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HAITONG INTERNATIONAL SECURITIES GROUP LIMITED

海通國際證券集團有限公司

(Incorporated in Bermuda with limited liability)
(the “Company”, Stock Code: 665)

ANNOUNCEMENT OF THE INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2014

Financial Highlights			
Results	Six months ended 30.6.2014	30.6.2013	Percentage change Increase/ (Decrease)
Revenue (HK\$'000)	1,077,357	702,260	53
Net Profit Attributable to Shareholders (HK\$'000)	351,719	220,292	60
Return on Shareholders' Funds (%) (Note 1)	5.53	5.34	4
Per share			
Basic Earnings Per Share (HK Cents)	23.37	18.52	26
Diluted Earnings Per Share (HK Cents)	20.99	18.52	13
Dividend Per Share (HK Cents)	8	8	-
Share Price			
- Highest (HK\$)	4.53	4.10	10
- Lowest (HK\$)	3.74	2.99	25
Financial Position	30.6.2014	31.12.2013	Percentage change Increase/ (Decrease)
Shareholders' Funds (HK\$'000)	7,743,804	4,920,252	57
Total Assets (HK\$'000)	35,701,110	29,438,104	21
Leverage Ratio (Note 2)	2.90	3.37	(14)
Number of Shares in Issue (Note 3)	2,093,939,436	1,395,959,624	50
NAV Per Share (HK\$)	3.70	3.52	5

1. Computation of return on shareholders' fund is based on net profit attributable to shareholders divided by the weighted average shareholders' fund.
2. Leverage ratio = Total assets excluding accounts payable to clients and IPO loan/ Shareholders' fund. Accounts payable to clients amounted to HK\$9,289.1 million as at 30 June 2014 (2013: HK\$12,846.3 million).
3. On 23 April 2014, the Company announced a rights issue on the basis of 1 rights share for every 2 existing shares (the “Rights Issue”) held by shareholders of the Company. The Rights Issue was completed on 30 May 2014 and 697,979,812 rights shares were issued on 3 June 2014. Hence, the total number of shares of the Company was increased to 2,093,939,436 as at 30 June 2014.

INTERIM RESULTS

The Board of Directors (the “Board”) of the Company is pleased to announce the unaudited consolidated results of the Company and its subsidiaries (collectively referred to as the “Group”) for the six months ended 30 June 2014, with the comparative figures for the preceding six months ended 30 June 2013, as follows:

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

	NOTE	Six months ended	
		30.6.2014	30.6.2013
		HK\$'000	HK\$'000
		(unaudited)	(unaudited)
Revenue		1,077,357	702,260
Other income		3,636	857
		1,080,993	703,117
Employee benefits costs:			
Salaries and allowances, bonuses and pension scheme contributions		(240,555)	(174,715)
Commission to accounts executives		(100,538)	(81,451)
Depreciation		(18,524)	(23,245)
Other operating expenses		(166,276)	(149,900)
		(525,893)	(429,311)
Finance costs		(136,695)	(32,702)
Share of loss of investments accounted for using the equity method		(8,422)	-
Profit before tax	5	409,983	241,104
Income tax expense	6	(58,264)	(19,799)
Profit for the period		351,719	221,305
Attributable to:			
Owners of the Company		351,719	220,292
Non-controlling interests		-	1,013
		351,719	221,305
Dividends	7	167,515	109,841
Earnings per share attributable to owners of the Company	8		(restated)
- Basic (HK cents per share)		23.37	18.52
- Diluted (HK cents per share)		20.99	18.52

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	Six months ended	
	30.6.2014	30.6.2013
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
Profit for the period	<u>351,719</u>	<u>221,305</u>
Other comprehensive expense:		
<i>Items that may be reclassified subsequently to profit or loss:</i>		
Cash flow hedge	(1,414)	-
Changes in fair value of available-for-sale investments	<u>(16,516)</u>	<u>(17,959)</u>
Other comprehensive expense for the period (net of tax)	<u>(17,930)</u>	<u>(17,959)</u>
Total comprehensive income for the period	<u>333,789</u>	<u>203,346</u>
Total comprehensive income for the period attributable to:		
Owners of the Company	333,789	202,333
Non-controlling interests	-	1,013
	<u>333,789</u>	<u>203,346</u>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Note	30.6.2014 HK\$'000 (unaudited)	31.12.2013 HK\$'000 (audited)
ASSETS			
Non-current assets			
Investments accounted for using the equity method		169,760	178,181
Property, plant and equipment		110,435	115,306
Goodwill		9,854	9,854
Other intangible assets		6,609	6,609
Other assets		24,119	41,184
Available-for-sale investments		651,732	728,418
Held-to-maturity investments		191,465	449,421
Other loans and advances	10	1,325,547	1,188,200
Deferred tax assets		6,904	5,726
		<u>2,496,425</u>	<u>2,722,899</u>
Current assets			
Advances to customers in margin financing	9	9,765,338	7,938,421
Other loans and advances	10	1,037,575	1,872,200
Accounts receivable	11	6,751,942	1,642,922
Prepayments, deposits and other receivables		434,213	331,685
Tax recoverable		19,786	19,383
Held-to maturity investments		133,196	358,182
Derivative financial instruments		70,335	60,602
Financial assets at fair value through profit or loss		4,423,338	1,950,230
Cash held on behalf of customers		9,259,851	12,053,559
Cash and cash equivalents		1,309,111	488,021
		<u>33,204,685</u>	<u>26,715,205</u>
Total assets		<u><u>35,701,110</u></u>	<u><u>29,438,104</u></u>
EQUITY AND LIABILITIES			
Capital and Reserves			
Issued capital	12	209,394	139,596
Reserves		7,366,895	4,627,100
Proposed interim/final dividend		167,515	153,556
Total equity		<u><u>7,743,804</u></u>	<u><u>4,920,252</u></u>
Liabilities			
Non-current liabilities			
Convertible bonds		983,354	966,273
Deferred tax liabilities		13,564	14,910
Loans and other borrowings		426,542	426,503
		<u><u>1,423,460</u></u>	<u><u>1,407,686</u></u>

	Note	30.6.2014 HK\$'000 (unaudited)	31.12.2013 HK\$'000 (audited)
Current liabilities			
Accounts payable	13	10,427,731	13,407,180
Other payables and accruals		581,132	289,903
Tax payable		120,761	113,503
Financial liabilities at fair value through profit or loss		270,959	144,795
Financial liabilities designated at fair value through profit or loss		438,835	170,553
Derivative financial instruments		7,995	6,842
Loans and other borrowings		14,686,433	8,977,390
		<u>26,533,846</u>	<u>23,110,166</u>
		-----	-----
Total liabilities		<u>27,957,306</u>	<u>24,517,852</u>
		-----	-----
Total equity and liabilities		<u>35,701,110</u>	<u>29,438,104</u>
		=====	=====
Net current assets		<u>6,670,839</u>	<u>3,605,039</u>
		=====	=====
Total assets less current liabilities		<u>9,167,264</u>	<u>6,327,938</u>
		=====	=====

Notes:

1. GENERAL

Haitong International Securities Group Limited (the “Company”) is a limited liability company incorporated in Bermuda. The principal place of business of the Company is located at 22/F., Li Po Chun Chambers, 189 Des Voeux Road Central, Hong Kong.

The Company is listed on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”).

During the six months ended 30 June 2014, the Company and its subsidiaries (collectively named as the “Group”) were involved in the following principal activities:

- securities, futures, options and bullion contracts brokerage
- the provision of nominee and custodian services
- the provision of corporate advisory, placing and underwriting services
- the provision of investment management services
- the provision of margin financing and structured financing
- trading and market-making activities

This unaudited condensed consolidated interim financial statements are presented in HK dollars (“HK\$”), unless otherwise stated.

2. BASIS OF PREPARATION

The unaudited condensed consolidated financial statements have been prepared in accordance with Hong Kong Accounting Standard 34 (“HKAS 34”) Interim Financial Reporting issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”) as well as with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”).

3. PRINCIPAL ACCOUNTING POLICIES

The unaudited condensed consolidated financial statements have been prepared on the historical cost basis except for available-for-sale investments, financial assets and liabilities at fair value through profit or loss (including derivative financial instruments), which are measured at fair values.

Except as described below for the application of new or revised Hong Kong Financial Reporting Standards (“HKFRSs”) issued by the HKICPA, the accounting policies and methods of computation used in the unaudited condensed consolidated financial statements for the six months ended 30 June 2014 are the same as those followed in the preparation of the Group's unaudited condensed consolidated financial statements for the year ended 31 December 2013.

In the current interim period, the Group has applied, for the first time, the following new interpretation and amendments to HKFRSs issued by the HKICPA that are relevant for the preparation of the Group's unaudited condensed consolidated financial statements:

Amendments to HKFRS 10, HKFRS 12 and HKAS 27	Investment Entities
Amendments to HKAS 32	Offsetting Financial Assets and Financial Liabilities
Amendments to HKAS 39	Novation of Derivatives and Continuation of Hedge Accounting
HK(IFRIC) - Int 21	Levies

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

4. SEGMENT INFORMATION

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

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

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

- (a) the brokerage and margin financing segment engages in securities, futures, options and bullion contracts brokerage and dealing, provision of margin financing to customers, and provision of custodian and handling services;
- (b) the corporate finance segment engages in provision of corporate advisory, placing and underwriting services;
- (c) the investment management segment comprises provision of fund management and provision of wealth management services;
- (d) the structured financing segment engages in the provision of structured financing solutions to corporate clients of the Company for their corporate actions and shareholder activities, including takeovers, mergers and acquisitions;
- (e) the fixed income, currency and commodity segment engages in trading and market making in debt securities, bullion contracts and leveraged foreign exchange trading; and
- (f) the "others" segment comprises trading and market making in equity securities and investment in funds and derivatives.

The following table presents revenue and profit/(loss) for the Group's business segments:

4. SEGMENT INFORMATION (CONTINUED)

	Brokerage and margin financing		Corporate finance		Investment management		Structured financing		Fixed income, currency and commodity		Others		Consolidated	
	2014	2013	2014	2013	2014	2013	2014	2013	2014	2013	2014	2013	2014	2013
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
For the six months ended 30 June														
Segment revenue:														
Sales to external customers	493,561	352,309	130,531	58,084	61,033	46,330	242,603	174,101	135,139	76,437	14,490	(5,001)	1,077,357	702,260
Other income	-	-	156	658	-	-	-	-	-	-	3,480	199	3,636	857
Segment results	109,668	63,967	70,926	32,906	4,999	982	162,698	109,610	64,650	43,182	5,464	(9,543)	418,405	241,104
Share of loss of investments accounted for using the equity method													(8,422)	-
Income tax expenses													(58,264)	(19,799)
Profit for the period													351,719	221,305
Depreciation	(16,622)	(19,849)	(388)	-	(340)	(457)	(720)	(2,042)	(401)	(897)	(53)	-	(18,524)	(23,245)
Finance costs	(76,208)	(14,343)	-	-	-	-	(50,750)	(11,394)	(9,737)	(5,384)	-	(1,581)	(136,695)	(32,702)

5. PROFIT BEFORE TAX

	Six months ended	
	30.6.2014	30.6.2013
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
Profit before tax has been arrived at after charging:		
Employee benefits costs (including directors' remuneration)		
Salaries, bonuses and allowances	236,342	171,176
Commission to accounts executives	100,538	81,451
Net pension scheme contributions	4,213	3,539
	<u>341,093</u>	<u>256,166</u>
Impairment loss on held-to-maturity investments	33,500	-
Finance costs:		
- bank loans and overdrafts	124,638	32,147
- others	12,057	555
	<u>136,695</u>	<u>32,702</u>

6. INCOME TAX EXPENSE

	Six months ended	
	30.6.2014	30.6.2013
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
Current taxation		
- Hong Kong	60,225	30,724
- PRC and other jurisdictions	563	817
	<u>60,788</u>	<u>31,541</u>
Over provision in prior period:		
- Hong Kong	-	(7,791)
Deferred tax		
- Current period	(2,524)	(3,951)
	<u>58,264</u>	<u>19,799</u>

Hong Kong Profits Tax is calculated at 16.5% on the estimated assessable profits arising in Hong Kong for the current and prior period.

Under the Law of the People's Republic of China on Enterprise Income Tax (the "EIT Law") and Implementation Regulation of the EIT Law, the tax rate of the PRC subsidiaries is 25%.

Taxation arising in other jurisdictions is calculated at the rates prevailing in the relevant jurisdictions.

7. DIVIDENDS

A final dividend of HK\$153,556,000 in respect of the year ended 31 December 2013 was paid in May 2014.

At a meeting of the Board of the Company held on 7 August 2014, the Board resolved to declare an interim dividend of HK8 cents per share in cash for the six months ended 30 June 2014 (six months ended 30 June 2013: interim dividend of HK8 cents per share in cash), to shareholders whose names appear on the register of members of the Company on Monday, 1 September 2014. The interim dividend is expected to be paid on or about Thursday, 11 September 2014.

The register of members of the Company will be closed from Thursday, 28 August 2014 to Monday, 1 September 2014, both dates inclusive, during which period no transfer of shares will be registered. In order to qualify for the interim dividend, all completed transfer forms accompanied by the relevant share certificates must be lodged with the Company's Branch Share Registrars and Transfer Office in Hong Kong, Tricor Investor Services Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong, for registration not later than 4:30 p.m. on Wednesday, 27 August 2014.

8. EARNINGS PER SHARE

Basic earnings per share

Basic earnings per share is calculated by dividing the profit for the period attributable to owners of the Company by the weighted average number of ordinary shares in issue during the period.

	Six months ended	
	30.6.2014	30.6.2013
	(unaudited)	(unaudited)
Earnings		
Profit for the period attributable to owners of the Company (HK\$'000)	351,719	220,292
Number of shares		(restated)
Weighted average number of ordinary shares in issue (in thousands) (note (a))	1,504,935	1,189,622
Basic earnings per share (HK cents per share)	23.37	18.52

8. EARNINGS PER SHARE (CONTINUED)

Diluted earnings per share

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive ordinary shares.

	Six months ended	
	30.6.2014	30.6.2013
	(unaudited)	(unaudited)
Earnings		
Profit for the period attributable to owners of the Company (HK\$'000)	351,719	220,292
Effect of dilutive potential ordinary shares		
-Interest on convertible bonds (net of tax) (note (b)) (HK\$'000)	19,523	-
Earnings for the purpose of diluted earnings per share	371,242	220,292
Number of shares		
Weighted average number of ordinary shares in issue (in thousands) (note (a))	1,504,935	(restated) 1,189,622
Effect of dilutive potential ordinary shares:		
- Convertible bonds (note (b)) (in thousands)	263,836	-
Weighted average number of ordinary shares for the purpose of diluted earnings per share	1,768,771	1,189,622
Diluted earnings per share (HK cents per share)	20.99	18.52

Notes:

- (a) During both current and prior six-month periods, the Group raised approximately HK\$2,643 million and HK\$1,153 million by way of rights issue on the basis of one rights share for every two existing shares held by shareholders of the Company at the price of HK\$3.80 and HK\$2.55 respectively, which represent a discount to the prevailing fair value at the date of rights issue of the existing shares.

The effect of the bonus element resulting from this rights issue has been included in the calculation of basic and diluted earnings per share and prior period basic and diluted earnings per share is adjusted in order to provide a comparable basis for the rights issue in the current six-month period.

- (b) On 18 July 2013 and 10 October 2013, the Company issued convertible bonds of HK\$776 million and HK\$232 million respectively. As at 30 June 2014, these convertible bonds are convertible into ordinary shares of the Company at a conversion price of HK\$3.67, at the option of the holders of the convertible bonds, which created a potential dilutive effect to the basic earnings per share.

In the calculation of the diluted earnings per share, the convertible bonds are assumed to have been converted into ordinary shares. The weighted average number of ordinary shares outstanding is increased by the weighted average number of additional ordinary shares that would have been outstanding assuming the conversion of all dilutive potential ordinary shares from the date of the first issue. The net profit is adjusted to eliminate the interest expense less the tax effect.

As the exercise price of the Company's share options is above the average share price of the Company, the share options have no effect of dilutive potential ordinary shares for both periods.

9. ADVANCES TO CUSTOMERS IN MARGIN FINANCING

	30.6.2014 HK\$'000 (unaudited)	31.12.2013 HK\$'000 (audited)
Loans to margin clients	9,772,449	7,945,532
Less: Impairment allowance	(7,111)	(7,111)
	<u>9,765,338</u>	<u>7,938,421</u>

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

The majority of the loans to margin clients are secured by the underlying pledged securities and interest bearing. The Group maintains a list of approved stocks for margin lending at a specified loan to collateral ratio. Any excess in the lending ratio will trigger a margin call which the customers have to make good the shortfall.

As at 30 June 2014, advances to customers of HK\$9,765 million (31 December 2013: HK\$7,938 million) was secured by securities pledged by the customers to the Group as collateral with undiscounted market value of HK\$41,670 million (31 December 2013: HK\$36,088 million).

The advances to customers in margin financing have been reviewed by management to assess impairment allowances which are based on the evaluation of collectability, ageing analysis of accounts and on management's judgement, including the current creditworthiness and the past collection statistics of individual account. There was no impaired debt for the six months ended 30 June 2014 and the year ended 31 December 2013.

No ageing analysis is disclosed as in the opinion of the directors, the ageing analysis is not meaningful in view of the revolving nature of the business of securities margin financing.

10. OTHER LOANS AND ADVANCES

	30.6.2014 HK\$'000 (unaudited)	31.12.2013 HK\$'000 (audited)
Other loans and advances	2,363,122	3,060,400
Less: Non-current portion	(1,325,547)	(1,188,200)
Current portion	<u>1,037,575</u>	<u>1,872,200</u>

There is neither impaired nor overdue other loans and advances as of reporting dates.

All these other loans and advances are secured and/or backed by guarantee with contractual maturity within 2 years from the reporting date. Credit limits are set for borrowers and regular reviews on these other loans and advances are conducted by the Risk Management Department and the Risk Management Committee of the Group based on the latest status of these other loans and advances, and the latest announced or available information about the borrowers and the underlying collateral held. Apart from collateral monitoring, the Group seeks to maintain tight control over its loans and advances in order to minimise credit risk by reviewing the borrowers' and/or guarantors' financial positions.

In both current period end and prior year end, these loans bear interest at Hong Kong prime rate minus 2% to Hong Kong prime rate plus 10% or at a fixed rate of 2% to 13% per annum.

11. ACCOUNTS RECEIVABLE

	30.6.2014 HK\$'000 (unaudited)	31.12.2013 HK\$'000 (audited)
Accounts receivable from:		
- Clients	174,148	146,725
- Brokers, dealers and clearing house	2,438,670	1,456,466
- Clients for subscription of new shares in IPO	4,089,949	228
- Others (note)	49,175	39,503
	<u>6,751,942</u>	<u>1,642,922</u>

Note:

The balance represents the fee receivables from advisory and financial planning, asset and fund management business.

There is no impaired accounts receivable as of the reporting dates for current period and prior year end. The following is an ageing analysis of the accounts receivable based on trade date at the reporting date:

	30.6.2014 HK\$'000 (unaudited)	31.12.2013 HK\$'000 (audited)
Between 0 and 3 months	6,728,234	1,616,085
Between 4 and 6 months	7,740	7,174
Between 7 and 12 months	7,293	12,910
Over 1 year	8,675	6,753
	<u>6,751,942</u>	<u>1,642,922</u>

Accounts receivable from clients, brokers and clearing house arising from the business of dealing in securities are repayable on demand subsequent to settlement date. The normal settlement terms of accounts receivable arising from the business of dealing in securities are two days after trade date and accounts receivable arising from the business of dealing in futures and options are one day after trade date.

Account receivable from clients arising from financing of IPO subscriptions are required to settle their securities trading balances on the allotment date determined under the relevant market practices or exchange rules. As at 30 June 2014, the settlement dates are in the range of 2 July 2014 to 8 July 2014.

Normal settlement terms of accounts receivable from advisory and financial planning, asset and fund management are determined in accordance with the contract terms, usually within one year after the service provided.

Trading limits are set for customers. The Group seeks to maintain tight control over its outstanding accounts receivable in order to minimise credit risk. As at 30 June 2014, overdue balances are approximately of HK\$4.8 million (31 December 2013: HK\$2.8 million) which are regularly monitored by management. The management ensures that the listed equity securities belonged to clients in which the Group holds as custodian are sufficient to cover the amount due to the Group.

12. ISSUED CAPITAL

The issued shares of the Company were increased from 1,395,959,624 to 2,093,939,436 during the current six-month period due to the Rights Issue.

13. ACCOUNTS PAYABLE

	30.6.2014 HK\$'000 (unaudited)	31.12.2013 HK\$'000 (audited)
Accounts payable to:		
- Clients	9,289,055	12,846,277
- Brokers, dealers and clearing house	912,628	316,749
- Others	226,048	244,154
	<u>10,427,731</u>	<u>13,407,180</u>

The majority of the accounts payable balances are repayable on demand except where certain accounts payable to clients represent margin deposits received from clients for their trading activities under normal course of business. Only the excess amounts over the required margin deposits stipulated are repayable on demand.

No aging analysis is disclosed as in the opinion of the directors of the Company, the aging analysis does not give additional value in view of the nature of these businesses.

The Group has a practice to satisfy all the requests for payments immediately within the credit period. There is no overdue accounts payable balance as of the reporting date.

Except for the accounts payable to clients which bear interest at 0.001% as at 30 June 2014 (31 December 2013: 0.001%), all the accounts payable are non-interest bearing.

Accounts payable to clients also include those payables placed in trust accounts with authorized institutions of HK\$9,259,851,000 (31 December 2013: HK\$12,053,559,000), Hong Kong Futures Exchange Clearing Corporation Limited, Stock Exchange Options Clearing House and other futures dealers totalling HK\$807,669,000 (31 December 2013: HK\$860,264,000).

MANAGEMENT DISCUSSION AND ANALYSIS

While the market is still cheering the launch of the “Shanghai-Hong Kong Stock Connect” (the “stock connect”), the new idea of “commodity connectivity” allowing direct access into the Mainland’s commodity futures market is already on the cards. Also, amid speculation over the real intention behind HKEx’s hefty acquisition of the London Metal Exchange (LME), the local exchange has made clear the need to develop commodity market in the Asian time zone. Over the past five years, the Hong Kong capital market has been evolving uninterrupted. Numerous pilot moves and continuous new launches sweeping across the spot market and the futures market covering topics from Renminbi (“RMB”) internationalisation to stock connect programme have shared one thing in common – the quest for change. Being a market participant, we have been pondering the future complexion of the Hong Kong securities sector and the whereabouts of business opportunities amid the large investment banking era.

In our views, the Hong Kong market has entered a new development stage characterised by several features, including (1) the deepened integration of the international financial markets, with business diversification and differentiation of the capital market continuously gaining pace; (2) the extension of the business chain of large investment banks, where capital strength and capital deployment capability have become the clues to surviving competition; and (3) the increasing prominence of local advantages, indicative of a pressing need to build up core competitiveness. Therefore, future competition in the investment banking sector will be a fight for differentiation and a comparison of capital strength and capital deployment capability. Capitalising on China’s rapid economic growth and the opportunities arising from the opening-up of its financial market, coupled with their existing advantages and the lessons learnt from the development of international counterparts, Chinese financial institutions are advantageously positioned in the Hong Kong capital market.

Deepened integration of the international financial markets is compounded by accelerated business diversification and differentiation of the capital market

(1) Stock connect programme heralds opening up of capital markets on both sides, significantly benefiting cross-border business of Chinese financial institutions

In April 2014, the securities regulators and stock exchanges in the Mainland and Hong Kong announced a stock connect pilot programme with an initial quota of RMB550 billion. This is the first move for RMB capital account liberalisation, spelling opportunities for investors on both sides to gain direct access to each other’s capital market at a lower cost yet greater convenience. The pilot programme has caused a ripple in the market and many financial institutions have switched their attention to figure out how they could fully seize the opportunities brought by the through train scheme.

Being the only Mainland brokerage firm with both the parent and its subsidiary maintaining a listing status, Haitong is well positioned to grasp opportunities from the stock connect programme thanks to its comprehensive business lines, strong research capability and extensive institutional client network. Riding the stock connect trend, the research teams of Haitong Securities and Haitong International jointly held a semi-annual investment conference, which was warmly received by the market. As early as last year, Haitong International already got the insight into such a stock connect trend of capital markets and has made preparation well in advance, including stepping up connection of systems while capitalizing on the established advantages of its RMB business, in order to pave the way for the impending launch of the stock connect pilot programme, striving to provide investors with premium cross-border stock trading services.

(2) Well-grounded to support the brisk development of offshore RMB business

With the ongoing internationalisation of RMB, the offshore RMB business is undoubtedly a new growing point among Chinese financial institutions. In March this year, the CSRC Chairman Xiao Gang expressed the need to expand RQFII investment and to make tax policy clear on this front. Lately, the Chinese government also announced the issuance of a RQFII quota to the tune of RMB80 billion to Germany and Korea respectively. In the first half of 2014, the total issuance size of offshore RMB bonds amounted to RMB159.75 billion, surpassing the aggregate issuance size of RMB137 billion for the entire year of 2013.

Haitong International has been well-prepared and well-grounded on RMB business front. As early as 2009, the Group already presaged the huge potential of RMB business and moved quickly to grasp market opportunities, including launching the first dim sum bond public fund in Hong Kong in 2010. Over the years, Haitong International has further rationalised its RMB business line by switching from equities to debts, from low-income products to high-income products, and from passive management to active management, successfully building an asset management brand of “RMB Product Expert” in the sector. Also, the Group was among the first batch of Chinese financial institutions to have received an RQFII

quota. The RQFII quota awarded to the Group (via its holding company, Haitong International Holdings Limited) increased significantly to RMB9.7 billion in the first half of the year, making it the first among all non-asset-management-based financial institutions in terms of RQFII quota being granted so far. This in turn spurred the marked growth of the Group's asset management scale over the corresponding period of last year. While boosting the scale of its RMB business, the Group has also proactively tapped into innovative RMB products. On 7 March, the Group became the first brokerage firm to successfully launch an RQFII ETF in Hong Kong (namely Haitong CSI300 Index ETF). On investment return front, Haitong Global RMB Fixed Income Fund, the first dim sum bond public fund in the Hong Kong market, sustained its brilliant results and was rated 4 star by Morningstar recently, making it the highest-rated RMB fund for the time being.

Extended business chain of large investment banks turns capital strength and capital deployment capability the clues to surviving competition

Looking forward, we believe the investment banking business chain will grow more comprehensive, with businesses covering a multi-tier market and the concurrent development of primary market and secondary market businesses compounded by the parallel advancement of on-floor and over-the-counter trading. In the future, the core competitiveness of the investment banking business will lie in the capability to provide enterprises with comprehensive and structured one-stop solutions, including the capability to design, deliberate and duly implement proposals covering equity and bond dealing as well as mergers and acquisitions amid different development phases of enterprises and different market conditions. The foray into new businesses and reshuffling of revenue model would present a new complexion to the investment banking sector in which the agency businesses were mired in homogeneous competition. In the course of extension of the investing banking business chain, the significance of capital will become increasingly prominent. Capital strength and capital deployment capability will be the crucial factors in determining future competition landscape of the securities sector, and the propeller behind further differentiation of the industry.

In 2013, Haitong International expanded its balance sheet by stepping up equity financing and bond financing, successfully raising funds to support its capital investment and capital-based intermediary business. This year, in light of the huge capital demand to cater for its rapid business growth, Haitong International has moved with the latest market trends and proactively adopted various financing channels to expand its capital base. In the first half of 2014, Haitong International raised net proceeds of HK\$2,643 million by way of rights issue, and was awarded HK\$3.34 billion of new syndicated loans to effectively control its financing cost. In addition, Haitong International also announced the issuance of US\$1 billion worth of medium-term notes on 20 June, in the hope of maximising shareholder value via effective capital use.

Local advantages are gaining prominence, indicative of a pressing need to build up core competitiveness

The core competitiveness of Haitong International lies in its investment management capability, its undertaking and pricing capability as well as its institutional sales and trading capability. With continuous efforts made to strengthen these three core competitive edges, the Group has made solid strides on various fronts.

(1) Cultural homogeneity and sharing of similar values put local institutions in a better position to serve local investors

Chinese enterprises and Chinese capital have been gaining importance in the international market. Since 2007, Chinese companies (including H shares) have accounted for nearly two-thirds of total turnover of the Hong Kong market and have become a major force in the Hong Kong capital market. As regards IPO activities, the funds raised by Chinese enterprises represented over 90% of total IPO proceeds of the Hong Kong capital market in 2013. With the continuous rollout of policies for financial reform and innovation in the Mainland China, the ratio of direct financing is expected to continuously go up and cross-border financing will be eased further as well. In the past, foreign investment banks capitalised on their understanding of the international market, their overseas client network and their talent pool to consolidate their established position in the Hong Kong investment banking sector. Looking forward, it will be the Chinese financial institutions that leverage their extensive knowledge of the needs of listing candidates, their services that are more palatable to the Mainland investors, as well as their professional teams comprising experts with both international horizon and a Mainland background to wield their influence in the Hong Kong market.

In the first half of 2014, Haitong International completed 6 IPO projects in the capacity of a joint bookrunner. In terms of the number of projects undertaken, Haitong International ranked fourth in the Hong Kong market. Among the projects undertaken by Haitong International were large IPOs eyeing a

fundraising size of over US\$1 billion, further attesting to the Group's strong capability to undertake large investment projects.

Besides grasping further market share in IPO undertaking and underwriting, Haitong International has also made proactive efforts to facilitate the development of its structured financing business, with an aim to providing enterprises with customised solutions on corporate actions and shareholders' actions before and after listing. While expanding the scope of projects undertaken, the Group has also strengthened risk control and successfully diversified its portfolio in terms of project type, sector involved and tenure, thus safeguarding robust business development while keeping risk in check. By sharing corporate customers and identifying the financing needs of enterprises in different development stages, the structured financing business and the existing corporate finance business have realised benign coordination and interaction.

(2) Establish core competitiveness with the right strategies and tactics to survive competition

Haitong International has clung to the target of tapping into the derivatives business sector. Upholding the mission of setting up modern investment banking business and structure, the Group established an equity derivatives business platform in September 2012 and has kept bolstering both professionalism and scale effect of the platform. In the first half of 2014, the Equity Derivatives business witnessed significant growth in turnover from market making operations following system upgrades and optimisation of trading strategies, outstripping all other market players of similar businesses. Meanwhile, the business has also fully capitalised on the Group's established advantages in RMB business to strengthen ties across departments and business segments, striving to provide more product solutions to overseas customers seeking to invest in China.

On bond trading front, Haitong International has kept strengthening its Fixed Income, Currency and Commodities Department, and has fully kicked off market making service for both dim sum bonds and USD-denominated Chinese credit bonds within a short period of time. At present, the segment has put in place a sizable trading team, a market analysis team, a sales team as well as a supporting team in the middle and back office, enabling it to provide customers with more comprehensive bilateral quotation for bonds. In the first half of 2014, revenue contribution from the business segment amounted to HK\$135 million. Aggregate turnover from bond market making has grown nearly 500% over the entire year of 2013. Besides trading, the business has partnered with the Debt Capital Markets team to complete the primary market issuance and further issuance of a number of bonds.

In the course of balance sheet expansion and leverage-driven development of the capital-based intermediary business, the risk management function has played an increasingly important role. Haitong International has stuck to the risk control philosophy of staying prudent and even conservative. Making reference to yardsticks widely adopted in the market, alongside upgrades of its risk management system, Haitong International has taken different reinforced measures to address different types of risk. As for manpower configuration in the large investment banking era, Haitong International continued to devote resources to team-building. In the first half of 2014, the Group seized golden opportunities to attract new talents and has strengthened manpower in the middle and back office in particular.

Embrace the large investment banking era which presents more opportunities than challenges

English romantic poet Percy Bysshe Shelley once said, "shallow brooks babble while still waters run deep". The capital market is constantly changing over time, just like all the rivers and streams that grapple to find their way into the ocean. However, babbling brooks could only make a splash that recedes in no time, whereas deep rivers embracing waters from every corner could eventually churn up the sea to create spectacular scenes. In Hong Kong's giant capital market, the development of a top enterprise would require insightful strategies, an open mind as well as all-out effort and strong execution power to survive fierce competition. Looking forward, Haitong International will move forward on the back of all-out effort, well-established tactics and strong execution power. Against intense competition, Haitong International will remain open-minded and is ready to embrace any competition from its peers and players from other sectors. After all, the Group is competing against itself, not others.

COMPLIANCE WITH CORPORATE GOVERNANCE CODE

The Board is committed to maintaining a high standard of corporate governance practices within the Group. Throughout the six months ended 30 June 2014, the Company has fully complied with the code provisions set out in the Corporate Governance Code (the “CG Code”) as contained in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”), except that 2 non-executive directors of the Company were unable to attend the annual general meeting of the Company held on 15 April 2014 as stipulated for in code provisions A.6.7 of the CG Code as they had other important business engagements at that relevant time.

COMPLIANCE WITH MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the “Model Code”) set out in Appendix 10 of the Listing Rules as its code of conduct for securities transactions by the directors of the Company. Having made specific enquiry of all directors of the Company, all directors confirmed that they have complied with the required standard set out in the Model Code throughout the six months ended 30 June 2014.

AUDIT COMMITTEE

The Audit Committee of the Company (the “Audit Committee”) has met with the external auditor of the Group, Messrs. Deloitte Touche Tohmatsu, to review the accounting principles and practices adopted by the Group and the unaudited consolidated results for the six months ended 30 June 2014 of the Group. The Audit Committee currently comprises 4 non-executive directors of the Company and 3 of whom, including the Chairman of the Audit Committee (the “Chairman”), are independent non-executive directors. The Chairman has the appropriate professional qualification and experience in financial matters.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY’S LISTED SECURITIES

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company’s listed securities during the six months ended 30 June 2014 other than as an agent for clients of the Company or its subsidiaries.

PUBLICATION OF THE INTERIM RESULTS ANNOUNCEMENT AND INTERIM REPORT FOR THE SIX MONTHS ENDED 30 JUNE 2014 ON THE WEBSITES OF THE STOCK EXCHANGE OF HONG KONG LIMITED AND THE COMPANY

This announcement of the interim results for the six months ended 30 June 2014 is published on the websites of The Stock Exchange of Hong Kong Limited and the Company at <http://www.htisec.com>. The Interim Report for the six months ended 30 June 2014 of the Company containing all the information required by the Listing Rules will be despatched to shareholders of the Company and published on the aforesaid websites in due course.

By order of the Board
Haitong International Securities Group Limited
LIN Yong
Deputy Chairman and Managing Director

Hong Kong, 7 August 2014

As at the date of this announcement, the Board comprises Mr. JI Yuguang (Chairman), Mr. LI Jianguo (Deputy Chairman), Mr. LIN Yong (Deputy Chairman and Managing Director), Mr. POON Mo Yiu, Mr. HUI Yee Wilson, Mr. CHENG Chi Ming Brian*, Ms. WANG Meijuan*, Mr. TSUI Hing Chuen William**, Mr. LAU Wai Piu**, Mr. LIN Ching Yee Daniel ** and Mr. WEI Kuo-chiang**.*

* Non-executive Directors

** Independent Non-executive Directors