

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 2011

## Consolidated income statement for the six months ended 30 September 2011

*(Expressed in United States dollars)*

	<i>Note</i>	<i>Six months ended 30 September</i>	
		<i>2011</i>	<i>2010</i>
<b>Turnover</b>	4	\$ 64,695,524	\$ 32,154,652
Other revenue	5	26,860,944	16,642,236
Other net income	5	465,737	1,832,187
Staff costs	6	(78,024,040)	(48,720,391)
Depreciation	10	(3,722,068)	(2,064,823)
Other operating expenses		<u>(61,213,521)</u>	<u>(34,477,285)</u>
<b>Loss from operations</b>		\$ (50,937,424)	\$ (34,633,424)
Finance costs	7(a)	<u>(645,270)</u>	<u>(857,602)</u>
<b>Loss before taxation</b>	7	\$ (51,582,694)	\$ (35,491,026)
Income tax	8(a)	<u>-</u>	<u>-</u>
<b>Loss for the period</b>		<u>\$ (51,582,694)</u>	<u>\$ (35,491,026)</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 2011

(Expressed in United States dollars)

	Six months ended 30 September	
	2011	2010
<b>Loss for the period</b>	\$ (51,582,694)	\$ (35,491,026)
<b>Other comprehensive income for the period</b>		
Exchange differences on translation of financial statements of the subsidiary	(1,753)	1,435
Available-for-sale securities: net movement in the investment revaluation reserve	331,411	(13,093)
<b>Total comprehensive income for the period</b>	<u>\$ (51,253,036)</u>	<u>\$ (35,502,684)</u>

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

## Consolidated balance sheet at 30 September 2011

*(Expressed in United States dollars)*

	<i>Note</i>	<i>30 September 2011</i>	<i>31 March 2011</i>
<b>Non-current assets</b>			
Intangible assets	9	\$ 381,816	\$ 382,047
Fixed assets	10	22,776,249	16,779,690
Available-for-sale securities	11	2,495,485	2,165,197
Other non-current deposits		4,213,722	3,381,100
		\$ 29,867,272	\$ 22,708,034
<b>Current assets</b>			
Trading securities	12	\$ 120,704	\$ 1,528,008
Amount due from the intermediate holding company	13	-	1,858
Amounts due from fellow subsidiaries	13	-	1,504
Accounts receivable	19	812,634,043	1,615,123,258
Other receivables and prepayments	19	19,021,948	21,293,105
Cash and cash equivalents	14	557,627,149	370,150,519
		\$ 1,389,403,844	\$ 2,008,098,252
<b>Current liabilities</b>			
Short positions in trading securities	12	\$ -	\$ 124,237
Accounts payable	19	810,658,382	1,605,384,472
Current taxation	16(a)	34,882	47,574
Accruals and other payables	19	93,811,117	83,595,314
Subordinated loans	15	-	35,000,000
		\$ 904,504,381	\$ 1,724,151,597
<b>Net current assets</b>		\$ 484,899,463	\$ 283,946,655
<b>Total assets less current liabilities</b>		\$ 514,766,735	\$ 306,654,689

## Consolidated balance sheet at 30 September 2011

(continued)

(Expressed in United States dollars)

	<i>Note</i>	<i>30 September 2011</i>	<i>31 March 2011</i>
<b>Non-current liabilities</b>			
Deferred tax liabilities	16(b)	\$ 19,110	\$ 19,121
Accruals and other payables	19	634,907	1,269,814
Subordinated loans	15	35,000,000	-
		<u>\$ 35,654,017</u>	<u>\$ 1,288,935</u>
<b>Net assets</b>		<u>\$ 479,112,718</u>	<u>\$ 305,365,754</u>
Representing:			
<b>Share capital</b>	17	\$ 557,860,644	\$ 332,860,644
<b>General reserve</b>	18(a)	12,008,165	12,008,165
<b>Investment revaluation reserve</b>	18(b)	446,164	114,753
<b>Translation reserve</b>	18(c)	(13,901)	(12,148)
<b>Accumulated losses</b>		<u>(91,188,354)</u>	<u>(39,605,660)</u>
		<u>\$ 479,112,718</u>	<u>\$ 305,365,754</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 2011 *(Expressed in United States dollars)*

	<i>Share capital</i>	<i>General reserve</i>	<i>Investment revaluation reserve</i>	<i>Translation reserve</i>	<i>Retained profits</i>	<i>Total</i>
<b>At 1 April 2011</b>	\$ 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)
<b>At 30 September 2011</b>	<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>
<b>At 1 April 2010</b>	\$ 282,860,644	\$ 12,008,165	\$ (32,091)	\$ (3,956)	\$ 40,239,829	\$ 335,072,591
Total comprehensive income for the period	-	-	(13,093)	1,435	(35,491,026)	(35,502,684)
<b>At 30 September 2010</b>	<u>\$ 282,860,644</u>	<u>\$ 12,008,165</u>	<u>\$ (45,184)</u>	<u>\$ (2,521)</u>	<u>\$ 4,748,803</u>	<u>\$ 299,569,907</u>
<b>At 1 October 2010</b>	\$ 282,860,644	\$ 12,008,165	\$ (45,184)	\$ (2,521)	\$ 4,748,803	\$ 299,569,907
Share issued during the period	50,000,000	-	-	-	-	50,000,000
Total comprehensive income for the period	-	-	159,937	(9,627)	(44,354,463)	(44,204,153)
<b>At 31 March 2011</b>	<u>\$ 332,860,644</u>	<u>\$ 12,008,165</u>	<u>\$ 114,753</u>	<u>\$ (12,148)</u>	<u>\$ (39,605,660)</u>	<u>\$ 305,365,754</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 2011

*(Expressed in United States dollars)*

	<i>Note</i>	<i>Six months ended 30 September</i>	
		<i>2011</i>	<i>2010</i>
Net cash generated from operating activities		\$ (31,027,465)	\$ 2,001,808
Net cash used in investing activities		(6,365,967)	(1,469,439)
Net cash generated from/(used in) financing activities		<u>224,870,062</u>	<u>(490,760)</u>
Net increase in cash and cash equivalents		\$ 187,476,630	\$ 41,609
Cash and cash equivalents at 1 April	14	<u>335,150,519</u>	<u>249,498,032</u>
Cash and cash equivalents at 30 September	14	<u>\$ 522,627,149</u>	<u>\$ 249,539,641</u>
<b>Analysis of balance of cash and cash equivalent</b>			
Bank balance and cash - general accounts	14	<u>\$ 522,627,149</u>	<u>\$ 249,539,641</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 2011.

### **3 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 Group. Of these, the following developments are relevant to the Group’s financial statements:

- HKAS 24 (revised 2009), *Related party disclosures*
- Improvements to HKFRSs (2010)
- HK(IFRIC) 19, *Extinguishing financial liabilities with equity instruments*

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period. HK(IFRIC) 19 has not yet had a material impact on the Group’s financial statements as these changes will first be effective as and when the Group enters a relevant transaction. The remaining developments related primarily to clarification of certain disclosure requirements applicable to the Group’s financial statements. These developments have no material impact on the contents of this interim financial report.

#### 4 Turnover

	<i>Six months ended 30 September</i>	
	<i>2011</i>	<i>2010</i>
Commission and brokerage income	\$ 50,719,215	\$ 27,119,648
Underwriting and other commission income	12,285,367	3,976,270
Financial advisory fee income	1,028,502	663,284
Other commission income	662,440	395,450
	<u>\$ 64,695,524</u>	<u>\$ 32,154,652</u>

#### 5 Other revenue and other net income

	<i>Six months ended 30 September</i>	
	<i>2011</i>	<i>2010</i>
<b>Other revenue</b>		
Dividend income on proprietary trading positions	\$ 183,720	\$ 684,600
Research fees earned from group companies	9,311,365	11,086,168
Management fees earned from group companies	16,819,663	4,152,341
Interest income	233,243	400,837
Rental income from related companies	312,953	318,290
	<u>\$ 26,860,944</u>	<u>\$ 16,642,236</u>
<b>Other net income</b>		
Net profit on back-to-back trading in debt securities	\$ 667,206	\$ 1,194,207
Net (loss)/profit on proprietary trading in equity securities	(468,857)	371,281
Net gain on foreign currency swap transactions	23,653	71,386
Net gain on foreign currency transactions	129,745	90,022
Loss on disposal of fixed assets	(4)	(1)
Exchange gain/(loss)	36,806	(13,989)
Others	77,188	119,281
	<u>\$ 465,737</u>	<u>\$ 1,832,187</u>

## 6 Staff costs

	<i>Six months ended 30 September</i>	
	<i>2011</i>	<i>2010</i>
Salaries, wages and other benefits	\$ 75,928,321	\$ 47,730,975
Contributions to defined contribution plan	2,095,719	989,416
	<u>\$ 78,024,040</u>	<u>\$ 48,720,391</u>

## 7 Loss before taxation

Loss before taxation is arrived at after charging:

	<i>Six months ended 30 September</i>	
	<i>2011</i>	<i>2010</i>
<b>(a) Finance costs</b>		
Interest on bank loans	\$ 2,952	\$ 10,136
Interest expenses on subordinated loans	330,946	497,895
	333,898	508,031
Other financing expenses	311,372	349,571
	<u>\$ 645,270</u>	<u>\$ 857,602</u>
<b>(b) Other items</b>		
Commission and brokerage charges	\$ 20,435,713	\$ 8,824,846
Underwriting expenses	4,178,594	1,789,922
Operating lease charges on properties	8,651,232	5,448,290
Auditors' remuneration	125,858	89,797
	<u>125,858</u>	<u>89,797</u>

## 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.

## 8 Income tax in the statement of comprehensive income (continued)

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

	<i>Six months ended 30 September</i>	
	<i>2011</i>	<i>2010</i>
Loss before taxation	\$ (51,582,694)	\$ (35,491,026)
Notional tax on loss before taxation, calculated at 16.5%	\$ (8,511,145)	\$ (5,856,019)
Tax effect of non-deductible expenses	1,931,012	95,000
Tax effect of non-taxable revenue	(1,855,816)	(173,957)
Tax effect of unused tax losses not recognised	8,435,949	5,934,976
Utilisation of previously unrecognised tax losses	-	-
Actual tax expense	\$ -	\$ -

## 9 Intangible assets

	<i>The Group and the Company</i>		
	<i>Trading rights</i>	<i>Club debentures</i>	<i>Total</i>
<b>Cost:</b>			
At 1 April 2011	\$ 419,448	\$ 382,043	\$ 801,491
Exchange differences	-	(231)	(231)
At 30 September 2011	\$ 419,448	\$ 381,812	\$ 801,260
<b>Accumulated impairment loss:</b>			
At 1 April 2011 and 30 September 2011	\$ 419,444	\$ -	\$ 419,444
<b>Net book value:</b>			
At 30 September 2011	\$ 4	\$ 381,812	\$ 381,816

## 9 Intangible assets (continued)

	<i>The Group and the Company</i>		
	<i>Trading rights</i>	<i>Club debentures</i>	<i>Total</i>
<b>Cost:</b>			
At 1 April 2010	\$ 419,448	\$ 41,862	\$ 461,310
Additions	-	340,306	340,306
Exchange differences	-	(125)	(125)
At 31 March 2011	<u>\$ 419,448</u>	<u>\$ 382,043</u>	<u>\$ 801,491</u>
<b>Accumulated impairment loss:</b>			
At 1 April 2010 and 31 March 2011	<u>\$ 419,444</u>	<u>\$ -</u>	<u>\$ 419,444</u>
<b>Net book value:</b>			
At 31 March 2011	<u>\$ 4</u>	<u>\$ 382,043</u>	<u>\$ 382,047</u>

## 10 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 2011	\$ 1,895,261	\$ 33,145,054	\$ 317,947	\$ 35,358,262
Transfer from a related company	-	5,552,340	-	5,552,340
Additions	-	5,003,988	-	5,003,988
Disposals	-	(4)	-	(4)
At 30 September 2011	<u>\$ 1,895,261</u>	<u>\$ 43,701,378</u>	<u>\$ 317,947</u>	<u>\$ 45,914,586</u>
<b>Accumulated depreciation:</b>				
At 1 April 2011	\$ 825,339	\$ 17,443,228	\$ 310,005	\$ 18,578,572
Transfer from a related company	-	837,697	-	837,697
Charge for the period	147,176	3,566,950	7,942	3,722,068
At 30 September 2011	<u>\$ 972,515</u>	<u>\$ 21,847,875</u>	<u>\$ 317,947</u>	<u>\$ 23,138,337</u>
<b>Net book value:</b>				
At 30 September 2011	<u>\$ 922,746</u>	<u>\$ 21,853,503</u>	<u>\$ -</u>	<u>\$ 22,776,249</u>

## 10 Fixed assets (continued)

	<i>Leasehold improvements</i>	<i>Furniture, fixtures and office equipment</i>	<i>Motor vehicles</i>	<i>Total</i>
<b>Cost:</b>				
At 1 April 2010	\$ 1,113,044	\$ 22,758,903	\$ 317,947	\$ 24,189,894
Additions	782,660	11,152,640	-	11,935,300
Disposals	-	(765,191)	-	(765,191)
Exchange difference	(443)	(1,298)	-	(1,741)
	<hr/>	<hr/>	<hr/>	<hr/>
At 31 March 2011	\$ 1,895,261	\$ 33,145,054	\$ 317,947	\$ 35,358,262
	<hr/>	<hr/>	<hr/>	<hr/>
<b>Accumulated depreciation:</b>				
At 1 April 2010	\$ 580,890	\$ 13,442,330	\$ 291,783	\$ 14,315,003
Charge for the period	244,793	4,308,261	18,222	4,571,276
Written back on disposals	-	(306,394)	-	(306,394)
Exchange difference	(344)	(969)	-	(1,313)
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At 31 March 2011	\$ 825,339	\$ 17,443,228	\$ 310,005	\$ 18,578,572
	<hr/>	<hr/>	<hr/>	<hr/>
<b>Net book value:</b>				
At 31 March 2011	\$ 1,069,922	\$ 15,701,826	\$ 7,942	\$ 16,779,690
	<hr/>	<hr/>	<hr/>	<hr/>

## 11 Available-for-sale securities

	<i>30 September 2011</i>	<i>31 March 2011</i>
Club debentures, at fair value	\$ 2,495,485	\$ 2,165,197
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## 12 Trading securities

	<i>30 September 2011</i>	<i>31 March 2011</i>
<b>Long positions in trading securities</b>		
Listed equity securities	\$ 120,704	\$ 1,528,008
Unlisted equity securities	-	-
	<hr/>	<hr/>
	\$ 120,704	\$ 1,528,008
	<hr/>	<hr/>

**12 Trading securities (continued)**

	<i>30 September 2011</i>	<i>31 March 2011</i>
<b>Short positions in trading securities</b>		
Listed equity securities	\$ <u>                    -</u>	\$ <u>          124,237</u>

**13 Amounts due from group companies**

Amounts due from group companies are unsecured, non-interest bearing and repayable on demand.

**14 Cash and cash equivalents**

	<i>30 September 2011</i>	<i>31 March 2011</i>
Deposits with bank	\$ 207,035,047	\$ 209,023,840
Cash at bank and in hand	<u>315,592,102</u>	<u>126,126,679</u>
Pledged deposit	\$ <u>522,627,149</u> 35,000,000	\$ <u>335,150,519</u> 35,000,000
	<u>\$ 557,627,149</u>	<u>\$ 370,150,519</u>

**15 Subordinated loans**

	<i>30 September 2011</i>	<i>31 March 2011</i>
Repayable within one year	\$ -	\$ 35,000,000
Repayable after one year but within five years	<u>35,000,000</u>	<u>-</u>
	<u>\$ 35,000,000</u>	<u>\$ 35,000,000</u>

A subordinated loan facility of US\$140 million was granted by the intermediate holding company, Daiwa Securities Capital Markets Co. Ltd. The lender cannot recall the loan until 26 May 2013.

## 15 Subordinated loans (continued)

Details of the terms of the subordinated loans are as follows:

<i>Principal</i>	<i>Interest rate</i>	<i>Maturity date</i>
US\$35,000,000	LIBOR + 1.2%	26 May 2013

## 16 Income tax in the consolidated balance sheet

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

### (b) *Deferred tax liabilities recognised:*

The components of deferred tax liabilities recognised in the balance sheet and the movements during the period are as follows:

	<i>Depreciation allowances in excess of related depreciation</i>	
	<i>30 September 2011</i>	<i>31 March 2011</i>
<b>Deferred tax arising from:</b>		
At 1 April	\$ 19,121	\$ 7,922
Credited to profit or loss	-	11,217
Exchange difference	(11)	(18)
	<u>\$ 19,110</u>	<u>\$ 19,121</u>

### (c) *Deferred tax assets not recognised*

The Group and the Company have not recognised deferred tax assets in respect of tax losses of \$215,622,000 (31 March 2011: \$164,495,000) 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.

## 17 Share capital

	<i>30 September 2011</i>		<i>31 March 2011</i>	
	<i>No. of shares</i>	<i>Amount</i>	<i>No. of shares</i>	<i>Amount</i>
<b>Authorised:</b>				
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	31,173,423	311,734,230
	<u>63,673,423</u>	<u>\$ 557,860,644</u>	<u>41,173,423</u>	<u>\$ 332,860,644</u>
<b>Issued and fully paid:</b>				
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	31,173,423	311,734,230
	<u>63,673,423</u>	<u>\$ 557,860,644</u>	<u>41,173,423</u>	<u>\$ 332,860,644</u>

## 18 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.

## 19 Group companies

The following balances with 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 2011</i>	<i>31 March 2011</i>
Accounts receivable	\$ 450,822,595	\$ 334,825,063
Other receivables and prepayments	5,544,687	16,193,409
Accounts payable	(340,206,530)	(1,250,051,239)
Accruals and other payables	<u>(2,654,035)</u>	<u>(8,536,654)</u>

## 20 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>2011</i>	<i>2010</i>
Brokerage commission earned from		
– fellow subsidiaries	\$ 1,361,662	\$ 7,065,368
– an intermediate holding company	5,383,495	7,321,217
Underwriting and selling commission earned from		
– fellow subsidiaries	559,053	355,193
– an intermediate holding company	746,121	209,508
Brokerage commission paid to		
– fellow subsidiaries	(5,144,975)	(5,611,474)
– an intermediate holding company	(1,654,609)	(3,926,785)
Interest expense paid to an intermediate holding company	(330,946)	(497,895)
Research fee paid to subsidiary fellow subsidiaries	-	(637,854)
Rental income from fellow subsidiaries	312,953	318,290
Research fee income earned from an intermediate holding company and fellow subsidiaries	9,311,365	11,086,168
Management fee income from an intermediate holding company and fellow subsidiaries	<u>16,819,663</u>	<u>4,152,341</u>

## 21 Credit facilities

The Group has aggregate credit facilities provided by authorised institutions and group companies amounting to \$310,773,000 (31 March 2011: \$237,079,000) and \$2,174,566,000 (31 March 2011: \$1,847,875,000) respectively. The credit facilities provided by authorised institutions were not utilised as at 30 September 2011 (31 March 2011: \$Nil). Included in the credit facilities provided by group companies was a subordinated loan facility of \$140,000,000 provided by an intermediate holding company. \$35,000,000 of such facility was utilised as at 30 September 2011 and 31 March 2011 (see note 15).

## 22 Commitments

At 30 September 2011, 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 2011</i>	<i>31 March 2011</i>
Within one year	\$ 17,880,585	\$ 15,957,099
After one year but within five years	48,625,198	47,936,205
More than five years	<u>26,826,715</u>	<u>32,594,959</u>
	<u>\$ 93,332,498</u>	<u>\$ 96,488,263</u>

## 23 Parent and ultimate holding company

The directors consider the immediate parent and ultimate holding company at 30 September 2011 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.