15	<u>\$ 433,875,994</u>	<u>\$ 475,647,549</u>
<b>Analysis of balance of cash and cash equivalent</b>			
Bank balance and cash - general accounts	15	<u>\$ 433,875,994</u>	<u>\$ 475,647,549</u>

The notes on pages 6 to 21 form part of this interim financial report.

## Notes to the unaudited interim financial report (Expressed in United States dollars)

### 1 Basis of preparation

The unaudited interim financial report has been prepared in accordance with Hong Kong Accounting Standard (“HKAS”) 34, *Interim financial reporting*, issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”).

The unaudited interim financial report has been prepared in accordance with the same accounting policies adopted in the 2014 annual financial statements, except for the accounting policy changes that are expected to be reflected in the 2015 annual financial statements. Details of these changes in accounting policies are set out in note 2.

### 2 Changes in accounting policies

The HKICPA has issued a number of amendments to HKFRSs and one new Interpretation that are first effective for the current accounting period of the Company. Of these, the following development is relevant to the Company’s financial statements:

#### **Amendments to HKAS 32, *Offsetting financial assets and financial liabilities***

The amendments to HKAS 32 clarify the offsetting criteria in HKAS 32. The amendments do not have an impact on the Company’s unaudited interim financial report as they are consistent with the policies already adopted by the Company.

The Company has not applied any new standard or interpretation that is not effective for the current accounting period. These developments do not have any material impacts on the Company’s financial statements.

### 3 Turnover

	<i>Six months ended 30 September</i>	
	<i>2014</i>	<i>2013</i>
Commission and brokerage income	\$ 32,556,136	\$ 44,790,655
Underwriting and other commission income	14,190,222	5,289,335
Financial advisory fee income and other commission income	1,634,088	2,402,950
	<u>\$ 48,380,446</u>	<u>\$ 52,482,940</u>

**4 Other revenue and other net income**

	<i>Six months ended 30 September</i>	
	<i>2014</i>	<i>2013</i>
<b>Other revenue</b>		
Dividend income on proprietary trading positions	\$ 26,191	\$ 19,848
Research fees income from group companies	4,311,798	4,623,139
Management fees and services fees income from group companies	17,340,616	17,273,028
Interest income	1,306,518	1,042,385
Rental income from related companies	1,399,812	730,049
	<u>\$ 24,384,935</u>	<u>\$ 23,688,449</u>
<b>Other net income</b>		
Net trading gain on securities transactions	\$ 1,636,134	\$ 812,797
Net exchange loss	(89,776)	(115,908)
Net gain on disposal of available-for-sale securities	52,273	-
Others	124,430	742,615
	<u>\$ 1,723,061</u>	<u>\$ 1,439,504</u>

**5 Staff costs**

	<i>Six months ended 30 September</i>	
	<i>2014</i>	<i>2013</i>
Salaries, wages and other benefits	\$ 27,462,950	\$ 32,051,866
Contributions to defined contribution plan	857,555	929,462
	<u>\$ 28,320,505</u>	<u>\$ 32,981,328</u>

## 6 Loss before taxation

Loss before taxation is arrived at after charging:

	<i>Six months ended 30 September</i>	
	<i>2014</i>	<i>2013</i>
<b>(a) Finance costs</b>		
Interest expenses on bank loans	\$ 4,831	\$ 115
Interest expenses paid to the ultimate holding company	-	1,887,161
Interest expenses paid to a fellow subsidiary	74,232	73,350
	\$ 79,063	\$ 1,960,626
Other financing expenses	61,358	117,962
	\$ 140,421	\$ 2,078,588
<b>(b) Other items</b>		
Commission and brokerage charges	\$ 21,987,276	\$ 28,402,736
Underwriting expenses	1,918,212	122,161
Operating lease charges on properties	7,288,024	7,084,204
Auditors' remuneration	316,218	242,636

## 7 Income tax

**(a)** No provision for Hong Kong Profits Tax has been made for both periods as the Company sustained a loss for taxation purposes.

**(b) Reconciliation between tax expense and accounting loss at applicable tax rates:**

	<i>Six months ended 30 September</i>	
	<i>2014</i>	<i>2013</i>
Loss before taxation	\$ (4,289,334)	\$ (12,381,540)
Notional tax on loss before taxation, calculated at 16.5%	\$ (707,740)	\$ (2,042,954)
Tax effect of non-deductible expenses	11,756	311,715
Tax effect of non-taxable revenue	(202,781)	(149,703)
Tax effect of unused tax losses and other deductible temporary differences not recognised	898,765	1,880,942
Actual tax expense	\$ -	\$ -

## 8 Intangible assets

	<i>Trading rights</i>	<i>Club debentures</i>	<i>Total</i>
<b>Cost:</b>			
At 1 April 2014	\$ 419,448	\$ 383,578	\$ 803,026
Exchange differences	<u>-</u>	<u>(319)</u>	<u>(319)</u>
At 30 September 2014	\$ 419,448	\$ 383,259	\$ 802,707
<b>Accumulated impairment loss:</b>			
At 1 April 2014 and 30 September 2014	<u>419,444</u>	<u>-</u>	<u>419,444</u>
<b>Net book value:</b>			
At 30 September 2014	<u>\$ 4</u>	<u>\$ 383,259</u>	<u>\$ 383,263</u>
	<i>Trading rights</i>	<i>Club debentures</i>	<i>Total</i>
<b>Cost:</b>			
At 1 April 2013	\$ 419,448	\$ 383,373	\$ 802,821
Exchange differences	<u>-</u>	<u>409</u>	<u>409</u>
At 30 September 2013	\$ 419,448	\$ 383,782	\$ 803,230
<b>Accumulated impairment loss:</b>			
At 1 April 2013 and 30 September 2013	<u>419,444</u>	<u>-</u>	<u>419,444</u>
<b>Net book value:</b>			
At 30 September 2013	<u>\$ 4</u>	<u>\$ 383,782</u>	<u>\$ 383,786</u>



## 9 Fixed assets

	<i>Leasehold improvements</i>	<i>Furniture, fixtures and office equipment</i>	<i>Motor vehicles</i>	<i>Total</i>
<b>Cost:</b>				
At 1 April 2014	\$ 9,544,866	\$ 46,831,950	\$ 315,379	\$ 56,692,195
Additions	-	806,304	-	806,304
Disposals	-	(4,079)	(139,510)	(143,589)
At 30 September 2014	<u>\$ 9,544,866</u>	<u>\$ 47,634,175</u>	<u>\$ 175,869</u>	<u>\$ 57,354,910</u>
<b>Accumulated depreciation:</b>				
At 1 April 2014	\$ 3,451,471	\$ 32,700,761	\$ 315,379	\$ 36,467,611
Charge for the period	805,817	4,412,103	-	5,217,920
Written back on disposals	-	(4,079)	(139,510)	(143,589)
At 30 September 2014	<u>\$ 4,257,288</u>	<u>\$ 37,108,785</u>	<u>\$ 175,869</u>	<u>\$ 41,541,942</u>
<b>Net book value:</b>				
At 30 September 2014	<u>\$ 5,287,578</u>	<u>\$ 10,525,390</u>	<u>\$ -</u>	<u>\$ 15,812,968</u>

	<i>Leasehold improvements</i>	<i>Furniture, fixtures and office equipment</i>	<i>Motor vehicles</i>	<i>Total</i>
<b>Cost:</b>				
At 1 April 2013	\$ 9,252,194	\$ 43,277,864	\$ 315,379	\$ 52,845,437
Additions	4,343	1,114,436	-	1,118,779
Disposals	(626,273)	(886,158)	-	(1,512,431)
At 30 September 2013	<u>\$ 8,630,264</u>	<u>\$ 43,506,142</u>	<u>\$ 315,379</u>	<u>\$ 52,451,785</u>
<b>Accumulated depreciation:</b>				
At 1 April 2013	\$ 2,074,901	\$ 25,247,862	\$ 315,379	\$ 27,638,142
Charge for the period	728,852	4,041,521	-	4,770,373
Written back on disposals	(147,870)	(885,198)	-	(1,033,068)
At 30 September 2013	<u>\$ 2,655,883</u>	<u>\$ 28,404,185</u>	<u>\$ 315,379</u>	<u>\$ 31,375,447</u>
<b>Net book value:</b>				
At 30 September 2013	<u>\$ 5,974,381</u>	<u>\$ 15,101,957</u>	<u>\$ -</u>	<u>\$ 21,076,338</u>

**10 Available-for-sale securities**

	<i>30 September 2014</i>	<i>31 March 2014</i>
Club debentures	<u>\$ 3,081,001</u>	<u>\$ 3,017,287</u>

**11 Financial assets at fair value through profit or loss**

	<i>30 September 2014</i>	<i>31 March 2014</i>
Long positions in listed equity securities	\$ 5,235,808	\$ 820
Positive fair value of derivatives (note 23)		
– with a fellow subsidiary	<u>9,630,855</u>	<u>15,676,094</u>
	<u>\$ 14,866,663</u>	<u>\$ 15,676,914</u>

As at 30 September 2014, the market value of securities placed by a fellow subsidiary to the Company for over-the-counter derivative transactions as collaterals amounted to \$228,160,847 (31 March 2014: \$155,300,092).

The above financial assets were classified as held for trading.

**12 Receivables from reverse repurchase agreements**

	<i>30 September 2014</i>	<i>31 March 2014</i>
Receivables from reverse repurchase agreements	<u>\$ 36,621,179</u>	<u>\$ 38,946,641</u>

As of 30 September 2014, the fair value of collaterals accepted in respect of the reverse repurchase transactions was \$44,826,476 (31 March 2014: \$45,916,106), the Company has not recognised these collaterals in the statement of financial position.

These transactions are conducted under terms that are usual and customary to securities repurchase transactions and borrowing and lending activities.

**13 Accounts receivable**

The Company maintains segregated accounts with The Hong Kong Futures Exchange Clearing Corporation Limited as a result of its normal business transactions. As of 30 September 2014, segregated accounts not otherwise dealt with in these financial statements amounted to \$42,706 (31 March 2014: \$1,081,549).

The carrying amount of accounts receivable approximates their fair values.

All of the accounts receivable are expected to be recovered within one year.

**14 Amounts due to a fellow subsidiary**

Amounts due to a fellow subsidiary is unsecured, interest-bearing and have fixed terms of repayment.

The carrying amount of amounts due to a fellow subsidiary approximates their fair values.

**15 Cash and cash equivalents**

	<i>30 September 2014</i>	<i>31 March 2014</i>
Deposits with bank	\$ 410,533,123	\$ 459,019,250
Cash at bank and in hand	<u>58,342,871</u>	<u>60,988,450</u>
Cash and cash equivalents in the balance sheet	\$ 468,875,994	\$ 520,007,700
Less: pledged deposit	<u>(35,000,000)</u>	<u>(35,000,000)</u>
Cash and cash equivalents in the cash flow statement	<u>\$ 433,875,994</u>	<u>\$ 485,007,700</u>

The Company maintains segregated accounts with authorised institutions as a result of its normal business transactions. At 30 September 2014, segregated accounts not otherwise dealt with in these financial statements amounted to \$27,995,037 (31 March 2014: \$46,355,104). The carrying amount of the cash and cash equivalents approximates their fair value.

**16 Financial liabilities at fair value through profit or loss**

	<i>30 September 2014</i>	<i>31 March 2014</i>
Negative fair value of derivatives (note 22)		
– with a fellow subsidiary	<u>\$ 9,630,855</u>	<u>\$ 15,676,094</u>

The above financial liabilities were classified as held for trading.

**17 Accounts payable**

The carrying amount of the accounts payable approximates their fair values.

**18 Income tax in the balance sheet**

The Company has not recognised deferred tax assets in respect of tax losses and other deductible temporary differences of \$327,754,560 (31 March 2014: \$322,307,498) as it is not probable that future taxable profits against which the losses can be utilised will be available. The tax losses do not expire under current tax legislation.

**19 Share capital**

As at 27 September 2011, 10,000,000 ordinary shares, with par value of \$10 each and 53,673,423 ordinary shares of US\$10 each, were authorised for issue. Under the new Hong Kong Companies Ordinance (Cap. 622), which commenced operation on 3 March 2014, the concepts of “authorised share capital” and “par value” no longer exist. These changes do not have an impact on the number of shares in issue or the relative entitlement of any of the members. Movements of the Company’s ordinary shares are set out below:

***Issued and fully paid:***

	<i>30 September 2014</i>		<i>31 March 2014</i>	
	<i>No. of shares</i>	<i>Amount</i>	<i>No. of shares</i>	<i>Amount</i>
<b>Ordinary shares, issued and fully paid:</b>				
At 1 April and 30 September/ 31 March	77,673,423	\$ 697,860,644	63,673,423	\$ 557,860,644
Shares issued (note)	<u>-</u>	<u>-</u>	<u>14,000,000</u>	<u>140,000,000</u>
At 30 September/31 March	<u>77,673,423</u>	<u>\$ 697,860,644</u>	<u>77,673,423</u>	<u>\$ 697,860,644</u>

## 19 Share capital (continued)

### *Issued and fully paid: (continued)*

Note: For the year ended 31 March 2014, the Company's creation of 14,000,000 ordinary shares of US\$10 each was approved by ordinary resolutions of shareholders on 18 December 2013. These new ordinary shares rank pari passu in all respects with the existing shares in the capital of the Company. 14,000,000 ordinary shares were issued to existing shareholders at par for cash on 20 December 2013.

## 20 Reserves

### (a) *General reserve*

The general reserve was established in accordance with the Hong Kong Banking Ordinance when the Company was a restricted license bank.

### (b) *Investment revaluation reserve*

The investment revaluation reserve comprises the cumulative change in the fair value of available-for-sale securities held at balance sheet date and is dealt with in accordance with the accounting policies same as those adopted in the Company's financial statements for the year ended 31 March 2014.

## 21 Group companies

The following balances with ultimate holding and fellow subsidiary companies are included in the indicated balance sheet captions in addition to those balances with group companies indicated elsewhere in these financial statements:

	<i>30 September 2014</i>	<i>31 March 2014</i>
Accounts receivable	\$ 442,459,012	\$ 513,933,996
Other receivables and prepayments	5,529,651	5,519,093
Accounts payable	(328,940,847)	(608,829,628)
Accruals and other payables	<u>(1,031,360)</u>	<u>(1,185,736)</u>

## 22 Derivatives

The major derivative financial instruments traded by the Company are equity derivative contracts which are over-the-counter and exchange-traded derivative contracts. For financial reporting purposes, all derivative instruments are classified as held for trading.

	<i>30 September 2014</i>		<i>31 March 2014</i>	
	<i>Assets</i>	<i>Liabilities</i>	<i>Assets</i>	<i>Liabilities</i>
<b>Fair value of derivatives</b>				
Equity derivatives	<u>\$ 9,630,855</u>	<u>\$ 9,630,855</u>	<u>\$ 15,676,094</u>	<u>\$ 15,676,094</u>

## 23 Fair values of financial instruments

### (a) Fair value hierarchy

The following table presents the fair value of the Company's financial instruments measured at the end of the reporting period on a recurring basis, categorised into the three-level fair value hierarchy as defined in HKFRS 13, *Fair value measurement*. The level into which a fair value measurement is classified is determined with reference to the observability and significance of the inputs used in the valuation technique as follows:

- Level 1 valuations: Fair value measured using only Level 1 inputs i.e. unadjusted quoted prices in active markets for identical assets or liabilities at the measurement date
- Level 2 valuations: Fair value measured using Level 2 inputs i.e. observable inputs which fail to meet Level 1, and not using significant unobservable inputs. Unobservable inputs are inputs for which market data are not available
- Level 3 valuations: Fair value measured using significant unobservable inputs

## 23 Fair values of financial instruments (continued)

### (a) Fair value hierarchy (continued)

	<i>Fair value measurements as at 30 September 2014</i>			
<i>Fair value at 30 September 2014</i>	<i>Quoted prices in active market for identical assets (Level 1)</i>	<i>Significant other observable inputs (Level 2)</i>	<i>Significant unobservable input (Level 3)</i>	
<b>Recurring fair value measurement</b>				
<i>Assets</i>				
Available-for-sale – Club debentures	\$ 3,081,001	\$ -	\$ 3,081,001	\$ -
Financial assets at fair value through profit or loss	14,866,663	5,235,808	9,630,855	-
	\$ 17,947,664	\$ 5,235,808	\$ 12,711,856	\$ -
<i>Liabilities</i>				
Financial liabilities at fair value through profit or loss	\$ (9,630,855)	\$ -	\$ (9,630,855)	\$ -

## 23 Fair values of financial instruments (continued)

### (a) Fair value hierarchy (continued)

<i>Fair value measurements as at 31 March 2014</i>				
	<i>Fair value at 31 March 2014</i>	<i>Quoted prices in active market for identical assets (Level 1)</i>	<i>Significant observable inputs (Level 2)</i>	<i>Significant unobservable inputs (Level 3)</i>
<b>Recurring fair value measurement</b>				
<i>Assets</i>				
Available-for-sale				
– Club debentures	\$ 3,017,287	\$ -	\$ 3,017,287	\$ -
Financial assets at fair value through profit or loss	<u>15,676,914</u>	<u>820</u>	<u>15,676,094</u>	<u>-</u>
	<u>\$ 18,694,201</u>	<u>\$ 820</u>	<u>\$ 18,693,381</u>	<u>\$ -</u>
<i>Liabilities</i>				
Financial liabilities at fair value through profit or loss	<u>\$ (15,676,094)</u>	<u>\$ -</u>	<u>\$ (15,676,094)</u>	<u>\$ -</u>

During the six months ended 30 September 2014 and twelve months ended 31 March 2014, there were no transfer between Level 1 and Level 2, or transfer into or out of Level 3. The Company's policy is to recognise transfer between levels of fair value hierarchy as at the end of the reporting period in which they occur.

### (b) Valuation techniques and inputs used in Level 2 fair value measurements

For financial instruments that are not traded in the active markets, the Company determines fair values using valuation techniques. Valuation techniques include net present value and discounted cash flow models and various market widely recognised option pricing models. Assumptions and inputs used in valuation techniques include risk-free and benchmark interest rates, equity prices, foreign currency exchange rates, index prices, and historical or implied volatilities. The objective of valuation techniques is to arrive at a fair value determination that reflects the price of the financial instrument at the reporting date, that would have been determined by market participants acting at arm's length.

The fair value of available-for-sale financial assets is determined based on quotes from brokers or alternative pricing sources supported by observable inputs, either directly or indirectly.



## 23 Fair values of financial instruments (continued)

### (c) Offsetting financial assets and financial liabilities

The Company has entered into transactions subject to an enforceable master netting arrangement or similar agreement with a counterparty. The gross amounts of recognised accounts receivable from and accounts payable to these counterparties and the net balance as shown on the balance sheet are disclosed as follows:

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

	<i>Gross amount of recognised accounts receivable</i>	<i>Gross amount of recognised accounts payable set off in the balance sheet</i>	<i>Net amount of accounts receivable presented in the balance sheet</i>	<i>Related amount not set off in the balance sheet</i>	<i>Net amount</i>
<b>As at 30 September 2014</b>					
Accounts receivable	\$ 1,143,199,823	\$ (43,086,335)	\$ 1,100,113,488	\$ (3,494,086)	\$ 1,096,619,402
<b>As at 31 March 2014</b>					
Accounts receivable	\$ 1,177,624,348	\$ (47,241,728)	\$ 1,130,382,620	\$ (2,615,538)	\$ 1,127,767,082

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

	<i>Gross amount of recognised accounts payable</i>	<i>Gross amount of recognised receivable set off in the balance sheet</i>	<i>Net amount of accounts payable presented in the balance sheet</i>	<i>Related amount not set off in the balance sheet</i>	<i>Net amount</i>
<b>As at 30 September 2014</b>					
Accounts payable	\$ 1,115,545,454	\$ (43,086,335)	\$ 1,072,459,119	\$ (3,494,086)	\$ 1,068,965,033
<b>As at 31 March 2014</b>					
Accounts payable	\$ 1,177,892,319	\$ (47,241,728)	\$ 1,130,650,591	\$ (2,615,538)	\$ 1,128,035,053

## 24 Material related party transactions

In addition to the transactions and balances disclosed elsewhere in these financial statements, the Company entered into the following material related party transactions:

	<i>Six months ended 30 September</i>	
	<i>2014</i>	<i>2013</i>
<b>Transactions with related parties:</b>		
Brokerage commission earned from fellow subsidiaries	\$ 2,826,589	\$ 2,051,268
Underwriting and selling commission earned from fellow subsidiaries	5,468,563	1,836,196
Rental income earned from fellow subsidiaries	1,399,812	730,049
Research fee income earned from fellow subsidiaries	4,311,798	4,623,139
Management fees income and services fees earned from fellow subsidiaries	17,340,616	17,273,028
Brokerage commission paid to fellow subsidiaries	(12,829,540)	(14,874,802)
Interest expenses paid to		
– a fellow subsidiary	(74,232)	(73,350)
– the ultimate holding company	-	(1,887,161)
	-	(1,887,161)

## 25 Credit facilities

The Company has aggregate credit facilities provided by authorised institutions and group companies amounting to \$284,159,000 (31 March 2014: \$288,378,000) and \$770,927,000 (31 March 2014: \$1,011,621,000) respectively. Among these credit facilities, \$195,574,000 (31 March 2014: \$195,736,000) provided by authorised institutions and \$730,927,000 (31 March 2014: \$971,619,000) provided by a group company were shared with a fellow subsidiary in Hong Kong. The Company has not utilised any credit facilities provided by authorised institutions (31 March 2014: \$Nil) while \$36,546,000 (31 March 2014: \$38,864,000) of the credit facility provided by the group companies was utilised by the Company as at 30 September 2014.

## 26 Commitments

At 30 September 2014, the Company had the following commitments in the ordinary course of business:

- (a) The total future minimum lease payments under non-cancellable operating leases are receivable as follows:

	<i>30 September 2014</i>	<i>31 March 2014</i>
<b>From fellow subsidiaries:</b>		
Within one year	\$ 397,782	\$ 642,078
After one year but within five years	<u>1,359,088</u>	<u>1,599,944</u>
	<u>\$ 1,756,870</u>	<u>\$ 2,242,022</u>
<b>From others:</b>		
Within one year	\$ 1,806,177	\$ 1,807,690
After one year but within five years	<u>7,529,083</u>	<u>8,439,234</u>
	<u>\$ 9,335,260</u>	<u>\$ 10,246,924</u>
	<u>\$ 11,092,130</u>	<u>\$ 12,488,946</u>

- (b) The total future minimum lease payments under non-cancellable operating leases are payable as follows:

	<i>30 September 2014</i>	<i>31 March 2014</i>
Within one year	\$ 13,523,799	\$ 13,095,940
After one year but within five years	<u>39,175,714</u>	<u>44,540,430</u>
	<u>\$ 52,699,513</u>	<u>\$ 57,636,370</u>

**26 Commitments (continued)**

(c) Committed facilities under reverse repurchase agreements entered into with counterparties are as follows:

	<i>30 September 2014</i>	<i>31 March 2014</i>
Within one year	<u>\$ 242,941,982</u>	<u>\$ 355,515,465</u>

At 30 September 2014, the counterparties have not utilised \$206,395,614 (31 March 2014: \$316,650,697) of the facilities.

**27 Parent and ultimate holding company**

The directors consider the immediate parent and ultimate holding company at 30 September 2014 to be Daiwa Capital Markets Asia Holding, B.V, which is incorporated in Netherlands, and Daiwa Securities Group Inc., which is incorporated in Japan respectively. Daiwa Securities Group Inc. produces financial statements available for public use.

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