

To Business Editors
 For immediate release

Haitong International Securities Group Limited
Announces 2013 Interim Results
Attained a Net Profit of HK\$220 million

(*Hong Kong, 21 August 2013*) **Haitong International Securities Group Limited** (“**Haitong International**” or the “**Group**”; **Stock Code: 665.HK**) announced its unaudited interim results today for the 6 months ended 30 June 2013 (“financial period”).

Financial Highlights

	6 months Ended 30 June 2013 (Unaudited)	6 months Ended 30 June 2012 (Unaudited)	Percentage Change Increase/ (Decrease)
Revenue (<i>HK\$ '000</i>)	702,260	584,311	20
Net Profit (<i>HK\$ '000</i>)	220,292	153,186	44
Basic Earnings Per Share(<i>HK Cents</i>)	18.59	14.61	27
Dividend Per Share(<i>HK Cents</i>)	8	8	-

Results and Overview

The Group is delighted to announce that the net profit attributable to the shareholders for the 6 months ended 30 June 2013 amounted to HK\$220 million, representing an increase of 44% as compared with the correspondence period last year. During the period, the Group has been actively exploring new businesses aiming to diversify its income mix and raising funds to strengthen its capital base to facilitate the transformation of the Group’s profit model into a “capital-based intermediary”. The Group achieved an increase in total revenue from HK\$ 118 million to HK\$ 702 million during the period, representing an increase of 20% as compared with the correspondence period last year and profit margin rose from 26% to 31% for the first half of the year. The return on equity (ROE) of the Group is gradually improving over the last few years. Average ROE climbed from 9.3% in 2012 to an annualized average of 11.3% for the first half of the year. The Board has proposed an interim dividend of HK 8 cents per share, which is expected to be paid on or about 8 November 2013. Shareholders will be given the option to receive the interim dividend in new shares in lieu of cash.

Management Discussion and Analysis

In 2013, the Group carried out a series of large financing projects, from rights issue to a loan facility agreement and convertible bond issuance in July, raising nearly HK\$5 billion in total as detailed below:

- In July 2013, the Group successfully issued HK\$776 million worth of convertible bonds at a conversion price that represented a premium of 16% over the average closing price of the Company’s shares for the five consecutive trading days up to and including 9 July 2013, and introduced a number of famous long-term funds from both onshore and offshore markets to optimize its investor base.
- In May 2013, the Group entered into a new syndicated loan agreement and obtained a revolving loan facility in an aggregate amount of HK\$3 billion.

- In April 2013, the Group successfully completed its proposed rights issue, which was well received by investors despite the market turbulence, and eventually raised funds of approximately HK\$1,167 million.

It is well understood that capital is of great significance to investment banks. Furthermore, we hold the view that difference in capital strength and capital deployment ability is very likely to be a crucial factor in determining the future competition landscape of the securities sector, and the propeller for further differentiation in the industry. Given this, the Group initiated a number of equity and debt financing activities raising nearly HK\$5 billion in total during the first half of the year to boost its capital base and expand its capital deployment ability, with an aim to facilitating the transformation of the Company's profit model from focusing mainly on a "fee-based" business to stressing both "fee-based" and "capital-based intermediary" businesses, and the transformation from a traditional brokerage firm to an investment bank.

I. Competition calls for profit model upgrades

The Group has enjoyed established strengths in its traditional fee-based business. Amid an ever-changing capital market, the decision of the Group to switch its focus of business development from a fee-based business to a capital-based intermediary business to diversify its income structure is based on our thorough understanding of the investment banking business and our judgment of future development trends of the capital market.

1. Competition squeezes profit margin of traditional fee-based business

Market competition has been increasingly intense and commission rates of the brokerage business have continued declining. Average commission rate of stock trading in the Mainland has currently shed to less than 0.08%. Although the commission rate in the Hong Kong market is higher than the average commission rate in Mainland China, the increasingly higher proportion of customers trading online (34% of the total trading volume of individual investors came from online, representing an increase of 8 percentage points year on year) and the intensifying competition among brokerage firms have made clear the downtrend of commission rate of stock trading. We believe that commission rate is very likely to fall further in the future. The practices of stock markets in the world's major countries and regions have shown that liberalization of commission rates has become a major development trend. Among the 27 major stock exchanges in the world, almost all of the commission charge is freely negotiable. A majority of them have even adopted a fully-liberalized commission approach. Such liberalization of commission will inevitably lead to business differentiation and product diversification, with some brokerage houses tilting towards private banking and wealth management businesses targeting at high-end customers while others switching to provision of low-cost and single-channel trading businesses like E-TRADE, a representative of this business model.

The fee rate of securities underwriting has been declining as well. The IPO underwriting market in developed economies such as Hong Kong and the US is virtually a fully competitive structure. In recent years, the number of large projects undertaken by investment banks has plummeted, which not only makes it harder for investment banks to vie for projects, but also translates into stronger bargaining power of prospective issuers on underwriting fees charged by investment banks, which could be squeezed to as low as 1%. According to Dealogic, the fee rate for IPO projects stood at around 3% in the Asian market several years ago. However, the competition from foreign investment banks and subsequently Mainland-funded institutions in recent years has led to the gradual downtrend of fee rates year after year. In 2012, average fee rate of Hong Kong IPOs was trimmed to only 2.1%. Besides a lower fee rate, the competitive landscape of the Asian market is also characterized by the significant increase in the number of investment banks involved in a single project. A Hong Kong issuer with IPO size of several hundred million US dollars may engage about 5 investment banks, and the number may even exceed 10 in the case of sizable IPOs due to intense competition. The tarnishing underwriting business is also reflected in the income structure of overseas investment banks. Over the past 5 years, proportion of

revenue from underwriting and sponsorship businesses to principal businesses of foreign investment banks decreased year on year and currently accounts for only 10-20% of their total revenue.

In terms of the asset management segment, market turbulence in the past 5 years has caused investors to flock to cash in their investment in equity funds and bond funds due to risk aversion. As a result, there has been no growth in assets under management. On the other hand, insurance companies, fund houses, brokerage firms and banks all scrambled to provide investors with asset management products, thereby intensifying competition in the asset management sector and bringing down fee rates as well. Moreover, the scale of investment in low-fee index-tracking ETF products has been expanding quickly in recent years. Certain ETF products may have a fee rate of as low as 0.5%. In this context, investors are setting tighter requirements on both performance and fee rate of asset management products.

All in all, the fee-based business is witnessing a downtrend in fee rate amid fierce market competition, which has been gradually squeezing the profit margin of traditional fee-based businesses.

2. Financial disintermediation further dampens traditional intermediary business

The rise of e-finance has brought about great changes to the prevailing financial ecology. Some people have likened the burgeoning e-finance to a “brutal intruder”. The turbulence caused by e-finance has brought unprecedented challenges to the conventional financial system, with both the banking sector and the securities sector deeply aware of the impact of online trading on behaviors and habits of financial customers. Take the banking sector as an example, the proportion of transactions conducted via electronic channels such as online banking, mobile banking and phone banking usually exceeds 70% of all transactions. The trend of replacing physical channels by electronic ones is obvious. In the case of the securities sector, online transactions completed via commissioned trading software have accounted for over 90% of all transactions. With the popularity of the internet, the rise of electronic money and improvements in online financial security, the development of electronic and automated financial services will also quicken pace.

E-finance is essentially a tool designed to get rid of financial intermediaries as IT intelligence support will gradually take over certain functions of traditional servicing intermediaries. Therefore, when compared with comprehensive investment banks, it is inevitable that brokerage firms solely providing low-end channeled-based services such as online trading will be hard hit in the course of the development of e-finance.

3. Development of capital-based intermediary business paves the way for transformation into an investment bank

One key difference between investment banks and traditional brokerage firms lies in the fact that the latter used to adopt the business model of charging customers certain fees for provision of solely sell-side businesses or perform proprietary trading by buy-side businesses as well, whereas investment banks nowadays tend to adopt the capital-based intermediary approach to cater for various financing needs of enterprises, including bridging finance, merger and acquisition, reorganization and privatization, in a bid to yield higher returns under effective risk management. Although certain capital-based intermediary businesses will require the use of a balance sheet, brokerage firms could in fact contain their risk exposure via asset swaps or other similar methods, thus preventing themselves from exposing to too much market risk. Hence, the key to develop from a traditional brokerage firm to a modern investment bank lies in the capability to understand, identify and master these businesses and the availability of an experienced team.

For example, the market making system is an institutional arrangement introduced by the European and US financial markets in the early stage to conclude transactions or lower transaction costs subject to conditions of the over-the-counter market. The system is currently adopted widely for all sorts of on-floor and off-floor trading in, among others, bonds, foreign exchange, securities and derivatives. In 2012, one-third of transactions in securities listed on the New York Stock Exchange were not executed

through the exchange, but were instead concluded in the off-board market via the market making system. Figures shown in the annual reports of major overseas investment banks illustrated that revenue from capital-based intermediary business such as market making and prime brokerage services accounted for about 40% of total revenue in general, with the ratio steadily picking up over the past decade. After the financial crisis, in particular, revenue contribution from capital-based intermediary business such as market making and margin trading has shown rapid increase. At present, China's investment banks are still running market making business on a trial basis, mainly targeting bonds. Compared with developed overseas countries, China is lagging far behind in respect of its market making system, product structure, development of the derivative market, and regulatory regime, signaling huge room for further growth in the future.

Compared with their overseas counterparts, off-board markets in Hong Kong and Mainland China are lagging far behind at present. In recent years, Hong Kong has made proactive efforts to map out the future development of its off-board market. In 2012, the costly acquisition of London Metal Exchange (LME) by HKEx was virtually a step to make up for the deficiencies of Hong Kong's off-board market. Meanwhile, Mainland China has also made great efforts to expand its off-board market in recent years, in an attempt to extend the servicing scope of its multi-tier capital market vertically downwards. With an off-board market in place, capital market services could be made available to small to medium enterprises that are not well received and accepted by investors in the exchange markets for the time being, and the key to activating an off-board market lies in market makers, who play an important role in all aspects such as the introduction of projects and maintenance of liquidity and price stability, and are positioned at the centre of all market operations.

4. Rectification over shadow banking presents new opportunities to Mainland investment banks

Since 2008, the scale of China's shadow banking system has quadrupled to Rmb20 trillion, representing approximately 40% of China's GDP. The abnormal boom and the huge risks involved also explained the strong capital demands of enterprises, in particular the small- and medium-sized ones, whose strong financing needs could hardly be met by conventional bank loans. This in turn presents huge opportunities for non-banking financial institutions. Compared with shadow banks, investment banks are subject to proper management as well as effective and transparent supervision, and enjoy a high degree of flexibility in financing activities. To a certain extent, they offer a desirable alternative to shadow banking in the financial market.

To invigorate the existing assets and eliminate the potential risks inherent in shadow banking, one of the principal ways is through asset securitization. In the first half of the year, the State Council of the PRC announced a slew of measures which necessitate the financial sector to serve the development of the country's real economy, which have made clear the need to "steadily press ahead with the normalization of credit assets backed securities and invigorate funds to support the development of small- and micro-enterprises and the country's economic restructuring". In March this year, the China Securities Regulatory Commission officially promulgated the Administrative Provisions on Securities Companies' Asset-backed Securities Business, with an aim to facilitating the normalization of the trial run of asset-backed securities businesses of investment banks. By means of introduction of simple and transparent asset-backed securities products, including ABS backed by credit assets and corporate assets and ABN backed by corporate assets, and rectification over financing activities that are not covered under relevant governing and regulatory systems via transformation of these activities from off-floor to on-floor, from covered to uncovered, and from non-standard to standard, China aims to enhance both market transparency and regulation over transactions. This will in turn contain the expanding shadow banking system to some extent.

In this regard, the competitive edges enjoyed by Hong Kong subsidiaries of Mainland-funded houses are more prominent. Based in Mainland China, parent companies of Mainland-funded houses are fully aware of the needs of the Mainland's financial market, whereas their offshore branches usually benefit from the relatively free financial markets, perfect capital liquidity and diversified financial products in their place of operations. The Group must seize these opportunities to design multi-tier innovative financial products, including asset-backed securities, fixed income products and asset management products, in

order to provide stronger funding support to enterprises with financing demands whilst satisfying investors' appetite for high-yield financial products. This is another driving force behind our business transformation.

II. Parallel development of “capital-based intermediary” and “fee-based” businesses in the future

Over the last three years, the Group has strived to promote profit model upgrades from solely relying on the “fee-based” business to stressing both “capital-based intermediary” and “fee-based” businesses. With the efforts made so far, the Group has strengthened the established advantages of its existing “fee-based” business and also achieved great breakthroughs for its innovative capital-based intermediary business.

1. Rapid development of the capital-based intermediary business

The essence of capital-based intermediary business is “capital + customers”, which involves reasonable deployment of the Company's capital resources to provide customers with comprehensive solutions to cater to their financing, investment, risk management and liquidity needs. The core of capital-based intermediary business is that investment banks provide liquidity and risk management services to customers by creating various products and acting as trading counterparties, in order to cater for the different financing and investment needs of customers. Meanwhile, effective risk management measures are put in place while deriving income from the liquidity and risk premiums of different products. The unique competitive edge of the Group lies in its capital and customer resources. Leveraging on its 40 years of operations in the Hong Kong stock market, the Group has maintained close interactions with its mainland clients and is among the top in terms of the number and quality of customers. As for customer mix, the Group has continuously optimized the proportion of its institutional customers and retail customers, as well as the proportion of customers from Mainland China and overseas countries. For the first half of the year, institutional customers accounted for nearly 20% of its customer base on trading volume.

Since 2011, the Group has worked to map out the configuration of its capital-based intermediary business. In 2012, the Fixed Income Department was established and commenced operations, creating a new source of revenue for the Group. As the new department gradually gained operating experience, the Group re-structured the original fixed income segment and set up two new business segments, namely the Fixed Income, Currency and Commodities (FICC) Department and the Structured Finance Department, in May 2013, in order to further optimize revenue mix of businesses and enhance profitability of the Company.

On the FICC front, efforts were made to reinforce development of the fixed income business and proactively explore the market making business for bond trading. On top of long-term proprietary investments and short-term liquidity transactions, the Company introduced foreign exchange transactions and commodity transactions to expand the breadth and depth of its product line. Meanwhile, it also gradually increased hedging opportunities and reduced its reliance on any single currency.

As for structured financing, the Group will strive to provide one-stop financing services geared to the needs of its corporate clients. In the first half of the year, the Structured Finance Department completed a number of structured financing projects, with various financing arrangements, including bridging finance, merger and acquisition, reorganization and privatization, designed to cater to customers' takeover, merger and acquisition as well as overseas investment activities, which in turn brought stable revenue to the Group. For the first half of 2013, interest income from structured financing increased by over 50% when compared with the corresponding period of last year, and accounted for over 20% of total revenue of the Group. In addition, preparation work for issuance of the Group's RQFLP funds was also in full swing. It was expected that the first round of fund-raising would commence in mid-to-late July.

Moreover, the Quantitative Trading Department has made great efforts to set up its quantitative trading system and work out quantitative investment strategies since its establishment in the second half of 2012 in a bid to identify arbitrage opportunities in A-H share spread and spot-future spread. To cater for the

diversification of the Group's business line, the Quantitative Trading Department was reorganized into the Equity Derivatives Department in August this year. Subject to effective risk control, the Equity Derivatives Department mainly undertakes market-making, quantitative trading and alternative investment businesses through flexible deployment of capital.

In terms of securities market making business, the Group also made great strides in the first half of 2013. In May, the Group officially commenced the Participating Dealer (PD) business by providing agency services to investors subscribing for Renminbi-denominated ETF in the capacity of a participating dealer. Also in May, the Group obtained the nod from HKEx to be a market maker for CSOP A50 ETF (Dual Counter). For the first half of the year, revenue from trading and market making businesses registered a year-on-year increase of 224% to HK\$71.44 million, accounting for 10% of total revenue for the period under review, up from 4% for the corresponding period of last year.

After two and a half years of continuous input and development, the capital-based intermediary business of the Group has achieved remarkable results, with its business line diversifying to cover fixed income products, commodities and currencies, ETF market making and trading, structured financing and so on. With the establishment of the FICC Department, the Structured Finance Department and the Equity Derivatives Department, the principal businesses of the Group have been changed from the previous four major business segments, namely brokerage business, corporate finance, asset management and fixed income, to six major business segments, including brokerage and retail margin financing, corporate finance, investment management, FICC, structured financing, and equity derivatives. Spread income and interest income from the capital-based intermediary business have greatly expanded our sources of revenue and reduced our reliance on commission income, thus smoothing out the impact of cyclical movements in the market on our results performance.

2. Solid performance of fee-based business

Brokerage and retail margin financing business

During the first half of the year, the market was volatile but daily average turnover of the stock market went up by 20% year on year to HK\$68.3 billion. The Group's average daily turnover in the securities spot market surged 38% over the corresponding period of last year, up 44% when compared with the daily average turnover of 2012. The pick-up in turnover spurred increases in commission and handling fee income from the brokerage business. For the first half of 2013, revenue contribution from the brokerage business amounted to HK\$222 million, representing a year-on-year increase of 24%. Our market share in securities dealing also posted a significant year-on-year increase. The higher market share of the brokerage business was largely attributed to the development of our intermediary business. Moreover, the market making business also spurred turnover of the brokerage business.

Amid fierce market competition, the Group will strive to retain existing customers with its "one-stop" trading platform that supports multi-market, multi-product and multi-currency transactions; on the other hand, the Group will seek to enhance its customer mix, with a focus on securing high-end retail customers and international institutional customers, and increase customer loyalty through provision of more professional capital-based intermediary services. As for the tapping of new markets, during the first half of the year, the Group completed the registration process and leasing of office premises for its Singapore branch, and engaged industry practitioners from Singapore who possess thorough understanding of the Singapore market and extensive experience in the industry. The application for a Capital Markets Services (CMS) license to deal in securities and futures contracts in Singapore is still in process. It is expected that the branch will commence full operation by the end of this year.

Corporate finance business

For the first half of 2013, the corporate finance segment of the Group sustained the favorable performance of last year by serving key roles in a number of offering projects. During the period, the Group completed 3 IPO projects, 1 placement project and 4 bond issuance projects in the capacity of joint bookrunner or senior roles, raising over HK\$30 billion in total. As for mergers and acquisitions and general financial advisory (including compliance advisory), the corporate finance segment also leveraged

the Group's overall advantages and achieved satisfactory results. For the first half of 2013, the corporate finance segment recorded total revenue of HK\$58.08 million. IPO projects completed during the period included the offerings of Oi Wah Pawnshop, China Galaxy Securities and SINOPEC Engineering. Among them, Oi Wah Pawnshop was more than 1,000 times oversubscribed, marking the highest oversubscription rate in recent years. Meanwhile, China Galaxy Securities and SINOPEC Engineering were the two largest IPO projects in the Hong Kong market so far this year, and were the only two IPO projects with a fund raising size of over US\$1 billion. The Group made significant contributions to these projects in its capacity as a bookrunner and received high accolades from its customers.

While continuously strengthening its capability to undertake large offering projects, the Group also made proactive efforts to push ahead with the diversified development of its business line, and performed brilliantly in undertaking bond issuance projects. During the first half of 2013, the Group undertook bond issuance projects from, among others, Glorious Property, Future Land Development and Regal REIT, raising an aggregate of nearly US\$1 billion. These bond issuance projects were well received and embraced by the market. By actively participating in these high-yield bond issuances, the Group not only set up an internal operating system for its debt capital market business, but also established its reputation and position in the Hong Kong debt capital market, and broadened the communication and cooperation channels with industry peers and investors.

Moreover, the Group also achieved breakthroughs in the acquisition and merger business. During the first half of the year, the Group assisted U-Home Group with its acquisition of Jiwa Bio-Pharm, a company listed on the Main Board of the Hong Kong market, signaling the successful change of focus of its financial advisory business from traditional sales and purchases of shell companies to mergers and acquisitions.

According to Bloomberg, the Group ranked eleventh in the Hong Kong IPO market in terms of underwriting amount recorded so far this year.

Investment management business

The asset management and wealth management businesses recorded revenue of HK\$46.30 million for the first half of the year, representing an increase of 20% over the corresponding period of last year. After obtaining the RQFII, QFII and RQFLP qualifications in 2012, the Group has been striving to design various investment products, including RQFII-ETF products. In May 2013, the Group was granted a RQFII-ETF quota to the tune of Rmb2 billion. On 26 June, the Group was granted an additional RQFII quota of Rmb1 billion. Since the launch of the RQFII regime in China in 2012, the Group was granted an aggregate quota of Rmb3.9 billion. So far, the Group's asset management segment has developed a complete product line of Renminbi-denominated fixed income products.

Besides, the Group also proactively strengthened its strategic cooperation with renowned overseas fund houses over the launch of products such as hedge funds and money market funds, thus further diversifying the product line of the Group's asset management segment.

On the wealth management front, the Group completed the acquisition of a wealth management group which was previously run on a joint-venture basis to facilitate centralized deployment of resources within the Group and press ahead with the development of the wealth management business.

III. Facilitate the set up of a professional team to strengthen risk control

Apart from capital strength, talents also serve as a crucial factor in determining the competitiveness of investment banks. Nowadays, "manpower" marks the core value and the key to competitiveness of investment banks. Over the years, the Group was keen to attract talents by offering job opportunities with promising development outlook; meanwhile, a competitive incentive mechanism was also put in place to motivate existing staff. During the past two years, in particular, the Group kept strengthening the reservation and cultivation of talents and promoting the set up of a team of high-end professionals. Moreover, the Group engaged a number of high-end talents with both international exposure and local

experience from local and overseas markets to join the core departments such as Corporate Finance Department, Equity Capital Markets Department, Research Department, Institutional Sales Department, Asset Management Department, Fixed Income Department and Equity Derivatives Department, in a bid to provide strong support to the long-term development of the business.

In the course of transformation from a fee-based business to a capital-based intermediary business, the Group has always made “sound operations” its first priority and given effective risk management the highest importance. Therefore, we engaged the Chief Risk Officer of the Group and established the Group’s Risk Management Department in the second half of 2012. Procedures such as risk identification, measurement, management and feedback are in place for comprehensive and systematic control over credit risk, market risk, operational risk, liquidity risk and other risks.

Conclusions: sailing into “Blue Oceans” and entering the new era of investment banks

For the first half of 2013, the Group recorded significant year-on-year growth in both revenue and profit and gradually rationalized its business structure as well. The cost to revenue ratio of the Group fell further markedly, driving profit margin to rise further. Benefited from the satisfactory results of our development of the capital-based intermediary business, the return on equity (ROE) level of the Group has been rising continuously. Such satisfactory results and progress were achieved amid intensifying competition in the securities sector and increasingly complicated environment of the industry. Taking this opportunity, we would like to extend our heartfelt gratitude to all staff members and our management for their understanding of the challenges under the prevailing competitive environment and the need for business transformation, and for their determination all along the way. The Group would not have made such achievements without the support of our staff and management team.

The “Blue Ocean” era where securities firms could earn big money simply by waiting for customers to turn up is all over. The competitive market landscape and homogeneous services will inevitably lead to future price wars. Within the “Red Oceans” of fierce competition, we believe that large investment banks could still find their Blue Oceans by putting the focus back to their financial intermediary businesses and optimizing their capital-based intermediary services.

To sustain existing core competitive edges, we need to learn faster and better than our rivals. A strong sense of crisis, keen market insights, humble attitudes and continued learning to cope with market changes should be our key to survival and future development.

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For further information about Haitong International, please visit www.htisec.com.

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