

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 2012

Consolidated statement of comprehensive income
for the six months ended 30 September 2012
(Expressed in United States dollars)

	<i>Note</i>	<i>Six months ended 30 September</i>	
		<i>2012</i>	<i>2011</i>
Turnover	4	\$ 37,330,168	\$ 64,695,524
Other revenue	5	29,394,613	26,860,944
Other net income	5	885,195	465,737
Staff costs	6	(40,112,875)	(78,024,040)
Depreciation	10	(4,710,407)	(3,722,068)
Other operating expenses		<u>(49,694,617)</u>	<u>(61,213,521)</u>
Loss from operations		\$ (26,907,923)	\$ (50,937,424)
Finance costs	7(a)	<u>(1,714,796)</u>	<u>(645,270)</u>
Loss before taxation	7	\$ (28,622,719)	\$ (51,582,694)
Income tax	8(a)	<u>-</u>	<u>-</u>
Loss for the period		<u>\$ (28,622,719)</u>	<u>\$ (51,582,694)</u>

The notes on pages 7 to 17 form part of this interim financial report.

Consolidated statement of comprehensive income
for the six months ended 30 September 2012
(Expressed in United States dollars)

	Six months ended 30 September	
	2012	2011
Loss for the period	\$ (28,622,719)	\$ (51,582,694)
Other comprehensive income for the period		
Exchange differences on translation of financial statements of the subsidiary	3,799	(1,753)
Available-for-sale securities: net movement in the investment revaluation reserve	<u>62,259</u>	<u>331,411</u>
Total comprehensive income for the period	<u>\$ (28,556,661)</u>	<u>\$ (51,253,036)</u>

The notes on pages 7 to 17 form part of this interim financial report.

Consolidated balance sheet at 30 September 2012

(Expressed in United States dollars)

	<i>Note</i>	<i>30 September 2012</i>	<i>31 March 2012</i>
Non-current assets			
Intangible assets	9	\$ 383,702	\$ 380,548
Fixed assets	10	27,786,961	31,612,218
Available-for-sale securities	11	2,404,488	2,341,814
Other non-current deposits		3,604,234	2,875,799
		\$ 34,179,385	\$ 37,210,379
Current assets			
Financial assets at fair value through profit or loss	12	\$ 11,903,935	\$ 22,606,256
Receivables from reverse repurchase agreements	13	348,714,737	328,989,228
Accounts receivable	21	1,461,769,858	2,200,465,654
Other receivables and prepayments	21	45,716,099	24,087,623
Cash and cash equivalents	15	442,806,874	537,341,604
		\$ 2,310,911,503	\$ 3,113,490,365
Current liabilities			
Financial liabilities at fair value through profit or loss	16	\$ 11,907,643	\$ 15,146,214
Amount due to a fellow subsidiary	14	348,116,908	328,479,544
Accounts payable	21	1,470,493,250	2,212,177,161
Current taxation	18(a)	16,030	16,009
Accruals and other payables	20	70,648,558	122,416,656
		\$ 1,901,182,389	\$ 2,678,235,584
Net current assets		\$ 409,729,114	\$ 435,254,781
Total assets less current liabilities		\$ 443,908,499	\$ 472,465,160

Consolidated balance sheet at 30 September 2012

(continued)

(Expressed in United States dollars)

	Note	30 September 2012	31 March 2012
Non-current liabilities			
Subordinated loans	17	<u>\$ 35,000,000</u>	<u>\$ 35,000,000</u>
Net assets		<u>\$ 408,908,499</u>	<u>\$ 437,465,160</u>
Representing:			
Share capital	19	\$ 557,860,644	\$ 557,860,644
General reserve	20(a)	12,008,165	12,008,165
Investment revaluation reserve	20(b)	342,845	280,586
Translation reserve	20(c)	417	(3,382)
Accumulated losses		<u>(161,303,572)</u>	<u>(132,680,853)</u>
		<u>\$ 408,908,499</u>	<u>\$ 437,465,160</u>

The notes on pages 7 to 17 form part of this interim financial report.

Consolidated statement of changes in equity for the six months ended 30 September 2012 (Expressed in United States dollars)

	<i>Share capital</i>	<i>General reserve</i>	<i>Investment revaluation reserve</i>	<i>Translation reserve</i>	<i>Accumulated losses</i>	<i>Total</i>
At 1 April 2012	\$ 557,860,644	\$ 12,008,165	\$ 280,586	\$ (3,382)	\$ (132,680,853)	\$ 437,465,160
Total comprehensive income for the period	-	-	62,259	3,799	(28,622,719)	(28,556,661)
At 30 September 2012	<u>\$ 557,860,644</u>	<u>\$ 12,008,165</u>	<u>\$ 342,845</u>	<u>\$ 417</u>	<u>\$ (161,303,572)</u>	<u>\$ 408,908,499</u>
At 1 April 2011	\$ 332,860,644	\$ 12,008,165	\$ 114,753	\$ (12,148)	\$ (39,605,660)	\$ 305,365,754
Share issued during the period	225,000,000	-	-	-	-	225,000,000
Total comprehensive income for the period	-	-	331,411	(1,753)	(51,582,694)	(51,253,036)
At 30 September 2011	<u>\$ 557,860,644</u>	<u>\$ 12,008,165</u>	<u>\$ 446,164</u>	<u>\$ (13,901)</u>	<u>\$ (91,188,354)</u>	<u>\$ 479,112,718</u>

The notes on pages 7 to 17 form part of this interim financial report.

**Condensed consolidated cash flow statement
for the six months ended 30 September 2012**
(Expressed in United States dollars)

	<i>Note</i>	<i>Six months ended 30 September</i>	
		<i>2012</i>	<i>2011</i>
Net cash used in operating activities		\$ (80,916,131)	\$ (31,027,465)
Net cash used in investing activities		(6,794,211)	(6,365,967)
Net cash (used in)/generated from financing activities		<u>(6,824,388)</u>	<u>224,870,062</u>
Net (decrease)/increase in cash and cash equivalents		\$ (94,534,730)	\$ 187,476,630
Cash and cash equivalents at 1 April	15	<u>502,341,604</u>	<u>335,150,519</u>
Cash and cash equivalents at 30 September	15	<u>\$ 407,806,874</u>	<u>\$ 522,627,149</u>
Analysis of balance of cash and cash equivalent			
Bank balance and cash - general accounts	15	<u>\$ 407,806,874</u>	<u>\$ 522,627,149</u>

The notes on pages 7 to 17 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 of Daiwa Capital Markets Hong Kong Limited and its subsidiary (“the Group”) has been prepared in accordance with the Hong Kong Accounting Standard (“HKAS”) 34 Interim financial reporting, issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”).

2 Accounting policies

The unaudited interim financial report has been prepared in accordance with the same accounting policies adopted in the Group’s financial statements for the year ended 31 March 2012.

3 Changes in accounting policies

The HKICPA has issued a few amendments to HKFRSs that are first effective for the current accounting period of the Group. Of these, the following developments are relevant to the Group’s financial statements:

- Amendments to HKFRS 7, *Financial instruments: Disclosures - Transfers of financial assets*
- Amendments to HKAS 12, *Income taxes - Deferred tax: Recovery of underlying assets*

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

4 Turnover

	<i>Six months ended 30 September</i>	
	<i>2012</i>	<i>2011</i>
Commission and brokerage income	\$ 28,977,630	\$ 50,719,215
Underwriting and other commission income	6,493,410	12,285,367
Financial advisory fee income	1,254,383	1,028,502
Other commission income	604,745	662,440
	<u>\$ 37,330,168</u>	<u>\$ 64,695,524</u>

5 Other revenue and other net income

	<i>Six months ended 30 September</i>	
	<i>2012</i>	<i>2011</i>
Other revenue		
Dividend income on proprietary trading positions	\$ -	\$ 183,720
Research fees income from group companies	4,492,792	9,311,365
Management fees and services fees income from group companies	20,411,283	16,819,663
Interest income	4,165,377	233,243
Rental income from related companies	325,161	312,953
	<u>\$ 29,394,613</u>	<u>\$ 26,860,944</u>
Other net income		
Net trading gain in securities	\$ 977,787	\$ 351,747
Loss on disposal of fixed assets	(437,097)	(4)
Exchange gain	180,887	36,806
Others	163,618	77,188
	<u>\$ 885,195</u>	<u>\$ 465,737</u>

6 Staff costs

	<i>Six months ended 30 September</i>	
	<i>2012</i>	<i>2011</i>
Salaries, wages and other benefits	\$ 39,309,131	\$ 75,928,321
Contributions to defined contribution plan	803,744	2,095,719
	<u>\$ 40,112,875</u>	<u>\$ 78,024,040</u>

7 Loss before taxation

Loss before taxation is arrived at after charging:

	<i>Six months ended 30 September</i>	
	2012	2011
(a) Finance costs		
Interest expenses on bank loans	\$ 72	\$ 2,952
Interest expenses paid to the ultimate holding company	522,626	-
Interest expenses paid to a fellow subsidiary	954,131	330,946
	\$ 1,476,829	\$ 333,898
Other financing expenses	237,967	311,372
	\$ 1,714,796	\$ 645,270
(b) Other items		
Commission and brokerage charges	\$ 19,670,875	\$ 20,435,713
Underwriting expenses	18,214	4,178,594
Operating lease charges on properties	7,829,040	8,651,232
Auditors' remuneration	151,833	125,858

8 Income tax in the statement of comprehensive income

(a) No provision for Hong Kong Profits Tax has been made for the both periods as the Group 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>	
	2012	2011
Loss before taxation	\$ (28,622,719)	\$ (51,582,694)
Notional tax on loss before taxation, calculated at 16.5%	\$ (4,722,749)	\$ (8,511,145)
Tax effect of non-deductible expenses	794,365	1,931,012
Tax effect of non-taxable revenue	(239,258)	(1,855,816)
Tax effect of unused tax losses not recognised	4,167,642	8,435,949
Actual tax expense	\$ -	\$ -

9 Intangible assets

	<i>The Group and the Company</i>		
	<i>Trading rights</i>	<i>Club debentures</i>	<i>Total</i>
Cost:			
At 1 April 2012	\$ 419,448	\$ 380,544	\$ 799,992
Exchange differences	-	3,154	3,154
	\$ 419,448	\$ 383,698	\$ 803,146
Accumulated impairment loss:			
At 1 April 2012 and 30 September 2012	\$ 419,444	-	\$ 419,444
	\$ 4	\$ 383,698	\$ 383,702
Net book value:			
At 30 September 2012	\$ 4	\$ 383,698	\$ 383,702

	<i>The Group and the Company</i>		
	<i>Trading rights</i>	<i>Club debentures</i>	<i>Total</i>
Cost:			
At 1 April 2011	\$ 419,448	\$ 382,043	\$ 801,491
Exchange differences	-	(1,499)	(1,499)
	\$ 419,448	\$ 380,544	\$ 799,992
Accumulated impairment loss:			
At 1 April 2011 and 31 March 2012	\$ 419,444	-	\$ 419,444
	\$ 4	\$ 380,544	\$ 380,548
Net book value:			
At 31 March 2012	\$ 4	\$ 380,544	\$ 380,548

10 Fixed assets

	<i>Leasehold improvements</i>	<i>Furniture, fixtures and office equipment</i>	<i>Motor vehicles</i>	<i>Total</i>
Cost:				
At 1 April 2012	\$ 10,394,216	\$ 39,654,034	\$ 315,379	\$ 50,363,629
Additions	-	1,322,248	-	1,322,248
Disposals	-	(758,413)	-	(758,413)
At 30 September 2012	<u>\$ 10,394,216</u>	<u>\$ 40,217,869</u>	<u>\$ 315,379</u>	<u>\$ 50,927,464</u>
Accumulated depreciation:				
At 1 April 2012	\$ 596,313	\$ 17,839,719	\$ 315,379	\$ 18,751,411
Charge for the period	866,185	3,844,223	-	4,710,408
Written back on disposals	-	(321,316)	-	(321,316)
At 30 September 2012	<u>\$ 1,462,498</u>	<u>\$ 21,362,626</u>	<u>\$ 315,379</u>	<u>\$ 23,140,503</u>
Net book value:				
At 30 September 2012	<u>\$ 8,931,718</u>	<u>\$ 18,855,243</u>	<u>\$ -</u>	<u>\$ 27,786,961</u>

	<i>Leasehold improvements</i>	<i>Furniture, fixtures and office equipment</i>	<i>Motor vehicles</i>	<i>Total</i>
Cost:				
At 1 April 2011	\$ 1,895,261	\$ 33,145,054	\$ 317,947	\$ 35,358,262
Additions	10,330,458	12,727,219	-	23,057,677
Disposals	(1,831,503)	(10,796,398)	(2,568)	(12,630,469)
Transfer from related companies	-	4,578,159	-	4,578,159
At 31 March 2012	<u>\$ 10,394,216</u>	<u>\$ 39,654,034</u>	<u>\$ 315,379</u>	<u>\$ 50,363,629</u>
Accumulated depreciation:				
At 1 April 2011	\$ 825,339	\$ 17,443,228	\$ 310,005	\$ 18,578,572
Charge for the period	782,264	7,869,165	7,941	8,659,370
Written back on disposals	(1,011,290)	(7,472,674)	(2,567)	(8,486,531)
At 31 March 2012	<u>\$ 596,313</u>	<u>\$ 17,839,719</u>	<u>\$ 315,379</u>	<u>\$ 18,751,411</u>
Net book value:				
At 31 March 2012	<u>\$ 9,797,903</u>	<u>\$ 21,814,315</u>	<u>\$ -</u>	<u>\$ 31,612,218</u>

11 Available-for-sale securities

	<i>30 September 2012</i>	<i>31 March 2012</i>
Club debentures, at fair value	\$ 2,404,488	\$ 2,341,814

12 Financial assets at fair value through profit or loss

	<i>30 September 2012</i>	<i>31 March 2012</i>
Listed equity securities	\$ 759	\$ 7,458,548
Positive fair value of derivative (note 22)		
– with a fellow subsidiary	<u>11,903,176</u>	<u>15,147,708</u>
	<u>\$ 11,903,935</u>	<u>\$ 22,606,256</u>

As at 30 September 2012, the market value of securities placed by a fellow subsidiary to the Company for over-the-counter transactions amounted to \$78,563,914 (31 March 2012: \$128,069,128).

The above financial assets at 30 September 2012 were classified as held for trading.

13 Receivables from reverse repurchase agreements

	<i>The Group and the Company</i>	
	<i>30 September 2012</i>	<i>31 March 2012</i>
Receivables from reverse repurchase agreements	<u>\$ 348,714,737</u>	<u>\$ 328,989,228</u>

As of 30 September 2012, the fair value of collateral accepted in respect of the reverse repurchase transactions was \$458,330,792 (31 March 2012: \$443,507,876), the Group and the Company has not recognised this collateral 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.

14 Amounts due to a fellow subsidiary

The amount due to a fellow subsidiary is secured, interest-bearing and have fixed terms of repayment.

15 Cash and cash equivalents

	<i>30 September 2012</i>	<i>31 March 2012</i>
Deposits with bank	\$ 385,521,681	\$ 428,028,355
Cash at bank and in hand	<u>57,285,193</u>	<u>109,313,249</u>
Cash and cash equivalents in the balance sheet	\$ 442,806,874	\$ 537,341,604
Pledged deposit	<u>(35,000,000)</u>	<u>(35,000,000)</u>
Cash and cash equivalents in the cash flow statement	<u>\$ 407,806,874</u>	<u>\$ 502,341,604</u>

16 Financial liabilities at fair value through profit or loss

	<i>30 September 2012</i>	<i>31 March 2012</i>
Listed equity securities	\$ -	\$ 9,351
Negative fair value of derivatives	<u>11,907,643</u>	<u>15,136,863</u>
	<u>\$ 11,907,643</u>	<u>\$ 15,146,214</u>

The above financial liabilities at 30 September 2012 were classified as held for trading.

17 Subordinated loan

At 30 September 2012 and 31 March 2012, the subordinated loan is due to the ultimate holding company. It is unsecured, interest bearing and repayable as follows:

	<i>30 September 2012</i>	<i>31 March 2012</i>
Repayable after one year but within five years	<u>\$ 35,000,000</u>	<u>\$ 35,000,000</u>

17 Subordinated loan (continued)

Details of the terms of the subordinated loans at 30 September 2012 are as follows:

<i>Principal</i>	<i>Interest rate</i>	<i>Maturity date</i>
US\$35,000,000	LIBOR + 2.2%	1 March 2014

During the year, the maturity date of the subordinated loan was extended to 1 March 2014.

18 Income tax in the consolidated balance sheet

(a) Current taxation

Current taxation in the consolidated balance sheet represents provision for Hong Kong Profits Tax for the last year.

(b) Deferred tax assets not recognised

The Group and the Company have not recognised deferred tax assets in respect of tax losses of \$267,026,724 (31 March 2012: \$257,850,000) 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

	<i>30 September 2012</i>		<i>31 March 2012</i>	
	<i>No. of shares</i>	<i>Amount</i>	<i>No. of shares</i>	<i>Amount</i>
Authorised:				
Ordinary shares of HK\$10 each	10,000,000	\$ 21,126,414	10,000,000	\$ 21,126,414
Ordinary shares of US\$10 each	53,673,423	536,734,230	53,673,423	536,734,230
	<u>63,673,423</u>	<u>\$ 557,860,644</u>	<u>63,673,423</u>	<u>\$ 557,860,644</u>
Issued and fully paid:				
Ordinary shares of HK\$10 each				
– At 30 September and 31 March	10,000,000	\$ 21,126,414	10,000,000	\$ 21,126,414
Ordinary shares of US\$10 each				
– At 30 September and 31 March	53,673,423	536,734,230	53,673,423	536,734,230
	<u>63,673,423</u>	<u>\$ 557,860,644</u>	<u>63,673,423</u>	<u>\$ 557,860,644</u>

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 in note 2.

(c) Translation reserve

The translation reserve comprises the exchange differences arising from the translation of the financial statements of the subsidiary into the presentation currency of the Group.

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 2012</i>	<i>31 March 2012</i>
Accounts receivable	\$ 600,750,088	\$ 1,088,544,933
Other receivables and prepayments	26,803,190	13,921,542
Accounts payable	(570,314,058)	(468,151,146)
Accruals and other payables	<u>(2,523,360)</u>	<u>(3,390,510)</u>

22 Derivatives

The major derivative financial instruments traded by the Group and the Company are equity and foreign exchange 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>The Group and the Company</i>			
	<i>At 30 September 2012</i>		<i>At 31 March 2012</i>	
Fair value of derivatives	<i>Assets</i>	<i>Liabilities</i>	<i>Assets</i>	<i>Liabilities</i>
Equity derivatives	\$ 11,903,176	\$ (11,903,176)	\$ 15,136,863	\$ (15,136,863)
Foreign exchange derivatives	-	(4,467)	10,845	-
	<u>\$ 11,903,176</u>	<u>\$ (11,907,643)</u>	<u>\$ 15,147,708</u>	<u>\$ (15,136,863)</u>

23 Material related party transactions

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

	<i>Six months ended 30 September</i>	
	<i>2012</i>	<i>2011</i>
Brokerage commission earned from		
– fellow subsidiaries	\$ 1,807,570	\$ 1,361,662
– an intermediate holding company	-	5,383,495
Underwriting and selling commission earned from		
– fellow subsidiaries	4,489,749	559,053
– an intermediate holding company	-	746,121
Brokerage commission paid to		
– fellow subsidiaries	(5,227,835)	(5,144,975)
– an intermediate holding company	-	(1,654,609)
Research fee paid to a fellow subsidiary	(1,523)	(722,759)
Interest expense paid to		
– an intermediate holding company	-	(330,946)
– fellow subsidiaries	(954,131)	-
– the ultimate holding company	(705,355)	-
Rental income from fellow subsidiaries	325,161	312,953
Research fee income earned from an intermediate holding company and fellow subsidiaries	4,492,792	9,311,365
Management fees and services fees income from an intermediate holding company and fellow subsidiaries	<u>20,411,283</u>	<u>16,819,663</u>

24 Credit facilities

The Group has aggregate credit facilities provided by authorised institutions and group companies amounting to \$310,792,000 (31 March 2012: \$305,321,000) and \$1,600,046,000 (31 March 2012: \$2,041,087,000) respectively. The credit facilities provided by authorised institutions were not utilised as at 30 September 2012 (31 March 2012: \$Nil). Included in the credit facilities provided by group companies was a subordinated loan facility of \$140,000,000 provided by an ultimate holding company. \$35,000,000 of such facility was utilised as at 30 September 2012 and 31 March 2012 (see note 17).

25 Commitments

At 30 September 2012, the Group had the following commitments in the ordinary course of business:

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

	<i>30 September 2012</i>	<i>31 March 2012</i>
Within one year	\$ 15,054,373	\$ 14,910,837
After one year but within five years	47,214,109	47,574,686
More than five years	15,405,274	21,154,697
	<u>\$ 77,673,756</u>	<u>\$ 83,640,220</u>

26 Parent and ultimate holding company

The directors consider the immediate parent and ultimate holding company at 30 September 2012 to be Daiwa Capital Markets Asia Holding, B.V, which is incorporated in the Netherlands, and Daiwa Securities Group Inc., which is incorporated in Japan respectively. Daiwa Securities Group Inc. produces financial statements available for public use.