



海通証券股份有限公司 HAITONG SECURITIES CO., LTD.*

(A joint stock limited company incorporated in the People's Republic of China with limited liability)

Stock Code: 6837

GLOBAL OFFERING

Joint Sponsors



J.P.Morgan

Joint Global Coordinators and Joint Bookrunners



J.P.Morgan



Deutsche Bank



Joint Bookrunners



NOMURA



*For identification purpose only

IMPORTANT

If you are in any doubt about any of the contents of this prospectus, you should obtain independent professional advice.



海通証券股份有限公司
HAITONG SECURITIES CO., LTD.*

(A joint stock limited company incorporated in the People's Republic of China with limited liability)

GLOBAL OFFERING

Number of Offer Shares under the Global Offering	: 1,229,400,000 H Shares (subject to the Over-allotment Option)
Number of Hong Kong Offer Shares	: 61,470,000 H Shares (subject to adjustment)
Number of International Offer Shares	: 1,167,930,000 H Shares (subject to adjustment and the Over-allotment Option)
Maximum Offer Price	: HK\$11.18 per H Share (payable in full on application in Hong Kong dollars and subject to refund on final pricing), plus brokerage of 1%, SFC transaction levy of 0.003% and Hong Kong Stock Exchange trading fee of 0.005%
Nominal value	: RMB1.00 per H Share
Stock code	: 6837

Joint Sponsors



J.P.Morgan

Joint Global Coordinators and Joint Bookrunners



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CREDIT SUISSE

Deutsche Bank

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UBS

Joint Bookrunners

HSBC

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Standard Chartered

交銀國際
BOCOM INTERNATIONAL

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

A copy of this prospectus, having attached thereto the documents specified in "Documents Delivered to the Registrar of Companies in Hong Kong and Available for Inspection" in Appendix VII to this prospectus, has been registered by the Registrar of Companies in Hong Kong as required by Section 342C of the Hong Kong Companies Ordinance, Chapter 32 of the Laws of Hong Kong. The SFC and the Registrar of Companies in Hong Kong take no responsibility as to the contents of this prospectus or any other documents referred to above.

The Offer Price is expected to be determined by agreement between our Company and the Joint Global Coordinators (on behalf of the Underwriters) on the Price Determination Date or such later date as may be agreed by our Company and the Joint Global Coordinators (on behalf of the Underwriters) but in any event no later than Tuesday, April 24, 2012. The Offer Price will be not more than HK\$11.18 per Offer Share and is expected to be not less than HK\$10.48 per Offer Share. Applicants for Hong Kong Offer Shares are required to pay, on application, the maximum Offer Price of HK\$11.18 for each Hong Kong Offer Share together with brokerage of 1%, SFC transaction levy of 0.003% and Hong Kong Stock Exchange trading fee of 0.005%, subject to refund if the Offer Price should be lower than HK\$11.18. The Joint Global Coordinators (on behalf of the Underwriters) with our Company's consent may reduce the number of Hong Kong Offer Shares being offered under the Global Offering and/or the indicative Offer Price range stated in this prospectus at any time prior to the morning of the last day for lodging applications under the Hong Kong Public Offering. In such a case, a notice of the reduction of the number of Hong Kong Offer Shares and/or the indicative Offer Price range will be published in the South China Morning Post (in English) and the Hong Kong Economic Times (in Chinese) not later than the morning of the last day for lodging applications under the Hong Kong Public Offering. Such notices will also be available at the website of the Hong Kong Stock Exchange at www.hkexnews.hk and our Company's website at www.hkse.com. If applications for Hong Kong Offer Shares have been submitted prior to the day which is the last day for lodging applications under the Hong Kong Public Offering, in the event that the number of Offer Shares and/or the indicative Offer Price range is so reduced, such applications can subsequently be withdrawn. Details of the arrangement will then be announced by our Company as soon as practicable. Further details are set out in the sections headed "Structure of the Global Offering" and "How to Apply for the Hong Kong Offer Shares" in this prospectus.

If, for any reason, the Offer Price is not agreed between our Company and the Joint Global Coordinators (on behalf of the Underwriters) on or before Tuesday, April 24, 2012, the Global Offering (including the Hong Kong Public Offering) will not proceed and will lapse.

We are incorporated, and substantially all of our businesses are located, in the PRC. Potential investors should be aware of the differences in legal, economic and financial systems between the PRC and Hong Kong and that there are different risk factors relating to investments in PRC-incorporated companies. Potential investors should also be aware that the regulatory framework in the PRC is different from the regulatory framework in Hong Kong and should take into consideration the different market nature of our Shares. Such differences and risk factors are set out in the section headed "Risk Factors" and in "Appendix IV – Summary of Principal PRC and Hong Kong Legal and Regulatory Provisions" and "Appendix V – Summary of the Articles of Association" in this prospectus. Prior to making an investment decision, potential investors should consider carefully all of the information set out in this prospectus, including the risk factors set out in the section headed "Risk Factors."

Pursuant to the Underwriting Agreements, the Joint Global Coordinators (on behalf of the Underwriters) have the right in certain circumstances to terminate the obligations of the Underwriters pursuant to the Underwriting Agreements at any time prior to 8:00 a.m. (Hong Kong time) on the Listing Date. Further details of such circumstances are set out in the section headed "Underwriting – Underwriting Arrangements and Expenses – Hong Kong Public Offering – Hong Kong Underwriting Agreement – Grounds for Termination" in this prospectus.

The Offer Shares have not been and will not be registered under the U.S. Securities Act of 1933, as amended, and may not be offered, sold, pledged or transferred within the United States except that Offer Shares may be offered, sold or delivered in the United States to qualified institutional buyers in reliance on Rule 144A or another exemption from registration under the U.S. Securities Act of 1933, as amended, and outside the United States in offshore transactions in reliance on Regulation S.

* For identification purpose only

April 17, 2012

EXPECTED TIMETABLE

Date⁽¹⁾

Latest time to complete electronic applications under White Form eIPO service through the designated website www.eipo.com.hk ⁽²⁾	11:30 a.m., Friday, April 20, 2012
Application lists open ⁽³⁾	11:45 a.m., Friday, April 20, 2012
Latest time for lodging WHITE and YELLOW Application Forms.	12:00 noon, Friday, April 20, 2012
Latest time to give electronic application instructions to HKSCC ^(3 and 4)	12:00 noon, Friday, April 20, 2012
Latest time to complete payment for White Form eIPO applications by effecting internet banking transfer(s) or PPS payment transfer(s)	12:00 noon, Friday, April 20, 2012
Application lists close	12:00 noon, Friday, April 20, 2012
Expected Price Determination Date ⁽⁵⁾	Friday, April 20, 2012

(1) Announcement of:

- the Offer Price;
- the level of applications in the Hong Kong Public Offering;
- the level of indications of interest in the International Offering; and
- the basis of allotment of the Hong Kong Offer Shares

will be published in the South China Morning Post (in English) and the Hong Kong Economic Times (in Chinese) on or before Thursday, April 26, 2012

(2) Results of allocations in the Hong Kong Public Offering (with successful applicants' identification document numbers, where appropriate) will be available through a variety of channels as described in the section headed "How to Apply for the Hong Kong Offer Shares – Publication of Results" in this prospectus from Thursday, April 26, 2012

(3) A full announcement of the Hong Kong Public Offering containing (1) and (2) above will be published on the website of the Hong Kong Stock Exchange at www.hkexnews.hk⁽⁶⁾ and our Company's website at www.htsec.com⁽⁷⁾ from Thursday, April 26, 2012

EXPECTED TIMETABLE

Results of allocations in the Hong Kong Public Offering
will be available at www.iporesults.com.hk with
a “search by ID” function Thursday, April 26, 2012

H Share certificates in respect of wholly or partially successful
applications will be dispatched or deposited into
CCASS on or before^(8 and 9) Thursday, April 26, 2012

Refund checks (if applicable) will be dispatched
on or before^(9 and 10) Thursday, April 26, 2012

White Form e-Refund Payment Instructions will be
dispatched on or before⁽¹⁰⁾ Thursday, April 26, 2012

Dealings in H Shares on the Hong Kong Stock Exchange
will commence on Friday, April 27, 2012

Notes:

- (1) All dates and times refer to Hong Kong local time and dates unless otherwise stated.
- (2) You will not be permitted to submit your application to the **White Form eIPO** Service Provider through the designated website at www.eipo.com.hk after 11:30 a.m. on the last day for submitting applications. If you have already submitted your application and obtained an application reference number from the designated website at or before 11:30 a.m., you will be permitted to continue the application process (by completing payment of application monies) until 12:00 noon on the last day for submitting applications when the application lists will close.
- (3) If there is a “black” rainstorm warning or a tropical cyclone warning signal number eight or above in force in Hong Kong at any time between 9:00 a.m. and 12:00 noon on Friday, April 20, 2012, the application lists will not open on that day. Further information is set out in the section headed “How to Apply for the Hong Kong Offer Shares – Effects of Bad Weather on the Opening of the Application Lists” in this prospectus. If the application lists do not open on Friday, April 20, 2012, the dates mentioned above may be affected. Our Company will make a press announcement in such event.
- (4) Applicants who apply for the Hong Kong Offer Shares by giving **electronic application instructions** to HKSCC should refer to “How to Apply for the Hong Kong Offer Shares – Applying by Giving Electronic Application Instructions to HKSCC via CCASS” in this prospectus.
- (5) The Price Determination Date, being the date on which the Offer Price is to be determined, is expected to be on or about Friday, April 20, 2012, and in any event no later than Tuesday, April 24, 2012. If, for any reason, the Offer Price is not agreed on or before Tuesday, April 24, 2012, the Global Offering (including the Hong Kong Public Offering) will not proceed and will lapse.
- (6) The announcement will be available for viewing on the “Main Board – Results of Allotment” page on the Hong Kong Stock Exchange’s website at www.hkexnews.hk.
- (7) Neither our Company’s website nor any of the information contained on our Company’s website forms part of this prospectus.
- (8) Our Company will not issue any temporary documents of title in respect of the Offer Shares. H Share certificates will only become valid certificates of title at 8:00 a.m. on Friday, April 27, 2012, provided that (i) the Global Offering has become unconditional in all respects and (ii) the Underwriting Agreements have not been terminated in accordance with their respective terms. Investors who trade H Shares on the basis of publicly available allocation details prior to the receipt of share certificates or prior to the share certificates becoming valid certificates of title do so entirely at their own risk. If the Global Offering does not become unconditional or the Underwriting Agreements are terminated in accordance with their terms, the Global Offering will not proceed. In such a case, our Company will make an announcement as soon as possible thereafter.

EXPECTED TIMETABLE

- (9) Applicants who apply on **WHITE** Application Forms for 1,000,000 H Shares or more under the Hong Kong Public Offering and have indicated in their Application Forms that they wish to collect any refund checks (where applicable) and H Share certificates in person may do so from our Company's H Share Registrar, Computershare Hong Kong Investor Services Limited at Shop 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong from 9:00 a.m. to 1:00 p.m. on Thursday, April 26, 2012. Identification and (where applicable) authorization documents acceptable to Computershare Hong Kong Investor Services Limited must be produced at the time of collection.

Applicants who apply on **YELLOW** Application Forms for 1,000,000 H Shares or more under the Hong Kong Public Offering and have indicated in their Application Forms that they wish to collect refund checks in person may collect their refund checks (if any) but may not elect to collect their H Share certificates, which will be deposited into CCASS for credit to their designated CCASS Participants' stock accounts or CCASS Investor Participant stock accounts, as appropriate. The procedures for collection of refund checks for applicants who apply for H Shares on **YELLOW** Application Forms is the same as those for **WHITE** Application Form applicants.

Applicants who apply for Hong Kong Offer Shares by giving **electronic application instructions** to HKSCC should refer to "How to Apply for the Hong Kong Offer Shares – Applying by Giving Electronic Application Instructions to HKSCC via CCASS" in this prospectus.

Applicants who apply for 1,000,000 Hong Kong Offer Shares or more through the **White Form eIPO** service by submitting an electronic application to the **White Form eIPO** Service Provider through the designated website at www.eipo.com.hk and whose applications are wholly or partially successful, may collect their H Share certificates in person from Computershare Hong Kong Investor Services Limited, at Shop 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong from 9:00 a.m. to 1:00 p.m. on Thursday, April 26, 2012. For applicants who apply for less than 1,000,000 Hong Kong Offer Shares, H Share certificates will be sent to the address specified in their application instructions to the **White Form eIPO** Service Provider through the designated website at www.eipo.com.hk on Thursday, April 26, 2012 by ordinary post and at their own risk.

Applicants being individuals who opt for personal collection must not authorize any person to make collection on their behalf. Applicants being corporations which opt for personal collection must attend by their authorized representatives with letters of authorization of their corporations stamped with the corporation's chops (bearing the name of the corporations). Both individuals and authorized representatives of corporations (as applicable) must produce, at the time of collection, evidence of identity and authority (as applicable) acceptable to our Company's H Share Registrar.

Uncollected H Share certificates and refund checks will be despatched by ordinary post (at the applicants' own risk) to the addresses specified in the relevant Application Forms. Further information is set out in the section headed "How to Apply for the Hong Kong Offer Shares – Despatch/Collection of H Share Certificates and Refund Monies" in this prospectus.

- (10) e-Refund payment instructions or refund checks will be issued in respect of wholly or partially unsuccessful applications and in respect of successful applications if the final Offer Price is less than the price payable on application. Applicants who paid the application monies from a single bank account may have e-Refund payment instructions, if any, dispatched to the application payment account on Thursday, April 26, 2012. Applicants who used multi-bank accounts to pay the application monies may have refund checks (if any) dispatched to them on Thursday, April 26, 2012. Part of your Hong Kong Identity Card number/passport number, or, if you are joint applicants, part of the Hong Kong Identity Card number/passport number of the first-named applicant, provided by you may be printed on your refund checks, if any. Such data would also be transferred to a third party for refund purpose. Your banker may require verification of your Hong Kong Identity Card number/passport number before cashing of your refund checks. Inaccurate completion of your Hong Kong Identity Card number/passport number may lead to delay in encashment of or may invalidate your refund checks.

For details of the structure of the Global Offering, including the conditions of the Hong Kong Public Offering, and the procedures for application for the Hong Kong Offer Shares, you should read the sections headed "Structure of the Global Offering" and "How to Apply for the Hong Kong Offer Shares" in this prospectus.

CONTENTS

This prospectus is issued by Haitong Securities Co., Ltd. solely in connection with the Hong Kong Public Offering and the Hong Kong Offer Shares and does not constitute an offer to sell or a solicitation of an offer to buy any security other than the Hong Kong Offer Shares. This prospectus may not be used for the purpose of, and does not constitute, an offer to sell or a solicitation of an offer to buy in any other jurisdiction or in any other circumstances. No action has been taken to permit a public offering of the Offer Shares or the distribution of this prospectus in any jurisdiction other than Hong Kong. The distribution of this prospectus and the offering and sale of the Offer Shares in other jurisdictions are subject to restrictions and may not be made except as permitted under the applicable securities laws of such jurisdictions pursuant to registration with or authorization by the relevant securities regulatory authorities or an exemption therefrom. You should rely only on the information contained in this prospectus and the Application Forms to make your investment decision. We have not authorized anyone to provide you with information that is different from what is contained in this prospectus. Any information or representation not included in this prospectus must not be relied on by you as having been authorized by us, the Joint Global Coordinators, the Joint Sponsors, the Joint Bookrunners, the Joint Lead Managers, the Underwriters, any of our or their respective directors or advisors, or any other person or party involved in the Global Offering. Information contained in our website, located at www.htsec.com, does not form part of this prospectus.

	<u>Page</u>
Expected Timetable	i
Contents	iv
Summary	1
Definitions	14
Glossary of Technical Terms	28
Forward Looking Statements	32
Risk Factors	34
Waivers and Exemption from Compliance with the Hong Kong Listing Rules	61
Information about this Prospectus and the Global Offering	68
Directors, Supervisors and Parties Involved in the Global Offering	73
Corporate Information	86

CONTENTS

	<u>Page</u>
Industry Overview	88
Regulatory Environment	134
History and Corporate Structure	179
Business	186
Connected Transactions	273
Directors, Supervisors and Senior Management	274
Share Capital	302
Cornerstone Investors	308
Financial Information	315
Future Plans and Use of Proceeds	372
Underwriting	374
Structure of the Global Offering	383
How to Apply for the Hong Kong Offer Shares	391
Further Terms and Conditions of the Hong Kong Public Offering	421
Appendix I – Accountants’ Report	I-1
Appendix II – Unaudited Pro Forma Financial Information	II-1
Appendix III – Taxation and Foreign Exchange	III-1
Appendix IV – Summary of Principal PRC and Hong Kong Legal and Regulatory Provisions	IV-1
Appendix V – Summary of the Articles of Association	V-1
Appendix VI – Statutory and General Information	VI-1
Appendix VII – Documents Delivered to the Registrar of Companies in Hong Kong and Available for Inspection	VII-1

SUMMARY

This summary aims to give you an overview of the information contained in this prospectus. As this is a summary, it does not contain all the information that may be important to you and is qualified in its entirety by, and should be read in conjunction with, the full text of this prospectus. You should read the whole document including the appendices hereto before you decide to invest in our Offer Shares.

There are risks associated with any investment. Some of the particular risks in investing in our Offer Shares are set out in the section headed “Risk Factors” in this prospectus. You should read that section carefully before you decide to invest in our Offer Shares.

OVERVIEW

We are a leading full-service securities firm in the PRC with an integrated business platform, extensive branch network and substantial customer base. According to the SAC, among all securities firms in the PRC, we ranked second in terms of total assets and net assets as of December 31, 2011 and second in terms of total revenue in 2011⁽¹⁾. We have established prudent operating strategies and are the only major PRC securities firm founded in the 1980s that remains in operation under the same brand without receiving government-backed capital injections or being the target of a successful acquisition. Our A Shares, which have been listed on the Shanghai Stock Exchange since July 2007, were admitted to the CSI 300 Index, the SSE 180 Index and the SSE 50 Index in July 2007, December 2007 and December 2008, respectively.

Our integrated business platform comprises a full-service PRC platform and a well-established overseas platform. As of December 31, 2011, we had 216 securities and futures brokerage branches located across 27 provinces and 125 cities in the PRC, the fourth largest branch network among all PRC securities firms, according to data from the Shanghai Stock Exchange and the China Futures Association. With this strategically located branch network, we focus on five principal business lines in the PRC, which comprise securities and futures brokerage (including margin financing and securities lending), investment banking, asset management, proprietary trading and direct investment. The following table sets forth the main financial products and services we offer in the PRC:

Business Lines

*Securities and futures
brokerage*

Main Financial Products and Services

- Securities brokerage
- Futures brokerage
- Margin financing and securities lending
- Investment advisory

(1) The 2011 data from the SAC was based on the preliminary results of PRC securities firms.

SUMMARY

Business Lines	Main Financial Products and Services
<i>Investment banking</i>	<ul style="list-style-type: none">• Equity underwriting• Debt underwriting• Financial advisory
<i>Asset management</i>	<ul style="list-style-type: none">• Traditional asset management• Private equity asset management
<i>Proprietary trading</i>	<ul style="list-style-type: none">• Trading of equities, bonds, funds, derivatives and other financial products for our own account
<i>Direct investment</i>	<ul style="list-style-type: none">• Direct equity investments in private companies• Investing in private equity funds

For a detailed description of our business operations in the PRC, please see “Business – Our Business and Operations” beginning on page 201 of this prospectus.

In addition to our PRC business operations, we are also actively developing our business overseas. We conduct our overseas business primarily through our Hong Kong-based subsidiary, Haitong International Holdings. As of December 31, 2011, we operated 13 branches in Hong Kong and Macau and provided a comprehensive range of financial products and services to a broad range of retail customers and institutional clients in Hong Kong and overseas. In January 2012, the CSRC granted RQFII status to Haitong International Holdings, which allows it to raise RMB funds in Hong Kong and invest in the domestic securities market. For a detailed description of our overseas business operations, please see “Business – Our Business and Operations – Overseas Business” beginning on page 224 of this prospectus.

In addition, our sizeable and stable customer base provides a solid foundation for our sustainable development and future expansion. As of December 31, 2011, we had over 4.0 million retail customers (including approximately 2.1 million active customers) and over 12,000 institutional and high net worth customers in the PRC. As of the same date, approximately 76% of our brokerage customers had opened accounts with us for over three years and approximately 38% had a business relationship of over ten years with us. For our overseas business, we had over 145,000 brokerage customers as of December 31, 2011.

Market Positions

In recent years, we have received numerous awards and honors in recognition of our outstanding performance and management capabilities, including, among others, “2011 Best PRC Securities Firm” and “2011 Best PRC Investment Bank” by Moneyweek.

SUMMARY

We have gained leading market positions in securities and futures brokerage, investment banking and other traditional businesses in the PRC. According to data from the SAC, the Shanghai Stock Exchange, the Shenzhen Stock Exchange and the CSRC, among all PRC securities firms, we ranked:

- second in terms of total assets and net assets as of December 31, 2009, 2010 and 2011⁽¹⁾;
- among the top five in terms of securities brokerage trading volume in 2009, 2010 and 2011;
- third in terms of the number of equity securities underwritten in 2011; and
- in the top two in terms of the number of major asset restructuring transactions of domestic listed PRC companies we advised in 2009, 2010 and 2011.

We have also established leading positions in developing new businesses, such as margin financing and securities lending, stock index futures brokerage and direct investment businesses. We are frequently designated by the PRC regulatory authorities as one of the first PRC securities firms to participate in pilot programs for new securities products and services. According to data from the Shanghai Stock Exchange, the Shenzhen Stock Exchange and the China Financial Futures Exchange, we ranked:

- first among PRC securities firms in terms of margin trading volume in 2011, and in terms of margin loan balance and market value of securities lent as of December 31, 2011;
- first among PRC futures companies in terms of stock index futures brokerage trading volume in 2011; and
- second among PRC securities firms in terms of registered capital of direct investment subsidiaries as of December 31, 2011.

For a comparison of the market position between us and our major competitors in the PRC as of December 31, 2010, please see “Industry Overview – The Competitive Landscape in the PRC Securities Market” beginning on page 126 of this prospectus.

(1) The 2011 data from the SAC was based on the preliminary results of PRC securities firms.

SUMMARY

Internal Control and Risk Management

Established in 1988, we have navigated through various market and business cycles, regulatory reforms and industry developments over our 23 years of operating history, including the Asian financial crisis in 1997 and the global financial crisis in 2008. We have established prudent corporate governance and effective risk management and internal control systems to reduce our exposure to various risks in the securities markets. In recognition of our strong capital position, effective risk management and internal control systems, as well as our proven track record, we received an “AA” regulatory rating from the CSRC for the past four consecutive years, the highest rating given to a PRC securities firm to date. In addition, in June 2008, our A Shares became one of the constituent stocks of the SSE Corporate Governance Index.

For a detailed description of our internal control and risk management, please see “Business – Internal Control and Risk Management” beginning on page 233 of this prospectus.

Competitive Strengths

We believe the following competitive strengths contribute to our success and distinguish us from our competitors:

- Full-service securities firm in the PRC with leading market positions across multiple business lines;
- Strategically located branch network across the PRC with a substantial and stable customer base;
- A pioneer in the PRC securities industry for offering new businesses;
- Well-established international platform to capture growing cross-border business opportunities;
- Prudent corporate governance and effective risk management and internal control systems; and
- Experienced and stable management team with a highly proficient professional workforce.

SUMMARY

Business Strategies

We aim to become a domestic top-tier and globally renowned financial group with a distinct focus on the securities business. Through continuous innovation and leveraging our international platform, we plan to focus on the PRC market and stay committed to core financial intermediary services, including our securities and futures brokerage, investment banking and asset management businesses. Further, we intend to expand and promote our proprietary trading and direct investment businesses to supplement our core financial intermediary businesses while generating competitive risk-adjusted returns. In addition, we plan to strengthen our business infrastructure, including risk management, research capabilities, IT and human resources, to support our business growth. Our specific strategies include the following:

- Further enhance our leading market position and profitability in the securities and futures brokerage business;
- Maintain the growth momentum of our investment banking business and further integrate our business platform;
- Strategically expand our asset management business to provide comprehensive product offerings to meet increasing and diversifying customer demands;
- Continue to expand and promote new businesses and products with high growth potential;
- Actively pursue our internationalization strategy to capture cross-border opportunities; and
- Strengthen our risk management systems, internal controls, IT capabilities, research capabilities and human resource management to support our business operations.

SUMMARY FINANCIAL AND OPERATING INFORMATION

The following tables set forth our summary consolidated financial information for the years ended December 31, 2009, 2010 and 2011, and as of December 31, 2009, 2010 and 2011. We have derived the summary from our consolidated financial information set forth in the Accountants' Report in Appendix I to this prospectus. The following summary should be read together with, and is qualified in its entirety by reference to, the consolidated financial information in Appendix I to this prospectus, including the accompanying notes, and the information set forth in "Financial Information" beginning on page 315 of this prospectus.

SUMMARY

Summary Consolidated Income Statements

	Year ended December 31,		
	2009	2010	2011
(RMB in millions)			
Revenue			
Commission and fee income	8,753.4	8,384.1	6,566.8
Interest income	1,407.0	1,647.0	2,553.2
Net investment gains	888.1	1,077.8	1,506.9
Total revenue	11,048.5	11,108.9	10,626.9
Other income and gains	267.3	196.0	233.5
Total revenue and other income	11,315.8	11,304.9	10,860.4
Total expenses	(5,400.0)	(6,393.4)	(6,633.1)
Share of results of associates	66.0	78.2	72.9
Profit before income tax	5,981.8	4,989.7	4,300.2
Income tax expense	(1,320.1)	(1,121.5)	(1,018.2)
Profit for the year	4,661.7	3,868.2	3,282.0
Attributable to:			
Owners of the Company	4,548.2	3,686.3	3,103.0
Non-controlling interests	113.5	181.9	179.0

Summary Consolidated Statements of Financial Position

	As of December 31,		
	2009	2010	2011
(RMB in millions)			
Non-current assets	3,613.5	5,116.6	6,163.0
Current assets	117,116.7	110,296.5	92,814.0
Total assets	120,730.2	115,413.1	98,977.0
Current liabilities	75,739.8	69,600.2	52,294.3
Non-current liabilities	471.8	196.1	72.0
Total liabilities	76,211.6	69,796.3	52,366.3
Total equity	44,518.6	45,616.8	46,610.7
Equity attributable to owners of the Company	43,414.0	44,467.4	45,042.4
Non-controlling interests	1,104.6	1,149.4	1,568.3

SUMMARY

The following table sets forth the key measurements of our profitability for the periods indicated:

	Year ended December 31,		
	2009	2010	2011
	(RMB in millions, except percentages)		
Operating profit ⁽¹⁾	5,648.5	4,715.5	3,993.8
Operating margin ⁽²⁾	51.1%	42.4%	37.6%
Adjusted operating margin ⁽³⁾	57.6%	48.9%	43.8%
Net profit	4,661.7	3,868.2	3,282.0
Net margin ⁽⁴⁾	42.2%	34.8%	30.9%
Adjusted net margin ⁽⁵⁾	47.5%	40.1%	36.0%

(1) Operating profit = total revenue – total expenses

(2) Operating margin = (total revenue – total expenses)/total revenue

(3) Adjusted operating margin = (total revenue – total expenses)/(total revenue – commission to account executives – brokerage transaction fees and other services expenses – interest expenses).

Adjusted operating margin is not a standard measurement under IFRS, but we present it here because we believe that, after excluding (i) commission to account executives, (ii) brokerage transaction fees and other services expenses and (iii) interest expenses, such measurement provides a meaningful indicator of our results of operations. Prospective investors should be aware that adjusted operating margin presented in this prospectus may not be comparable to other similarly titled measures reported by other comparable companies, due to different calculation methods or assumptions.

(4) Net margin = profit for the year/total revenue

(5) Adjusted net margin = (net profit for the year)/(total revenue – commission to account executives – brokerage transaction fees and other services expenses – interest expenses). Adjusted net margin is not a standard measurement under IFRS, but we present it here because we believe that, after excluding (i) commission to account executives, (ii) brokerage transaction fees and other services expenses and (iii) interest expenses, such measurement provides a meaningful indicator of our results of operations. Prospective investors should be aware that adjusted net margin presented in this prospectus may not be comparable to other similarly titled measures reported by other comparable companies, due to different calculation methods or assumptions.

SUMMARY

The following table sets forth the breakdown of our total revenue and other income by business segments and segment revenue and other income expressed as a percentage of our total revenue and other income for the periods indicated:

	Year ended December 31,					
	2009		2010		2011	
	(RMB in millions)	%	(RMB in millions)	%	(RMB in millions)	%
PRC business						
Securities and futures brokerage	7,284.0	64.4	5,774.8	51.1	4,163.1	38.3
Investment banking	496.8	4.4	1,091.7	9.7	1,068.6	9.8
Asset management	878.9	7.8	868.5	7.7	1,092.1	10.1
Proprietary trading	804.8	7.1	779.8	6.9	1,144.8	10.5
Direct investment	52.1	0.5	106.0	0.9	55.0	0.5
Headquarters and others ⁽¹⁾	1,602.0	14.1	1,779.1	15.7	2,382.3	22.0
Overseas business	197.2	1.7	905.0	8.0	954.5	8.8
Total	<u>11,315.8</u>	<u>100.0</u>	<u>11,304.9</u>	<u>100.0</u>	<u>10,860.4</u>	<u>100.0</u>

- (1) Revenue and other income in headquarters and others mainly includes: (i) interest income from our own bank deposits and deposits we hold on behalf of our customers; and (ii) dividends and other investment gains as well as government grants. For more details, please see “Financial Information – Summary Segment Results” beginning on page 342 and “Appendix I – Accountants’ Report” in this prospectus.

The following table sets forth the key operating data of our PRC business for the periods indicated:

	Year ended December 31,		
	2009	2010	2011
Trading volume of securities brokerage (RMB in billions) ⁽¹⁾	5,411.5	5,398.7	5,620.4
Trading volume of futures brokerage (RMB in billions) ⁽²⁾	1,866.8	10,517.5	12,094.8
Amount of equity securities underwritten (RMB in millions)	7,530.4	49,657.7	15,091.0
Amount of debt securities underwritten (RMB in millions)	10,640.0	12,320.0	19,158.0
AUM ⁽³⁾ (RMB in millions)	61,788.8	74,726.5	67,546.8

- (1) The trading volume of our securities brokerage business includes trading volumes of other businesses, such as proprietary trading and asset management. For a discussion of the trading volume of transaction made on behalf of customers, please see “Business – Our Business and Operations – Securities and Futures Brokerage – Brokerage commission and fee income” beginning on page 209 of this prospectus.
- (2) The trading volume of the PRC futures market before 2011 included both sides of the trades. Since 2011, the trading volume of the PRC futures market has only included one side of the trades.
- (3) Our AUM represents the total value of assets that are managed by our Company and our subsidiaries including HFT Investment Management, Haitong-Fortis PE Management, Haitong Jihe Management and Haitong Chuangxin Management as of the last date of the periods indicated.

SUMMARY

USE OF PROCEEDS

Assuming an Offer Price of HK\$10.83 per H Share (being the mid-point of the stated range of the Offer Price of between HK\$10.48 and HK\$11.18 per H Share), we estimate that we will receive net proceeds of approximately HK\$12,776.1 million from the Global Offering after deducting the underwriting commissions and other estimated expenses if the Over-allotment Option is not exercised. We intend to use the net proceeds from the Global Offering for the following purposes:

- approximately 35.0%, or HK\$4,471.7 million, will be used for strategic acquisitions of overseas securities firms and/or further expansion of our overseas securities business. As of the Latest Practicable Date, the Directors confirmed that we have not identified any overseas acquisition targets;
- approximately 20.0%, or HK\$2,555.2 million, will be used to expand our margin financing and securities lending business in order to capture future business opportunities arising from its rapid growth in the PRC and to strengthen our market leading position;
- approximately 20.0%, or HK\$2,555.2 million, will be used to develop our alternative financial products investment business and other new businesses as permitted by the PRC regulatory authorities;
- approximately 15.0%, or HK\$1,916.4 million, will be used for capital contributions to Haitong Capital Investment and the expansion of our direct investment and private equity funds management businesses; and
- approximately 10.0%, or HK\$1,277.6 million, will be used for working capital and general corporate purposes.

To the extent our net proceeds are either more or less than HK\$12,776.1 million, we will adjust our allocation of the net proceeds for the above purposes on a *pro rata* basis. In addition, the possible use of proceeds outlined above may change in light of our evolving business needs and conditions and management requirements. For further details, please see “Future Plans and Use of Proceeds – Use of Proceeds” beginning on page 372 of this prospectus.

CAPITAL ADEQUACY AND RISK CONTROL INDICATOR

According to the Risk Control Indicator Measures, we have established a dynamic Net Capital monitoring mechanism to comply with statutory Net Capital requirements and other regulatory standards for capital adequacy. In addition, we also need to maintain a minimum amount of Net Capital to conduct our margin financing and securities lending, asset management and underwriting businesses. As of December 31, 2009, 2010 and 2011, we were in compliance with all of our capital adequacy and risk control indicator requirements. According to the SAC, as of December 31, 2011, our Net Capital amounted to RMB31.3 billion, the second highest among the PRC securities firms⁽¹⁾.

(1) The 2011 data from the SAC was based on the preliminary results of the PRC securities firms.

SUMMARY

The Risk Control Indicator Measures also require us to comply with requirements in addition to the risk control indicators mentioned above when we engage in proprietary trading and margin financing and securities lending businesses. We closely monitor all risk control indicators when conducting our proprietary trading and margin financing and securities lending businesses. During the Track Record Period, we did not have any non-compliance with such risk control indicators nor have we received any warning or penalty from the CSRC.

For further details, please see “Financial Information – Capital Adequacy and Risk Control Indicator” beginning on page 361 of this prospectus.

REGULATORY NON-COMPLIANCES

We are subject to a number of regulatory requirements and guidelines issued by the regulatory authorities in the PRC, Hong Kong and Macau (including but not limited to the CSRC, the Shanghai Stock Exchange, the Hong Kong Stock Exchange, the SFC and their respective local branches and offices (if applicable)). We or our employees have, from time to time, been involved in incidents of regulatory non-compliance and received related notices or warnings from the relevant regulatory authorities.

Our Directors and our PRC legal advisors confirm that the regulatory non-compliance incidents disclosed in this prospectus are not significant to our business operations and did not have any material adverse effect on our business, financial condition and results of operations. Our Directors also confirm that none of our existing Directors nor members of our senior management were involved in any regulatory non-compliance incidents.

For details of the regulatory non-compliance incidents committed by us and our employees during the Track Record Period and up to the Latest Practicable Date, and the primary remedial measures we adopted, please see “Business – Legal and Regulatory – Regulatory non-compliances” beginning on page 253 of this prospectus.

OFFERING STATISTICS

All statistics in this table are based on the assumptions that the Over-allotment Option is not exercised.

	Based on an Offer Price of HK\$10.48	Based on an Offer Price of HK\$11.18
Market capitalization of the H Shares ⁽¹⁾	HK\$14,172.5 million	HK\$15,119.2 million
Historical price/earnings multiple		
(a) pro forma basis ⁽²⁾	25.9 times	27.7 times
(b) weighted average basis ⁽³⁾	24.8 times	26.5 times
Unaudited pro forma adjusted net tangible asset value per Share ⁽⁴⁾	HK\$7.06	HK\$7.15

(1) The calculation of market capitalization is based on 1,352,340,000 H Shares (including 1,229,400,000 H Shares to be issued in the Global Offering and 122,940,000 H Shares to be converted from A Shares and transferred to the NSSF) that are expected to be outstanding immediately following the completion of the Global Offering.

SUMMARY

- (2) The calculation of historical price/earnings multiple is based on the earnings per Share for the year ending December 31, 2011, on a pro forma basis at the respective Offer Prices of HK\$10.48 and HK\$11.18 per H Share, assuming a weighted average of 9,457,221,180 Shares issued and outstanding during the year ending December 31, 2012. The weighted average of 9,457,221,180 Shares is calculated based on the 8,227,821,180 Shares issued and outstanding as of December 31, 2011 and the 1,229,400,000 H Shares to be issued pursuant to the Global Offering on the assumption that the Global Offering had been completed on December 31, 2011.
- (3) The calculation of historical price/earnings multiple is based on the earnings per Share for the year ending December 31, 2011, on a weighted average basis at the respective Offer Prices of HK\$10.48 and HK\$11.18 per H Share, assuming a weighted average of 9,064,216,262 Shares issued and outstanding during the year ending December 31, 2012. The weighted average of 9,064,216,262 Shares is calculated based on the 8,227,821,180 Shares issued and outstanding as of December 31, 2011, and the 1,229,400,000 H Shares to be issued pursuant to the Global Offering on the assumption that the Global Offering is completed on April 27, 2012.
- (4) The unaudited pro forma adjusted net tangible asset value per Share is calculated after making the adjustments referred to in Appendix II to this prospectus and based on the 9,457,221,180 Shares expected to be in issue immediately following the completion of the Global Offering. In particular, our unaudited pro forma adjusted consolidated net tangible assets has not taken into account the dividend of RMB0.15 per share to our existing Shareholders as at December 31, 2011, equivalent to approximately RMB1,234.2 million, proposed by our directors on March 14, 2012. Had the effect been given to the distribution of dividend, our unaudited pro forma adjusted consolidated net tangible assets attributable to the owners of the Company per share would have been HK\$6.90 or RMB5.60 based on the offer price of HK\$10.48 per share and HK\$6.99 or RMB5.67 based on the offer price of HK\$11.18 per share.

DIVIDEND POLICY

After the Global Offering, we may distribute dividends in the form of cash or by other means that we consider appropriate. Our Articles of Association stipulates that we shall distribute not less than 30% of our average annual distributable profits as cash dividends in any three consecutive fiscal years.

In 2009 and 2010, we declared cash dividends of RMB1,645.6 million and RMB1,234.2 million, respectively, representing a dividend of RMB0.20 and RMB0.15 per share, respectively. With respect to cash dividends for 2011, our Board has proposed, pending Shareholders' approval at the forthcoming annual general meeting, that a cash dividend of RMB0.15 per share, or a total of RMB1,234.2 million based on the number of our A Shares in issue as of December 31, 2011, be distributed to holders of our A Shares, but not to the holders of our H Shares. Any unpaid 2011 distributable profits shall be accrued as part of our distributable profits to be considered for the next distribution to our Shareholders. For further details, please see "Financial Information – Dividend Policy" beginning on page 369 of this prospectus.

IMPACT FROM CURRENT MARKET CONDITIONS

Our financial performance is dependent on a number of factors, including the general economic and market conditions associated with PRC and overseas securities markets, such as market volatility and fluctuations in the trading volume of securities. These factors impact several of our businesses, including our securities and futures brokerage business, which heavily depends on trading volume, and our proprietary trading business, which involves investing and trading positions that are mark-to-market. For example, during the second half of 2011, due to the tightening monetary policy and high inflation in the PRC, global economic

SUMMARY

uncertainties and the euro zone sovereign debt crisis, the CSI 300 Index decreased from 3,044.1 as of June 30, 2011 to 2,345.7 as of December 31, 2011, and average daily stocks trading volume in the PRC declined from RMB182.6 billion for the second quarter of 2011 to RMB156.1 billion for the third quarter of 2011, and further to RMB122.0 billion for the fourth quarter of 2011. As a result, (i) our stocks and funds brokerage trading volume declined by 21.8% in 2011 compared to 2010, which, in turn, reduced our brokerage commission and fee income; (ii) we recorded a lower investment gain in our proprietary trading business during the second half of 2011 compared with the first half of 2011; and (iii) we recognized an impairment loss of RMB540.4 million on our available-for-sale investments in 2011.

As the general economic and market conditions improved during the first quarter of 2012, the CSI 300 Index reached 2,454.9 as of March 31, 2012 and the average daily stocks trading volume in the PRC reached RMB153.3 billion for the first quarter of 2012. Although the recovery of the market conditions in the first quarter of 2012 had a positive impact on the financial performance of our securities brokerage and proprietary trading businesses as compared to the last quarter of 2011, market conditions have led to a substantial decline in the financial performance of our securities brokerage and proprietary trading businesses for the first quarter of 2012 as compared to the first quarter of 2011 where the CSI 300 Index was 3,223.3 as of March 31, 2011 and average daily stocks trading volume in the PRC was RMB233.7 billion for the first quarter of 2011. We cannot assure you that the market conditions will continue to improve for the remainder of 2012 or beyond.

The Directors confirm that, up to the date of this prospectus, there has been no material adverse change in our financial or trading position since December 31, 2011, being the date of our latest audited consolidated financial results.

SUMMARY RISK FACTORS

Our business is subject to numerous risks described in the section entitled “Risk Factors” beginning on page 34 of this prospectus. **As different investors may have different interpretations and standards for determining materiality of a risk, you are cautioned that you should read the whole section entitled “Risk Factors” of this prospectus carefully before you decide to invest in the Offer Shares.** Some of the major risks we face include:

- General economic and market conditions could materially and adversely affect our business;
- We face intense competition and our business could be materially and adversely affected if we are unable to compete effectively;
- Our securities and futures brokerage business is subject to various risks and we cannot assure you that our brokerage commission and fee income can be sustained;
- Our investment banking business is subject to various risks in the underwriting and sponsorship of securities and we cannot assure you that our underwriting and sponsors fees can be sustained;
- A significant decline in the size of our AUM or poor management performance may materially and adversely affect our asset management business;

SUMMARY

- Our proprietary trading business is subject to market volatility and our investment decisions;
- Our direct investment business is subject to our investment decisions and market volatility;
- Any significant disruption in the operations of Haitong International Securities in Hong Kong or our other overseas operations could have a material adverse effect on our overseas business; and
- We are subject to extensive regulatory requirements, the non-compliance with which could cause us to incur penalties.

DEFINITIONS

In this prospectus, unless the context otherwise requires, the following terms and expressions have the meanings set forth below.

“21st Century Business Herald”	the 21st Century Business Herald (21世紀經濟報導)
“A Share(s)”	domestic shares of our Company, with a nominal value of RMB1.00 each, which are subscribed for or credited as paid up in Renminbi and are listed for trading on the Shanghai Stock Exchange
“Application Form(s)”	WHITE Application Form(s), YELLOW Application Form(s) and GREEN Application Form(s), or where the context so requires, any of them, relating to the Hong Kong Public Offering
“Articles of Association” or “Articles”	the articles of association of our Company, as amended, which shall become effective on the Listing Date, a summary of which is set out in Appendix V to this prospectus
“associate(s)”	has the meaning ascribed to it under the Listing Rules
“BNP BE Group”	BNPP IP BE Holding and its associates
“BNPP IP BE Holding”	BNP Paribas Investment Partners BE Holding SA, a Connected Person of our Company
“Board” or “Board of Directors”	the board of Directors of the Company
“Bohai Rim”	the region comprising Beijing, Tianjin, and Hebei, Liaoning and Shandong provinces
“Business Day”	a day on which banks in Hong Kong are generally open for normal business to the public and which is not a Saturday, Sunday or public holiday in Hong Kong
“CCASS”	the Central Clearing and Settlement System established and operated by HKSCC
“CCASS Clearing Participant”	a person admitted to participate in CCASS as a direct clearing participant or general clearing participant

DEFINITIONS

“CCASS Custodian Participant”	a person admitted to participate in CCASS as a custodian participant
“CCASS Investor Participant”	a person admitted to participate in CCASS as an investor participant who may be an individual or joint individuals or a corporation
“CCASS Participant”	a CCASS Clearing Participant, a CCASS Custodian Participant or a CCASS Investor Participant
“central and western region”	the region comprising the following provinces, namely Gansu, Shaanxi, Shanxi, Jiangxi, Anhui, Hubei, Yunnan, Henan, Guizhou, Sichuan, Hunan, Chongqing, Guangxi and Xinjiang
“China” or “PRC”	the People’s Republic of China excluding, for the purpose of this prospectus, Hong Kong, Macau and Taiwan
“China Financial Futures Exchange”	the China Financial Futures Exchange (中國金融期貨交易所)
“China Futures Association”	the China Futures Association (中國期貨業協會)
“China-Belgium Fund”	China-Belgium Direct Equity Investment Fund (中國－比利時直接股權投資基金) for which Haitong-Fortis PE Management acts as the manager
“Companies Ordinance”	the Companies Ordinance (Chapter 32 of the Laws of Hong Kong) as amended, supplemented or otherwise modified from time to time
“Company,” “our Company” or “Haitong Securities”	Haitong Securities Co., Ltd. (海通證券股份有限公司), a company incorporated as an enterprise owned by the whole people on August 30, 1988 and converted into a joint-stock limited company under the laws of the PRC on January 28, 2002, the A Shares of which are listed on the Shanghai Stock Exchange in the PRC, the H Shares of which are being applied for listing on the Main Board of the Hong Kong Stock Exchange
“Company Law”	the Company Law of the People’s Republic of China (中華人民共和國公司法)
“Connected Person(s)”	has the meaning ascribed to it under the Listing Rules

DEFINITIONS

“CSDCC”	China Securities Depository and Clearing Corporation Limited (中國證券登記結算有限責任公司)
“CSRC”	the China Securities Regulatory Commission (中國證券監督管理委員會)
“Director(s)”	director(s) of our Company
“EIT”	enterprise income tax of the PRC
“EIT Law”	Enterprise Income Tax Law of the PRC (中華人民共和國企業所得稅法)
“Exchange Participant”	a person: (a) who, in accordance with the Rules of the Exchange, may trade on or through the Hong Kong Stock Exchange; and (b) whose name is entered in a list, register or roll kept by the Hong Kong Stock Exchange as a person who may trade on or through the Hong Kong Stock Exchange
“Fullgoal Fund Management”	Fullgoal Fund Management Co., Ltd. (富國基金管理有限公司), a limited liability company incorporated in the PRC, in which we owned an equity interest of 27.775% as of the Latest Practicable Date
“GDP”	gross domestic product
“GEM”	the Growth Enterprise Market of the Hong Kong Stock Exchange
“Global Offering”	the Hong Kong Public Offering and the International Offering
“Green Application Form(s)”	the application form(s) to be completed by the White Form eIPO Service Provider, Computershare Hong Kong Investor Services Limited
“Group,” “our Group,” “we” or “us”	our Company and our subsidiaries (or our Company and any one or more of our subsidiaries, as the context may require)
“H Share Registrar”	Computershare Hong Kong Investor Services Limited

DEFINITIONS

“H Share(s)”	ordinary shares in the share capital of our Company with nominal value of RMB1.00 each, which are to be subscribed for and traded in HK dollars and are to be listed on the Hong Kong Stock Exchange
“Haitong Capital Investment”	Haitong Capital Investment Co., Ltd. (海通開元投資有限公司), a limited liability company incorporated in the PRC, a wholly-owned subsidiary of our Company
“Haitong Chuangxin Management”	Haitong Chuangxin Capital Management Company Limited (海通創新資本管理有限公司), a limited liability company incorporated in the PRC, in which we owned a 51.00% equity interest through our wholly-owned subsidiary, Haitong Capital Investment as of the Latest Practicable Date
“Haitong Futures”	Haitong Futures Co., Ltd. (海通期貨有限公司), a limited liability company incorporated in the PRC, in which we owned a 66.67% equity interest as of the Latest Practicable Date
“Haitong International Holdings”	Haitong International Holdings Limited (海通國際控股有限公司), our wholly-owned subsidiary incorporated in Hong Kong
“Haitong International Securities”	Haitong International Securities Group Limited (海通國際證券集團有限公司), previously known as Taifook Securities, a company listed on the Hong Kong Stock Exchange under stock code 00665, in which we owned a 69.74% equity interest through our wholly-owned subsidiary, Haitong International Holdings as of the Latest Practicable Date
“Haitong Jihe Management”	Haitong Jihe Private Equity Investment Fund Management Company Limited (海通吉禾股權投資基金管理有限責任公司), a limited liability company incorporated in the PRC, in which we owned a 51.00% equity interest through our wholly-owned subsidiary, Haitong Capital Investment as of the Latest Practicable Date

DEFINITIONS

“Haitong-Fortis PE Management”	Haitong-Fortis Private Equity Fund Management Co., Ltd. (海富產業投資基金管理有限公司), a limited liability company incorporated in the PRC, in which we owned a 67.00% equity interest as of the Latest Practicable Date
“HFT Investment Management”	HFT Investment Management Co., Ltd. (海富通基金管理有限公司), a limited liability company incorporated in the PRC, in which we owned a 51.00% equity interest as of the Latest Practicable Date
“HK\$” or “HK dollars”	Hong Kong dollars, the lawful currency of Hong Kong
“HKFRS”	Hong Kong Financial Reporting Standards
“HKSCC”	Hong Kong Securities Clearing Company Limited
“HKSCC Nominees”	HKSCC Nominees Limited, a wholly-owned subsidiary of HKSCC, which is a wholly-owned subsidiary of Hong Kong Exchanges and Clearing Limited
“HKSE Corporate Governance Code”	Code on Corporate Governance Practices as set out in Appendix 14 to the Hong Kong Listing Rules
“Hong Kong” or “HK”	the Hong Kong Special Administrative Region of the PRC
“Hong Kong Offer Shares”	the H Shares offered by us for subscription pursuant to the Hong Kong Public Offering
“Hong Kong Public Offering”	the offering by our Company of initially 61,470,000 H Shares for subscription by the public in Hong Kong (subject to adjustment as described in the section headed “Structure of the Global Offering” in this prospectus) for cash at the Offer Price (plus brokerage, SFC transaction levies and Hong Kong Stock Exchange trading fees), on and subject to the terms and conditions described in this prospectus and the Application Forms as further described in the section headed “Structure of the Global Offering – The Hong Kong Public Offering” in this prospectus

DEFINITIONS

“Hong Kong Stock Exchange”	The Stock Exchange of Hong Kong Limited, a wholly-owned subsidiary of Hong Kong Exchanges and Clearing Limited
“Hong Kong Underwriters”	the underwriters listed in the paragraph headed “Hong Kong Underwriters” under the section headed “Underwriting” of this prospectus, being the underwriters of the Hong Kong Public Offering
“Hong Kong Underwriting Agreement”	the underwriting agreement dated April 16, 2012 relating to the Hong Kong Public Offering and entered into by the Hong Kong Underwriters and our Company, as further described in the paragraph headed “Underwriting arrangements and expenses” under the section headed “Underwriting” of this prospectus
“IFRS”	the International Financial Reporting Standards, which include standards, amendments and interpretations promulgated by the International Accounting Standards Board (IASB) and the International Accounting Standards (IAS) and interpretation issued by the International Accounting Standards Committee (IASC)
“independent third party(ies)”	party(ies) not connected with our Company and our connected persons (as defined in the Listing Rules)
“International Offer Shares”	the H Shares offered pursuant to the International Offering
“International Offering”	the offer for subscription of initially 1,167,930,000 H Shares to institutional professional, corporate and other investors, subject to adjustment and the Over-allotment Option, as further described in the section headed “Structure of the Global Offering” in this prospectus
“International Underwriters”	the group of international underwriters who are expected to enter into the International Underwriting Agreement to underwrite the International Offering

DEFINITIONS

“International Underwriting Agreement”	the underwriting agreement relating to the International Offering to be entered into on or about April 20, 2012 by the International Underwriters and our Company, as further described in the paragraph headed “International Offering” under the section headed “Underwriting” in this prospectus
“Joint Bookrunners”	in respect of the Hong Kong Public Offering, Haitong International Securities Company Limited, J.P. Morgan Securities (Asia Pacific) Limited, Credit Suisse (Hong Kong) Limited, Deutsche Bank AG, Hong Kong Branch, Citigroup Global Markets Asia Limited, UBS AG, Hong Kong Branch, The Hongkong and Shanghai Banking Corporation Limited, Nomura International (Hong Kong) Limited, Standard Chartered Securities (Hong Kong) Limited and BOCOM International Securities Limited and, in respect of the International Offering, Haitong International Securities Company Limited, J.P. Morgan Securities Ltd., Credit Suisse (Hong Kong) Limited, Deutsche Bank AG, Hong Kong Branch, Citigroup Global Markets Limited, UBS AG, Hong Kong Branch, The Hongkong and Shanghai Banking Corporation Limited, Nomura International (Hong Kong) Limited, Standard Chartered Securities (Hong Kong) Limited and BOCOM International Securities Limited
“Joint Global Coordinators”	Haitong International Securities Company Limited, J.P. Morgan Securities (Asia Pacific) Limited, Credit Suisse (Hong Kong) Limited, Deutsche Bank AG, Hong Kong Branch, Citigroup Global Markets Asia Limited and UBS AG, Hong Kong Branch

DEFINITIONS

“Joint Lead Managers”	in respect of the Hong Kong Public Offering, Haitong International Securities Company Limited, J.P. Morgan Securities (Asia Pacific) Limited, Credit Suisse (Hong Kong) Limited, Deutsche Bank AG, Hong Kong Branch, Citigroup Global Markets Asia Limited, UBS AG, Hong Kong Branch, The Hongkong and Shanghai Banking Corporation Limited, Nomura International (Hong Kong) Limited, Standard Chartered Securities (Hong Kong) Limited, BOCOM International Securities Limited, BNP Paribas Capital (Asia Pacific) Limited, BOCI Asia Limited, CCB International Capital Limited, China Everbright Securities (HK) Limited and Samsung Securities (Asia) Limited and, in respect of the International Offering, Haitong International Securities Company Limited, J.P. Morgan Securities Ltd., Credit Suisse (Hong Kong) Limited, Deutsche Bank AG, Hong Kong Branch, Citigroup Global Markets Limited, UBS AG, Hong Kong Branch, The Hongkong and Shanghai Banking Corporation Limited, Nomura International (Hong Kong) Limited, Standard Chartered Securities (Hong Kong) Limited, BOCOM International Securities Limited, BNP Paribas Capital (Asia Pacific) Limited, BOCI Asia Limited, CCB International Capital Limited, China Everbright Securities (HK) Limited and Samsung Securities (Asia) Limited
“Joint Sponsors”	Haitong International Capital Limited and J.P. Morgan Securities (Asia Pacific) Limited
“Latest Practicable Date”	April 9, 2012, being the latest practicable date for the purpose of ascertaining certain information contained in this prospectus prior to its publication
“Listing”	listing of the H Shares on the Main Board of the Hong Kong Stock Exchange
“Listing Date”	the date, expected to be on or about Friday, April 27, 2012, on which our H Shares are listed and from which dealings therein are permitted to take place on the Hong Kong Stock Exchange
“Listing Rules” or “Hong Kong Listing Rules”	the Rules Governing the Listing of Securities on the Hong Kong Stock Exchange (as amended from time to time)

DEFINITIONS

“Macau”	the Macau Special Administrative Region of the PRC
“Main Board”	the stock exchange (excluding the option market) operated by the Hong Kong Stock Exchange which is independent from and operated in parallel with GEM
“Mandatory Provisions”	the “Mandatory Provisions for Articles of Association of Companies to be Listed Overseas” (到境外上市公司章程必備條款), as amended, supplemented or otherwise modified from time to time, for inclusion in the articles of association of companies incorporated in the PRC to be listed overseas (including Hong Kong), which were promulgated by the former Securities Commission of the State Council and the former State Commission for Restructuring the Economic Systems on September 29, 1994
“Ministry of Finance”	the Ministry of Finance of the PRC (中華人民共和國財政部)
“Moneyweek”	Moneyweek magazine (理財週報)
“NBSC”	National Bureau of Statistics of China (中國國家統計局)
“NDRC”	National Development and Reform Commission of the PRC (中華人民共和國國家發展和改革委員會)
“New Fortune”	the New Fortune magazine (新財富)
“northeastern region”	the region comprising Heilongjiang and Jilin provinces
“NSSF”	the National Council for Social Security Fund of the PRC (中華人民共和國全國社會保障基金理事會)
“OECD”	Organization for Economic Co-operation and Development
“Offer Price”	the final offer price per H Share (exclusive of brokerage fee of 1%, SFC transaction levy of 0.003% and Hong Kong Stock Exchange trading fee of 0.005%) at which the Offer Shares are to be subscribed for and issued, or purchased and sold pursuant to the Global Offering as described in the section headed “Structure of the Global Offering – Pricing and Allocation” of this prospectus

DEFINITIONS

“Offer Shares”	the Hong Kong Offer Shares and the International Offer Shares, with any additional H Shares to be issued pursuant to the exercise of the Over-allotment Option
“Over-allotment Option”	the option granted by us to the International Underwriters, exercisable by the Joint Global Coordinators (on behalf of the International Underwriters) pursuant to the International Underwriting Agreement, to require our Company to issue up to an aggregate of 184,410,000 additional H Shares at the Offer Price, representing 15% of the offer shares initially available under the Global Offering, to cover, among others, over-allocations in the International Offering, if any, exercisable at any time from the date of the International Underwriting Agreement up to (and including) the date which is the 30th day from the last day for lodging of applications under the Hong Kong Public Offering
“PBOC”	the People’s Bank of China (中國人民銀行), the central bank of the PRC
“Pearl River Delta”	the region comprising Guangzhou, Shenzhen, Zhuhai, Foshan, Dongguan, Zhongshan, Huizhou, Jiangmen, Zhaoqing, Shaoguan and Shantou, all located in Guangdong province
“PRC GAAP”	generally accepted accounting principles in the PRC
“Price Determination Date”	the date, expected to be on or around Friday, April 20, 2012 (Hong Kong time) on which the Offer Price is determined, or such later time as our Company and the Joint Global Coordinators (on behalf of the Underwriters) may agree, but in any event not later than Tuesday, April 24, 2012
“prospectus”	this prospectus being issued in connection with the Hong Kong Public Offering
“province”	each being a province or, where the context requires, a provincial level autonomous region or municipality under the direct supervision of the central government of the PRC
“QIBs”	qualified institutional buyers within the meaning of Rule 144A under the U.S. Securities Act

DEFINITIONS

“Regulation S”	Regulation S under the U.S. Securities Act
“Risk Control Indicator Measures”	Administrative Measures for the Risk Control Indicators of Securities Companies in the PRC (證券公司風險控制指標管理辦法)
“RMB” or “Renminbi”	Renminbi, the lawful currency of the PRC
“Rule 144A”	Rule 144A under the U.S. Securities Act
“SAC”	the Securities Association of China (中國證券業協會)
“SAFE”	State Administration of Foreign Exchange of the PRC (中華人民共和國國家外匯管理局)
“SASAC”	State-owned Assets Supervision and Administration Commission of the State Council (國務院國有資產監督管理委員會)
“SAT”	State Administration of Taxation of the PRC (國家稅務總局)
“Securities and Futures Ordinance” or “SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) as amended, supplemented or otherwise modified from time to time
“Securities Finance Company”	China Securities Finance Co., Ltd. (中國證券金融股份有限公司), a non-profit joint stock company established under the direction of the State Council to provide, among other functions, funding and securities refinancing services to support the margin financing and securities lending businesses of PRC securities firms
“Securities Law”	the Securities Law of the People’s Republic of China (中華人民共和國證券法)
“Securities Times”	Securities Times Newspaper (證券時報)
“SFC”	the Securities and Futures Commission of Hong Kong
“Shanghai Listing Rules”	the rules governing the listing of securities on the Shanghai Stock Exchange

DEFINITIONS

“Shanghai Shangshi”	SIIC Shanghai (Holding) Co., Ltd. (上海上實(集團)有限公司), one of the shareholders of our Company having 2.94% shareholding in our Company as of the Latest Practicable Date
“Shanghai Stock Exchange”	the Shanghai Stock Exchange (上海證券交易所)
“Shareholder(s)”	holder(s) of the Share(s)
“Share(s)”	collectively, A Share(s) and H Share(s), or where the context requires, either of them
“Shenzhen Stock Exchange”	the Shenzhen Stock Exchange (深圳證券交易所)
“SIIC”	Shanghai Industrial Investment (Holdings) Co., Ltd. (上海實業(集團)有限公司), which is the <i>de facto</i> controlling shareholder of Shanghai Shangshi
“Sino-foreign joint venture securities firm(s)”	(i) securities firm(s) established jointly by foreign shareholders and PRC shareholders through equity contributions in accordance with applicable PRC law; and (ii) securities firm(s) formed as a result of foreign investors being assigned with, or subscribing for, equity interests in PRC security firm in accordance with applicable PRC law. In each case, foreign shareholders shall not in the aggregate hold, directly or indirectly, more than one-third of the shares or equity interests in such securities firm
“SMEs”	small and medium enterprises
“SOE(s)”	state-owned enterprise(s)
“Special Regulations”	the Special Regulations of the State Council on the Overseas Offering and Listing of Shares by Joint Stock Limited Companies (國務院關於股份有限公司境外募集股份及上市的特別規定), promulgated by the State Council on August 4, 1994, as amended
“Stabilizing Manager”	Haitong International Securities Company Limited
“State Council”	State Council of the PRC (中華人民共和國國務院)

DEFINITIONS

“SUABC”	Shanghai Urban Agro-Business Co., Ltd. (上海市都市農商社股份有限公司), through the reverse takeover of which our Company became listed on the Shanghai Stock Exchange in July 2007 with the stock code of 600837
“subsidiary(ies)”	has the meaning ascribed to it in section 2 of the Companies Ordinance
“Supervisor(s)”	member(s) of the Supervisory Committee
“Supervisory Committee”	the supervisory committee of our Company
“Taifook Securities”	Taifook Securities Group Limited (大福證券集團有限公司), renamed as Haitong International Securities Group Limited in November 2010
“Takeovers Code”	the Codes on Takeovers and Mergers and Share Repurchases issued by the SFC, as amended, supplemented or otherwise modified from time to time
“Track Record Period”	the three years ended December 31, 2009, 2010 and 2011
“Twelfth Five-Year Plan”	The Twelfth Five-Year Plan Guidelines for National Economic and Social Development of the PRC (《中華人民共和國國民經濟和社會發展第十二個五年規劃綱要》)
“Underwriters”	the Hong Kong Underwriters and the International Underwriters
“Underwriting Agreements”	the Hong Kong Underwriting Agreement and the International Underwriting Agreement
“U.S.” or “United States”	the United States of America, its territories, its possessions and all areas subject to its jurisdiction
“U.S. Securities Act”	the United States Securities Act of 1933, as amended, and the rules and regulations promulgated thereunder
“US\$” or “U.S. dollars” or “USD”	United States dollars, the lawful currency of the United States

DEFINITIONS

“WFE”	World Federation of Exchanges, a trade association of over 50 publicly regulated stock, futures and options exchanges, which not only provides references for the securities industry and member exchanges, but also dedicates in promoting regulated exchanges and providing guidance on business strategies and corporate governance for member exchanges
“White Form eIPO”	the application for Hong Kong Offer Shares to be issued in the applicant’s own name by submitting applications online through the designated website of White Form eIPO www.eipo.com.hk
“White Form eIPO Service Provider”	Computershare Hong Kong Investor Services Limited
“Wind Info”	Wind Information Co., Ltd., a company with limited liability incorporated in the PRC in 1994 and an integrated service provider of financial data, information and software
“Yangtze River Delta”	the region comprising Shanghai, Jiangsu and Zhejiang provinces

In this prospectus, the terms “associate,” “connected person,” “connected transaction,” “controlling shareholder,” “subsidiary” and “substantial shareholder” shall have the meanings given to such terms in the Listing Rules, unless the context otherwise requires.

For ease of reference, the names of the PRC established companies or entities, laws or regulations have been included in the prospectus in both the Chinese and English languages and in the event of any inconsistency, the Chinese versions shall prevail. The provision of English translation of company names in Chinese language which are marked with “” is for identification purposes only.*

GLOSSARY OF TECHNICAL TERMS

This glossary of technical terms contains explanations of certain technical terms used in this prospectus in connection with our Group and our business. These terms and their meanings may not correspond to standard industry meanings or usage of these terms.

“A shares”	the shares that are traded on the Shanghai Stock Exchange or the Shenzhen Stock Exchange in Renminbi
“active customer(s)”	our customer(s) who conducted at least one trade with us in the last 36 months
“AUM”	assets under management
“average securities brokerage commission rate”	equals the commission income from our trading of stocks and funds on behalf of clients as divided by our brokerage trading volume for stocks and funds
“B shares”	shares denominated in Renminbi, subscribed for and traded in foreign currency on the Shanghai Stock Exchange or the Shenzhen Stock Exchange
“CAGR”	compound annual growth rate
“ChiNext Board”	the growth enterprise board launched by the Shenzhen Stock Exchange
“collective asset management scheme(s)”	a type of mutual fund managed by PRC securities firms in the PRC for retail customers
“CSI 300 Index”	a capitalization-weighted stock market index designed to replicate the performance of 300 stocks traded on the Shanghai Stock Exchange and the Shenzhen Stock Exchange, which is compiled by the China Securities Index Company, Ltd. (中證指數有限公司)
“dim sum bonds”	RMB-denominated bonds issued in Hong Kong
“enterprise annuity”	the supplementary pension insurance scheme established voluntarily by enterprises and their employees in addition to the basic pension insurance in which they participate in accordance with the law

GLOSSARY OF TECHNICAL TERMS

“first-tier cities”	the metropolises which play a significant role in national politics, economics and other social activities, including Beijing, Shanghai, Guangzhou and Shenzhen
“FOF”	Fund of Funds
“futures IB business”	the business activities in which securities firms, as commissioned by futures companies, introduce customers to futures companies to provide futures brokerage and other related services
“high net worth customer(s)”	our individual customer(s) whose account(s) with us have a minimum balance of RMB10.0 million in investment assets
“high net worth individual(s)”	individual(s) having total investable assets of at least RMB10.0 million
“International Board”	a board to be established on the Shanghai Stock Exchange where foreign companies can list their shares
“IPO”	initial public offering
“M&A”	mergers and acquisitions
“margin and securities refinancing”	a business in which securities firms can act as intermediaries to borrow funds or securities from the Securities Finance Company and other financial institutions, including banks, fund management companies and insurance companies and lend such funds and securities to their customers
“Net Capital”	equals net assets minus risk-adjusted financial assets minus other risk-adjusted assets and contingent liability plus/minus other adjustments recognized or approved by the CSRC
“New OTC Board”	an OTC board to be established for high-growth enterprises in the PRC
“OTC”	over-the-counter

GLOSSARY OF TECHNICAL TERMS

“OTCBB”	OTC Bulletin Board, which is an inter-dealer electronic quotation system in the U.S. that displays real-time quotes, last-sale prices and volume information for many OTC equity securities that are not listed on a national securities exchange in the U.S.
“Pink Sheets”	formally known as the OTC Markets Group, Inc., which is a private company that provides services to the U.S. OTC securities market, including electronic quotations, trading, messaging and information platforms
“QDII”	Qualified Domestic Institutional Investor (合格境內機構投資者)
“QFII”	Qualified Foreign Institutional Investor (合格境外機構投資者)
“RQFII”	Renminbi Qualified Foreign Institutional Investor (人民幣合格境外機構投資者), a program launched in the PRC which allows Hong Kong subsidiaries of PRC brokerage companies and fund houses to facilitate investments of offshore Renminbi into domestic securities market
“second and third-tier cities”	cities and municipalities in fast growing provinces in the PRC that are not first-tier cities
“Shibor”	Shanghai Interbank Offered Rate
“SIFMA”	Securities Industry and Financial Markets Association in the U.S.
“SME Board”	the Small and Medium Enterprises Board of the Shenzhen Stock Exchange
“sponsor representative”	professional representative qualified in the PRC to sponsor and execute the offerings and listings of securities pursuant to the Measures for the Administration of the Sponsorship of the Offering and Listing of Securities of the PRC
“SSE 50 Index”	an index of 50 representative stocks that are traded on the Shanghai Stock Exchange

GLOSSARY OF TECHNICAL TERMS

“SSE Corporate Governance Index”	an index comprising all the stocks from the SSE Corporate Governance Board, which is intended to encourage other listed companies on the Shanghai Stock Exchange to strengthen their corporate governance and internal controls
“stock index futures”	cash-settled standardized futures contracts on the value of a particular stock market index
“SZSE Component Index”	an index of 40 representative stocks that are traded on the Shenzhen Stock Exchange
“targeted asset management scheme(s)”	a type of special vehicle managed by PRC securities firms for annuity plans, other institutional investors and individual investors with large amount of investment assets

FORWARD LOOKING STATEMENTS

This prospectus includes forward-looking statements. All statements other than statements of historical facts contained in this prospectus, including, without limitation, those regarding our future financial position, our strategies, plans, objectives, goals, targets and future developments in the markets where we participate or are seeking to participate, and any statements preceded by, followed by or that include the words “believe,” “expect,” “estimate,” “predict,” “aim,” “intend,” “will,” “may,” “plan,” “consider,” “anticipate,” “seek,” “should,” “could,” “would,” “continue,” or similar expressions or the negative thereof, are forward-looking statements. These forward-looking statements involve known and unknown risks, uncertainties and other factors, some of which are beyond our control, which may cause our actual results, performance or achievements, or industry results, to be materially different from any future results, performance or achievements expressed or implied by the forward-looking statements. These forward-looking statements are based on numerous assumptions regarding our present and future business strategies and the environment in which we will operate in the future. Important factors that could cause our actual performance or achievements to differ materially from those in the forward-looking statements include, among other things, the following:

- our ability to successfully implement our business plans and strategies;
- future developments, trends and conditions in the industry and markets in which we operate;
- our business prospects;
- our capital expenditure plans;
- the actions and developments of our competitors;
- our financial condition and performance;
- capital market developments;
- our dividend policy;
- any changes in the laws, rules and regulations of the central and local governments in the PRC and other relevant jurisdictions and the rules, regulations and policies of the relevant governmental authorities relating to all aspects of our business;
- general political and economic conditions, including those related to the PRC;
- changes or volatility in interest rates, foreign exchange rates, equity prices or other rates or prices, including those pertaining to the PRC and the industry and markets in which we operate;
- various business opportunities that we may pursue; and

FORWARD LOOKING STATEMENTS

- macroeconomic measures taken by the PRC government to manage economic growth.

Additional factors that could cause actual performance or achievements to differ materially include, but are not limited to, those discussed under the section headed “Risk Factors” and elsewhere in this prospectus. We caution you not to place undue reliance on these forward-looking statements, which reflect our management’s view only as of the date of this prospectus. We undertake no obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise. In light of these risks, uncertainties and assumptions, the forward-looking events discussed in this prospectus might not occur. All forward-looking statements contained in this prospectus are qualified by reference to the cautionary statements set out in this section.

RISK FACTORS

You should carefully consider all of the information in this prospectus, including the risks and uncertainties described below, before making an investment in our H Shares. These risks could materially and adversely affect our business, financial condition and results of operations. The trading price of our H Shares could significantly decrease due to any of these risks, and you may lose all or part of your investment. You should pay particular attention to the fact that we are a company incorporated in the PRC and most of our operations are conducted in the PRC which is governed by a legal and regulatory environment that may differ significantly from that of other countries. For more information concerning the PRC and certain related matters discussed below, please see “Regulatory Environment,” “Appendix IV – Summary of Principal PRC and Hong Kong Legal and Regulatory Provisions” and “Appendix V – Summary of the Articles of Association.”

RISKS RELATING TO OUR BUSINESS AND INDUSTRY

General economic and market conditions could materially and adversely affect our business.

Substantially all of our revenue is derived from the securities markets. Like other businesses operating in the same industry, our business is directly affected by the inherent risks associated with the securities markets, such as market volatility, fluctuations in the trading volume and the credit capacity or perceived credit worthiness of the securities industry in the marketplace. Our business is also subject to general economic and political conditions, such as macroeconomic and monetary policies, legislation and regulations affecting the financial and securities industries, upward and downward trends in the business and financial sectors, inflation, currency fluctuations, availability of short-term and long-term market funding sources, cost of funding and the level and volatility of interest rates. For example, due largely to the global financial crisis in 2008, securities markets in the PRC and overseas (including Hong Kong) experienced substantial losses and the overall business environment was extremely adverse, which had a material adverse effect on our principal business lines in 2008. In 2010 and 2011, the PRC securities industry and our financial condition and results of operations were adversely affected by the tightening of monetary policies and high inflation in the PRC and the volatility in the PRC A share markets, as well as the financial instability in the U.S. and euro zone economies. During the second half of 2011, the tightening monetary policies and high inflation in the PRC, global economic uncertainties and the euro zone sovereign debt crisis have resulted in adverse market conditions and increased volatility in the PRC and overseas securities markets. For example, the CSI 300 Index and the Hang Seng Index decreased from 3,044.1 and 22,398.1 as of June 30, 2011, respectively, to 2,345.7 and 18,434.4 as of December 31, 2011, respectively, representing a decline of approximately 22.9% and 17.7%, respectively. As a result, (i) our stocks and funds brokerage trading volume declined by 21.8% in 2011 compared to 2010, which, in turn, has reduced our brokerage commission and fee income; (ii) we recorded a net investment gain of RMB342.1 million in our proprietary trading business in the PRC during the second half of 2011 compared to a net investment gain of RMB802.7 million during the first half of 2011; and (iii) we recognized an impairment loss of RMB540.4 million on our available-for-sale investments in 2011. In addition, while the CSI 300 Index and the average daily stocks trading volume in the PRC recovered during the first quarter of 2012 compared to the fourth quarter of 2011, which had a positive impact on our securities and futures brokerage and proprietary trading businesses, they still represented

RISK FACTORS

substantial declines from the CSI 300 Index of 3,223.3 as of March 31, 2011 and the average daily stocks trading volume in the PRC of RMB233.7 billion for the first quarter of 2011. We cannot assure you that the market conditions will continue to improve for the remainder of 2012 or beyond.

Turmoil in the financial markets, a downturn in general economic conditions or other risks associated with our business and the securities industry in general could reduce securities trading and corporate finance activities and affect the value of certain financial assets, which may consequently have a material adverse effect on our commission and fees from brokerage, investment banking and asset management businesses, as well as our returns on financial assets and investments. A reduction in our income or a loss resulting from our underwriting, investments or trading activities could have a material adverse effect on our business, results of operations and financial condition. As a result of these risks, our income and operating results may be subject to significant fluctuations.

We face intense competition and our business could be materially and adversely affected if we are unable to compete effectively.

The PRC securities industry is highly competitive and we face intense competition in most of our business lines:

- For our securities brokerage business, we compete primarily with other PRC securities firms in terms of pricing and the range of products and services offered. Currently, there are more than 100 registered securities firms in the PRC and intense price competition in recent years has lowered commission rates for our securities brokerage business. For the years ended December 31, 2009, 2010 and 2011, our average securities brokerage commission rate was 0.147%, 0.118% and 0.100%, respectively, which adversely affected our brokerage commission and fee income. Please see “– Our securities and futures brokerage business is subject to various risks and we cannot assure you that our brokerage commission and fee income can be sustained.”
- For our investment banking business, we compete primarily with other PRC and Sino-foreign joint venture securities firms as well as PRC commercial banks in terms of brand recognition, marketing and distribution capability, service quality, financial strength and pricing. Intense competition may result in lower underwriting and advisory fees for our investment banking business. Please see “– Our investment banking business is subject to various risks in the underwriting and sponsorship of securities and we cannot assure you that our underwriting and sponsors fees can be sustained.”
- For our asset management business, we compete primarily with fund management companies, banks, insurance companies and other financial institutions in the PRC in terms of the range of products and services offered, pricing and quality of customer service.

RISK FACTORS

- For our direct investment business, we compete primarily with other PRC securities firms that are qualified to conduct direct investment business and private equity firms in the PRC.

Some of our competitors may have certain competitive advantages over us, including greater financial resources, stronger brand recognition, broader product and service offerings, more advanced IT systems and a branch network with wider geographic coverage. They may also have more experience with a broader range of services and more complex financial products than we do.

In addition, with regulatory changes and other factors that contribute to the gradual relaxation of the PRC securities regulations, more competitors are seeking to enter or expand in our industry. We believe that the PRC securities industry is becoming increasingly competitive. Our failure to remain competitive will have a material and adverse effect on our business, financial condition, results of operations and prospects.

Our securities and futures brokerage business is subject to various risks and we cannot assure you that our brokerage commission and fee income can be sustained.

Brokerage commission and fee income represent a significant portion of our revenue. For the years ended December 31, 2009, 2010 and 2011, segment revenue and other income from our securities and futures brokerage business in the PRC amounted to RMB7,284.0 million, RMB5,774.8 million and RMB4,163.1 million, respectively, representing 64.4%, 51.1% and 38.3% of our total revenue and other income, respectively.

Our securities and futures brokerage business is affected by external factors such as general economic conditions, macroeconomic and monetary policies, market conditions and fluctuations in interest rates, all of which are beyond our control. For example, the CSI 300 Index decreased by 26.5% in 2011 as a result of increased inflation, tightened monetary policies and rising concerns over the PRC domestic economy. Such unfavorable market conditions caused our stocks and funds brokerage trading volume decline by 21.8% in 2011 compared to 2010, which, in turn, has reduced our brokerage commission and fee income. While the CSI 300 Index and the average daily stocks trading volume in the PRC recovered during the first quarter of 2012 compared to the fourth quarter of 2011, which had a positive impact on our securities and futures brokerage business, they still represented substantial declines from the CSI 300 Index of 3,223.3 as of March 31, 2011 and the average daily stocks trading volume in the PRC of RMB233.7 billion for the first quarter of 2011.

In addition, market competition is another key factor affecting our securities and futures brokerage business. We monitor our product pricing in relation to competitors and adjust commission rates and other fee structures to enhance our competitiveness. For the years ended December 31, 2009, 2010 and 2011, our average securities brokerage commission rate was 0.147%, 0.118% and 0.100%, respectively. Our commission and fee income on securities brokerage decreased by 18.2% in 2010 compared to 2009 mainly due to a decline in our average securities brokerage commission rate in 2010. In addition, our commission and fee

RISK FACTORS

income on securities brokerage further decreased by 33.8% in 2011 compared to 2010 due primarily to a decrease in our stocks and funds brokerage trading volume and a further decline in our average securities brokerage commission rate in 2011.

With the gradual relaxation of the PRC securities regulations, we believe that the PRC securities industry will become increasingly competitive. If the PRC regulatory authorities further relax the restrictions on the opening of brokerage branches, competition may increase and we cannot assure you that we would not further lower our brokerage commission rates in order to stay competitive. As a result, we cannot assure you that our brokerage commission and fee income can be sustained at current levels.

Our investment banking business is subject to various risks in the underwriting and sponsorship of securities and we cannot assure you that our underwriting and sponsors fees can be sustained.

For the years ended December 31, 2009, 2010 and 2011, segment revenue and other income from our investment banking business in the PRC amounted to RMB496.8 million, RMB1,091.7 million and RMB1,068.6 million, respectively, representing 4.4%, 9.7% and 9.8% of our total revenue and other income, respectively. Although our investment banking business has had a rapid growth in revenue and profit in recent years, we cannot assure you that such growth rate will be sustained due to the risks associated with our investment banking business as discussed below.

Our investment banking business is subject to certain risks that are primarily related to the underwriting of securities. The primary offering of securities in the PRC, especially an IPO, is subject to a merit-based review and approval process conducted by various regulatory authorities. The result and timing of these reviews are beyond our control and may cause substantial delays to or the termination of securities offerings underwritten and sponsored by us. We cannot assure you that such approvals will be granted in a timely manner or at all in the future. A significant decline in the approval rate of the securities offerings we sponsor could harm our reputation, erode client confidence and reduce our underwriting and sponsors fee income, because we receive most of our fees only after the successful completion of a securities offering. In addition, the performance of our investment banking business also depends on market conditions. Adverse market conditions and capital market volatility may also cause delays to or the termination of securities offerings underwritten and sponsored by us.

In addition, substantial capital market volatility may cause the securities underwritten by us to be undersubscribed. Since we may underwrite securities offerings on a firm commitment basis, we would then be required to purchase some or all of the unsubscribed portion for our own account, which would materially and adversely affect our liquidity. After trading begins, if we sell the securities on our account to investors below the offer price at which we were committed to purchase, we would incur losses on the sales of those securities.

Intensifying price competition in investment banking business from other PRC or Sino-foreign joint venture securities firms may force us to charge a lower underwriting fee rate to stay competitive. This could cause our underwriting and sponsors fees to be reduced, which

RISK FACTORS

could adversely affect our business, financial condition and results of operations. As a result, we cannot assure you that our underwriting and sponsors fees can be sustained at current levels.

Furthermore, when acting as a sponsor in the underwriting of securities, we may be subject to regulatory sanctions, fines, penalties or other disciplinary actions in the PRC for conducting inadequate due diligence in connection with an offering, fraud or misconduct committed by issuers, their agents, other sponsors or ourselves, misstatements and omissions in disclosure documents, or other illegal or improper activities that occur during the course of the underwriting process.

A significant decline in the size of our AUM or poor management performance may materially and adversely affect our asset management business.

For the years ended December 31, 2009, 2010 and 2011, segment revenue and other income from our asset management business in the PRC amounted to RMB878.9 million, RMB868.5 million and RMB1,092.1 million, respectively, representing 7.8%, 7.7% and 10.1% of our total revenue and other income, respectively.

We receive asset management fees based on the value of our customer portfolios or investment in funds managed by us. In addition, we also provide private equity fund management, collective asset management and targeted asset management schemes in which we may also earn performance fees. Market volatility, adverse economic conditions or the failure to outperform our competitors or the market may reduce our AUM or affect the performance of the assets or funds we manage, which could adversely affect the amount of management fees or performance fees we receive.

Our proprietary trading business is subject to market volatility and our investment decisions.

For the years ended December 31, 2009, 2010 and 2011, segment revenue and other income from our proprietary trading business in the PRC amounted to RMB804.8 million, RMB779.8 million and RMB1,144.8 million, respectively, representing 7.1%, 6.9% and 10.5% of our total revenue and other income, respectively.

We trade equity and fixed income securities as well as derivative products for our own account. Our equity and fixed income securities are subject to market volatility and, therefore, the results of our securities trading activities generally correlate with the performance of the PRC securities markets. We also engage in derivative transactions involving ETFs and stock index futures. We use derivative instruments to reduce the impact of price volatility on our investment portfolio. However, the PRC derivatives market currently does not provide sufficient means for us to hedge against volatile trading markets, which may make it difficult for us to reduce our exposure to fluctuations in price volatility on our investment portfolio, and the derivatives we use may not be as effective as we expect. In addition, derivatives contracts we enter into expose us to the risks associated with these instruments and their underlying assets, which could result in substantial losses. The secondary market for derivatives is volatile and we may be inexperienced in managing new products or trading derivative products. As a

RISK FACTORS

result of the volatility in the PRC securities market, we recorded a net investment gain of RMB342.1 million in our proprietary trading business in the PRC during the second half of 2011 compared to a net investment gain of RMB802.7 million during the first half of 2011. While the CSI 300 Index recovered during the first quarter of 2012 compared to the fourth quarter of 2011, which had a positive impact on our proprietary trading business, it still represented a substantial decline from the CSI 300 Index of 3,223.3 as of March 31, 2011.

The performance of our proprietary trading business is determined by our investment decisions and judgments based on our assessment of existing and future market conditions. We closely monitor the market value and financial performance of our proprietary trading portfolio, and actively adjust such portfolio and allocate assets based on market conditions and internal risk management guidelines. However, our investment decisions are a matter of judgment, which involves management discretion and assumptions. If our decision-making process fails to effectively minimize losses while capturing gains, or our forecasts do not conform to actual changes in market conditions, our proprietary trading business may not achieve the investment returns we anticipate, and we could even suffer material losses, any of which would materially and adversely affect our business, financial condition and results of operations.

In addition, certain classes of our assets, such as our available-for-sale securities, are marked to market. A decline in the value of our available-for-sale securities can result in the recognition of impairment losses if management determines that such a decline in value is not temporary. This evaluation is a matter of judgment, which includes the assessment of several factors. Please see “Financial Information – Significant Accounting Policies and Estimates.” If our management determines that an asset is impaired, the book value of the asset is adjusted and a corresponding loss is recognized in current earnings. A deterioration in the market value of available-for-sale securities could result in the recognition of impairment loss. For the year ended December 31, 2011, we recognized an impairment loss of RMB540.4 million on our available-for-sale investments.

Our direct investment business is subject to our investment decisions and market volatility.

For the years ended December 31, 2009, 2010 and 2011, segment revenue and other income from our direct investment business in the PRC amounted to RMB52.1 million, RMB106.0 million and RMB55.0 million, respectively, representing 0.5%, 0.9% and 0.5% of our total revenue and other income, respectively. Although we had one private equity investment exit in 2010, we cannot assure you that we will be able to continue to exit from private equity investments in each year thereafter and the timing for such exits is subject to our investment decisions and market volatility.

Our direct investment business generally involves direct equity investments in private companies and investment in private equity funds with our own capital. We earn investment returns from dividends paid by our portfolio companies and generate capital gains from exits through an IPO or share sale by our portfolio company. To make a sound investment decision, we need to carefully identify and select a target business based on its business model and the

RISK FACTORS

industry in which it operates. In general, this selection process involves a systematic analysis and forecast of the target's profitability and sustainability. However, we may make unsound investment decisions, and our portfolio companies may take longer than expected to mature to a stage suitable for IPOs. As such, our investment period would be longer than we anticipated which could reduce our returns on investment. In addition, our ability to exit a private equity investment is also subject to market conditions in the PRC. Due to volatile equity capital markets, we may be forced to sell our investments at undesirable prices or defer sales for a considerable period of time or may not be able to sell at all. If we cannot sell our private equity investments during the planned disposition period, our investment returns will continue to be exposed to markets risks. Furthermore, if the target company does not reach the profitability we anticipated, our ability to exit from, or receive dividends on, such investments could be severely constrained. As a result, our business, financial condition and results of operations could be materially and adversely affected.

Any significant disruption in the operations of Haitong International Securities in Hong Kong or our other overseas operations could have a material adverse effect on our overseas business.

For the years ended December 31, 2009, 2010 and 2011, segment revenue and other income from our overseas business amounted to RMB197.2 million, RMB905.0 million and RMB954.5 million, representing 1.7%, 8.0% and 8.8% of our total revenue and other income, respectively.

As we generate most of the revenue and other income in our overseas business from our operations in Hong Kong, our overseas business depends on, to a large extent, the results of operations of Haitong International Securities and our other subsidiaries incorporated in Hong Kong. However, we cannot assure you that Haitong International Securities and our other Hong Kong operations may continue to experience the same level of growth or profitability. A variety of external factors that could significantly affect our operations in Hong Kong include, but are not limited to, changes in the general economic and market conditions in Hong Kong and compliance with various regulatory and legal requirements in Hong Kong. For example, the Hong Kong economy has experienced significant downturns in the past, including in connection with the outbreak of SARS in 2003, the global financial crisis in 2008 and the market volatility in the second half of 2011. These economic downturns resulted in substantial losses in the securities markets, significant deterioration in customers' asset quality and increases in the cost of funding in the overseas markets. Any significant disruption in the operations of Haitong International Securities or our other overseas operations could have a material adverse effect on our business, financial condition, results of operations and prospects.

Our business is subject to concentration risks due to significant holdings of financial assets or significant capital commitments.

Certain of our business lines are capital-intensive, such as our investment banking, proprietary trading, direct investment and margin financing and securities lending businesses, and may result in us having significant holdings of selected asset classes. Such capital

RISK FACTORS

commitments expose us to concentration risks, including market risk, in the case of our holdings of concentrated or illiquid positions in a particular asset class as part of our proprietary trading and direct investment activities, as well as credit risk, in the case of our margin financing and securities lending business. Any decline in the value of our asset holdings may reduce our income or result in losses.

A significant decrease in our liquidity could negatively affect our business and reduce customer confidence in us.

Maintaining adequate liquidity is crucial to our business operations as we continue to expand our margin financing and securities lending, investment banking, proprietary trading, and other business activities with substantial cash requirements. We meet our liquidity needs primarily through cash generated by operating activities and, to a lesser extent, cash provided by external financing. A reduction in our liquidity could reduce the confidence of our customers or counterparties in us, which may result in the loss of business and customer accounts. In addition, according to the CSRC's requirements, the ratio between our Net Capital and net assets cannot fall below 40%, the ratio between our Net Capital and total liabilities cannot fall below 8% and the ratio between our net assets and total liabilities cannot fall below 20%. If we fail to meet regulatory capital requirements in the PRC, regulatory authorities may impose penalties on us or limit the scope of our business, which could, in turn, have a material and adverse effect on our financial condition and results of operations.

Factors that may adversely affect our liquidity position include a significant increase in our margin financing activities, increased regulatory capital requirements, substantial investments, other regulatory changes or a loss of market or customer confidence. When cash generated from our operating activities is not sufficient to meet our liquidity or regulatory capital needs, we must seek external financing. During periods of disruptions in the credit and capital markets, potential sources of external financing could be limited and our borrowing costs could increase. Although our management believes that we maintain sufficient credit lines and banking facilities, external financing may not be available on acceptable terms or at all due to unfavorable market conditions and disruptions in the credit and capital markets.

We are subject to extensive regulatory requirements, the non-compliance with which could cause us to incur penalties.

As a participant in the securities and financial services industries, we are subject to extensive PRC and overseas (including Hong Kong) regulatory requirements, which are designed to ensure the integrity of the financial markets, the soundness of securities firms and other financial institutions and the protection of investors. These regulations often serve to limit our activities by, among other things, imposing capital requirements, limiting the types of products and services we may offer, restricting the types of securities in which we may invest and limiting the number and location of branches we may establish. Please see "Regulatory Environment." The PRC and overseas (including Hong Kong) regulatory authorities conduct periodic or *ad hoc* inspections, examinations and inquiries in respect of our compliance with such requirements. For example, the CSRC assigns a regulatory rating to each

RISK FACTORS

securities firm according to the sufficiency of its internal control policies, risk management capabilities, compliance with regulatory requirements and overall market position. For the past four consecutive years, we received an “AA” regulatory rating from the CSRC.

Despite our efforts to comply with applicable regulations, there are a number of associated risks, particularly in areas where applicable regulations may be unclear or where regulators subsequently revise their previous guidance. On occasion, we have failed to meet certain requirements and guidelines set by the PRC regulatory authorities. From time to time, we or our employees have been involved in incidents of regulatory non-compliance and received related notices or warnings from the relevant regulatory authorities. Based on the nature of the cases, we classify the incidents of regulatory non-compliance committed by us and our employees into the following three categories: (i) non-compliance incidents that led to administrative penalties; (ii) non-compliance incidents that led to regulatory measures and the deduction of regulatory points; and (iii) employee non-compliance incidents. These incidents of non-compliance include, among other things, the liquidation of customers’ securities without their prior consent and the failure of our sponsor representatives to perform adequate due diligence on the issuer’s financial and accounting matters. Please see “Business – Legal and Regulatory – Regulatory non-compliances.” Material incidents of non-compliance may subject us to penalties or restrictions on our business activities, which could have a material adverse effect on our business, results of operations or financial conditions.

We cannot assure you that we will be able to meet all the applicable regulatory requirements, or comply with all the applicable regulations and guidelines at all times. Failure to do so could result in sanctions, fines, penalties or other disciplinary actions, including, among other things, a downgrade of our regulatory rating and limitations or prohibitions on our future business activities, which may limit our ability to conduct pilot programs and launch new businesses and harm our reputation, and consequently materially and adversely affect our financial condition and results of operations.

New legislation or changes in the PRC regulatory requirements may affect our business operations and prospects.

The PRC securities industry is a highly regulated industry and relevant rules and regulations could be changed from time to time based on the development of the securities markets. New rules and regulations, changes in the interpretation or enforcement of currently existing rules and regulations may directly impact our business strategies and prospects. In addition, changes in the rules and regulations could result in limitations on the business lines we may conduct, modifications to our business practices or additional costs.

In particular, we have been selected by PRC regulators as one of the first securities firms to develop new businesses in the PRC securities industry, such as stock index futures and margin financing and securities lending businesses. However, as the PRC securities industry is still evolving, most of the newly introduced businesses require further development and improvement and there are some uncertainties regarding the enforcement of existing rules and regulations in relation to these new businesses. Changes in the interpretation or enforcement of rules and regulations for these new businesses may result in changes in, or the suspension of, certain of our new businesses, which could have a material adverse effect on our business and prospects.

RISK FACTORS

Our risk management policies and procedures and internal controls, as well as the risk management tools available to us, may not fully protect us against various risks inherent in our business.

Currently, we follow our internal risk management framework and procedures to manage our risk exposures, primarily including market risk, credit risk, liquidity risk and operational risk. Our risk management policies, procedures and internal controls may not be adequate or effective in mitigating our risk exposures or protecting us against unidentified or unanticipated risks. In particular, some methods of managing risks are based upon observed historical market behavior and our experience in the securities industry. These methods may fail to predict future risk exposures, which could be significantly greater than those indicated by our historical measures. Other risk management methods depend upon an evaluation of available information regarding operating and market conditions and other matters, which may not be accurate, complete, up-to-date or properly evaluated. In addition, in markets that are rapidly developing, the information and experience data that we rely on for our risk management methods may become quickly outdated as markets and regulations continue to evolve.

Management of operational, legal and regulatory risks requires, among other things, policies and procedures to properly record and verify a large number of transactions and business activities, as well as appropriate and consistent application of internal control systems. These policies, procedures and internal controls may not be adequate or effective and our business, financial condition and results of operations could be materially and adversely affected by the corresponding increase in our risk exposures and actual losses as a result of failures of our risk management policies, procedures and internal controls. The risk mitigation strategies and techniques that we adopt may not be fully effective and may leave us exposed to unidentified and unanticipated risks.

Furthermore, our risk management procedures and asset allocation decisions govern our proprietary trading and investment portfolio. We may not have adequate risk management tools, policies and procedures, and may not have sufficient access to resources and trading counterparties to effectively implement our trading and investment risk mitigation strategies and techniques related to our proprietary trading and investment portfolio. If our decision-making process fails to effectively minimize losses while capturing gains, we may experience significant financial losses that could materially and adversely affect our business, financial condition and results of operations.

We may suffer significant losses from our credit exposures.

Our businesses are subject to risks that a customer or counterparty may fail to perform its contractual obligations or that the value of collateral held to secure the obligations might be inadequate. While we have internal policies and procedures designed to manage such risks, these policies and procedures may not be fully effective. Please see “– Our risk management policies and procedures and internal controls, as well as the risk management tools available to us, may not fully protect us against various risks inherent in our business.” Our credit exposure mainly results from our margin financing and securities lending business and our role

RISK FACTORS

as a counterparty in financial and derivative contracts. Any material non-payment or non-performance by a customer or counterparty could adversely affect our financial position, results of operations and cash flows.

In addition, we have exposure to credit risk associated with our available-for-sale investments and held-to-maturity financial assets. These investments may also be subject to price fluctuations as a result of changes in the financial market's assessment of the issuer's credit worthiness, delinquency and default rates and other factors, which could adversely affect our financial condition and results of operations.

We face additional risks as we expand our product and service offerings.

We are committed to providing new products and services in order to strengthen our leading market position in the PRC securities industry. We have recently expanded our business to include, among others, margin financing and securities lending, stock index futures brokerage and direct investment. These new businesses expose us to additional risks. For example, although we have established a margin call risk control mechanism through which we monitor the value of our customers' collateral on a real-time basis, we may be subject to substantial risks if borrowers of margin loans default on payments or if the value of the collateral for the loans is insufficient to cover the margin loans due to significant market volatility. We may also suffer losses on stock index futures contracts we enter into if stock indices move unfavorably.

We will continue to expand our product and service offerings as permitted by the PRC regulatory authorities, transact with new customers not in our traditional customer base and enter into new markets. These activities expose us to new and potentially increasingly challenging risks, including, but not limited to:

- we may have insufficient experience or expertise in offering new products and services and dealing with new counterparties and customers;
- we may be subject to greater regulatory scrutiny, increased credit risks, market risks and operational risks;
- we may suffer from reputational concerns arising from dealing with less sophisticated counterparties and customers;
- we may be unable to provide customers with adequate levels of service for our new products and services;
- we may be unable to hire additional qualified personnel to support the offering of a broader range of products and services;
- our new products and services may not be accepted by our customers or meet our profitability expectations;
- we may be unable to obtain sufficient financing from internal and external sources to support our business expansion; and

RISK FACTORS

- we may not be successful in enhancing our risk management capabilities and IT systems to identify and mitigate all the risks associated with these new products and services, new customers and new markets.

If we are unable to achieve the intended commercial results with respect to our offering of new products and services, our business, financial condition, results of operations and prospects could be materially and adversely affected.

Significant interest rate fluctuations could affect our financial condition and results of operations.

Our exposure to interest rate risk is primarily associated with our interest income, interest expenses and fixed income securities.

We earn interest income from bank deposits (including our own deposits and customer deposits), margin financing and securities lending business and financial assets held under resale agreements. Interest income from these sources are directly linked to the prevailing market interest rates. During periods of declining interest rates, our interest income would generally decrease.

We also make interest payments on deposits we hold on behalf of our customers, our short-term borrowings and repurchase transactions. These interest expenses are directly linked to the prevailing market interest rates. During periods of rising interest rates, our interest expenses and financing costs would generally increase.

In addition, we hold fixed income securities. During periods of rising interest rates, market prices and our investment returns on fixed income securities will generally decrease.

Significant interest rate fluctuations could reduce our interest income or returns on fixed income investments, or increase our interest expenses, any of which could adversely affect our financial condition and results of operations.

Our operations depend on key management and professional staff and our business may suffer if we are unable to retain or replace them.

The success of our business is dependent to a large extent on our ability to attract and retain key personnel who possess in-depth knowledge and understanding of the securities and financial markets. These key personnel include members of our senior management, licensed sponsor representatives, experienced investment managers and industry analysts, IT specialists, sales staff and other personnel. Therefore, we devote considerable resources to recruiting and retaining these personnel. However, the market for quality professionals is highly competitive and we face increasing competition in recruiting and retaining these individuals as other securities firms and financial institutions are competing for the same pool of talent. Intense competition may require us to offer higher compensation and other benefits in order to attract and retain qualified professionals, which could materially and adversely

RISK FACTORS

affect our financial condition and results of operations. As a result, we may be unable to attract or retain these personnel to achieve our business objectives and the failure to do so could severely disrupt our business and prospects.

Some of our key employees are subject to non-compete arrangements. However, we cannot assure you that such arrangements can be fully and legally enforced. If any of our senior management or other key personnel joins or establishes a competing business, we may lose some of our customers, which may have a material adverse effect on our business.

Future acquisitions and overseas expansions may not be successful.

In addition to organic growth, our current strategy involves growth through acquisitions of complementary businesses and entry into strategic alliances. This strategy entails potential risks that could have a material adverse effect on our business, financial condition, results of operations and prospects, including:

- unidentified or unanticipated liabilities or risks in the assets or businesses which we may acquire;
- inability to successfully integrate the products, services and personnel of the businesses which we may acquire into our operations or to realize any expected cost savings or other synergies from the acquisitions;
- the need to incur additional indebtedness, which may reduce our cash available for operations and other uses due to increased debt repayment obligations;
- inability to retain employees and customer relationships;
- customer overlap or loss of customers; and
- diversion of management attention and other resources.

We may not be able to identify attractive acquisition opportunities, or make acquisitions on attractive terms or obtain financing necessary to complete and support such acquisitions. In addition, the anticipated future expansion of our operations through acquisitions will place a significant strain on our management, internal controls and IT systems and resources, and could also result in additional expenditure. In addition to training, managing and integrating our workforce, we will need to continue to develop and improve our management and financial controls. We cannot assure you that any of such acquisitions will result in long-term benefits to us or that we will be able to effectively manage the integration and growth of our operations. Failure to do so may materially and adversely affect our business, financial condition, results of operations and prospects.

RISK FACTORS

In addition, our overseas acquisitions (including acquisitions in Hong Kong) may expose us to additional risks, including, among others:

- difficulties with managing overseas (including Hong Kong) operations, including complying with the various regulatory and legal requirements of different jurisdictions;
- different approval or license requirements;
- challenges in providing products, services and support in these overseas (including Hong Kong) markets;
- challenges in managing our sales channels and overseas (including Hong Kong) distribution network effectively;
- differences in accounting treatment in different jurisdictions;
- potential adverse tax consequences;
- foreign exchange losses;
- limited protection for intellectual property rights;
- inability to effectively enforce contractual or legal rights;
- changes in local government laws, regulations and policies; and
- local political and economic instability or civil unrest.

If we are unable to effectively avoid or mitigate these risks, our ability to expand our business overseas (including Hong Kong) will be impaired, which could have a material and adverse effect on our business, financial condition, results of operations and prospects.

We or our landlords do not possess the relevant land use rights certificates or building ownership certificates for some of the properties owned or leased by us.

Properties owned or leased by us primarily consist of offices, residential and ancillary buildings. For some of the properties we occupy in the PRC, we or our landlords have not yet obtained land use rights certificates and/or building ownership certificates that allow us to use, transfer or mortgage the properties freely. As of December 31, 2011, among the 92 properties in the PRC and two properties in Hong Kong that we owned, (i) nine properties had the relevant building ownership certificates and administrative allocated land use rights certificates, with a gross floor area of approximately 7,221 square meters, representing 5.3% of the aggregate gross floor area of the properties we owned; (ii) 16 properties had building ownership certificates but not the relevant land use rights certificates, with a gross floor area of

RISK FACTORS

approximately 18,642 square meters, representing 13.7% of the aggregate gross floor area of the properties we owned; and (iii) four properties were without proper building ownership certificates and land use rights certificates, with a gross floor area of approximately 6,942 square meters, representing 5.1% of the aggregate gross floor area of the properties we owned. As of December 31, 2011, for our leased properties, our landlords had not obtained proper title certificates for 34 buildings with a gross floor area of approximately 33,509 square meters, accounting for approximately 13.3% of the total gross floor area of the buildings we occupy. Of these 34 buildings, our landlords of 11 buildings, accounting for approximately 3.0% of the total gross floor area of the buildings we occupy, had not agreed to indemnify us for any potential liabilities we would incur as a result of the title defects. Please see “Business – Properties.”

We are in the process of applying for the remaining building ownership certificates and/or the land use rights certificates for our owned properties and working with our landlords to cure title defects, but the timing for obtaining such relevant certificates is beyond our control. Before we or our landlords obtain the proper building ownership certificates and/or the land use rights certificates for such properties, our rights in relation to such properties might not be entirely protected. Any dispute or claim related to the title of the properties owned or leased by us may result in us relocating our offices.

We cannot assure you that our use and occupation of the relevant land and buildings will not be challenged, and there is no assurance that we will be able to secure alternative properties for our business if we are required to relocate. If we or our landlords cannot obtain the relevant certificates in a timely manner and our legal right to use or occupy the relevant properties is challenged, we may incur additional relocation costs, have to pay government fines, or our business operations may be disrupted, any of which may have a material adverse effect on our business, financial condition, results of operations and prospects.

We may not be able to detect and prevent fraud or other misconduct committed by our employees, representatives, agents, customers or other third parties.

We may be exposed to fraud or other misconduct committed by our employees, representatives, agents, customers or other third parties that could subject us to financial losses and sanctions imposed by governmental authorities, as well as adversely affect our reputation.

Our internal control procedures are designed to monitor our operations and ensure overall compliance. During the Track Record Period, we did not experience any unauthorized trades or serious trade errors committed by our employees or other misconduct committed by our representatives, agents and customers that had a material adverse effect on our business, financial condition and results of operations. However, our internal control procedures may be unable to identify all incidents of non-compliance or suspicious transactions in a timely manner or at all. Furthermore, it is not always possible to detect and prevent fraud and other misconduct, and the precautions we take to prevent and detect such activities may not be effective. We cannot assure you that fraud or other misconduct will not occur in the future. If such fraud or other misconduct does occur, it may cause negative publicity as a result. Our failure to detect and prevent fraud and other misconduct may have a material adverse effect on our business reputation, financial condition and results of operations.

RISK FACTORS

We may not be able to fully detect money laundering and other illegal or improper activities in our business operations on a timely basis.

We are required to comply with applicable anti-money laundering, anti-terrorism laws and other regulations in the PRC and overseas (including Hong Kong). The PRC Anti-money Laundering Law (中華人民共和國反洗錢法) requires financial institutions to establish sound internal control policies and procedures with respect to anti-money laundering monitoring and reporting activities. Such policies and procedures require us to, among other things, establish or designate an independent anti-money laundering department, establish a customer identification system in accordance with relevant rules, record the details of customer activities and report suspicious transactions to relevant authorities. Please see “Regulatory Environment – Regulation on Anti-money Laundering” and “Regulatory Environment – Hong Kong Regulatory Overview – Anti-Money Laundering and Terrorist Financing.”

While we have adopted policies and procedures aimed at detecting and preventing the use of our business platforms to facilitate money laundering activities and terrorist acts, such policies and procedures in some cases have only been recently adopted and may not completely eliminate instances in which we may be used by other parties to engage in money laundering and other illegal or improper activities. In the event that we fail to fully comply with applicable laws and regulations, the relevant government agencies may freeze our assets or impose fines or other penalties on us. We cannot assure you that there will not be failures in detecting money laundering or other illegal or improper activities which may adversely affect our business reputation, financial condition and results of operations.

We rely heavily on IT systems to process and record our transactions and offer online products and services.

Our operations rely heavily on the ability of our IT systems to accurately process a large number of transactions across numerous and diverse markets and our broad range of products in a timely manner. Our system for processing securities transactions is highly automated. A prolonged disruption to or failure of our information processing or communications systems would limit our ability to process transactions. This would impair our ability to service our customers and execute trades on behalf of customers and for our own account, which could materially and adversely affect our competitiveness, financial condition and results of operations.

The proper functioning of our financial control, risk management, accounting, customer service and other data processing systems, together with the communication networks between our headquarters and branches, are critical to our business and our ability to compete effectively. We have established back-up centers in Shanghai and Shenzhen to carry on principal functions in the event of a catastrophe or failure of our systems, including those caused by human error. However, we cannot assure you that our operations will not be materially disrupted if any of our systems fail.

RISK FACTORS

In addition, the securities industry is characterized by rapidly changing technology. Online securities trading platforms and other new channels such as mobile devices are becoming increasingly popular among our customers due to their convenience and user-friendliness. We rely heavily on technology, particularly the Internet, to provide high quality online services. However, our technology operations are vulnerable to disruptions from human error, natural disasters, power failure, computer viruses, spam attacks, unauthorized access and other similar events. Disruptions to or instability of our technology or external technology that allows our customers to use our online products and services could harm our business and our reputation.

Our business is susceptible to the operational failure of third parties.

We face the risk of operational failure or termination of any of the exchanges, depositories, clearing agents or other financial intermediaries we use to facilitate our securities transactions. We were not subject to any material operational failure of third parties during the Track Record Period. However, any future operational failure or termination of the particular financial intermediaries that we use could adversely affect our ability to execute transactions, service our customers and manage our exposure to various risks.

In addition, as our interconnectivity with our customers grows, our business also relies heavily on our customers' use of their own systems, such as personal computers, mobile devices and the Internet, and we will increasingly face the risk of operational failure in connection with our customers' systems.

We may be subject to litigation and regulatory investigations and proceedings and may not always be successful in defending ourselves against such claims or proceedings.

The securities industry faces substantial litigation and regulatory risks, including the risk of lawsuits and other legal actions relating to information disclosure, sales or underwriting practices, product design, fraud and misconduct, as well as protection of personal and confidential information of our customers. We may be subject to arbitration claims and lawsuits in the ordinary course of our business. We may also be subject to inquiries, investigations, and proceedings by regulatory and other governmental agencies. Actions brought against us may result in settlements, injunctions, fines, penalties or other results adverse to us that could harm our reputation. Even if we are successful in defending ourselves against these actions, the costs of such defense may be significant to us. In market downturns, the number of legal claims and amount of damages sought in litigation and regulatory proceedings may increase. A significant judgment or regulatory action against us or a disruption in our business arising from adverse adjudications in proceedings against our directors, officers or employees would have a material adverse effect on our liquidity, business, financial condition, results of operations and prospects.

A failure to appropriately identify and address conflicts of interests could adversely affect our business.

As we expand the scope of our business and our client base, it is critical for us to be able to address potential conflicts of interest, including situations where two or more interests within our business legitimately exist but are in competition or conflict. Please see "Business – Risk Management and Internal Control Policies and Procedures – Conflicts of Interest."

RISK FACTORS

We have extensive internal control and risk management procedures that are designed to identify and address conflicts of interest. However, appropriately identifying and dealing with potential conflicts of interest is complex and difficult. Our failure to manage conflicts of interest could harm our reputation and erode client confidence in us. In addition, potential or perceived conflicts of interest may also give rise to litigation or regulatory actions. Any of the foregoing could adversely affect our business, financial condition and results of operations.

We may be subject to liability and regulatory action if we are unable to protect personal and other confidential information of our customers.

Various laws, regulations and rules require us to protect the personal data and confidential information of our customers. The relevant authorities may issue sanctions or orders against us if we fail to protect the personal information of our customers, and we may have to provide compensation for economic loss arising from our failure to protect the personal information of our customers in accordance with relevant laws and regulations. During the Track Record Period, we did not experience any material failure to protect confidential information of our customers. Incidents of mishandling personal information or failure to protect confidential information of our customers could create a negative public or customer perception of our operations or our brand name, which may materially and adversely affect our reputation and prospects.

RISKS RELATING TO THE PRC

Economic, political and social conditions in the PRC and government policies could affect our business and prospects.

A substantial majority of our assets are located in the PRC, and a substantial majority of our revenue is derived from our businesses in the PRC. Accordingly, our financial condition, results of operations and prospects are, to a material extent, subject to economic, political and legal developments in the PRC. The PRC economy differs from the economies of developed countries in many respects, including, among other things, government involvement, level of economic development, growth rate, foreign exchange controls and resources allocation.

Although the PRC economy has been transitioning from a planned economy to a more market-oriented economy for more than three decades, a substantial portion of productive assets in the PRC are still owned by the PRC government. The PRC government also exercises significant control over the economic growth of the PRC through allocating resources, controlling payments of foreign currency-denominated obligations, setting monetary policy and providing preferential treatment to particular industries or companies. In recent years, the PRC government has implemented measures emphasizing the utilization of market forces in economic reform, the reduction of state ownership of productive assets and the establishment of sound corporate governance practices in business enterprises. These economic reform measures may be adjusted or modified, or applied inconsistently from industry to industry or across different regions of the country. As a result, we may not benefit from some of these measures.

RISK FACTORS

The PRC government has the power to implement macroeconomic measures affecting the PRC economy. For example, to mitigate the negative impact from the global financial crisis and economic downturn in 2008, the PRC government implemented a series of macroeconomic measures and a moderately loose monetary policy between September 2008 to the end of 2009, which included announcing an RMB4.0 trillion economic stimulus package and reducing benchmark interest rates. In 2010 and 2011, the PRC government introduced a number of monetary tightening measures to curb the overheated real estate markets and increasing inflation in the PRC. The PBOC announced several increases in benchmark interest rates for general lending and the deposit reserve ratio for commercial banks in the PRC.

In recent years, the PRC has been one of the world's fastest growing economies as measured by GDP growth. However, the PRC may not be able to sustain historical growth rates. For example, the sub-prime mortgage crisis that broke out in the U.S. in 2008 affected global financial markets and caused significant turmoil in the global financial and credit markets. From the second half of 2008 to mid-2009, the world's largest economies, including the U.S., Europe and Japan fell into severe economic recessions, and economic growth in the PRC, India and other emerging economies also experienced a slowdown. The GDP growth in the PRC declined from 14.2% in 2007 to 9.2% in 2009. Future uncertainties in the PRC and global economy may adversely affect our financial condition and results of operations.

The PRC legal system has inherent uncertainties that could limit the legal protection available to you.

We are incorporated under the laws of the PRC. The PRC legal system is based on written statutes. While prior court decisions may be cited for reference, they have limited precedential value. Since 1979, the PRC government has promulgated laws, rules and regulations dealing with economic matters, such as foreign investment, corporate organization and governance, commerce, taxation and trade. However, because these laws, rules and regulations are relatively new, and because of the relatively limited volume of published cases and their non-binding nature, interpretation and enforcement of these laws, rules and regulations involve significant uncertainties.

Our Articles of Association provide that disputes between holders of H Shares and us, our Directors, Supervisors or senior officers or holders of A Shares, arising out of our Articles of Association or any rights or obligations conferred or imposed upon us by the Company Law and related rules and regulations concerning our affairs, are to be resolved through arbitration rather than by a court of law. A claimant may elect to submit a dispute to either the China International Economic and Trade Arbitration Commission or the Hong Kong International Arbitration Center in accordance with its applicable rules. Awards that are made by the PRC arbitral authorities are recognized under the Arbitration Ordinance of Hong Kong and can be enforced in Hong Kong. Hong Kong arbitration awards may be recognized and enforced by PRC courts, subject to the satisfaction of certain PRC legal requirements. However, to our knowledge, no action has been brought in the PRC by any holder of H shares to enforce an arbitral award and no assurance can be given as to the outcome of any action brought in the PRC by any holder of H shares to enforce a Hong Kong arbitral award made in favor of holders

RISK FACTORS

of H shares. Moreover, to our knowledge, there has not been any published report of judicial enforcement in the PRC by holders of H shares of their rights under the articles of association of any PRC issuer or the Company Law.

In addition, PRC laws, rules and regulations applicable to companies listed overseas do not distinguish among minority and controlling shareholders in terms of their rights and protections and our minority shareholders may not have the same protections afforded to them by companies incorporated under the laws of the United States and certain other jurisdictions.

You may experience difficulties in effecting service of legal process and enforcing judgments against us and our management.

We are a company incorporated under the laws of the PRC and a substantial portion of our assets and our subsidiaries are located in the PRC. In addition, most of our Directors, Supervisors and executive officers reside within the PRC and the assets of our Directors and officers may be located within the PRC. As a result, it may not be possible to effect service of process within the United States or elsewhere outside the PRC upon most of our Directors, Supervisors and executive officers, including with respect to matters arising under the U.S. federal securities laws or applicable state securities laws. Moreover, the PRC does not have treaties providing for the reciprocal enforcement of judgments of courts with the United States, the United Kingdom, Japan or most other Western countries. In addition, Hong Kong has no arrangement for the reciprocal enforcement of judgments with the United States. As a result, recognition and enforcement in the PRC or Hong Kong of judgments of a court in the United States and any of the other jurisdictions mentioned above in relation to any matter that is not subject to a binding arbitration provision may be difficult or impossible. In addition, although we will be subject to the Hong Kong Listing Rules and the Takeovers Code upon the listing of our H Shares on the Hong Kong Stock Exchange, the holders of H Shares will not be able to bring actions on the basis of violations of the Hong Kong Listing Rules and must rely on the Hong Kong Stock Exchange to enforce its rules.

Investments in PRC securities firms are subject to ownership restrictions that may adversely affect the value of your investment.

Investments in PRC securities firms are subject to ownership restrictions. Prior approval from the CSRC is required for any person or entity to hold 5% or more of the registered capital or total issued shares of a PRC securities firm. If a shareholder of a PRC securities firm increases its shareholding above the 5% threshold without obtaining prior approval from the CSRC, such shareholder's voting right is invalid to the extent that it exceeds the 5% threshold and it could be subject to CSRC sanctions, such as the correction of such misconduct, fines and confiscation of any related gains. Current ownership restrictions and future changes in ownership restrictions as imposed by the PRC government may materially and adversely affect the value of your investment.

RISK FACTORS

You may be subject to PRC taxation.

Under the applicable PRC tax laws, the dividends we pay to non-PRC resident individual holders of H shares (“non-resident individual holders”), and gains realized through the sale or transfer by other means of H shares by such shareholders, are both subject to PRC individual income tax at a rate of 20%, unless reduced by the applicable tax treaties or arrangements. Under applicable PRC tax laws, the dividends we pay to, and gains realized through the sale or transfer by other means of H shares by, non-PRC resident enterprise holders of H shares are both subject to PRC enterprise income tax at a rate of 10%, unless reduced by applicable tax treaties or arrangements.

Pursuant to the Circular on Questions Concerning Tax on the Profits Earned by Foreign Invested Enterprises, Foreign Enterprises and Individual Foreigners from the Transfer of Shares (Equity Interests) and on Dividend Income (Guo Shui Fa [1993] No.045) (關於外商投資企業、外國企業和外籍個人取得股票(股權)轉讓收益和股息所得稅收問題的通知(國稅發[1993]045號)) issued by the SAT, non-resident individual holders were temporarily exempted from PRC individual income tax for the dividends or bonuses paid by issuers of H shares. However, such circular was repealed by the Announcement on the List of Fully or Partially Invalid and Repealed Tax Regulatory Documents (關於公佈全文失效廢止、部分條款失效廢止的稅收規範性文件目錄的公告) dated January 4, 2011.

Pursuant to the Circular on Questions Concerning the Collection of Individual Income Tax following the Repeal of Guo Shui Fa [1993] No. 045 (關於國稅發[1993]045號文件廢止後有關個人所得稅徵管問題的通知) dated June 28, 2011 issued by the SAT, dividends paid by H share companies in the PRC to a non-resident individual holder are subject to PRC individual income tax at the rates determined in accordance with applicable tax treaties or arrangements between the PRC and the shareholder’s resident jurisdiction which range from 5% to 20%. The Circular states that the tax rate which is generally applicable to dividend income as stipulated in relevant tax treaties or arrangements is 10%. Therefore, we can withhold 10% of the dividend without seeking prior consent from the PRC tax authorities. Any non-resident individual holder residing in a jurisdiction where the applicable tax rate for such dividends, as stipulated in the relevant tax treaties or arrangements, is lower than 10% shall be entitled to a refund of the excess tax withheld by us. However, such refund shall be subject to the approval of the PRC tax authority. For a non-resident individual holder residing in a jurisdiction where the applicable tax rate for such dividends, as stipulated in the relevant tax treaties or arrangements, is more than 10% but less than 20%, we will withhold the individual income tax at the applicable tax rate without seeking prior consent from the PRC tax authorities. For a non-resident individual holder residing in a jurisdiction where the applicable tax rate for such dividends, as stipulated in the relevant tax treaties or arrangements, is 20% or where there is no relevant tax treaty or arrangement with the PRC, we can withhold the individual income tax at the rate of 20%.

Despite the arrangements mentioned above, there are significant uncertainties as to the interpretation and application of applicable PRC tax laws and rules due to several factors, including whether the relevant preferential tax treatment will be revoked in the future such that all non-resident individual holders will be subject to PRC individual income tax at a flat rate of 20%.

RISK FACTORS

In addition, it is also unclear whether and how the PRC individual income tax and enterprise income tax on gains realized by non-resident holders of H shares through the sale, or transfer by other means, of H shares will be collected by the PRC tax authorities in the future, although such tax has not been collected by the PRC tax authorities in practice. Considering these uncertainties, non-resident holders of our H Shares should be aware that they may be obligated to pay PRC income tax on the dividends and gains realized through sale or transfers of the H Shares. For additional information, please see “Appendix III – Taxation and Foreign Exchange” to this prospectus.

Government control of currency conversion may adversely affect the value of your investments.

Most of our revenue is denominated in Renminbi, which is also our reporting currency. Renminbi is not a freely convertible currency. A portion of our cash may be required to be converted into other currencies in order to meet our foreign currency needs, including cash payments on declared dividends, if any, on our H Shares. Under China’s existing foreign exchange regulations, following the completion of this Global Offering, we will be able to pay dividends in foreign currencies without prior approval from the SAFE by complying with various procedural requirements.

However, the PRC government may restrict future access to foreign currencies for current account transactions at its discretion. If this were to occur, we might not be able to pay dividends to the holders of our H Shares in foreign currencies. On the other hand, foreign exchange transactions under capital account in the PRC continue to be not freely convertible and require the approval of the SAFE. These limitations could affect our ability to obtain foreign currencies through equity financing, or to obtain foreign currencies for capital expenditures.

Future fluctuations in the value of the Renminbi could have a material adverse effect on our financial condition and results of operations.

While we generate most of our revenue in the PRC, we also offer securities products and services in Hong Kong and Macau to overseas customers. A portion of our revenue, expenses and bank borrowings are denominated in Hong Kong dollars, U.S. dollars and other foreign currencies, although our functional currency is the Renminbi. As a result, fluctuations in exchange rates, particularly between the Renminbi, Hong Kong dollar or U.S. dollar, could affect our profitability and may result in foreign currency exchange losses of our foreign currency-denominated assets and liabilities.

The exchange rate of the Renminbi against the U.S. dollar and other currencies fluctuates and is affected by, among other things, changes in the PRC’s and international political and economic conditions and the PRC government’s fiscal and currency policies. Since 1994, the conversion of the Renminbi into foreign currencies, including the Hong Kong dollar and U.S. dollar, has been based on rates set daily by the PBOC based on the previous business day’s inter-bank foreign exchange market rates and exchange rates in global financial markets. From

RISK FACTORS

1994 to July 20, 2005, the official exchange rate for the conversion of the Renminbi to U.S. dollars was generally stable. On July 21, 2005, the PRC government adopted a more flexible managed floating exchange rate system to allow the value of the Renminbi to fluctuate within a regulated band that is based on market supply and demand with reference to a basket of currencies. From July 21, 2005 to September 30, 2011, the value of the Renminbi appreciated by approximately 30.2% against the U.S. dollar. On June 19, 2010, the PBOC announced that the PRC government would reform the Renminbi exchange rate regime and increase the flexibility of the exchange rate. There remains significant international pressure on the PRC government to adopt a more flexible currency policy, which could result in further and more significant appreciation of the Renminbi against the U.S. dollar. We cannot assure you that the Renminbi will not experience significant appreciation against the U.S. dollar in the future.

Currently, we have not entered into any hedging transactions to mitigate our exposure to foreign exchange risk. As a result, any significant increase in the value of the Renminbi against foreign currencies could reduce the value of our foreign currency denominated revenue and assets. Following the Global Offering, our exposure to risks associated with foreign currency fluctuations will further increase as the net proceeds from the Global Offering are expected to be deposited in currencies other than the Renminbi until we obtain the necessary approvals from relevant PRC regulatory authorities to convert the same into Renminbi.

Any future occurrence of force majeure events, natural disasters or outbreaks of contagious diseases in the PRC may have a material adverse effect on our business operations, financial condition and results of operations.

Any future occurrence of force majeure events, natural disasters or outbreaks of epidemics and contagious diseases, including avian influenza, severe acute respiratory syndrome, swine influenza caused by the H1N1 virus or H1N1 influenza, may materially and adversely affect our business and results of operations. In 2009, there were reports of the occurrence of H1N1 influenza in certain regions of the world, including the PRC and Hong Kong, where we operate our business. An outbreak of an epidemic or contagious disease could result in a widespread health crisis and restrict the level of business activities in affected areas, which may, in turn, adversely affect our business. Moreover, the PRC has experienced natural disasters like earthquakes, floods and droughts in the past few years. Any future occurrence of severe natural disasters in the PRC may materially and adversely affect its economy and therefore our business. We cannot assure you that any future occurrence of natural disasters or outbreaks of epidemics and contagious diseases, including avian influenza, severe acute respiratory syndrome, H1N1 influenza or other epidemics, or the measures taken by the PRC government or other countries in response to such contagious diseases, will not seriously disrupt our operations or those of our customers, which may have a material and adverse effect on our business and results of operations.

RISK FACTORS

RISKS RELATING TO THE GLOBAL OFFERING

Our A Shares were listed in China in 2007 and the characteristics of the A share and H share markets may differ.

Our A Shares were listed on the Shanghai Stock Exchange on July 31, 2007. Following the Global Offering, our A Shares will continue to be traded on the Shanghai Stock Exchange and our H Shares will be traded on the Hong Kong Stock Exchange. Under current PRC laws and regulations, without approval from the relevant regulatory authorities, our H Shares and A Shares are neither interchangeable nor fungible, and there is no trading or settlement between the H share and A share markets. With different trading characteristics, the H share and A share markets have divergent trading volumes, liquidity and investor bases, as well as different levels of retail and institutional investor participation. As a result, the trading performance of our H Shares and A Shares may not be comparable. Nonetheless, fluctuations in the price of our A Shares may adversely affect the price of our H Shares, and vice versa. Due to the different characteristics of the H share and A share markets, the historical prices of our A Shares may not be indicative of the performance of our H Shares. You should therefore not place undue reliance on the prior trading history of our A Shares when evaluating an investment in our H Shares.

There has been no prior public market for our H Shares and the liquidity and market price of our H Shares may be volatile.

Prior to the Global Offering, there has been no public market for our H Shares. The initial issue price range for our H Shares was the result of negotiations between us and the Joint Global Coordinators on behalf of the Underwriters, and the Offer Price may differ significantly from the market price for our H Shares following the Global Offering. We have applied for listing of, and permission to deal in, our H Shares on the Hong Kong Stock Exchange. A listing on the Hong Kong Stock Exchange, however, does not guarantee that an active and liquid trading market for our H Shares will develop, or if it does develop, will be sustained following the Global Offering or that the market price of our H Shares will not decline following the Global Offering. Furthermore, the price and trading volume of our H Shares may be volatile. The following factors may affect the volume and price at which our H Shares will trade:

- actual or anticipated fluctuations in our revenue and results of operations;
- news regarding recruitment or loss of key personnel by us or our competitors;
- announcements of competitive developments, acquisitions or strategic alliances in our industry;
- changes in earnings estimates or recommendations by financial analysts;
- potential litigation or regulatory investigations;
- general market conditions or other developments affecting us or our industry;

RISK FACTORS

- the operating and stock price performance of other companies, other industries and other events or factors beyond our control; and
- the release of lock-up or other transfer restrictions on our outstanding H Shares or sales or perceived sales of additional H Shares by us or other shareholders.

Moreover, the securities market has from time to time experienced significant price and volume fluctuations that were unrelated or not directly related to the operating performance of the underlying companies. These broad market and industry fluctuations may have a material and adverse effect on the market price and trading volume of our H Shares.

Future sales or perceived sales of substantial amounts of our H Shares in the public market or the conversion of our A Shares into H Shares could have a material adverse effect on the prevailing market price of our H Shares and our ability to raise additional capital in the future.

The market price of our H Shares could decline as a result of substantial future sales of our H Shares or other securities relating to Shares in the public market. Such a decline could also occur with the issuance of new Shares or other securities relating to our Shares, or the perception that such sales or issuances may occur. Future sales, or perceived sales, of substantial amounts of our Shares could materially and adversely affect the prevailing market price of our H Shares and our ability to raise future capital at a favorable time and price. Our shareholders would experience a dilution in their holdings upon the issuance or sale of additional securities for any purpose.

In addition, according to stipulations made by the CSRC, our A Shares may be transferred to overseas investors and such transferred shares may be listed or traded on an overseas stock exchange, provided certain conditions are fulfilled and specific procedures are carried out. Please see “Share Capital – Share Capital – Transfer of Our Company’s A Shares for Listing and Trading on the Hong Kong Stock Exchange as H Shares.” Conversion of a substantial number of our A Shares into H Shares, or the perception that such conversion may occur, could materially and adversely affect the price of our H Shares. In addition, assuming the Over-allotment Option is not exercised, 122,940,000 A Shares will be converted into H Shares and transferred to the NSSF in connection with the Global Offering. The NSSF has not entered into any lock-up agreement with us or the Underwriters and would be free to sell its H Shares any time after the Global Offering. This may also materially and adversely affect the prevailing market price of our H Shares and our ability to raise capital in the future at a time and price favorable to us.

RISK FACTORS

As the Offer Price of our H Shares is higher than our net tangible book value per share, purchasers of our H Shares in the Global Offering may experience immediate dilution upon such purchases.

As the Offer Price of our H Shares is higher than the net tangible assets per share immediately prior to the Global Offering, purchasers of our H Shares in the Global Offering will experience an immediate dilution in pro forma adjusted net tangible assets of HK\$3.73 per H Share (assuming an Offer Price of HK\$10.83 per H Share, being the mid-point of the stated Offer Price range, and assuming the Over-allotment Option for the Global Offering is not exercised). Our existing Shareholders will receive an increase in the pro forma adjusted consolidated net tangible asset value per share of their shares. In addition, holders of our H Shares may experience further dilution of their interest if the Underwriters exercise the Over-allotment Option or if we issue additional shares in the future to raise additional capital.

Dividends declared in the past may not be indicative of our dividend policy in the future.

In 2009 and 2010, we declared cash dividends of RMB1,645.6 million and RMB1,234.2 million, respectively. With respect to cash dividends for 2011, our Board has proposed, pending Shareholders' approval at the forthcoming annual general meeting, that a cash dividend of RMB0.15 per share, or a total of RMB1,234.2 million based on the number of our A Shares in issue as of December 31, 2011, be distributed to holders of our A Shares, but not to the holders of our H Shares. Under the applicable PRC laws, dividends may be paid only out of distributable profits. Distributable profits means, as determined under PRC GAAP or IFRS, whichever is lower, the net profits for a period, plus the distributable profits or net of the accumulated losses, if any, at the beginning of such period, less appropriations to statutory surplus reserve (determined under PRC GAAP) and discretionary surplus reserve (as approved by our shareholders' meeting). As a result, we may not have sufficient profit to enable us to make future dividend distributions to our shareholders, even if one of our financial statements prepared in accordance with PRC GAAP or IFRS indicates that our operations have been profitable.

Certain facts and statistics derived from government and third-party sources contained in this prospectus may not be reliable.

We have derived certain facts and other statistics in this prospectus, particularly those relating to the PRC, the PRC economy and the industry in which we operate, from information provided by the PRC and other government agencies, industry associations, independent research institutes or other third-party sources. While we have taken reasonable care in the reproduction of the information, it has not been prepared or independently verified by us, the underwriters or any of our or their respective affiliates or advisors and, therefore, we cannot assure you as to the accuracy and reliability of such facts and statistics, which may not be consistent with other information compiled inside or outside the PRC. The facts and other statistics include the facts and statistics included in the sections entitled "Risk Factors," "Industry Overview" and "Business." Due to possibly flawed or ineffective collection methods or discrepancies between published information and market practice and other problems, the statistics herein may be inaccurate or may not be comparable to statistics produced for other economies and you should not place undue reliance on them. Furthermore, we cannot assure you that they are stated or compiled on the same basis, or with the same degree of accuracy, as similar statistics presented elsewhere. In all cases, you should consider carefully how much weight or importance you should attach to or place on such facts or statistics.

RISK FACTORS

You should not place any reliance on any information released by us in connection with the listing of our A Shares on the Shanghai Stock Exchange or with the listing of the shares of our subsidiary, Haitong International Securities, on the Hong Kong Stock Exchange or other media outlets.

Following the listing of our A Shares on the Shanghai Stock Exchange, we have been subject to periodic reporting and other information disclosure requirements in the PRC. In addition, shares of our subsidiary, Haitong International Securities, are listed on the Hong Kong Stock Exchange, which means Haitong International Securities is subject to periodic reporting and other information disclosure requirements in Hong Kong. As a result, from time to time we publicly release information relating to (i) us on the Shanghai Stock Exchange or other media outlets designated by the Shanghai Stock Exchange; and (ii) Haitong International Securities on the Hong Kong Stock Exchange or other media outlets designated by the Hong Kong Stock Exchange. However, the information announced by us in connection with our A Shares or by Haitong International Securities in connection with its shares is based on regulatory requirements of the securities authorities and market practices in the PRC and Hong Kong, as applicable, which are different from those applicable to the Global Offering. Such information does not and will not form a part of this prospectus. As a result, prospective investors in our H Shares are reminded that, in making their investment decisions as to whether to purchase our H Shares, they should rely only on the financial, operating and other information included in this prospectus and the Application Forms. By applying to purchase our H Shares in the Global Offering, you will be deemed to have agreed that you will not rely on any information other than that contained in this prospectus, the Application Forms and any formal announcements made by us in Hong Kong with respect to the Global Offering.

You should read the entire prospectus carefully and we strongly caution you not to place any reliance on any information contained in press articles or other media regarding us and the Global Offering.

Prior to the publication of this prospectus, there had been press and media coverage regarding us and the Global Offering, which contained, among other things, certain financial information, projections, valuations and other forward-looking information about us and the Global Offering. We have not authorized the disclosure of any such information in the press or media and do not accept responsibility for the accuracy or completeness of such press articles or other media coverage. We make no representation as to the appropriateness, accuracy, completeness or reliability of any of the projections, valuations or other forward-looking information about us. To the extent such statements are inconsistent with, or conflict with, the information contained in this prospectus, we disclaim responsibility for them. Accordingly, prospective investors are cautioned to make their investment decisions on the basis of the information contained in this prospectus only and should not rely on any other information.

WAIVERS AND EXEMPTION FROM COMPLIANCE WITH THE HONG KONG LISTING RULES

PUBLIC FLOAT REQUIREMENTS

Rules 8.08(1)(a) and (b) of the Hong Kong Listing Rules require that there must be an open market in the securities for which listing is sought and for a sufficient public float of an issuer's listed securities to be maintained. This normally means that (i) at least 25% of the issuer's total issued share capital must at all times be held by the public; and (ii) where an issuer has more than one class of securities apart from the class of securities for which listing is sought, the total securities of the issuer held by the public (on all regulated market(s), including the Hong Kong Stock Exchange) at the time of listing must be at least 25% of the issuer's total issued share capital. However, the class of securities for which listing is sought must not be less than 15% of the issuer's total issued share capital and must have an expected market capitalization at the time of listing of not less than HK\$50 million.

We have applied to the Hong Kong Stock Exchange for, and the Hong Kong Stock Exchange has granted us, a waiver from strict compliance with the requirements under Rule 8.08(1) of the Hong Kong Listing Rules to allow a minimum public float for the H shares to be the higher of (i) 10% of the total issued Shares or (ii) such a percentage of H Shares held by the public immediately after completion of the Global Offering, as increased by the H Shares which may be issued upon the exercise of the Over-allotment Option and the transfer and conversion of the relevant state-owned shares into H Shares pursuant to the PRC regulations on reduction of state-owned shares.

The above waiver is subject to the condition that we will make appropriate disclosure of the lower prescribed percentage of public float of H Shares and confirm sufficiency of public float of H Shares in successive annual reports after Listing. In the event that the public float percentage falls below the minimum percentage prescribed by the Hong Kong Stock Exchange, we will take appropriate steps to ensure that the minimum percentage of public float prescribed by the Hong Kong Stock Exchange is complied with.

MANAGEMENT PRESENCE

According to Rule 8.12 and Rule 19A.15 of the Hong Kong Listing Rules, our Company must have sufficient management presence in Hong Kong. This usually means that at least two of our executive Directors must be ordinarily residing in Hong Kong. Our head office and substantially all of our business operations are based, managed and conducted in the PRC. As the executive Directors play very important roles in our Company's business operations, it is in our best interests for them to be based in or near the places where our Group has significant operations. As such, our Company does not, and in the foreseeable future, will not, have executive Directors ordinarily resident in Hong Kong. Currently, both of our executive Directors, Mr. Wang Kaiguo and Mr. Li Mingshan, are ordinarily resident in the PRC.

WAIVERS AND EXEMPTION FROM COMPLIANCE WITH THE HONG KONG LISTING RULES

Accordingly, we have applied to the Hong Kong Stock Exchange for, and the Hong Kong Stock Exchange has granted us, a waiver from strict compliance with Rule 8.12 and Rule 19A.15 of the Hong Kong Listing Rules. We have made arrangements to maintain effective communication between the Hong Kong Stock Exchange and us as follows:

- we have designated Mr. Jin Xiaobin, one of our joint company secretaries, and Mr. Wang Kaiguo, one of our Company's executive Directors, as our authorized representatives and they will act as our Company's principal channel of communication with the Hong Kong Stock Exchange and would be readily contactable by the Hong Kong Stock Exchange;
- both of the authorized representatives of our Company have means of contacting all Directors (including independent non-executive Directors) promptly at all times and when the Hong Kong Stock Exchange wishes to contact a Director for any reason;
- we have provided the authorized representatives and the Hong Kong Stock Exchange with the contact details of each Director, including mobile phone numbers, office phone numbers, e-mail addresses and fax numbers;
- each Director who is not ordinarily resident in Hong Kong possesses or can apply for valid travel documents to visit Hong Kong to meet with the Hong Kong Stock Exchange within a reasonable period of time pursuant to requests of the Hong Kong Stock Exchange; and
- we have appointed Haitong International Capital Limited and BOCOM International (Asia) Limited as our joint compliance advisors who will serve as an additional channel of communication of the Company with the Hong Kong Stock Exchange from the Listing Date to the date when the Company mails its annual reports to its shareholders for the first full financial year immediately after the listing of our H Shares.

APPOINTMENT OF JOINT COMPANY SECRETARIES

Rule 3.28

Pursuant to Rule 3.28 of the Hong Kong Listing Rules, an issuer must appoint as its company secretary an individual who, by virtue of his academic or professional qualifications or relevant experience, is, in the opinion of the Hong Kong Stock Exchange, capable of discharging the functions of company secretary.

Note 1 to Rule 3.28 of the Hong Kong Listing Rules sets out academic or professional qualifications to be considered acceptable by the Hong Kong Stock Exchange:

- (a) a Member of The Hong Kong Institute of Chartered Secretaries;

WAIVERS AND EXEMPTION FROM COMPLIANCE WITH THE HONG KONG LISTING RULES

- (b) a solicitor or barrister (as defined in the Legal Practitioners Ordinance); and
- (c) a certified public accountant (as defined in the Professional Accountants Ordinance).

Note 2 to Rule 3.28 of the Hong Kong Listing Rules sets out factors the Hong Kong Stock Exchange considers in assessing an individual's "relevant experience":

- (a) length of employment with the issuer and other issuers and the roles he played;
- (b) familiarity with the Listing Rules and other relevant law and regulations including the Securities and Futures Ordinance, Companies Ordinance, and the Takeovers Code;
- (c) relevant training taken and/or to be taken in addition to the minimum requirement under Rule 3.29 of the Hong Kong Listing Rules; and
- (d) professional qualifications in other jurisdictions.

Pursuant to Rule 8.17 (as amended effective on January 1, 2012) of the Hong Kong Listing Rules, an issuer must appoint a company secretary who satisfies Rule 3.28 of the Hong Kong Listing Rules.

Mr. Jin Xiaobin joined our Company in August 1998, and has 13 years of management experience in securities industry and profound understanding of our operation. Mr. Jin does not possess the specified qualifications required by Rule 3.28 of the Hong Kong Listing Rules. Given the important role of the company secretary in the corporate governance of a listed issuer, particularly in assisting the listed issuer as well as its directors in complying with the Hong Kong Listing Rules and other relevant laws and regulations, we have made the following arrangements:

- Mr. Jin will endeavor to attend relevant training courses, including briefing on the latest changes to the applicable Hong Kong laws and regulations and the Hong Kong Listing Rules organized by the Company's Hong Kong legal advisors on an invitation basis and seminars organized by the Hong Kong Stock Exchange for PRC issuers from time to time, in addition to the minimum requirement under Rule 3.29 of the Hong Kong Listing Rules;
- we have appointed Ms. Mok Mingwai who meets the requirements under Note 1 to Rule 3.28 of the Hong Kong Listing Rules, as a joint company secretary to work closely with and provide assistance to Mr. Jin in the discharge of his duties as company secretary for an initial period of three years commencing from the Listing Date so as to enable Mr. Jin to acquire the relevant experience (as required under Note 2 to Rule 3.28 of the Hong Kong Listing Rules) to discharge the duties and responsibilities as company secretary; and

WAIVERS AND EXEMPTION FROM COMPLIANCE WITH THE HONG KONG LISTING RULES

- upon expiry of the three-year period, the qualifications and experience of Mr. Jin will be evaluated. Mr. Jin is expected to demonstrate to the Hong Kong Stock Exchange's satisfaction that he, having had the benefit of Ms. Mok's assistance for three years, would then have acquired the "relevant experience" within the meaning of Note 2 to Rule 3.28 of the Hong Kong Listing Rules.

We have applied to the Hong Kong Stock Exchange for, and the Hong Kong Stock Exchange has granted us, a waiver from strict compliance with the requirements of Rule 3.28 and Rule 8.17 of the Hong Kong Listing Rules. Upon the expiry of the initial three-year period, the qualifications of Mr. Jin will be re-evaluated to determine whether the requirements as stipulated in Note 2 to Rule 3.28 of the Hong Kong Listing Rules can be satisfied. In the event that Mr. Jin has obtained relevant experience under Note 2 to Rule 3.28 of the Hong Kong Listing Rules at the end of the said initial three-year period, the above joint company secretaries arrangement would no longer be necessary.

SUBMISSION SEEKING CONSENT FROM THE HONG KONG STOCK EXCHANGE REGARDING THE REQUIREMENTS UNDER RULE 10.04 AND PARAGRAPH 5(2) OF APPENDIX 6 OF THE HONG KONG LISTING RULES

Rule 10.04 of the Hong Kong Listing Rules provides that a person who is an existing shareholder of the issuer may only subscribe for or purchase any securities for which listing is sought which are being marketed by or on behalf of a new applicant either in his or its own name or through nominees if the conditions in Rules 10.03(1) and (2) of the Hong Kong Listing Rules are fulfilled. The conditions in Rules 10.03(1) and (2) of the Hong Kong Listing Rules are as follows: (i) no securities are offered to the existing shareholders on a preferential basis and no preferential treatment is given to them in the allocation of the securities; and (ii) the minimum prescribed percentage of public shareholders required by Rule 8.08(1) of the Hong Kong Listing Rules is achieved.

Paragraph 5(2) of Appendix 6 to the Hong Kong Listing Rules provides that, unless with the prior consent of the Hong Kong Stock Exchange, no allocations will be permitted to directors or existing shareholders of the applicant or their associates, whether in their own names or through nominees unless the conditions set out in Rules 10.03 and 10.04 of the Hong Kong Listing Rules are fulfilled.

We have applied to the Hong Kong Stock Exchange for, and the Hong Kong Stock Exchange has granted us, its consent under Rule 10.04 and Paragraph 5(2) of Appendix 6 of the Hong Kong Listing Rules so that the Company could allocate H Shares under the placing tranche of the Global Offering to its existing public holders of A Shares on the grounds that:

1. the Global Offering comprises the Hong Kong Public Offer and the International Offering, and the International Underwriters will solicit indications of interest from prospective investors in the book-building phase of the International Offering;
2. we have a wide spread of shareholder base and do not have any controlling shareholder as defined under the Hong Kong Listing Rules; and

WAIVERS AND EXEMPTION FROM COMPLIANCE WITH THE HONG KONG LISTING RULES

3. it is not intended that any Connected Persons of us or any of their associates would participate in the International Offering, or otherwise subscribe for or purchase any H Shares of us under the Global Offering.

The Hong Kong Stock Exchange has granted such consent on the condition that:

1. such holders of A Shares would be shareholders who each holds less than 2% of our issued share capital immediately prior to the Global Offering and has no board representation in our Company and therefore would not be in a position to exert any influence over the allocation process in the International Offering;
2. such holders of A Shares are not, and would not be, our Connected Persons or any of their associates immediately prior to or after the Global Offering;
3. the proposed placing of shares would be at the same price offered in the initial public offering;
4. such holders of A Shares would be subject to the same book building and allocation process as other investors in the International Offering, and no preferential treatment would be given to them in the allocation of H Shares in the International Offering;
5. allocation to these holders of A Shares would not affect our ability to satisfy the public float requirement under Rule 8.08 of the Hong Kong Listing Rules; and
6. all relevant information in respect of the allocation to the holders of A Shares would be disclosed in both this prospectus and the allotment results announcement.

CLAWBACK MECHANISM UNDER PARAGRAPH 4.2 OF PRACTICE NOTE 18 OF THE HONG KONG LISTING RULES

Paragraph 4.2 of Practice Note 18 of the Hong Kong Listing Rules requires a clawback mechanism to be put in place, which would have the effect of increasing the number of Hong Kong Offer Shares to certain percentages of the total number of Offer Shares offered in the Global Offering if certain prescribed total demand levels are reached. We have applied to the Hong Kong Stock Exchange for, and the Hong Kong Stock Exchange has granted to us, a waiver from strict compliance with paragraph 4.2 of Practice Note 18 of the Hong Kong Listing Rules such that, provided the initial allocation of H Shares under the Hong Kong Public Offering shall not be less than 5% of the Global Offering, in the event of over-subscription, the Joint Global Coordinators, after consultation with us, shall apply a clawback mechanism following the closing of the application lists on the following basis:

1. if the number of the H Shares validly applied for under the Hong Kong Public Offering represents 15 times or more but less than 50 times the number of the Offer Shares initially available for subscription under the Hong Kong Public Offering,

WAIVERS AND EXEMPTION FROM COMPLIANCE WITH THE HONG KONG LISTING RULES

then Offer Shares will be reallocated to the Hong Kong Public Offering from the International Offering, so that the total number of Offer Shares available under the Hong Kong Public Offering will be 92,205,000 H Shares, representing approximately 7.5% of the Offer Shares initially available under the Global Offering;

2. if the number of the Offer Shares validly applied for under the Hong Kong Public Offering represents 50 times or more but less than 100 times the number of the Offer Shares initially available for subscription under the Hong Kong Public Offering, then the number of Offer Shares to be reallocated to the Hong Kong Public Offering from the International Offering will be increased so that the total number of the Offer Shares available under the Hong Kong Public Offering will be 122,940,000 H Shares, representing 10% of the Offer Shares initially available under the Global Offering; and
3. if the number of the Offer Shares validly applied for under the Hong Kong Public Offering represents 100 times or more the number of the Offer Shares initially available for subscription under the Hong Kong Public Offering, then the number of Offer Shares to be reallocated to the Hong Kong Public Offering from the International Offering will be increased, so that the total number of the Offer Shares available under the Hong Kong Public Offering will be 245,880,000 H Shares, representing 20% of the Offer Shares initially available under the Global Offering. In each such case, the number of the Offer Shares allocated to the International Offering will be correspondingly reduced.

In each case, the additional Offer Shares reallocated to the Hong Kong Public Offering will be allocated between pool A and pool B and the number of Offer Shares allocated to the International Offering will be correspondingly reduced in such manner as the Joint Global Coordinators deem appropriate. In addition, the Joint Global Coordinators may allocate Offer Shares from the International Offering to the Hong Kong Public Offering to satisfy valid applications under the Hong Kong Public Offering.

If the Hong Kong Public Offering is not fully subscribed, the Joint Global Coordinators have the authority to reallocate all or any unsubscribed Hong Kong Offer Shares to the International Offering, in such proportions as the Joint Global Coordinators deem appropriate.

Please also see “Structure of the Global Offering – The Hong Kong Public Offering – Reallocation” of this prospectus.

WAIVER FROM THE HONG KONG STOCK EXCHANGE REGARDING THE REQUIREMENTS UNDER RULE 13.46(2) OF THE HONG KONG LISTING RULES

Pursuant to Rule 13.46(2) of the Listing Rules, an issuer is required to send a copy of its annual report and accounts or summary financial report to its shareholders within four months after its financial year-end.

WAIVERS AND EXEMPTION FROM COMPLIANCE WITH THE HONG KONG LISTING RULES

As the financial year end of our Company falls on December 31 and the Listing is expected to commence on April 27, 2012, we would be required to publish our annual report for the year ended December 31, 2011 by April 30, 2012 pursuant to Rule 13.46(2) of the Listing Rules. Given that our financial information in respect of the financial year ended December 31, 2011 and the detailed management discussion on the changes of the financials in 2011 have been included in the Prospectus and taking into consideration the short time between the date of this prospectus and the deadline for the issue of the annual report, our Directors consider that strict compliance with the requirements of Rule 13.46(2) of the Listing Rules to publish an annual report will not provide our Shareholders with further material information of our Company that is required to be disclosed in an annual report and would incur unnecessary administrative cost and be unduly burdensome for us. Our Directors, having made all reasonable enquiries and taken into account the advice of the legal advisors to our Company as to PRC law, confirmed that the departure from strict compliance with Rule 13.46(2) of the Listing Rules will not be in breach of the constitutional documents of our Company or laws and regulations of the PRC or other PRC regulatory requirements regarding our obligation to distribute annual reports and accounts. A short statement as to whether we will otherwise comply with the HKSE Corporate Governance Code after the Listing has been set out in the paragraph headed “Corporate Governance” under the section headed “Directors, Supervisors and Senior Management” in this prospectus.

On the above basis, we have applied to the Stock Exchange for, and the Stock Exchange has granted, a waiver from strict compliance with the requirements of Rule 13.46(2) of the Listing Rules in respect of the issue of an annual report for the financial year ended December 31, 2011.

EXPLANATION REGARDING POTENTIAL DEVIATION FROM CODE PROVISION A.1.8 OF THE HKSE CORPORATE GOVERNANCE CODE

Our Directors are aware that, effective from April 1, 2012, the recommended best practice of arranging appropriate insurance cover in respect of legal actions against directors has been upgraded to a code provision in the HKSE Corporate Governance Code. Our Directors are also aware that, upon Listing, we are expected to comply with, but may choose to deviate from such code provision. However, such deviation shall be carefully considered and reasons for such deviation shall be given in the interim report and the annual report of the relevant period. While we are committed to achieving high standards of corporate governance and to complying with the code provisions as set out in the HKSE Corporate Governance Code, we are advised by our PRC legal advisors, Grandall Law Firm (Shanghai), that insurance cover in respect of legal actions against directors shall be approved at general meeting under the SSE Corporate Governance Index. Upon careful consideration, our Directors decided to delay the compliance with such code provision and submit the relevant insurance plans for our Shareholders’ approval at our next annual general meeting, which is expected to be held by June 2012 for the following reasons: (i) the deviation from such code provision will be for a short period of time of less than three months, taking into consideration that our Listing Date is expected to be on April 27, 2012 and our annual general meeting is expected to be held by June 2012; and (ii) to convene an extraordinary general meeting approximately two months before our annual general meeting solely to approve such insurance plans would incur undue administrative cost on the part of our Company and be unduly burdensome for the Company.

INFORMATION ABOUT THIS PROSPECTUS AND THE GLOBAL OFFERING

DIRECTORS' RESPONSIBILITY FOR THE CONTENTS IN THIS PROSPECTUS

This prospectus, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to our Company. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this prospectus is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this prospectus misleading.

CSRC APPROVAL

The CSRC issued its approval for the Global Offering and our application to list the H Shares on the Hong Kong Stock Exchange on November 17, 2011. In granting such approval, the CSRC accepts no responsibility for our financial soundness nor the accuracy of any of the statements made or opinions expressed in this prospectus or the Application Forms. No other approvals are required to be obtained for the listing of the H Shares on the Hong Kong Stock Exchange.

THE HONG KONG PUBLIC OFFERING AND THIS PROSPECTUS

This prospectus is published solely in connection with the Hong Kong Public Offering, which forms part of the Global Offering. Neither the delivery of this prospectus nor any subscription or acquisition made under it shall, under any circumstances, create any implication that there has been no change in our affairs since the date of this prospectus or that the information in it is correct as of any subsequent time.

UNDERWRITING

For applicants under the Hong Kong Public Offering, this prospectus and the related Application Forms contain the terms and conditions of the Hong Kong Public Offering. The Global Offering comprises the International Offering of initially 1,167,930,000 Offer Shares and the Hong Kong Public Offering of initially 61,470,000 Offer Shares, each subject to the re-allocation on the basis as described in the section headed "Structure of the Global Offering" in this prospectus.

The Listing is sponsored by the Joint Sponsors and the Global Offering is managed by the Joint Global Coordinators. The Hong Kong Offer Shares are fully underwritten by the Hong Kong Underwriters pursuant to the Hong Kong Underwriting Agreement. The International Offer Shares are intended to be fully underwritten by the International Underwriters pursuant to the International Underwriting Agreement, which is expected to be entered into on or around April 20, 2012. Further information regarding the Underwriters and the underwriting arrangements are set out in the section headed "Underwriting" in this prospectus.

INFORMATION ABOUT THIS PROSPECTUS AND THE GLOBAL OFFERING

INFORMATION ON THE GLOBAL OFFERING

The Hong Kong Offer Shares are offered solely on the basis of the information contained and representations made in this prospectus and the related Application Forms and on the terms and subject to the conditions set out herein and therein. No person is authorized in connection with the Global Offering to give any information or to make any representation not contained in this prospectus and the related Application Forms, and any information or representation not contained herein and therein must not be relied upon as having been authorized by the Company, the Underwriters and any of their respective directors, officers, employees, agents or representatives or any other persons involved in the Global Offering.

RESTRICTIONS ON OFFER AND SALE OF THE OFFER SHARES

Each person acquiring the Hong Kong Offer Shares will be required to, or be deemed by his/her acquisition of the Hong Kong Offer Shares to, confirm that he/she is aware of the restrictions on offers of the Hong Kong Offer Shares described in this prospectus and the related Application Forms.

No action has been taken to permit a Hong Kong Public Offering of the Offer Shares or the general distribution of this prospectus and/or the related Application Forms in any jurisdiction other than Hong Kong. Accordingly, this prospectus may not be used for the purpose of, and does not constitute, an offer or invitation in any jurisdiction or in any circumstances in which such an offer or invitation is not authorized or to any person to whom it is unlawful to make such an offer or invitation. The distribution of this prospectus and the offering and sales of the Offer Shares in other jurisdictions are subject to restrictions and may not be made except as permitted under the applicable securities laws of such jurisdictions pursuant to registration with or authorization by the relevant securities regulatory authorities or an exemption therefrom. Each person acquiring the Hong Kong Offer Shares under the Hong Kong Public Offering will be required to confirm, or be deemed by his acquisition of Hong Kong Offer Shares to confirm, that he is aware of the restrictions on offers and sales of the Offer Shares described in this prospectus.

The Offer Shares are offered for subscription solely on the basis of the information contained and representations made in this prospectus and related Application Forms, and on the terms and subject to the conditions set out herein and therein. No person is authorized in connection with the Global Offering to give any information, or to make any representation, not contained in this prospectus, and any information or representation not contained in this prospectus must not be relied upon as having been authorized by our Company, the Joint Sponsors, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers, the Underwriters, any of their respective directors or any other persons or parties involved in the Global Offering. For further details of the structure of the Global Offering, including its conditions, and the procedures for applying for Hong Kong Offer Shares, please see “Structure of the Global Offering” and “How to Apply for the Hong Kong Offer Shares” in this prospectus and the relevant Application Forms.

INFORMATION ABOUT THIS PROSPECTUS AND THE GLOBAL OFFERING

APPLICATION FOR LISTING ON THE HONG KONG STOCK EXCHANGE

We have applied to the Listing Committee for the listing of, and permission to deal in, the H Shares in issue and to be issued pursuant to (i) the Global Offering (including the additional H Shares which may be issued pursuant to the exercise of the Over-allotment Option); and (ii) the H Shares which will be converted from A Shares and transferred to NSSF pursuant to the relevant PRC regulations relating to reduction of state-owned shares.

Dealings in the H Shares on the Hong Kong Stock Exchange are expected to commence on Friday, April 27, 2012. Except for the A Shares of the Company that have been listed on the Shanghai Stock Exchange and our pending application to the Hong Kong Stock Exchange for the listing of, and permission to deal in the H Shares, no part of the Company's share capital is listed or dealt in on the Hong Kong Stock Exchange or any other stock exchange and no such listing or permission to list is being or is proposed to be sought in the near future. All the Offer Shares will be registered on the H Share Registrar of our Company in order to enable them to be traded on the Hong Kong Stock Exchange.

PROFESSIONAL TAX ADVICE RECOMMENDED

Potential investors in the Global Offering are recommended to consult their professional advisors if they are in any doubt as to the taxation implications of subscribing for, purchasing, holding or disposal of, and/or dealing in the Offer Shares or exercising any rights attached to them. Our Company, the Joint Sponsors, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers, the Underwriters, any of their respective directors, officers, employees, agents or representatives or any other person or party involved in the Global Offering do not accept responsibility for any tax effects on, or liabilities of, any person resulting from the subscription, purchase, holding, disposition of, or dealing in, the Offer Shares or exercising any rights attached to them.

OVER-ALLOTMENT AND STABILIZATION

Details of the arrangement relating to the Over-allotment Option and stabilization are set out under the section headed "Structure of the Global Offering" in this prospectus.

PROCEDURE FOR APPLICATION FOR HONG KONG OFFER SHARES

The procedures for applying for the Hong Kong Offer Shares are set out in the section headed "How to Apply for Hong Kong Offer Shares" of this prospectus and on the related Application Forms.

STRUCTURE AND CONDITIONS OF THE GLOBAL OFFERING

Particulars of the structure of the Global Offering, including its conditions, are set out in the section of this prospectus headed "Structure of the Global Offering."

INFORMATION ABOUT THIS PROSPECTUS AND THE GLOBAL OFFERING

H SHARE REGISTER OF MEMBERS AND HONG KONG STAMP DUTY

All of the H Shares issued pursuant to the Global Offering will be registered on the Company's H Share register of members to be maintained in Hong Kong by our H Share Registrar, Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong. Our register of members will also be maintained by us at our legal address in the PRC. Dealings in the H Shares registered in our Company's H Share register of members will be subject to Hong Kong stamp duty.

REGISTRATION OF SUBSCRIPTION, PURCHASE AND TRANSFER OF H SHARES

We have instructed Computershare Hong Kong Investor Services Limited, our H Share Registrar, and it has agreed, not to register the subscription, purchase or transfer of any H Shares in the name of any particular holder unless and until the holder delivers a signed form to our H Share Registrar in respect of those H Shares bearing statements to the effect that the holder:

- (i) agrees with us and each of our Shareholders, and we agree with each Shareholder, to observe and comply with the Company Law, the Special Regulations, and the Articles of Association;
- (ii) agrees with us, each of our Shareholders, Directors, Supervisors, managers and officers, and each of us acting for ourselves and for each of our Directors, Supervisors, managers and officers agrees with each of our Shareholders to refer all differences and claims arising from the Articles of Association or any rights or obligations conferred or imposed by the Company Law or other relevant laws and administrative regulations concerning our affairs to arbitration in accordance with the Articles of Association, and any reference to arbitration shall be deemed to authorize the arbitration tribunal to conduct hearings in open session and to publish its award, which arbitration shall be final and conclusive;
- (iii) agrees with us and each of our Shareholders that the H Shares are freely transferable by the holders thereof; and
- (iv) authorizes us to enter into a contract on his behalf with each of our Directors, Supervisors and officers whereby such Directors, Supervisors and officers undertake to observe and comply with their obligations to our Shareholders as stipulated in the Articles of Association.

H SHARES WILL BE ELIGIBLE FOR ADMISSION INTO CCASS

Subject to the granting of listing of, and permission to deal in, the H Shares on the Hong Kong Stock Exchange and our compliance with the stock admission requirements of HKSCC, the H Shares will be accepted as eligible securities by HKSCC for deposit, clearance and

INFORMATION ABOUT THIS PROSPECTUS AND THE GLOBAL OFFERING

settlement in CCASS with effect from the date of commencement of dealings in the H Shares on the Hong Kong Stock Exchange or any other date as determined by HKSCC. Settlement of transactions between participants of the Hong Kong Stock Exchange is required to take place in CCASS on the second Business Day after any trading day. All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time. All necessary arrangements have been made for the H Shares to be admitted into CCASS.

COMMENCEMENT OF DEALINGS IN THE H SHARES

Dealings in the H Shares on the Hong Kong Stock Exchange are expected to commence on Friday, April 27, 2012. H Shares will be traded in board lots of 400 H Shares each.

EXCHANGE RATE CONVERSION

For exchange rate translations throughout this prospectus, unless otherwise specified, amounts denominated in HK\$, US\$, RMB have been converted, for the purpose of this prospectus, based on the rates set out below (for the purpose of illustration only):

US\$1.00: HK\$7.7659 (the exchange rate set forth in the H.10 weekly statistical release of the Federal Reserve Board of the United States on April 6, 2012)

RMB1.00: HK\$1.2323 (set by the PBOC for foreign exchange transactions prevailing on April 9, 2012)

We make no representations and none should be construed as being made, that any of the RMB, HK dollar or U.S. dollar amounts contained in this prospectus could have been or could be converted into amounts of any other currencies at any particular rate or at all on such date or any other date.

LANGUAGE

The English names of PRC nationals, entities, departments, facilities, certificates, titles, laws and regulations and the like are translations of their Chinese names and are included for identification purposes only. If there is any inconsistency, the Chinese name prevails.

ROUNDING

Any discrepancies in any table between totals and sums of amounts listed thereon are due to rounding. Certain amounts and percentage figures included in this prospectus have also been subject to rounding adjustments, or have been rounded to one or two decimal places.

INTER-SEGMENT REVENUE

All discussion of our segment revenue and other income in this prospectus exclude inter-segment revenue, except for the section entitled “Financial Information – Summary Segment Results” where we specifically include our inter-segment revenue and inter-segment expenses in our segment revenue and other income, segment expenses and segment results.

DIRECTORS, SUPERVISORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING

DIRECTORS

Name	Address	Nationality
<i>Executive Directors</i>		
Mr. Wang Kaiguo (王開國)	Room 601, No. 18, Lane 11 Honggu Road, Shanghai, PRC	Chinese
Mr. Li Mingshan (李明山)	Room 201, No. 2, Lane 6 Wanping Road, Xuhui District, Shanghai, PRC	Chinese
<i>Non-executive Directors</i>		
Mr. Qian Shizheng (錢世政)	Flat C, 30/F, Li Chit Garden, 1 Li Chit Street, Wanchai, Hong Kong	Chinese
Mr. Zhuang Guowei (莊國蔚)	Room 801, No. 4, Lane 377 Tiandong Road, Shanghai, PRC	Chinese
Mr. Zhou Donghui (周東輝)	Room 1001, No. 74, Lane 789 Yingkou Road, Shanghai, PRC	Chinese
Mr. He Jianyong (何健勇)	No. 25, Liuzhou Street, Heping District, Shenyang, Liaoning, PRC	Chinese
Mr. Zhang Jianwei (張建偉)	Room 1703, Building 2, No. 5 Panyu Road, Shanghai, PRC	Chinese
Mr. Xu Chao (徐潮)	No. 149, No. 1111 Jinglian Road, Minhang District, Shanghai, PRC	Chinese
Mr. Wang Hongxiang (王鴻祥)	Room 401, No. 108, Lane 511 Wuzhong Road, Minhang District, Shanghai, PRC	Chinese
Mr. Li Gewei (李葛衛)	No. 402, Gate 6, Building 1, Xinyuancun, Tianjin University, Nankai District, Tianjin, PRC	Chinese
Mr. Feng Huang (馮煌)	Room 302, No 106, Lane 421 Siping Road, Hongkou District, Shanghai, PRC	Chinese

DIRECTORS, SUPERVISORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING

Name	Address	Nationality
<i>Independent Non-executive Directors</i>		
Mr. Xia Bin (夏斌)	No. 201, Gate 3, Building 17, Guoyingyuan District, Xicheng District, Beijing, PRC	Chinese
Mr. Chen Qiwei (陳琦偉)	Room 1801, No. 2, Lane 1310 Dingxi Road, Shanghai, PRC	Chinese
Mr. Zhang Huiquan (張惠泉)	No. 23 Dongxiazhuangshu, Shijingshan District, Beijing, PRC	Chinese
Mr. Zhang Ming (張鳴)	Room 502, No. 8, Lane 221 Longcao Road, Shanghai, PRC	Chinese
Mr. Dai Genyou (戴根有)	Room 602, Gate No. 4, Community No.3, Shao Jiu Hu Tong, Chaoyangmennei North Alley, Beijing, PRC	Chinese
Mr. Liu Chee Ming (劉志敏)	Room A5, No. 10 Bluff Path, The Peak, Hong Kong	Singaporean
<i>Supervisors</i>		
Mr. Wang Yimin (王益民)	Room 901, No. 4, Lane 1028 Changshou Road, Putuo District, Shanghai, PRC	Chinese
Mr. Yang Qingzhong (楊慶忠)	Room 802, No. 4, Lane 333 Hanzhong Road, Shanghai, PRC	Chinese
Mr. Yuan Lingcai (袁領才)	Room 401, No. 20, Lane 118 Quyang Road, Shanghai, PRC	Chinese
Mr. Dong Xiaochun (董小春)	Room 701, No. 2, Lane 163 Puhuitang Road, Shanghai, PRC	Chinese
Mr. Wu Zhilin (吳芝麟)	Room 301, Building E, No. 343 Huaihaixi Road, Shanghai, PRC	Chinese
Ms. Jin Yanping (金燕萍)	Room 506, No. 6, Lane 20 Fahuazhen Road, Shanghai, PRC	Chinese

DIRECTORS, SUPERVISORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING

Name	Address	Nationality
Mr. Xu Qi (許奇)	Room 1301, No. 10, Lane 77 Anshun Road, Shanghai, PRC	Chinese
Mr. Xing Jianhua (邢建華)	Room 201, No. 1, Lane 235 Xijiangwan Road, Shanghai, PRC	Chinese
Mr. Wang Yugui (王玉貴)	Room 705, Building 3, No. 123 Zhongguancun East Road, Beijing, PRC	Chinese
Ms. Qiu Xiaping (仇夏萍)	Room 1504, No. 3, Lane 60 Linpingbei Road, Shanghai, PRC	Chinese
Mr. Du Hongbo (杜洪波)	Room 502, No. 2, Lane 200 Boshan Road, Pudong New Area, Shanghai, PRC	Chinese

PARTIES INVOLVED

Joint Sponsors

Haitong International Capital Limited

25th Floor, New World Tower
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**J.P. Morgan Securities
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Joint Global Coordinators

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Joint Bookrunners

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Standard Chartered Securities (Hong Kong) Limited
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Joint Lead Managers

Hong Kong Public Offering
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International Offering

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DIRECTORS, SUPERVISORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING

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Reporting accountants

Deloitte Touche Tohmatsu

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Legal advisors to the Company

as to Hong Kong and United States law

Clifford Chance

28/F, Jardine House
One Connaught Place
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as to PRC law

Grandall Law Firm (Shanghai)

45-46/F, Nan Zheng Building
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PRC

DIRECTORS, SUPERVISORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING

Legal advisors to the Underwriters

as to Hong Kong and United States law

Paul Hastings

21-22/F, Bank of China Tower

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as to PRC law

Commerce & Finance Law Offices

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Beijing 100022

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Receiving bankers

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1 Garden Road

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China Construction Bank (Asia) Corporation Limited

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Quarry Bay

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Hong Kong Branch

20 Pedder Street

Central

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The Bank of East Asia, Limited

10 Des Voeux Road Central

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CORPORATE INFORMATION

Registered office	No. 98 Central Huaihai Road Shanghai PRC
Head office in the PRC	Haitong Securities Building No. 689 Guangdong Road Shanghai PRC
Principal place of business in Hong Kong	21st Floor, Li Po Chun Chambers 189 Des Voeux Road Central Central Hong Kong
Company's website	www.htsec.com <i>(information on the website does not form part of this prospectus)</i>
Joint Company Secretaries	Mr. Jin Xiaobin (金曉斌) Ms. Mok Mingwai (莫明慧) <i>(fellow member of the Hong Kong Institute of Chartered Secretaries fellow member of the Institute of Chartered Secretaries and Administrators in the United Kingdom)</i>
Authorized representatives	Mr. Wang Kaiguo (王開國) Room 601, No. 18 Lane 11 Honggu Road Shanghai PRC Mr. Jin Xiaobin (金曉斌) Room 1702, Building 6 No. 888, East Daming Road Hongkou District Shanghai PRC

CORPORATE INFORMATION

Audit committee	Mr. Zhang Ming (張鳴) (<i>Chairman</i>) Mr. Zhou Donghui (周東輝) Mr. Xu Chao (徐潮) Mr. Wang Hongxiang (王鴻祥) Mr. Zhang Huiquan (張惠泉) Mr. Dai Genyou (戴根有) Mr. Chen Qiwei (陳琦偉)
Nomination, remuneration and assessment committee	Mr. Xia Bin (夏斌) (<i>Chairman</i>) Mr. Qian Shizheng (錢世政) Mr. He Jianyong (何健勇) Mr. Li Gewei (李葛衛) Mr. Zhang Ming (張鳴) Mr. Liu Chee Ming (劉志敏) Mr. Dai Genyou (戴根有)
Development strategy and investment management committee	Mr. Wang Kaiguo (王開國) (<i>Chairman</i>) Mr. Qian Shizheng (錢世政) Mr. Zhuang Guowei (莊國蔚) Mr. Zhang Jianwei (張建偉) Mr. Chen Qiwei (陳琦偉)
Compliance and risk control committee	Mr. Zhang Huiquan (張惠泉) (<i>Chairman</i>) Mr. Li Mingshan (李明山) Mr. Zhou Donghui (周東輝) Mr. Feng Huang (馮煌) Mr. Dai Genyou (戴根有)
Joint compliance advisors	Haitong International Capital Limited BOCOM International (Asia) Limited
H Share Registrar	Computershare Hong Kong Investor Services Limited Shops 1712-1716, 17th Floor Hopewell Centre 183 Queen's Road East Wanchai Hong Kong
Principal bankers	Bank of Communication China Construction Bank China Minsheng Banking Corp., Ltd. China Guangfa Bank Industrial and Commercial Bank of China Industrial Bank Co., Ltd.

INDUSTRY OVERVIEW

This section contains information and statistics on the industry in which we operate. We have extracted and derived such information and statistics, in part, from various official or publicly available sources. We believe that the sources of this information are appropriate sources and have taken reasonable care in extracting and reproducing such information. We have no reason to believe that such information is false or misleading or that any fact has been omitted that would render such information false or misleading. The information has not been independently verified by us, the Joint Sponsors, the Joint Global Coordinators, the Joint Bookrunners or any other party involved in the Global Offering and no representation is given as to its accuracy. Such information may not be consistent with, and may not have been compiled with the same degree of accuracy or completeness as, other information compiled within or outside the PRC. Accordingly, the official government and other third party sources contained herein may not be accurate and should not be unduly relied upon.

OVERVIEW OF THE PRC ECONOMY

The PRC economy has grown significantly over the past three decades and will continue to grow rapidly and steadily in the foreseeable future

The PRC economy has grown rapidly since 1978 when the PRC began its economic reform. From 2001 to 2010, the average annual growth rate of real GDP in the PRC reached 10.5%, compared to the average growth rate of 3.6% for the world during the same period. The nominal GDP of the PRC in 2010 amounted to RMB39.8 trillion, and the PRC economy has become the world's second largest economy since the fourth quarter of 2010. The following table sets out the real GDP growth rates of the PRC and the world for the periods indicated:

Real GDP growth rate	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011E	2012E
PRC	8.3%	9.1%	10.0%	10.1%	11.3%	12.7%	14.2%	9.6%	9.2%	10.4%	9.5%	9.0%
World Average.	2.3%	2.9%	3.6%	4.9%	4.6%	5.3%	5.4%	2.8%	-0.7%	5.1%	4.0%	4.0%

Sources: International Monetary Fund and NBSC. The 2011 and 2012 estimates were announced by the International Monetary Fund in September 2011

INDUSTRY OVERVIEW

We believe the PRC economy will continue to experience rapid and steady growth in the foreseeable future and that such growth will be driven by the following four major factors:

The less developed central, western and northeastern regions of the PRC have significant potential for future growth

Certain regions in central, western and northeastern PRC have experienced faster economic development than the southeastern coastal regions in recent years due to rapid industrialization in those regions. According to the NBSC, from 2006 to 2010, the GDP of the central, western and northeastern regions of the PRC grew at a CAGR of 18.3%, while the GDP of the southeastern coastal regions grew at a CAGR of 15.7% during the same period. The uneven development of different regions in the PRC and the government's continued focus on the development of the central, western and northeastern regions will drive strong economic growth in these regions in the foreseeable future. We believe growth in these regions will contribute to the rapid growth of the PRC economy in the long-term.

Industrial structure transformation stimulates further economic growth

The PRC economy has maintained its rapid growth in recent years while undergoing a structural transformation of its economy. According to the Twelfth Five-Year Plan, improving the structure of economic sectors will be the primary focus of the economic development of the PRC in these five years. The government will focus on transforming lower-value and labor-intensive industries to higher value-added and technology-focused industries. Another goal set out in the Twelfth Five-Year Plan is to transform the PRC economy from being export-oriented to being consumption-driven and service-oriented. Among the measures outlined in the Twelfth Five-Year Plan, the expansion of the financial services industry and the orderly introduction of new businesses are the key drivers for future economic development and industrial transformation in the PRC. We believe transforming the structure of the industrial sector will drive economic growth in the PRC in the foreseeable future and provide new business opportunities for the various industries that undergo transformation and transitions pursuant to the Twelfth Five-Year Plan.

The growth of SMEs drives steady and rapid economic development

SMEs have also experienced a period of rapid development in recent years. On January 1, 2003, Law of the People's Republic of China on the Promotion of Small and Medium-sized Enterprises (中華人民共和國中小企業促進法) was promulgated, providing government legislative support and creating a favorable policy environment for the development of SMEs. According to the PRC Ministry of Industry and Information Technology, there were over ten million SMEs as of December 31, 2010. SMEs accounted for approximately 60% of the country's GDP, 65% of the total number of patents and over 80% of the total number of product innovations. In recent years, the increase in the number and scale of SMEs has significantly contributed to the growth of the PRC economy. This has led to SMEs playing a more balanced role relative to large enterprises in the economic development of the PRC.

Further urbanization drives the continuous growth of the PRC economy

Since the economic reform of the PRC in 1978, the PRC government has promoted urbanization, which created strong momentum for economic development. According to Wind

INDUSTRY OVERVIEW

Info, the urbanization rate in the PRC increased by 33.4% from 1978 to 2011. The pace of urbanization further accelerated from 2001 to 2011, with the urbanization rate increasing by 12.2%. As a result, the PRC urban population increased from 502 million to 690 million (an average increase of 19 million per year) during the same period.

Despite the large-scale, rapid urbanization over the past 30 years, the overall urbanization rate in the PRC is lower than that of several developed countries. The following table sets forth the urbanization rates of the PRC, Japan, the U.K. and the U.S. in 2010:

	PRC	Japan	U.K.	U.S.
2010 Urbanization Rate ⁽¹⁾	47.0%	67.0%	80.0%	82.0%

(1) Urbanization rate represents the ratio of urban population to total population.

Source: CIA – The World Factbook

As outlined in the Twelfth Five-Year Plan, the urbanization rate of the PRC is set to exceed 50% by 2015. Based on the estimated urbanization rate for the PRC and its population of approximately 1.3 billion, we believe the urban population in the PRC is expected to grow by approximately ten million per year until 2015.

OVERVIEW OF THE PRC CAPITAL MARKET

The PRC capital market is among the largest and the fastest-growing in the world

The PRC capital market has grown substantially over the past 20 years, largely driven by the significant economic development of the PRC, rapid growth in corporate earnings and steady increase in financing demand and per capita income.

The total market capitalization of companies listed on the Shanghai Stock Exchange and the Shenzhen Stock Exchange reached US\$3.4 trillion as of December 31, 2011, and their total trading volume was US\$6.5 trillion in 2011. The total market capitalization of listed companies in the PRC ranked third in the world behind the U.S. and Japan and total trading volume of such companies ranked second in the world behind the U.S. The following table sets forth the total market capitalization as of December 31, 2011, and the total trading volume of listed companies in the U.S., the PRC, Japan and the U.K. in 2011:

	U.S.	PRC	Japan	U.K.
	(US\$ in trillions)			
Total trading volume	30.8	6.5	4.2	2.8
Total market capitalization	15.6	3.4	3.5	3.3

Source: WFE

INDUSTRY OVERVIEW

Over the past several years, the PRC stock market has experienced significant growth in terms of market capitalization and trading volume. According to WFE, the respective rankings of the Shanghai Stock Exchange and the Shenzhen Stock Exchange have improved rapidly among the world's major stock exchanges, as measured by total market capitalization, trading volume and total proceeds raised from IPOs. In particular, in 2011, total proceeds raised from IPOs on the Shanghai Stock Exchange and the Shenzhen Stock Exchange reached US\$123.3 billion, representing 19.2% of total IPO proceeds (US\$641.8 billion) raised in global capital markets in the same year and making the PRC the largest IPO market in the world. The following table sets forth the respective global rankings of the Shanghai Stock Exchange and the Shenzhen Stock Exchange as of December 31, 2005 and 2011:

	2005	2011	2005-2011 CAGR	2005 Global Ranking ⁽¹⁾	2011 Global Ranking ⁽¹⁾
(RMB in billions)					
Market capitalization					
Shanghai Stock Exchange	2,309.6	14,837.6	36.3%	21	6
Shenzhen Stock Exchange	933.4	6,638.2	38.7%	32	13
Total	<u>3,243.0</u>	<u>21,475.8</u>	<u>37.0%</u>		
Trading volume					
Shanghai Stock Exchange	1,951.6	23,668.1	51.6%	18	4
Shenzhen Stock Exchange	1,262.1	18,337.9	56.2%	25	5
Total	<u>3,213.7</u>	<u>42,006.0</u>	<u>53.5%</u>		
Total proceeds raised from equity offerings					
The Shanghai Stock Exchange	30.0	320.0	48.4%	24	7
The Shenzhen Stock Exchange	3.0	476.9	132.8%	43	2
Total	<u>33.0</u>	<u>796.9</u>	<u>70.0%</u>		

(1) The global ranking encompasses all stock exchanges in the world.

Source: WFE

There has been an increased in the number of PRC companies that are listed on the Shanghai Stock Exchange and Shenzhen Stock Exchange. The following table sets forth the number of listed companies in the PRC from 2006 to 2011, which increased from 1,434 in 2006 to 2,342 in 2011, representing a CAGR of 10.3%:

	2006	2007	2008	2009	2010	2011	2006-2011 CAGR
Number of listed companies in the PRC . .	1,434	1,550	1,625	1,718	2,063	2,342	10.3%

Sources: CSRC, Shanghai Stock Exchange, Shenzhen Stock Exchange

INDUSTRY OVERVIEW

In addition to the PRC stock market, the PRC bonds, funds and futures markets have also developed rapidly. According to Wind Info, between 2006 and 2011, the total amount of funds raised through bond offerings (excluding treasury bonds, municipal bonds and central bank instruments) in the PRC increased from RMB1.4 trillion to RMB4.7 trillion, representing a CAGR of 27.5%. The net asset value of PRC mutual funds increased from RMB856.5 billion in 2006 to RMB2,167.6 billion in 2010, representing a CAGR of 20.4%. Furthermore, the PRC futures market is one of the largest in the world in terms of total trading volume, which, according to the CSRC, increased from RMB21 trillion in 2006 to RMB138 trillion in 2011, representing a CAGR of 45.7%.

Despite the rise in its global ranking, the PRC capital market is still in its early stage of development and has enormous growth potential

Despite the rapid growth over the past two decades and the rise in its global ranking, the following aspects of the capital market in the PRC are still in an early stage of development compared with other mature capital markets in the following aspects:

The ratio of stock market capitalization relative to nominal GDP is relatively low

The ratio of the total market capitalization of the PRC stock market to its nominal GDP is much lower than the ratios of major developed countries. As of December 31, 2010, the total market capitalization of the PRC stock market accounted for 66.7% of the nation's nominal GDP, which was lower than that of major developed countries, including the U.S. This suggests that the PRC stock market has further growth potential. The following table sets forth the stock market capitalization of the U.S., Japan, the U.K. and the PRC relative to their nominal GDP as of December 31, 2010:

	U.S.	Japan	U.K.	PRC
Ratio of stock market capitalization relative to nominal GDP (%)	119.0%	69.4%	158.6%	66.7%

Sources: WFE, International Monetary Fund, CSRC, NBSC

INDUSTRY OVERVIEW

The development of the corporate finance market is unbalanced

Currently, indirect financing such as bank lending remains a major source of external financing for PRC companies. According to the CSRC and the PBOC, bank lending amounted to approximately 67.5% of the total external financing of PRC companies by way of equity offerings, bond offerings and bank lending during 2010. Direct financing, such as the issuance of equity and debt securities, is not as prevalent in the PRC as in certain developed countries such as the U.S. The following table sets forth the total value of equity offerings, bond offerings and bank lending in the PRC and the U.S. in 2010:

	Equity offerings	Bond offerings ⁽¹⁾	Bank lending ⁽²⁾
	(US\$ in billions)		
PRC	136	475	1,269
U.S.	201	1,788	100

(1) In the above table, bond offerings refer to those related to corporate financing, which include corporate bonds, enterprise bonds, financial bonds, short-term commercial papers, medium-term notes, asset-backed securities, convertible bonds and bonds with warrants but exclude treasury bonds, municipal bonds and central bank instruments. The exchange rate of U.S. dollar and RMB used in the above table are the exchange rates as of December 31, 2010.

(2) Difference in commercial bank lending outstandings between 2009 and 2010.

Sources: CSRC, PBOC, Bloomberg, China Banking Regulatory Commission, U.S. Federal Reserve Board

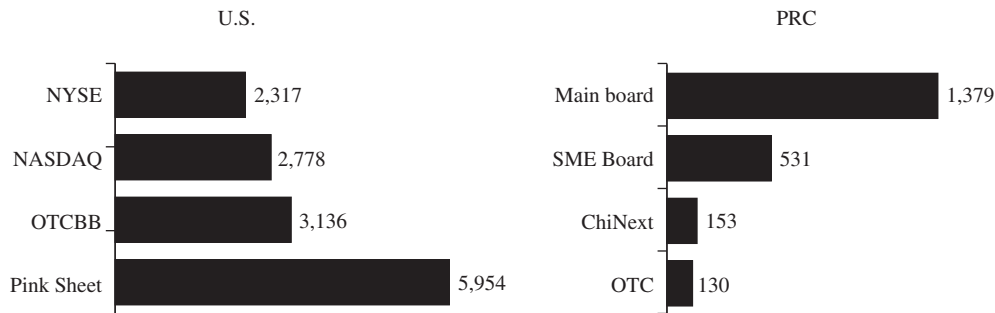
The PRC multi-tiered capital market is still developing

The PRC stock market has quickly developed over the past 20 years. In 2011, the PRC stock market became the world's second largest stock market in terms of annual trading volume. However, there are significant structural differences between the PRC stock market and the stock markets of developed countries such as the U.S. For example, the U.S. stock market, comprised of the New York Stock Exchange and NASDAQ, is more mature and diversified in terms of market capitalization, which are supplemented by other stock exchanges and OTC markets, such as OTCBB and Pink Sheets. The number of companies that trade their shares on the OTCBB and Pink Sheets is greater than the number of companies that are listed on the New York Stock Exchange and NASDAQ. Conversely, the number of listed companies on the main boards of the Shanghai Stock Exchange and the Shenzhen Stock Exchange still

INDUSTRY OVERVIEW

accounts for the majority of the PRC stock markets. In comparison to the stock markets in the U.S., the SME Board, ChiNext Board and OTC market in the PRC are still developing. The following table sets forth the structure of the stock markets of the U.S. and the PRC:

Difference in structure between the U.S. stock market⁽¹⁾ and the PRC stock market (Number of listed companies as of December 31, 2010)



(1) The data of OTCBB is the average number for 2010.

Sources: Shanghai Stock Exchange, Shenzhen Stock Exchange, CSRC, Wind Info, WFE, OTC Bulletin Board, OTC Markets

We believe that as the PRC stock market continues to develop, the size of the SME Board and the ChiNext Board will continue to expand. Given the expected expansion of the OTC market, particularly the New OTC Board, the structure of the PRC stock market will become increasingly more mature across multiple capital raising platforms.

The establishment of the SME Board and the ChiNext Board in 2005 and 2009, respectively, has transformed the PRC stock market into a multi-tiered market, increasing the market's ability to accommodate the various financing needs of companies and diverse risk profiles of investors. As shown in the table below, there has been significant growth from 2009 to 2011 in terms of the number of listed companies on the SME Board and the ChiNext Board, total market capitalization, total proceeds raised in equity offerings and total trading value.

	2009	2010	2011	CAGR of 2009 to 2011
Number of listed companies				
SME Board	327	531	646	40.6%
ChiNext Board.	36	153	281	179.4%
Market capitalization (RMB in billions)				
SME Board	1,687	3,536	2,743	27.5%
ChiNext Board.	161	737	743	114.8%
Funds raised in equity offerings (RMB in billions)				
SME Board	58	235	102	32.6%
ChiNext Board.	20	96	79	98.7%
Value of share trading (RMB in billions)				
SME Board	4,827	8,583	16,903	87.1%
ChiNext Board.	183	1,572	5,940	469.7%

Source: Shenzhen Stock Exchange

INDUSTRY OVERVIEW

In addition, the PRC has announced plans to introduce the International Board and the New OTC Board. Recognizing the potential investment power of PRC investors, a number of overseas companies have expressed interest in participating in the fast-growing PRC capital market. Consequently, the CSRC and the Shanghai Stock Exchange have commenced plans to introduce an International Board that will target listings of large global enterprises on the Shanghai Stock Exchange. In addition, the PRC government also intends to establish and expand a New OTC Board, which will create a highly regulated OTC market in the PRC and offer a trading platform for the pre-IPO financing of selected SMEs. The OTC market will focus on SMEs that have been established in science and technology parks in various regions of the PRC, particularly those engaged in high-growth businesses involving new and advanced technologies. Furthermore, the New OTC Board will offer a trading platform for companies that have been delisted from the main board, the SME Board and the ChiNext Board.

The availability of financial products and services in the PRC capital market is limited

With the growth of the PRC economy, the investment needs of increasingly sophisticated investors and the financing demands of companies in various sectors evolved towards more sophisticated financial products and services. However, currently, there are limited types of financial products and services in the PRC capital market. A number of prevalent financial services and products in the capital markets of the U.S. and other developed countries, such as margin and securities refinancing, market maker services for shares or share-linked products and certain other derivatives and structured products, are either restricted or not popular among retail and professional institutional investors in the PRC.

In addition, there are substantial differences between the product mix of the stock exchanges in the PRC and the U.S. The PRC equity spot market is still dominated by stocks. ETFs comprise only 0.9% of the PRC equity spot market compared with 20.5% in the U.S. With respect to the derivatives market, most of the derivatives in the PRC capital market are limited to commodity derivatives. Products such as equity derivatives and fixed-income derivatives are less developed than those in certain mature markets. The range of financial products has limited the investment options, strategies and investment portfolios of PRC investors. The following tables set forth the composition of the equity spot market in terms of turnover (for the six months ended June 30, 2011) and the derivatives market in terms of the number of transactions (for the year ended December 31, 2010) in the PRC and the U.S.:

Equity spot market (turnover for the six months ended June 30, 2011)

	PRC		U.S.	
	(US\$ in billions)	(%)	(US\$ in billions)	(%)
Stocks	3,770.1	98.6	14,738.5	79.1
Funds	18.1	0.5	70.8	0.4
ETFs.	33.3	0.9	3,807.7	20.5
Total.	3,821.5	100.0	18,616.9	100.0

Source: WFE

INDUSTRY OVERVIEW

Derivatives market (the number of transactions for the year ended December 31, 2010)

	PRC		U.S.	
	(Number of transactions in billions)	(%)	(Number of transactions in billions)	(%)
Equity derivatives	0.1	3.2%	2.2	46.9%
Fixed-income derivatives	-	-	1.6	34.1%
Commodity derivatives	3.0	96.8%	0.9	19.0%
Total	3.1	100.0%	4.7	100.0%

Sources: WFE, CSRC

In recent years, the PRC regulatory authorities have relaxed restrictions and introduced, on a trial basis, certain new businesses, such as stock index futures trading and margin financing and securities lending businesses. On October 26, 2011, the CSRC converted margin financing and securities lending from a pilot program conducted by CSRC-designated PRC securities firms to a regular business operation available to all the PRC securities firms that meet certain requirements. In addition, on the same day, the CSRC promulgated the Trial Supervision and Management Measures on Margin and Securities Refinancing Business (轉融通業務監督管理試行辦法) pursuant to which we expect a pilot program for the margin and securities refinancing to be launched in the PRC. On December 5, 2011, the Shanghai Stock Exchange and the Shenzhen Stock Exchange further expanded the scope of securities eligible for the margin financing and securities lending business from 90 stocks to 278 stocks and 7 ETFs. We believe these initiatives will further support the development of margin financing and securities lending business activities. We expect this trend will continue, and the introduction of additional new businesses in the near future will stimulate further growth of the PRC capital market.

A majority of investors in the PRC stock market are individuals

According to the Shanghai Stock Exchange, the average percentage of trading volume attributed to natural person investors was 84.8% from 2007 to 2010. The following table sets forth the trading volume of the Shanghai Stock Exchange by investor type between 2007 and 2010:

	2007	2008	2009	2010	Average
Natural person investors	86.0%	83.2%	85.4%	84.6%	84.8%
General legal persons ⁽¹⁾	3.6%	4.0%	3.8%	2.4%	3.5%
Professional institutions	10.4%	12.8%	10.8%	13.0%	11.8%
– Investment funds	8.3%	9.9%	8.0%	7.7%	8.5%

(1) General legal persons refer to legal persons other than professional institutions.

Sources: Shanghai Stock Exchange

INDUSTRY OVERVIEW

In terms of the number of investors, according to the CSDCC, as of December 31, 2011, there were 162.9 million A share accounts in the PRC, of which approximately 162.3 million were held by individuals, representing 99.63% of all accounts. The following table sets forth the total number of A share accounts held by individuals in the PRC at the end of the periods indicated:

As of year end	2006	2007	2008	2009	2010	2011	2006-2011 CAGR
(in millions, except percentages)							
A share accounts	72.8	110.1	120.8	137.3	151.5	162.3	17.4%

Source: CSDCC

We believe the PRC stock market has significant opportunities for optimization and growth in the future. In addition, the robust economic growth and the substantial increase in assets available for investment continue to drive the growth of the PRC capital market.

Personal wealth accumulated rapidly and assets available for investment increased

Per capita disposable income has been increasing rapidly in the PRC and has further growth potential

The rapid economic development in the PRC has accelerated the accumulation of personal wealth of its residents. According to the NBSC, the per capita disposable income of urban residents in the PRC nearly doubled during the period between 2006 and 2010 with a CAGR of 18.5%, which is significantly higher than the growth rate in Japan and the U.S. during the same period. However, the PRC per capita disposable income of US\$1,810 in 2010 is still much lower than US\$36,697 in the U.S. The following table sets forth per capita disposable income growth rate in the PRC, Japan and the U.S. for the period between 2006 and 2010:

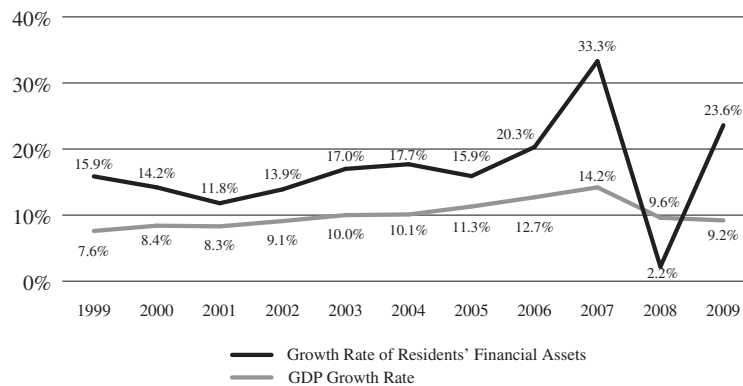
PRC	Japan	U.S.
18.5%	-0.7%	2.6%

Sources: NBSC, Japan Statistics Bureau, U.S. Census Bureau

INDUSTRY OVERVIEW

Financial assets held by PRC residents grew rapidly

Apart from the growth in personal disposable income levels, the total amount of financial assets held by PRC residents also grew at a fast pace. These assets are held mainly in the forms of cash, bank savings, securities, securities investment funds, personal guarantee deposits and insurance policies. The growth rate of the total amount of financial assets held by PRC residents exceeded the nation's GDP growth rate in nine of the ten years from 1999 to 2009. The following chart illustrates the growth rates of the financial assets held by PRC residents relative to the GDP of the PRC for the periods indicated:



Sources: International Monetary Fund and National Bureau of Statistics of China, Annual Report of Chinese Residents' Income Distribution of the National Development and Reform Commission of the PRC

As of December 31, 2004, and December 31, 2009, the total cash and bank savings of PRC residents increased from RMB1.8 trillion and RMB13.0 trillion to RMB3.2 trillion and RMB26.9 trillion, respectively, representing a CAGR of 12.4% and 15.7%, respectively. The amount of equity assets held by PRC residents grew at a fast pace from RMB0.8 trillion as of December 31, 2004 to RMB4.8 trillion as of December 31, 2009, representing a CAGR of

INDUSTRY OVERVIEW

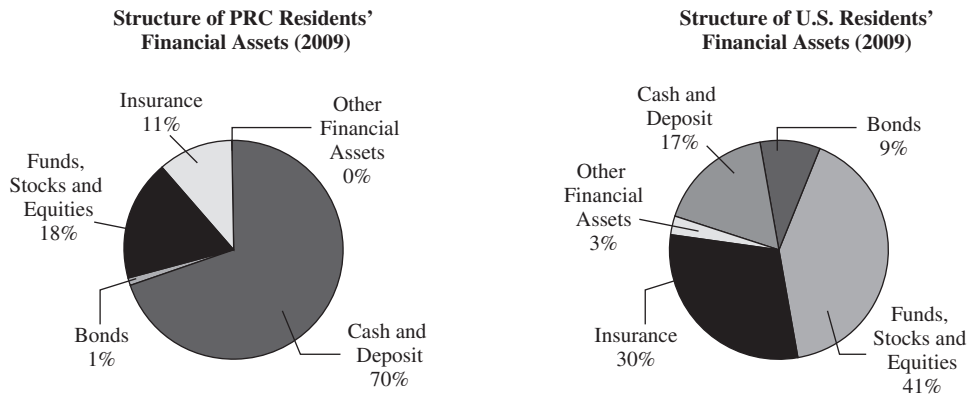
39.9%. The following table sets forth the breakdown of the types of financial assets held by PRC residents from 2004 to 2009:

	2004	2005	2006	2007	2008	2009	2004-2009 CAGR
(RMB in 100 millions, except percentages)							
Cash (local currencies)	17,820	19,945	22,469	25,210	28,622	31,982	12.4%
Bank deposits	129,575	150,551	171,737	181,876	228,478	268,650	15.7%
Listed securities	15,190	14,399	23,945	58,311	25,139	50,371	27.1%
Bonds	6,293	6,534	6,944	6,707	4,981	2,623	(16.1%)
Equity	8,897	7,865	17,001	71,604	20,157	47,748	39.9%
Securities investment funds	1,905	2,449	5,618	29,716	17,011	21,052	61.7%
Personal guarantee deposits	1,339	1,566	3,128	9,904	4,760	5,666	33.4%
Insurance policy benefits	14,113	18,315	22,680	27,000	37,831	46,226	26.8%
Settlement funds	(77)	23	17	-	-	-	-
Other financial assets (net)	504	1,835	2,005	97	1,030	(64)	-
Total financial assets	180,369	209,083	251,600	332,114	342,870	423,883	18.6%

Source: Annual Report of Chinese Residents' Income Distribution of the National Development and Reform Commission of the PRC

Participation by PRC residents in the PRC capital market is limited

Unlike investors in developed markets, a substantial proportion of the financial assets held by PRC residents is in the form of cash and bank savings. The proportion of other types of financial assets, especially securities, is much lower than that of developed markets such as the U.S. The following charts illustrate the breakdown of financial assets held by PRC residents and U.S. residents by asset type as of December 31, 2009:



Sources: Annual Report of Chinese Residents' Income Distribution of the National Development and Reform Commission of the PRC, Account for the Balance of Capital of the PBOC. To be comparable, the PRC stocks include securities investment funds and margins paid by securities customers while U.S. stocks include mutual investment funds.

The uneven holding structure of financial assets provides the opportunity for PRC residents to improve their allocation of financial assets by participating more actively in the capital market.

INDUSTRY OVERVIEW

Rapid growth in the number of high net worth individuals will drive the development and innovation of financial products and services in the PRC capital market

In recent years, there has been a rapid increase in the number of PRC high net worth individuals. According to the “2011 China Private Wealth Report” (2011中國私人財富報告) jointly published by China Merchants Bank and Bain & Company in 2010, assets available for investment held by PRC high net worth individuals amounted to RMB15.0 trillion in the aggregate, while assets available for investment held by all PRC individuals amounted to RMB62.0 trillion in the aggregate. In 2010, there were over 503,000 high net worth individuals in the PRC, an increase of 92,000 compared to 2009, or 22%.

With the growth in the number of high net worth individuals in the PRC and their increasing participation in capital markets, the demand for customized financial services will continue to grow, and new businesses in the PRC capital market are expected to develop.

Enterprise annuities and other institutional investors have great potential to participate in the PRC capital market in the future

PRC enterprises have experienced rapid growth in corporate earnings and enterprise wealth

With the continued development of the PRC economy, PRC enterprises have experienced substantial growth in corporate earnings and enterprise wealth. The following table sets forth the increase in both earnings and wealth for selected PRC enterprises for the periods indicated:

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2001-2010 CAGR
(RMB in 100 millions, except percentages)											
Total profits before tax of PRC enterprises ⁽¹⁾	4,733	5,784	8,337	11,342	14,803	19,504	27,155	30,562	34,542	53,050	30.8%
Enterprise savings (RMB only)	51,547	60,029	72,487	84,671	96,144	113,216	138,674	157,632	217,110	244,496	18.9%

(1) PRC enterprises are limited to those with annual revenues of RMB5.0 million or more.

Sources: NBSC, PBOC

INDUSTRY OVERVIEW

Enterprise annuities have high growth potential

Despite the rapid development and expansion of the PRC capital market over the past decade, the overall participation by institutional investors, which mainly comprises mutual funds, remains insignificant compared with the participation by individual investors. As enterprise wealth has accumulated rapidly in recent years and the PRC government continues to promulgate policies to encourage the participation of institutional investors, enterprise annuities are expected to play a more important role in the PRC capital market. This is expected to stimulate the long-term development of the PRC capital market. The following table sets forth the size of enterprise annuities relative to GDP for the PRC and other developed countries as indicated in 2010:

	PRC	U.S.	Australia	Switzerland	Average in OECD countries
Percentage of the size of enterprise annuities to GDP (%)	1%	68%	82%	101%	68%

Source: Wind Info

OVERVIEW OF THE PRC SECURITIES INDUSTRY

Development history of the securities industry

Period of Exploration and Development (Before 1999): The PRC stock market developed quickly as PRC stock exchanges were established and securities firms emerged. The structure was segregated and the operation and regulation of different financial sectors emerged.

Following its introduction, the expanded joint stock ownership pilot program involving PRC state-owned enterprises resulted in (i) a rapid increase in the number of stock issuances; (ii) the emergence of a liquid nationwide secondary stock market; and (iii) an increase in stock trading activities. These results contributed to the establishment of the Shanghai Stock Exchange and the Shenzhen Stock Exchange. Subsequently, the number of listed companies, total market capitalization, the amount of proceeds raised from stock equity issuances, the number of investor accounts and securities trading volume all experienced substantial growth.

Early forms of securities firms emerged along with the establishment of primary and secondary securities market in the PRC. In the late 1980s and early 1990s, securities firms, such as Haitong Securities, former Shenzhen Special Economic Zone Securities, former Wanguo Securities Co., Ltd., former Junan Securities Limited Liability Company, former China Southern Securities Co., Ltd. and former China Securities Co., Ltd., were established. In 1996, the number of PRC securities firms reached a record of 553.

In 1997, the PRC adopted a segregated operating structure under which securities, banking, trust and insurance businesses began to operate independently from each other. In 1998, the CSRC became the sole regulatory authority of the PRC securities and futures markets, resulting in the effective segregation of the operation and regulation of the PRC securities industry from other financial sectors.

INDUSTRY OVERVIEW

Period of Regulated Development (1999 to 2004): As the regulatory regime of the PRC securities market gradually evolved, many regulatory non-compliance incidents and deficiencies in internal controls among securities firms were exposed.

The promulgation of the Securities Law in 1999 and the amendments of the Securities Law and the Company Law in 2005 marked important steps towards the “rule of law” by the PRC securities market. The CSRC implemented a series of measures to reform the procedures governing securities issuances in the PRC. It replaced the “examination and approval system” with the “verification system” in 2001 and subsequently with the “sponsorship system” in 2004. These reforms focused on the quality of the issuers and laid a solid foundation for a stable capital market. In addition, in 2002, the CSRC introduced a floating-rate commission mechanism, resulting in a more market and customer oriented business model for PRC securities firms. All these developments indicated the gradual evolution of the PRC securities industry.

For the period between 1999 to 2001, earnings of PRC securities firms soared during the market boom. However, the subsequent decline of the stock market in 2001 unveiled the inherent risks of the industry as a whole, such as operational non-compliances and misappropriation of customers’ funds by securities firms.

Period of Rectification and Regulation (2004 to 2008): Industry-wide rectification and increased regulatory measures were introduced in the PRC securities industry. The lifting of restrictions on the trading of certain state-owned and non-tradable shares allowed a large number of non-tradable shares to be gradually converted into freely tradable shares, which resulted in the expansion of the size of the PRC stock market.

In August 2004, the CSRC launched comprehensive legislative and enforcement measures governing the operations of PRC securities firms, pursuant to which securities firms that violated relevant regulations and had high-risk exposure were restructured or nationalized through capital injections. During this period, the CSRC implemented a risk management and compliance system that used Net Capital as the key metric to assess the risk exposure of the securities firms. It also promulgated ratings-based regulations to govern PRC securities firms and encouraged those with effective risk management to expand their businesses. As a result of the implementation of risk control measures and the stringent regulation of securities firms, the PRC securities industry successfully navigated through the global financial crisis in 2008.

In April 2005, the CSRC promulgated the Notice on Issues Regarding the Pilot Reform of Non-tradable Shares of Listed Companies (關於上市公司股權分置改革試點有關問題的通告) and implemented the Measures for the Administration of the Reform of Non-tradable Shares of Listed Companies (上市公司股權分置改革管理辦法) in September, which officially launched the reform of non-tradable shares. Such reform enabled holders of non-tradable shares to realize the value of their shares in an open market.

Period of Innovation (2009 and beyond): Encouraging a “market-oriented” regulatory concept and product innovation.

INDUSTRY OVERVIEW

In 2009, the CSRC began to shift its stringent regulatory approach to a market-oriented approach. Certain securities firms were designated to participate in pilot programs to develop new businesses, resulting in the gradual expansion of the business scope of the PRC securities industry:

- in 2009, the CSRC introduced new guidelines for securities firms to engage in direct investment;
- in March 2010, the CSRC issued guidelines on a pilot program for margin financing and securities lending and stipulated the qualification requirements for securities firms to participate in the pilot program. The pilot program was officially converted to a regular business available to all PRC securities firms that meet certain requirements in October 2011. Please see “Regulatory Environment – Regulation on the PRC Securities Industry – Regulation on Operations” for details on such requirements;
- in April 2010, the China Financial Futures Exchange launched the first stock index futures and the CSRC issued guidelines for trading in these futures by securities firms;
- in April 2011, the CSRC introduced the Regulations on Investment Scopes of the Proprietary Trading Business of Securities Companies and the Relevant Matters (關於證券公司證券自營業務投資範圍及有關事項的規定) to further expand the investment scope of the proprietary trading business of securities firms. These measures granted the proprietary trading divisions of PRC securities firms access to the OTC market and allowed securities firms to invest in more financial products through subsidiaries specifically established to conduct such business;
- in July 2011, the CSRC promulgated the Guidelines on the Direct Investment Business of Securities Companies (證券公司直接投資業務監管指引). Pursuant to such guidelines, subsidiaries of securities firms that engage in direct investment business may raise funds by way of private placements and utilize such proceeds, together with their proprietary funds, to make direct investments;
- in October 2011, the CSRC promulgated the Trial Supervision and Management Measures on Margin and Securities Refinancing Business (轉融通業務監督管理試行辦法) pursuant to which the Securities Finance Company will be responsible for, among others, providing funding and securities refinancing services to support the margin financing and securities lending business of PRC securities firms, supervising the margin financing and securities lending activities, monitoring and analyzing margin financing and securities lending activities in the PRC securities market, and utilizing market tools to prevent and control risks;
- in October 2011, the CSRC promulgated the Guidelines on the Development of New Business of Securities Companies (證券公司業務創新工作指引) in which the CSRC set out the requirements for securities companies to launch and develop new business and also introduced a regulatory regime that encourages the launching of innovative products by PRC securities firms; and
- in December 2011, the Shanghai Stock Exchange and the Shenzhen Stock Exchange further expanded the scope of securities eligible for margin financing and securities lending business from 90 stocks to 278 stocks and 7 ETFs.

INDUSTRY OVERVIEW

Major business activities conducted by the PRC securities firms

The PRC securities firms engage in one or more of the following businesses:

- Securities and futures brokerage – Securities and futures brokerage business mainly refers to the execution of trades of stocks, bonds, funds, warrants, futures and other securities on behalf of customers;
- Investment banking – Investment banking services primarily include equity and debt underwriting, M&A and financial advisory services;
- Asset management – Asset management services primarily include mutual fund management, collective and targeted asset management schemes, alternative asset management (in particular, private equity asset management) and investment advisory services;
- Direct investment – Direct investment business involves the use of proprietary funds by securities firms to make direct equity investments in private companies either directly or through private equity funds;
- Proprietary trading – Proprietary trading business relates to the investments in, and trading of, authorized financial products by securities firms using their own funds in accordance with the guidelines issued by the CSRC. These authorized financial products can be divided into three major categories, namely, securities listed on the domestic stock exchanges, securities traded in the domestic inter-bank market (including government bonds, RMB-denominated bonds issued by international development agencies, instruments of central banks, financial bonds, short-term financing bonds, corporate bonds, medium-term notes and enterprise bonds) and the securities approved by or filed with the CSRC that are traded over the counter at domestic financial institutions. In addition, securities firms can also set up subsidiaries to engage in a broader range of investment activities. The investment scope of these subsidiaries includes the three major investment categories mentioned above, as well as other types of investment products, such as financial products including derivative investment products, trust products and inter-bank wealth management products;
- Overseas and cross-border business – Overseas and cross-border business primarily includes QFII asset management, QFII brokerage, domestic and overseas acquisitions, as well as other businesses that may arise in the future such as RQFII and listings on the International Board.

REGULATORY REGIME AND TRENDS

Segregated operations and regulations of various PRC financial industries

The operations of various PRC financial industries, such as securities, banking, insurance and trust industries, are segregated from one another, and are regulated by different regulatory

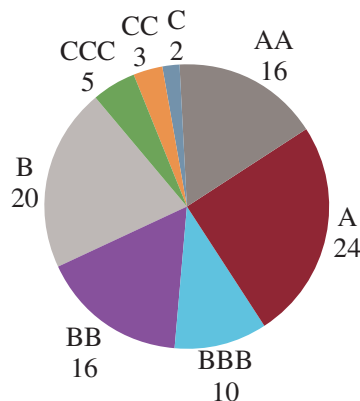
INDUSTRY OVERVIEW

authorities. The restrictions imposed on the business scope of the financial services industry create a favorable and independent environment for the development of the PRC securities industry, and limited financial institutions to engage in cross-industry business activities. We believe that this segregated structure will continue in the future.

Major regulatory characteristics of the PRC securities industry

The PRC securities industry has experienced a significant transformation over the past 20 years as the industry evolved from being operated in a disorderly manner to being well-regulated. The main regulatory characteristics of the PRC securities industry are:

- A strict market entry system has been established. The PRC securities industry is an industry subject to stringent license control and many business activities are subject to the approval and filing requirements of the relevant regulatory authorities (Please see “Regulatory Environment – Regulation on the PRC Securities Industry – Entry Requirements”);
- The PRC securities industry is subject to a risk management and compliance regulatory regime that uses Net Capital as the key metric to assess risk. As required by the PRC regulatory authority, many business activities and the scale of such activities are subject to specified Net Capital requirements; and
- The CSRC imposes different regulatory measures on securities firms based on their regulatory rating, which is determined according to their respective risk management capabilities, competitiveness and compliance record. The CSRC gives securities firms with higher ratings priority to participate in pilot programs of new financial products. The following chart illustrates the number of PRC securities firms under each rating category as determined by the CSRC as of September 30, 2011:



Source: CSRC, as of September 30, 2011

Please see “Industry Overview – The Competitive Landscape in the PRC Securities Market” for an explanation of the rating categories.

INDUSTRY OVERVIEW

Regulatory trends in the PRC securities industry

Currently, the regulatory focus of the PRC securities industry is moving towards a more market-oriented regime. We believe that this trend will foster the development of the PRC securities industry, promote industry consolidation and strengthen the overall competitiveness of securities firms. We believe the regulatory outlook will include: (i) the relaxation of restrictions on the business scope of securities firms; (ii) the encouragement of product innovation and diversification of product mix; and (iii) the introduction of leverage to increase the capital efficiency of securities firms. This trend has also allowed PRC securities firms to gradually transform from a traditional business model to a capital-based and value-added business model.

We believe large securities firms will benefit more from these regulatory developments as they enjoy economies of scale, have effective corporate governance and possess the skills and resources to develop new businesses.

THE EMERGING SECURITIES INDUSTRY IN THE PRC

The PRC securities industry has experienced rapid growth in terms of asset size, revenue and net profit and has maintained a relatively high profit margin. The following table sets forth the total assets, net assets, revenue, net profit and net profit margin of the PRC securities firms for the periods indicated:

	2006	2007	2008	2009	2010	2011 ⁽¹⁾	2006-2011 CAGR
	(RMB in 100 million, except percentages)						
Total assets	6,187	17,337	11,909	20,287	19,686	15,728	20.5%
Net assets	1,060	3,443	3,594	4,840	5,674	6,303	42.8%
Revenue	626	2,836	1,231	2,053	1,927	1,360	16.8%
Net profit	256	1,307	494	934	784	394	9.0%
Net profit margin of the industry (%)	40.9%	46.1%	40.2%	45.5%	40.7%	29.0%	-

(1) The 2011 data from the SAC was based on the preliminary results of PRC securities firms.

Source: SAC

- Asset size: Between 2006 and 2010, total assets of the PRC securities firms increased from RMB618.7 billion to RMB1,968.6 billion, representing a CAGR of 33.6%, and net assets of the PRC securities firms increased from RMB106.0 billion to RMB567.4 billion, representing a CAGR of 52.1%. Total assets of the PRC securities firms decreased to RMB1,572.8 billion as of December 31, 2011 due primarily to decrease in the value of customer deposits as a result of unfavorable market conditions in the securities market in 2011.

INDUSTRY OVERVIEW

- **Revenue:** Total revenue of PRC securities firms increased from RMB62.6 billion in 2006 to RMB192.7 billion in 2010, representing a CAGR of 32.5%, which is substantially higher than the CAGR of -12.6% for U.S. securities firms during the same period, according to SIFMA. In addition, total net profit increased from RMB25.6 billion in 2006 to RMB78.4 billion in 2010, representing a CAGR of 32.3%, which was also higher than the CAGR of -2.3% for U.S. securities firms during the same period, according to SIFMA. Total revenue of PRC securities firms decreased from RMB192.7 billion in 2010 to RMB136.0 billion in 2011 due primarily to unfavorable market conditions in the securities market in 2011 and intense industry competition which further drove down securities brokerage commission rates.
- **Profitability:** According to the SAC, the net profit margins of PRC securities firms were maintained at over 40% from 2006 to 2010. In 2010, the return on assets of PRC securities firms was 3.98%, which was higher than the 0.53% return on assets of U.S. securities firms during the same period. The net profit margins of PRC securities firms were decreased from 40.7% in 2010 to 29.0% in 2011 due primarily to unfavorable market conditions in the securities market in 2011 and intense industry competition which further drove down securities brokerage commission rates.

Additionally, the primary business segments in the PRC securities industry experienced high growth, which has driven the PRC securities industry's rapid growth.

Brokerage business

As the PRC securities market is still in its early stages of development, brokerage business remains the core business of PRC securities firms. Driven by economic development, urbanization and wealth accumulation, the total trading volume of securities brokerage businesses of securities firms increased substantially. According to the CSRC, the stock trading volume in the PRC securities market increased from RMB9,046.9 billion in 2006 to RMB42,164.7 billion in 2011, representing a CAGR of 36.0%. According to the CSDCC, the number of stock brokerage accounts, including A shares and B shares, in the PRC increased from approximately 78.5 million at the end of 2006 to approximately 173.2 million at the end of 2011, representing a CAGR of 17.1%. The following table sets forth the stock trading volume and the number of stock brokerage accounts in the PRC from 2006 to 2011:

	2006	2007	2008	2009	2010	2011	2006-2011 CAGR
Stock trading volume (RMB in 100 million)	90,469	460,556	267,113	535,987	545,634	421,647 ⁽¹⁾	36.0%
Number of stock brokerage accounts (in ten thousand) . .	7,854	11,287	12,364	14,028	15,454	17,316	17.1%

Sources: CSRC, SAC, CSDCC

(1) Due to the unfavorable market conditions in the PRC securities market in 2011, stock trading volume decreased significantly from RMB54,563.4 million in 2010 to RMB42,164.7 million in 2011.

INDUSTRY OVERVIEW

Investment banking business

The total proceeds raised from equity offerings on the Shanghai Stock Exchange and Shenzhen Stock Exchange increased from RMB269.7 billion in 2006 to RMB701.7 billion in 2011, representing a CAGR of 21.1%.

	2006	2007	2008	2009	2010	2011	2006-2011 CAGR
(RMB in 100 million, except percentages)							
Proceeds raised from equity offerings	2,697	8,043	3,464	5,150	10,121	7,017	21.1%

Source: Wind Info

According to Wind Info, non-government bond and note offerings in the PRC increased from RMB1,381.6 billion in 2006 to RMB4,658.5 billion in 2011, representing a CAGR of 27.5%.

The following table shows the information on bonds and notes issued from 2006 to 2011:

	2006	2007	2008	2009	2010	2011	2006-2011 CAGR
(RMB in 100 million, except percentages)							
Proceeds raised from bond and note offerings ⁽¹⁾	13,816	17,562	21,528	30,347	31,293	46,585	27.5%

(1) Issuances of bonds and notes refer to those related to corporate financing, including corporate bonds, financial bonds, short-term commercial papers, medium-term notes, asset-backed securities, convertible bonds and warrant bonds but exclude treasury bonds, municipal bonds and central bank instruments.

Source: Wind Info

Corporate M&A activities increased between 2006 and 2011. According to Dealogic Ltd., the total value of domestic and overseas M&A transactions involving PRC enterprises increased from US\$124.2 billion in 2006 to US\$242.6 billion in 2011, representing a CAGR of 14.3%.

INDUSTRY OVERVIEW

The rapid growth of investment banking business contributed to the revenue growth of PRC securities firms. According to the SAC, net revenue of securities firms from securities underwriting increased from RMB10.1 billion in 2007 to RMB27.2 billion in 2010, representing a CAGR of 39.1%. During the same period, revenue from the investment banking business as a proportion of the total revenue of the securities industry increased from 3.6% to 14.1%. The following table sets forth the net revenue of securities firms from securities underwriting for the periods indicated:

	2007	2008	2009	2010	2007-2010 CAGR
(RMB in 100 million, except percentages)					
Net revenue from securities underwriting and sponsors business	101	77	152	272	39.1%

Source: SAC

Asset management business

According to the SAC, the asset management industry achieved tremendous growth between 2006 and 2011 as total AUM managed by mutual fund management companies and securities firms increased from RMB857.1 billion in 2006 to RMB2,188.0 billion in 2011 (including securities investment funds), representing a CAGR of 20.6%.

	As of December 31,						
	2006	2007	2008	2009	2010	2011	2006-2011 CAGR
(RMB in 100 million, except percentages)							
Net AUM managed by mutual fund management companies and securities firms	8,571	32,766	19,381	26,761	24,844	21,880	20.6%

Source: 2006-2009 China Securities Investment Fund Annual Report; SAC

INDUSTRY OVERVIEW

The PRC securities industry is still in its early stages of development and we believe there is significant potential for further development

Despite its high growth rate, the PRC securities industry is still in its early stages of development compared to the securities industries in developed overseas markets. The following table sets forth a comparison of certain information about the PRC and U.S. securities industries as of December 31, 2010:

	Total assets of securities firms	Total assets of securities firms as a percentage of the total assets of the financial industry	Total revenue of securities firms	Total revenue of non-brokerage business as a percentage of total revenue of securities firms
	(RMB in 100 million)	(%)	(RMB in 100 million)	(%)
PRC	19,686	1.9%	1,927	44.0%
U.S.	305,640	20.0%	16,787	82.0%

Sources: CSDCC, NBSC, CSRC, SAC, SIFMA, U.S. Census Bureau

As of December 31, 2010, the assets of PRC securities firms accounted for 1.9% of the total assets of the PRC financial industry compared with 20.0% for U.S. securities firms. As of December 31, 2010, the total assets and total revenue of the PRC securities firms were RMB1,968.6 billion and RMB192.7 billion, respectively, compared to RMB30,564 billion and RMB1,678.7 billion, respectively, for the U.S. securities firms.

Currently, the brokerage business constitutes a major part of the PRC securities industry, with revenue from non-brokerage businesses accounting for 44% of the total revenue, compared with 82% for the U.S. The structural disparity between the PRC securities market and developed securities markets suggests that there is great potential for growth in various businesses in the PRC securities industry.

The PRC securities industry has a lower penetration rate and a higher return on assets than other financial sectors

The penetration rate of the PRC securities industry is substantially lower than that of banking and insurance industries. According to the 2010 China Payment System Development Report published by the PBOC in June 2011, as of December 31, 2010, the PRC banking industry had approximately 3.38 billion settlement accounts in the PRC whereas the PRC securities industry had only approximately 155 million accounts (including A-share and B-share accounts), which was approximately 4.6% of that of the banking industry. This indicates that many potential clients are yet to be tapped by the securities firms. With further urbanization and wealth accumulation, the PRC securities industry is likely to have greater growth potential than other financial sectors as a result of its currently lower penetration rate.

INDUSTRY OVERVIEW

In addition, the PRC securities industry has higher returns on assets than other financial industries. In 2010, a return on assets was approximately 4.0%, compared with approximately 1.0% and approximately 1.3% for the PRC banking and insurance industries, respectively.

Significant growth potential in various business segments

Brokerage business: Significant development potential

Despite its substantial development in recent years, the PRC brokerage business still has significant potential and will likely maintain its rapid growth. For example, we believe:

- Urbanization in the PRC and the growth of the PRC economy are expected to lead to the increase in the number of brokerage accounts opened. Furthermore, the personal disposable income level in the PRC and the amount of tradable financial assets are expected to stimulate investment needs and increase the trading volume of PRC securities firms;
- The brokerage branches of PRC securities firms are concentrated in more developed coastal areas of the PRC. According to the Shanghai Stock Exchange, as of June 30, 2011, 61.5% of the brokerage branches of PRC securities firms were located in the Pearl River Delta, the Yangtze River Delta and the Bohai Rim, which accounted for only 39.3% of the PRC population. Conversely, as of June 30, 2011, 38.5% of the brokerage branches of PRC securities firms were located in less developed central, western and northeastern regions of the PRC, which accounted for 60.7% of the nation's population. With the continued economic growth of the underdeveloped regions in the PRC, it is expected that there will be further growth of the PRC brokerage business;
- There is high growth potential due to the age and geographic distribution of brokerage customers. According to CSDCC, as of December 31, 2010, accounts held by individuals aged between 20 and 40 years totaled 65.7 million, accounting for 50.2% of brokerage accounts. This age group represents a major portion of the working population in the PRC, the growth of which, we believe, will continue to propel the increase in brokerage trading volume. In addition, the geographic distribution of accounts among PRC securities firms is highly uneven. As of December 31, 2010, the number of securities accounts in economically developed areas such as Beijing and Shanghai exceeded their population. In contrast, in the less developed areas such as central, western China, the number of securities accounts per capita was 0.08 and 0.07, respectively. With the faster economic growth in less

INDUSTRY OVERVIEW

developed regions in the PRC, the number of individual investors is likely to increase. The following table sets forth the number of accounts per capita in various regions of the PRC as of December 31, 2010:

	Beijing	Shanghai	Eastern China ⁽¹⁾	Central China ⁽¹⁾	Western China ⁽¹⁾	Entire PRC
Number of accounts ⁽²⁾ opened per capita as of December 31, 2010	1.37	1.34	0.23	0.08	0.07	0.15

(1) Central China covers provinces that include Anhui, Henan, Heilongjiang, Hubei, Hunan, Jilin, Jiangxi, Inner Mongolia and Shanxi; Western China covers provinces that include Gansu, Guizhou, Ningxia, Qinghai, Shaanxi, Sichuan, Tibet, Xinjiang, Yunnan and Chongqing; Eastern China covers provinces that include Beijing, Fujian, Guangdong, Guangxi, Hainan, Hebei, Jiangsu, Liaoning, Shandong, Tianjin and Zhejiang.

(2) Including accounts opened by institutions.

Sources: CSDCC, NBSC

- As a result of the continuing economic development of the PRC and the expansion of financial services targeting institutions and high net worth individuals, institutions and high net worth individuals are expected to boost the trading volume of securities; and
- In the foreseeable future, margin financing and securities lending, margin and securities refinancing, stock index futures trading and futures IB brokerage, among other things, will stimulate interest in brokerage services and will create momentum for the development of the securities industry.

We expect that commission rates for stocks and funds will stabilize in the future. Since 2002, commission rates for stocks and funds have been driven by market demand. In particular, the CSRC allowed service outlets to offer securities brokerage services when the number of securities branches surged rapidly, which led to intense price competition. According to the China Securities Sector Report published by BOCOM International Securities Limited dated July 14, 2011, the intense market competition caused industry average commission rates for stocks and funds to fall from 0.160% in 2007 to 0.099% in 2010. However, we believe that commission rates for stocks and funds are gradually stabilizing for the following reasons:

- the commission rate level is close to that in developed markets, such as the U.S. securities market. According to data from SIFMA, the commission rate for stocks and funds in the U.S. was 0.08% in 2009. This suggests that the commission rates for stocks and funds in the PRC brokerage business do not have much room for further reduction;
- a number of PRC securities firms, in particular large securities firms, have offered a variety of specialized products and services, such as investment advisory services, personalized wealth management and margin financing and securities lending. By providing differentiated services, these securities firms aim to distinguish their brokerage businesses from those of other securities firms that continue to offer

INDUSTRY OVERVIEW

standard brokerage products and services. We believe such differentiation in products and services can help stabilize or even raise commission rates for stocks and funds in the foreseeable future;

- the establishment of new securities branches will still be subject to stringent regulation with respect to the number of securities branches that can be opened and the areas where they may operate. The CSRC's previous policy that allowed service outlets to be upgraded to securities branches has resulted in intensified price competition and significant reductions in commission rates for stocks and funds over the last several years. The CSRC has subsequently instituted strict controls over the opening of new securities brokerage branches, especially in certain major economically developed regions of the PRC where the brokerage market is deemed saturated and the opening of the new securities branches is basically prohibited. Therefore, this restriction is favorable to large securities firms that have already established their nationwide branch network in economically developed areas; and
- to curb price competition and to prevent further declines in commission rates for stocks and funds, the CSRC has published its updated opinion stipulating that commission rates for stocks and funds must not be lower than the cost of the brokerage operations of PRC securities firms. In addition, a number of CSRC local representative offices in various provinces have successively announced minimum commission rates for stocks and funds in these regions.

Investment banking business: Numerous potential growth drivers

- *Equity financing:*

In 2010, the ratio of stock market capitalization in the PRC to its GDP was 67%, significantly less than the ratio of 119% for the U.S. We believe a lower ratio implies greater growth potential for equity financing. In addition, the ratios of the number of listed companies to the total number of large and medium-sized PRC enterprises and to the total number of enterprises with annual revenue of RMB5 million or more are still relatively low, which implies a large number of companies still have the potential to seek a listing in the future. The following tables set forth the ratio of the number of listed companies to the total number of large and medium-sized PRC enterprises and to the total number of enterprises with annual revenue of RMB5 million or more for the periods indicated:

	2006	2007	2008	2009
Ratio of listed companies to the total number of large and medium-sized enterprises	4.97%	4.82%	4.59%	4.47%

Sources: NBSC, Shanghai Stock Exchange, Shenzhen Stock Exchange. Classification of enterprises into large, medium or small ones is made according to the criteria stipulated in the "Measures of Classifying Large, Medium and Small-Sized Companies for Statistical Purpose (Provisional)" announced by the NBSC in 2003. Data in the above table are figures as of December 31 of each relevant year.

INDUSTRY OVERVIEW

	2006	2007	2008	2009
Ratio of listed companies to the total number of enterprises with revenue of RMB5 million or more.	0.47%	0.46%	0.38%	0.40%

Sources: NBSC, Shanghai Stock Exchange, Shenzhen Stock Exchange

- *Bond offerings:*

While bond offerings have experienced rapid growth in the PRC in the past, the penetration rate is still substantially lower than that of developed countries and there is still enormous potential for development.

According to Wind Info, SIFMA and Bloomberg, total corporate debt outstanding in the PRC accounted for 7.3% of its GDP in 2010 compared to a 51.6% in the U.S. This implies that the PRC bond market still has enormous growth potential. Driven by the transformation towards direct financing channels, the amount of debt financing will further expand and we believe its penetration will eventually reach a level comparable to that of developed markets.

- *Mergers and acquisitions/restructuring:*

We believe that domestic and cross-border M&A activities will grow significantly. Economic transformation in the PRC is prompting various industries to consolidate, which is likely drive domestic M&A transaction volume. In addition, as liquidity has increased remarkably as a result of the launch of several rounds of quantitative easing by a number of developed countries to deal with the recent financial crisis, we believe that many large multinational enterprises with significant cash reserves are eager to conduct M&A activities in the PRC. Furthermore, encouraged by PRC government policy, a number of PRC enterprises have expedited their accumulation of capital reserves and increased their pace of internationalization. As a result, the number of overseas M&A transactions entered into by PRC enterprises has risen considerably during the past several years.

In August 2011, the CSRC promulgated the “Decision to Revise Relevant Regulations on the Restructuring of Major Assets and Obtaining of Related Financing by Listed Companies” (關於修改上市公司重大資產重組與配套融資相關規定的決定) to support PRC enterprises to conduct M&A by taking advantage of the resources in PRC capital market, which further promotes industrial consolidation and upgrading. We expect that under a favorable business and regulatory environment, M&A activities will generate more revenue particularly for leading securities firms with strong research capabilities and a strong international network.

INDUSTRY OVERVIEW

Asset management: Strong demand, expanding product types and low penetration rate to drive strong growth

As of December 31, 2010, the ratio of AUM of mutual funds to GDP in the PRC was 6.3%, far below the ratio of 79.9% for the U.S. We believe that the following factors will become the main drivers of the PRC asset management business:

Strong increase in demand:

- The accumulation in per capita wealth in the PRC drives the demand for wealth management products: The rapid accumulation of family wealth in the PRC has laid a solid foundation for the development of asset management services. According to the PBOC, savings deposits in the PRC increased from RMB16,159 billion in 2006 to RMB34,364 billion in 2011, representing a CAGR of 16.3%. We believe future growth in family wealth will continue to foster the development of the asset management industry in the PRC;
- The increase in high net worth population: The growth of high net worth individuals will likely boost the demand for high-end financial products; and
- Demand of institutional or corporate clients for asset management services: The demand for asset management services will boost the innovation of products and services, including enterprise annuities and QFII asset management products.

Comparatively small scale basis:

Currently, banks in the PRC manage far more assets than securities firms. According to the PBOC, as of June 30, 2011, the outstanding balance of wealth management products of the PRC banks totaled RMB3.57 trillion. As of the same date, according to the SAC, the AUM of PRC securities firms totaled RMB248.7 billion. As securities firms have a competitive advantage in product design and innovation, there is great potential for further development of the asset management business of PRC securities firms.

Expanding product types:

Expanded asset types, including real estate funds and alternative investment funds, will likely propel the expansion of the asset management market.

INDUSTRY OVERVIEW

Proprietary trading: More mature business model to drive growth, increased revenue contribution to the industry and numerous advantages for large securities firms

In an emerging stock market that offers few choices of investment products, proprietary trading business is limited to stocks, bonds and derivatives. In the past, as there were limited financial instruments (including risk management and trading instruments), regulation was more stringent. We believe that the proprietary trading business will likely account for a higher percentage of the revenue generated by the industry because:

- Business models and risk management systems continue to improve. As the industry continues to develop, and risk management models, trading strategies and hedging methods continue to improve, proprietary trading risks can be effectively monitored and controlled. With the proprietary trading business model taking shape, securities firms can use their capital more efficiently to improve their profitability; and
- Regulation has gradually eased. While the CSRC imposed relatively more stringent regulations on proprietary trading in the past, with the increase and improvement of financial instruments, regulatory authorities have gradually eased the restrictions on proprietary investments. Pursuant to the new requirements for permitted proprietary trading business of securities firms promulgated in April 2011, permitted proprietary investment products can be divided into three major categories, which include securities listed on the domestic stock exchanges, securities traded in the domestic inter-bank market (including government bonds, RMB-denominated bonds issued by international development agencies, central bank notes, financial bonds, short-term financing bonds, corporate bonds, medium-term notes and enterprise bonds), and securities approved by or filed with the CSRC that are traded over the counter at domestic financial institutions. In addition, PRC securities firms can also set up subsidiaries to engage in a broader range of investment activities. The investment scope of these subsidiaries includes the three major investment categories mentioned above, as well as other types of investment products, such as financial products including derivative investment products, trust products and inter-bank wealth management products. Such subsidiaries can invest in a wide range of financial products with more flexible investment strategies. The regulations impose certain limitations on the proprietary trading business of securities firms, including, among other things: (i) the total value of equity securities and security derivatives held for proprietary trading shall not exceed 100% of the Net Capital of the securities firms; (ii) the total value of fixed income securities held for proprietary trading shall not exceed 500% of the Net Capital of the securities firms; (iii) the cost of one kind of equity securities held by the securities firms shall not exceed 30% of their Net Capital; and (iv) the market value of one kind of equity securities held by the securities firms shall not exceed 5% of such securities' market value, except circumstances that result from full commitment securities underwriting and otherwise required by the CSRC. Currently, the proprietary trading regulations do not have any specific requirements with respect to the investment scale of securities firms' investment subsidiaries. According to the latest regulatory requirements,

INDUSTRY OVERVIEW

securities firms cannot provide financing or guarantees to their respective investment subsidiaries and therefore, the risk exposure of securities firms in respect of their investment subsidiaries is limited to the capital contributed to the latter. By establishing investment subsidiaries, securities firms can expand the scope and range of their proprietary trading business. With the gradual easing of regulation and the inclusion of more tradable financial products, the sources of proprietary trading revenue will become increasingly diversified.

With respect to the proprietary trading business, large securities firms have advantages over smaller ones. The major advantages include:

- Possession of abundant capital helps to fully capture business opportunities. As funds used in proprietary trading businesses often come from the securities firms' own capital, securities firms with strong capital bases can usually allocate more funds to their proprietary trading business and, therefore, can better capture market opportunities. In addition, a large securities firm with greater capital can expand the revenue model for its proprietary trading business by setting up and making use of special purpose subsidiaries dedicated to investments in alternative financial products; and
- Proprietary trading and other securities businesses provide strong support for one another. For example, a large securities firm with a strong proprietary trading business often has a large stock portfolio that can be used to support its securities lending business. A large securities firm also possesses strong research capabilities to assist the development of its proprietary trading business. A securities firm in possession of sufficient assets can utilize its financial strength to develop various products and services.

Direct investment: Fast growth, significant potential and unique advantages enjoyed by PRC securities firms

Since the launch of pilot programs for direct investment by the CSRC in 2007, registered capital of direct investment subsidiaries of the PRC securities firms increased from RMB3.1 billion in 2007 to RMB17.6 billion in 2010, representing a CAGR of 78.2%.

As of December 31, 2010, the ratio of stock market capitalization to GDP in the PRC was only 67% and most of the PRC enterprises are not able to raise funds from the public market. In addition, the increased use of direct financing for enterprises also encouraged the growth of the direct investment business of securities firms. As such, the market for direct investment has significant growth potential.

When competing with domestic and foreign private equity funds, PRC securities firms have certain advantages over their competitors, which are mainly reflected in:

- Extensive domestic knowledge on valuation, industry dynamics, due diligence practice and exit mechanisms; and

INDUSTRY OVERVIEW

- Early access to direct investment opportunities through a branch network across the PRC.

In addition, securities firms with strong capital position generally can have a larger scale of investment. According to the existing regulatory requirements, registered capital of the direct investment subsidiary of a PRC securities firm cannot exceed 15% of the Net Capital of such securities firm.

THE TRANSFORMATION OF THE PRC SECURITIES INDUSTRY

Momentum of transformation

After over 20 years of development, the PRC securities industry has established a considerable scale. However, we believe various factors are driving the transformation of the industry:

- Driver of customer demand. With economic development and wealth accumulation in the PRC, the demand of individual and institutional investors for financial products and services has continued to evolve. Clients have generally looked beyond standard services and demanded customized and value-added services. At the same time, as a result of the economic reform and development of the PRC over the past three decades, RMB has gradually become internationalized. With growing capabilities and globalization, PRC enterprises have increasing desire to expand overseas. We believe that such aspirations have led PRC securities firms to strengthen their international business and overseas financial services.
- Diversification of revenue composition. Historically, the PRC securities industry has relied extensively on traditional channel-based brokerage services. According to the SAC, in 2010, brokerage commissions generated approximately 56% of total revenue of the PRC securities firms. PRC securities firms are inherently required to diversify their businesses and to gradually reduce their reliance on the traditional channel-based brokerage business to achieve sustainable growth.
- Trend of regulation. The gradual relaxation of regulatory restrictions and increasing emphasis on innovation, such as the introduction of margin financing and securities lending (including margin and securities refinancing), stock index futures trading and direct investment in the industry.

Through this transformation, the PRC securities industry will have a more diversified revenue composition, reducing its reliance on the traditional channel-based brokerage business and allowing it to meet evolving customer demands.

Key areas of transformation

The PRC securities industry is adopting a business model that features integrated and value-added products and services and an optimized customer base.

INDUSTRY OVERVIEW

Customer service and product offering approach: From homogenous, channel-based brokerage services to comprehensive and diversified product suite

The traditional channel-based brokerage business has been the backbone of the PRC securities industry. However, as intense competition arises from homogenous brokerage services, securities regulations gradually move towards a market-oriented regulatory regime with an emphasis on innovation, and customer demands for differentiated products and services increase, securities firms with a large capital base and strong operating capabilities have begun to offer more integrated and comprehensive products and services. We believe this transformation will enhance the competitiveness of these securities firms and help attract and retain their customers, leading to more stable and diversified revenue streams. Currently, many large PRC securities firms provide customers with integrated services, including investment banking, asset management and private equity, to reduce their reliance on the traditional channel-based brokerage business and aim to achieve a more diversified revenue composition. Furthermore, in order to satisfy the demands of their customers and to maintain steady growth of the revenue, many securities firms are expected to design and offer more diversified products, such as private equity fund management, collective and targeted asset management schemes, margin financing and securities lending (including margin and securities refinancing), investment advisory services, stock index futures trading and futures IB brokerage.

Customer base: From a predominantly retail customer base to a balanced client base with higher proportion of institutional and high net worth customers

In the past, the PRC securities industry was primarily comprised of retail customers who provided a steady stream of revenue. With the rapid growth of the PRC economy and the resulting increase in corporate wealth, the total number and assets of institutional clients increased. A broader array of products and services that securities firms could offer also serve to meet the diverse needs of institutional clients. We expect that institutional clients will contribute a greater portion of revenue to the PRC securities industry. In comparison to individual investors, institutional investors have a higher demand for value-added securities services, such as research, prime brokerage and market-making services. They are also less price sensitive and are more likely to choose new businesses. As such, leading full-service securities firms can leverage their first-mover advantage to capture business opportunities by providing those value-added securities products and services, which generally command higher margin.

In addition, with the rapid growth of individual wealth, we expect the demands of high net worth individuals in the PRC for asset management services and value-added services to increase. According to the “2011 China Private Wealth Report” jointly published by China Merchants Bank and Bain & Company, in 2011, total assets available for investment held by PRC high net worth individuals are expected to be RMB17.7 trillion in aggregate, representing an increase of approximately 18% compared to 2010. In addition, the number of high net worth individuals in the PRC is expected to reach 585,000, representing an increase of 16% compared to 2010. In the future, demands from institutional and high net worth individual customers and

INDUSTRY OVERVIEW

their contribution to the PRC securities industry are likely to increase. As a result of the accumulation of personal wealth and urbanization in the PRC, we also expect the number of retail customers to increase, leading to a more balanced industry customer base.

Business model: From a capital-light business model to a capital based and value-added business model

The PRC securities industry is transforming from a capital-light and low-leverage operating model into a more capital-based and value-added model. Many new businesses, such as margin financing and securities lending and direct investment, may require large amounts of proprietary capital. This creates a competitive advantage for securities firms with larger capital bases to differentiate themselves from their competitors and attract new and retain existing clients. For example:

- Brokerage business – Large capital base can strengthen a securities firm’s ability to engage in the margin financing and securities lending business and to optimize its product mix;
- Underwriting business – Capital can be used to strengthen a securities firm’s commitment in underwriting and securities offerings to enhance the competitiveness of securities firms and in obtaining higher commissions and fees;
- M&A financial advisory services – A higher capital base can assist a securities firm in receiving higher financial advisory fees, interest income and investment returns through M&A financing, bridge financing and partnership investment;
- Asset management and direct investment businesses – Seed Capital can be deployed to establish funds with other limited partners to obtain higher management fees and investment returns from more AUM while achieving risk sharing; and
- Proprietary trading business – As the PRC regulatory authorities began to permit securities firms to establish subsidiaries specifically for making alternative investments, large securities firms with strong capital base will be in a better position to capture market opportunities, to expand product mix, to enhance the scale of investments, to optimize the revenue model of the proprietary trading business and to eventually improve their ability to realize investment returns.

With the gradual transformation of the business model in the PRC securities firms to a capital-based and value-added model, we believe that the financial and operating leverage ratios will be enhanced accordingly, thus increasing the profitability of the industry.

Scope of operations: Expansion into international businesses

As the RMB is gradually internationalized and foreign investments continue to flow into the PRC, cross-border business is expected to become a fast-growing area of the PRC securities industry. Overseas business, cross-border M&A, cross-border financing and cross-border asset

INDUSTRY OVERVIEW

management are expected to become catalysts for future growth and the PRC securities industry will become more internationalized:

- **Overseas business:** An increasing number of PRC securities firms, including Haitong Securities, have established overseas branch networks to satisfy the cross-border investment needs of their domestic clients. At the same time, these firms have benefited from the growth in overseas securities markets;
- **Cross-border M&A:** With the growth of PRC enterprises and the increasing demands for cross-border M&A transactions, according to Dealogic Ltd., the transaction value of cross-border M&A conducted by the PRC enterprises increased from US\$13.0 billion in 2000 to US\$100.7 billion in 2010;
- **Cross-border financing:** An increasing number of PRC enterprises are seeking overseas listing of their shares. According to Dealogic Ltd., 63 Chinese enterprises raised an aggregate amount of US\$38.1 billion (including full deal value for dual-listed deals) through their IPOs on the Hong Kong Stock Exchange in 2010, accounting for 60.1% of the total amount of proceeds raised through IPOs in Hong Kong in that year; and
- **Cross-border asset management:** The establishment of the QFII system in 2002 marked an important step for the PRC capital markets to open up and to attract foreign investment. On January 20, 2012, the amount of the QFII quota was US\$22.2 billion. With the relaxation of stringent regulatory policies, QFII business is expected to further expand. Meanwhile, the CSRC is discussing with the SFC in connection with certain policies on RQFII, which will provide a mechanism for the return of overseas RMB to the PRC through PRC securities firms and fund management companies in Hong Kong.

Business transformation by segments

Transformation of the brokerage business: The growth of margin transactions, diversified and customized products and a balanced customer base

As a result of the industry transformation and the development of margin financing and securities lending business, the contribution of margin transactions in the brokerage business has gradually increased, but it is significantly lower than that in the U.S. As of June 30, 2011, the margin financing balance of the PRC accounted for 0.1% of its domestic market capitalization, compared to 1.7% for the U.S. for the same period. The PRC securities lending balance accounted for 0.001% of its domestic market capitalization, compared to 0.82% for the U.S. for the same period. The PRC margin transactions have substantial development potential, and are expected to be growth drivers of the brokerage business.

In addition to traditional channel-based brokerage services, the brokerage business will offer diversified and value-added services such as investment advisory, stock index futures trading, margin financing and securities lending (including margin and securities refinancing),

INDUSTRY OVERVIEW

equity market research, QFII brokerage and futures IB brokerage, which will enable the stabilization of or increase in brokerage commission rates for stocks and funds. For example, currently, the commission charged by discount brokers in the U.S., which do not provide value-added services is between US\$4.99 and US\$9.99 per transaction, while that of full-service securities firms is between US\$16.00 and \$20.00 per transaction. We believe diversified, customized and value-added services will further increase the revenue of the industry.

With the rapid increase in the number of institutions and high net worth individuals and their growing importance in the PRC economy, we believe that they will form a substantial customer base of the PRC brokerage business in the future. Therefore, the development of customized products and the provision of better services to these customers will be a key strategy for the PRC brokerage business in the future.

Transformation of the investment banking business: The development of bonds and other financing channels, increase in the M&A business and the rise of small and medium-sized clients

The investment banking business is expected to experience rapid growth with the transformation from indirect financing to direct financing. According to Wind Info, SIFMA and Bloomberg, total corporate debt outstanding in the PRC accounted for 7.3% of its GDP in 2010 compared to 51.6% in the U.S. In addition, the emergence of new listing venues, such as the SME Board, the ChiNext Board and the upcoming International Board and the New OTC Board will continue to contribute to the development of the investment banking business.

In terms of M&A transactions, the economic transformation in the PRC has led to a trend of consolidation in a variety of industries. With increasing corporate restructuring, mergers and overseas expansion, M&A activities are expected to grow rapidly. It is expected that leading securities firms with strong research capabilities and international branch networks will benefit from this trend.

In terms of customer base, investment banks have begun to switch their focus to SME clients whose participation in capital markets are growing rapidly. In 2010 and 2011, according to Wind Info, the total amount of the funds raised from IPOs on the SME Board and the ChiNext Board were US\$45 billion and US\$29 billion, respectively, compared to US\$28 billion and US\$16.8 billion, respectively, on the main board.

Transformation of the asset management business: Transformation to diversified asset management structure and optimization of customer base

Of the AUM in the PRC securities industry, 95.7% is in traditional mutual funds and 4.3% is in collective asset management schemes. Transformation to a more mature asset management structure in the PRC offers an opportunity for the PRC asset management business, especially in the area of hedge funds, private equity funds and collective asset management schemes.

With the accumulation of wealth in the PRC and the increase in the number of high net worth individuals, we believe high net worth customers will become increasingly important,

INDUSTRY OVERVIEW

and asset management services for high net worth individuals will experience strong growth. The increase in the number of high net worth customers will further optimize the customer base of asset management business.

As additional investment products appear in the PRC capital market, including real estate funds, hedge funds, commodity funds, the PRC asset management business will attract more individual and institutional investors.

New businesses are driving growth for PRC securities firms

We believe new businesses are key for PRC securities firms to achieve:

Customer-oriented, differentiated product offerings. Pursuant to the traditional channel-based brokerage business model where customer demand analysis is limited, PRC securities firms primarily provide homogeneous products and services despite differences in customer characteristics. Securities firms will continue to enhance customer demand analysis with the development of new businesses such as investment advisory and wealth management services. PRC securities firms are expected to eventually transform into a customer-oriented model and promote differentiated solutions through a combination of traditional and new products and services.

Diversification in revenue composition. New businesses will serve as new growth areas for PRC securities firms and lessen their reliance on traditional channel-based brokerage business and homogeneous products and services. We believe the revenue composition of PRC securities firms will become more diversified through the development of new businesses.

Optimization of customer base. New businesses are key to attracting and retaining high net worth individual and institutional clients. Increasing the revenue contribution from such customers is an important element of customer base optimization.

Capital-based and value-added business model. As sufficient capital base is necessary for conducting value-added new businesses, such as margin financing and securities lending and direct investment, as well as new businesses to be introduced, such as alternative financial products investments. New businesses will reinforce the transformation of PRC securities firms into a capital-based and value-added business model.

The following are some examples of the impact of new businesses on the transformation:

Margin financing and securities lending

The CSRC launched the pilot program for margin financing and securities lending in March 2010, which was converted to a regular business available to all PRC securities firms that meet certain requirements in October 2011. Margin financing refers to the services by which securities firms lend money to investors to buy securities. Securities lending refers to the services by which securities firms lend securities to their clients to

INDUSTRY OVERVIEW

enable them to short sell the underlying securities. According to relevant guidelines issued by the CSRC, the interest rate for margin financing is generally 3% higher than the PBOC benchmark interest rate for six-month RMB loan to financial institutions. The interest rate for securities lending is set at the same level or even higher. Margin financing and securities lending not only enable securities firms to charge interest income and facilitate more transactions to generate additional commission, but also earn more commission fees through stimulating of trading activities. Margin financing and securities lending business can facilitate the securities firms to improve revenue composition and transform their business models to capital-based and value-added models. In addition, margin financing and securities lending as an additional value-added service allows customers to broaden their investment and trading strategies, which in turn improve customer loyalty of PRC securities firms.

While margin financing and securities lending business is highly regulated in the PRC, the PRC authorities recently adopted initiatives to encourage the development of this new business by the PRC securities firms. For instance, prior to December 2011, there were only 90 stocks eligible for margin financing and securities lending and a securities firm can only use its own securities for securities lending. On December 5, 2011, Shanghai Stock Exchange and the Shenzhen Stock Exchange expanded the scope of securities eligible for margin financing and securities lending to 278 stocks and 7 ETFs. In addition, in October 2011, the Trial Supervision and Management Measures on Margin and Securities Refinancing Business (轉融通業務監督管理試行辦法) was promulgated by the CSRC and the Securities Finance Company was established, which will be responsible for, among others, providing funding and securities refinancing services to support the margin financing and securities lending business of PRC securities firms. We believe the above initiatives will enhance the development of the margin financing and securities lending business and increase the leverage ratio of PRC securities firms.

Stock index futures

Stock index futures were launched in April 2010. They are standard futures contracts based on a specific stock price index (such as CSI 300 Index). Investors can trade stock index futures contracts on the futures exchange and use stock index futures for hedging, arbitrage, calendar spread arbitrage and other activities. Their trading volume of stock index futures is close to the stock trading volume since its introduction. In 2011, the trading volume of stock index futures was RMB43,765.9 billion, which was equivalent to 65.7% of stock trading volume during the same year. We expect the participation of more institutional investors in the trading of stock index futures will create further business opportunities and diversify revenue streams for the PRC securities firms. In addition, securities firms can leverage stock index futures to lower the risks associated with proprietary trading and increase the types of assets under management.

INDUSTRY OVERVIEW

Private equity investment

PRC private equity investments have experienced rapid growth in recent years. We believe there are synergies between PRC private equity investment and IPO underwriting businesses. A successful IPO will provide an effective exit opportunity for private equity investors. In the PRC, leading securities firms with integrated platforms for private equity investment and IPO underwriting businesses will gain more competitive advantages. Private equity business will not only help diversify revenue stream for securities firms, but also enhance the utilization of capital.

Large securities firms have more advantages in securities industry transformations

Large securities firms possess the following advantages in the transformation of the PRC securities industry:

- *Advantage of business innovation.* Large securities firms are generally rated higher by the CSRC and have larger capital bases. These advantages also meet the key criteria for the grant of regulatory approvals for conducting new businesses on a trial basis. In addition, with large customer bases, solid traditional businesses, large capital bases and strong brand, large securities firms are better positioned to develop new businesses;
- *Economy of scale and low commission rate sensitivity.* Fierce competition and declining in commission rates for stocks and funds creates substantial market pressure on the brokerage business. However, with the benefits of economies of scale and diversified income sources, large securities firms are more resilient to declines in commission rates for stocks and funds and thus, maintaining steady levels of total income;
- *Large customer base and cross-selling ability.* Large customer base and established business platforms will enable large securities firms to take advantage of cross-selling opportunities, provide customers with a one-stop solution and allow them to attract new customers and improve customer relationships;
- *Superior nationwide network.* Large securities firms generally have well-established nationwide networks, which are crucial for their effective product distribution and provision of localized services to retail and institutional clients;
- *Branding and human resources.* Large securities firms generally have better brand recognition, which not only gives them an advantage in attracting new customers, but also helps them attract and retain highly proficient professionals to ensure long-term business development; and

INDUSTRY OVERVIEW

- High and stable profitability.* For example, the weighted average profit margin in 2010 of the top 20 PRC securities firms was 44.7% compared to 21.8% for the bottom 20 PRC securities firms. From 2008 to 2010, weighted average profit margin of the top 20 PRC securities firms in terms of revenue was consistently above 40%, whereas that of the bottom 20 PRC securities firms was very volatile ranging from -4.4% to 41.4%. The table below sets forth the change of average profit margin of the top 20 securities firms and the bottom 20 securities firms from 2008 to 2010:

	2008	2009	2010	2008-2010 Weighted average
Weighted average profit margin of the top 20 PRC securities firms in terms of business revenue	44.9%	48.2%	44.7%	45.9%
Weighted average profit margin of the bottom 20 PRC securities firms in terms of business revenue	-4.4%	41.4%	21.8%	19.6%

Source: SAC

THE COMPETITIVE LANDSCAPE IN THE PRC SECURITIES MARKET

According to the SAC, as of June 30, 2011, there were 109 registered securities firms in the PRC securities industry.

The current market landscape reflects the PRC government's effort to regulate the securities industry. Between 2004 and 2005, a significant number of companies dissolved, merged or restructured during the rectification process. In 2007, the CSRC introduced a rating mechanism, pursuant to which securities firms were rated based on their risk controls, corporate governance, capital base, profitability and market position.

The rectification and the rating mechanism accelerated the consolidation of the securities industry, which benefited large securities firms. During the past five years, there has been a significant increase in market concentration, in terms of net assets, among the large securities firms. According to the SAC, as of December 31, 2010, the top ten securities firms (based on net assets) accounted for 47.6% of net assets, 39.5% of the total assets, 44.6% of Net Capital and 48.7% of net profit of the PRC securities industry.

INDUSTRY OVERVIEW

The following table sets forth the key information relating to net assets, total assets, Net Capital, net profit, brokerage market share and underwriting market share of the top ten PRC securities firms (based on net assets) as of December 31, 2010:

Top 10 Securities Firms (Based on Net Assets)	Net		Total		Net		Net		Brokerage	
	Assets	%	Assets	%	Capital	%	Profit	%	Share % ⁽¹⁾	Underwriting Market Share % ⁽²⁾
(RMB in million, except percentages)										
CITIC	61,523	10.8%	109,371	5.6%	41,050	9.5%	11,814	15.1%	2.5%	11.1%
Haitong	43,852	7.7%	100,718	5.1%	32,460	7.5%	3,417	4.4%	4.4%	5.7%
Huatai	29,998	5.3%	86,479	4.4%	21,658	5.0%	2,369	3.0%	4.2%	3.2%
Guotai Junan . .	23,711	4.2%	93,572	4.8%	17,347	4.0%	3,738	4.8%	5.1%	5.5%
CMS	23,443	4.1%	89,584	4.6%	14,063	3.3%	3,012	3.8%	4.4%	3.2%
Everbright . . .	22,344	3.9%	56,418	2.9%	17,646	4.1%	2,102	2.7%	2.7%	1.2%
Guangfa	19,006	3.3%	91,036	4.6%	11,963	2.8%	4,887	6.2%	5.3%	2.4%
Guosen	17,306	3.1%	63,726	3.2%	12,490	2.9%	3,115	4.0%	3.2%	4.6%
Guoyuan	14,867	2.6%	23,902	1.2%	11,771	2.7%	875	1.1%	0.7%	0.7%
Shenyin										
Wanguo	14,806	2.6%	60,215	3.1%	12,084	2.8%	2,835	3.6%	3.5%	1.2%
Total	270,856	47.6%	775,021	39.5%	192,532	44.6%	38,164	48.7%	36.0%	38.8%

(1) Based on the total value of customers' brokerage transaction.

(2) Based on the value of securities underwritten by a securities firm acting as the lead underwriter.

Source: SAC

The CSRC rates every securities firm in the PRC annually. The CSRC rating is divided into 11 categories, the highest of which is an "AAA" rating, and the lowest of which is a "E" rating. Highly rated securities firms generally become the designated securities firms for new pilot products and services approved by the CSRC and will then benefit from first-mover advantages. As of September 30, 2011, only 16 securities firms (representing 16.7% of the total number of securities firms) were "AA" rated by the CSRC. To date, no securities firms has obtained an "AAA" rating from the CSRC.

The PRC securities industry also faces fierce competition from international investment banks. In recent years, foreign securities firms have been actively looking for chances to access the PRC securities market through joint ventures. However, the business scope of Sino-foreign joint venture securities firms is relatively limited and primarily focuses on equity and debt financing and M&A advisory services. Most of the Sino-foreign joint venture securities firms were not permitted to operate retail brokerage businesses. We believe, currently, the competition posed by Sino-foreign joint venture securities firms against PRC securities firms is insignificant.

INDUSTRY OVERVIEW

In addition to competition from domestic and foreign securities firms, the PRC securities industry also faces competition in certain businesses, including but not limited to, asset management, direct investment and bond underwriting, from domestic financial institutions, such as banks, asset management firms, trust companies and private equity firms. For example, banks are the largest bond underwriter in the PRC. We believe that PRC securities firms still have some competitive advantages over other financial institutions in terms of personnel, product mix and customer service.

HONG KONG SECURITIES MARKET

History of the stock market in Hong Kong

The Stock Exchange of Hong Kong Limited, previously named the Stockbrokers' Association of Hong Kong at the time of its establishment in the late 19th century, was the first formal securities trading market established in Hong Kong and has been the main exchange in Hong Kong. In 1986, The Stock Exchange of Hong Kong Limited merged with the other exchanges in Hong Kong and retained its name. It also established GEM in 1999 to provide a fund-raising platform for growth companies from different industries and to promote the development of the technology industry in the region. In 2000, The Stock Exchange of Hong Kong Limited, Hong Kong Futures Exchange Limited and Hong Kong Securities Clearing Company Limited merged into the Hong Kong Stock Exchange and Clearing Limited, which was subsequently listed on the Main Board by way of introduction.

Overview of the stock market in Hong Kong

International financial center

After years of continuous efforts, the Hong Kong Stock Exchange has become a key capital market in Asia for overseas investors. The rapid development of the PRC economy and expansion of PRC enterprises overseas have steadily strengthened the importance of Hong Kong in global financial markets over the years. According to WFE, in 2011, the Hong Kong Stock Exchange ranked 11th in terms of annual and daily average trading value and ranked third in terms of the amount of proceeds raised from equity offerings (including primary market and secondary market). In addition, as of December 31, 2011, total market capitalization of the listed companies on the Main Board and GEM ranked third in Asia and seventh in the global market.

From 2001 to 2011, the total market capitalization of listed companies on the Hong Kong Stock Exchange (including Main Board and GEM) increased from approximately HK\$3.95 trillion to approximately HK\$17.54 trillion at a CAGR of 16.1%. The annual trading volume increased from approximately HK\$1.99 trillion to approximately HK\$17.15 trillion at a CAGR of 24.0%. The number of listed companies on the Main Board increased from 756 to 1,326 while the number of companies listed on the GEM has increased from 111 to 170.

INDUSTRY OVERVIEW

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Market Capitalization											
(HK\$ in billions) . . .	3,946	3,611	5,548	6,696	8,180	13,338	20,698	10,299	17,874	21,077	17,537
Number of Main Board											
listed companies. . . .	756	812	852	892	934	975	1,048	1,087	1,145	1,244	1,326
Number of GEM listed											
companies.	111	166	185	204	201	198	193	174	174	169	170
Annual trading volume											
(HK\$ in billions) . . .	1,990	1,643	2,584	3,974	4,520	8,376	21,666	17,653	15,515	17,210	17,154
Daily trading volume											
(HK\$ in billions) . . .	8.19	6.65	10.42	15.96	18.3	33.91	88.07	72.05	62.31	69.12	69.73

Source: Hong Kong Stock Exchange

Diversified and well-organized Hong Kong Stock Exchange participants

The Hong Kong stock market is characterized by (i) its globalization; (ii) high level of participation of institutional investors; and (iii) increasing participation by PRC investors. According to the Cash Market Transaction Survey 2010/2011 issued by the Hong Kong Stock Exchange, from October 2010 to September 2011, the stock trading volume by overseas investors and institutional investors accounted for approximately 46.1% and 61.6% of the total trading volume, respectively. In addition, the proportion of PRC retail investors in the stock trading volume also increased from 3.0% for the period from October 2000 to September 2001, to 9.9% during October 2010 to September 2011, reflecting increasing participation by PRC investors.

To deal in listed securities through the Hong Kong Stock Exchange, a person must be an Exchange Participant holding an Exchange Trading Right. An Exchange Participant must be a permanent resident of Hong Kong or a limited liability company incorporated in Hong Kong and registered with the SFC as a licensed corporation authorized to conduct Type 1 (dealing in securities) regulated activity under the SFO. An Exchange Participant must maintain sound financial condition and comply with the Securities and Futures (Financial Resources) Rules and the rules of the Hong Kong Stock Exchange. As of December 31, 2011, there were a total of 555 of Exchange Participants, including 498 trading participants, 36 non-trading participants and 21 non-Exchange Participants. Exchange Participants are classified into three categories:

- Group A – top 14 largest firms in terms of trading volume, which mainly comprise large international institutional investors;
- Group B – firms ranked 15-65 in terms of trading volume, who are engaged in a mixture of overseas and local institutional trading and retail trading; and
- Group C – other Exchange Participants.

In December 2011, the market share of Exchange Participants (based on the total trading volume) from Group A, Group B, and Group C accounted for approximately 58.8%, 31.5%, and

INDUSTRY OVERVIEW

9.7%, respectively. The market share of Exchange Participants from Group C decreased from 36.8% in 1999, representing the most significant change among the three. This decline in market share during recent years is primarily attributed to the absence of economies of scale and the inability to provide a comprehensive and sophisticated platform.

Attractive listing venue

As an international financial hub, Hong Kong has become one of the preferred listing venues for overseas and domestic companies. One of the core strategies in the Strategic Plan 2010-2012 of Hong Kong Stock Exchange is to attract different types of companies to list in Hong Kong, including companies in the Greater China area, companies engaged in PRC-related business and companies from other strategically important international markets. Since 2007, to help more foreign companies getting listed in Hong Kong, Hong Kong Stock Exchange actively increased the number of admitted jurisdictions in which the issuer may be incorporated from three in 2007 to 21 as of December 31, 2011. In addition, Hong Kong Stock Exchange also launched a variety of facilities for foreign companies to become listed such as IPOs, secondary listings and Hong Kong depositary receipts. As a result, a number of world renowned companies, including AIA Group Limited, Glencore International plc, L'Occitane International S.A., Samsonite International S.A., Prada S.p.A. and United Company Rusal Limited, have listed in Hong Kong, making Hong Kong a popular listing venue for international companies. In 2011, Hong Kong ranked first globally in terms of IPOs fund raising.

In the past 11 years, the amount of funds raised in Hong Kong (including primary and secondary market) increased significantly from approximately HK\$64.4 billion to HK\$488.3 billion. Due to the weak performance of the stock market in 2011, the total funds raised dropped significantly from approximately HK\$858.7 billion in 2010 to HK\$488.3 billion. The funds raised from IPO market also dropped from approximately HK\$449.5 billion to HK\$258.9 billion during the same period. However, Hong Kong still strived to continue to be the world's largest IPO market for three consecutive years.

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
	(HK\$ in billions)										
Amount of funds raised											
Primary market	25.71	51.98	59.14	97.16	165.65	333.85	292.44	65.98	248.23	449.48	258.91
Secondary market . . .	38.71	58.53	154.62	184.64	136.06	190.69	298.41	361.27	393.89	409.24	229.36
Total funds raised	<u>64.42</u>	<u>110.51</u>	<u>213.76</u>	<u>281.8</u>	<u>301.71</u>	<u>524.54</u>	<u>590.85</u>	<u>427.25</u>	<u>642.12</u>	<u>858.72</u>	<u>488.27</u>

Source: Hong Kong Stock Exchange

The interaction between Hong Kong and the PRC capital markets

Cross-border activities between Hong Kong and the PRC has increased rapidly due to their close economic ties and frequent capital flows. In addition, the influence of PRC companies in the Hong Kong stock market gradually increased and PRC companies has become a vital part of Hong Kong capital market.

INDUSTRY OVERVIEW

Cross-border activities driven by the internationalization of RMB

The internationalization of RMB is a highlight of Hong Kong capital market and is a catalyst to further enhance the business interaction between Hong Kong and PRC capital markets. This has enabled Hong Kong to become a key overseas platform for the development of RMB financial products. RMB derived from trade settlement is the main source of Hong Kong's offshore RMB settlement center. In the second half of 2011, the total amount of RMB trade settlement by Hong Kong banks amounted to approximately RMB1,100 billion. This figure almost tripled compared to 2010 when the total amount of RMB trade settlement was RMB370 billion. In addition, RMB trade settlement by Hong Kong banks as a percentage of that of the PRC increased from 73% in 2010 to 80% in the first half of 2011, demonstrating that Hong Kong remained the most important platform for RMB cross-border trade settlement. According to Hong Kong Monetary Authority, RMB deposits in Hong Kong increased substantially from RMB12.1 billion as of December 31, 2004 to RMB588.5 billion as of December 31, 2011, representing a CAGR of 74.1%. Hong Kong as an offshore RMB center soon develops. We believe that, with the on-going internationalization of RMB and its increasing demand, an increasing amount of offshore RMB trade settlement will be carried out in Hong Kong.

	As of December 31,								
	2004	2005	2006	2007	2008	2009	2010	2011	2004-2011 CAGR
	(RMB in millions)								
Balance of RMB deposits									
in Hong Kong	12,127	22,586	23,403	33,400	56,060	62,718	314,938	588,529	74.1%

Source: Hong Kong Monetary Authority

As the RMB liquidity pool in Hong Kong continues to expand, RMB financial intermediary activities have become more active, especially the development of RMB dim sum bonds. In the first eight months of 2011, RMB bonds issued amounting to RMB70.8 billion in Hong Kong, already breaking the record of RMB35.8 billion of RMB bonds issued for the entire year of 2010. In addition, the internationalization of RMB also offers significant RMB business opportunities in Hong Kong. It is expected that more RMB-linked products and services will be launched in Hong Kong, such as RMB funds, RMB denominated IPOs and QFII, which will support the sustained growth of the RMB business in Hong Kong.

Strengthening Hong Kong's capital market under favorable policies

In August 2011, in order to strengthen Hong Kong as an international financial hub and facilitate its growth as the offshore RMB center, the PRC government promulgated six policies to promote further development of Hong Kong and deepen the cooperation between the PRC and Hong Kong in trade and financial sectors. These policies include the launch of Hong Kong Stock ETFs in the PRC, the continued encouragement of PRC enterprises to list in Hong Kong and the involvement of PRC licensed Hong Kong banks in the distribution of mutual funds. The

INDUSTRY OVERVIEW

PRC government will also give full support to the development of the RMB market in Hong Kong, encourage direct investments in RMB by Hong Kong investors in the PRC and allocate an initial aggregate amount of RMB20 billion to RQFIIs to invest in the domestic securities market. In addition, the PRC government will permit more PRC financial institutions and enterprises to issue dim sum bonds in Hong Kong and increase the approved size of dim sum bond issuances. The PRC government intends to institutionalize RMB sovereign bonds and gradually increase their size. In light of Hong Kong's favorable environment and policies, Hong Kong is set to further expand its capital market activities by leveraging its relationship with the PRC.

Active participation of PRC companies in the Hong Kong stock market

Since the first H share company listed in Hong Kong in 1993, more PRC companies (H-share and red-chip listed companies) followed and the frequency of fund-raising activities has also increased. In the past 11 years, the number of PRC companies listed on the Main Board and GEM increased from 128 to 275 and the aggregate amount of proceeds raised by PRC companies by equity offerings increased from HK\$25.9 billion to HK\$150.1 billion, representing 31% of the total amount of proceeds raised in Hong Kong in 2011. As of December 31, 2011, there were 168 H-share listed companies, 107 red-chip listed companies and 365 non-H-share PRC private enterprises listed on the Hong Kong Stock Exchange, with a total market capitalization of HK\$9.73 trillion, representing 55.5% of the total market capitalization. After the recent announcement by the PRC government of its continued support for the listing of PRC enterprises in Hong Kong, it is expected that more PRC enterprises will seek listings in Hong Kong. The continued entry of PRC companies and the related fund-raising activities will further stimulate growth of the Hong Kong stock market. This will in turn be one of the driving forces for shaping the competitive landscape of the Hong Kong securities industry and the growth in the investment banking business.

The following table sets forth the changes of the total market capitalization of listed companies and PRC companies and their respective numbers on the Hong Kong Stock Exchange (including Main Board and GEM) for the periods indicated:

	As of December 31,										
	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Total Market											
Capitalization (HK\$ in billions)											
All listed companies	3,946	3,611	5,548	6,696	8,180	13,338	20,698	10,299	17,874	21,077	17,537
PRC companies	1,012	939	1,606	1,872	2,998	6,331	10,604	5,608	8,582	9,616	8,104
Number of listed companies											
All listed companies	867	978	1,037	1,096	1,135	1,173	1,241	1,261	1,319	1,413	1,496
PRC companies	128	143	164	184	200	222	238	245	253	265	275

Source: Hong Kong Stock Exchange

INDUSTRY OVERVIEW

In light of the above developments, investment banking businesses in Hong Kong have also changed in the past ten years, from a market dominated by international investment banks to a market shared by international investment banks and investment banks with Chinese background. Revenues generated from the investment banking business is becoming the main source of income of PRC securities firms in Hong Kong. In 2011, investment banks with Chinese background had participated as sponsors (or one of the sponsors) in 30 Main Board IPOs, the fund raising amount of which represented approximately 30% of the total fund raised. This percentage has increased from approximately 16% in 2001. Accordingly, the proceeds from the equity offerings sponsored by such investment banks on the main board of the Hong Kong Stock Exchange increased from approximately HK\$16.8 billion in 2001 to approximately HK\$76.9 billion in 2011, representing a CAGR of 16.4%. These factors demonstrate the rising prominence of investment banks with Chinese background in the Hong Kong stock market.

SOURCE OF INFORMATION

In addition to statistics, market share information and industry data from publicly available government sources, some information and data contained in this section are derived from Wind Info. As a leading integrated service provider of financial data, information and software in the PRC domestic market. Wind Info serves financial enterprises, including securities firms, fund management firms, insurance companies, banks and investment companies. The financial database of Wind Info contains comprehensive information on stocks, bonds, futures, foreign exchange, insurance, derivatives and the macro-economy. Historic data and market estimates provided by Wind Info are collected by Wind Info independently from various public information sources, including the SAC, the Shanghai Stock Exchange and the Shenzhen Stock Exchange.

REGULATORY ENVIRONMENT

REGULATION ON THE PRC SECURITIES INDUSTRY

Overview

The Company currently conducts its business activities mainly in securities industry, futures industry and fund industry. All businesses conducted by securities companies, fund management companies and futures companies are regulated by the CSRC. The current applicable laws and regulations for the Company mainly include the Company Law, the Securities Law, the Regulations on Supervision and Management of Securities Companies (證券公司監督管理條例) (which was effective on June 1, 2008), the Securities Investment Funds Law of the PRC (中華人民共和國證券投資基金法) (which was effective on June 1, 2004), the Management Rules on Securities Investment Funds Management Companies (證券投資基金管理公司管理辦法) (which was effective on October 1, 2004), the Regulations on Risk Handling of Securities Companies (證券公司風險處置條例) (which was effective on April 23, 2008), the Futures Trading Management Regulations (期貨交易管理條例) (which was effective on April 15, 2007), the Administrative Measures for Futures Companies (期貨公司管理辦法) (which was effective on April 15, 2007) and so forth. At the same time, the securities industry is also regulated and restricted by the policies, laws, regulations, rules and other regulatory documents in relation to taxation, foreign exchange and so forth.

Major Regulatory Authorities

CSRC

According to the regulations of the Securities Law and Futures Trading Regulations (期貨交易管理條例), the CSRC is responsible for supervision and management of the securities and future market of the PRC and for maintaining the order thereof, and to secure their lawful operations in accordance with the laws, regulations and the authorities of the State Council. The main duties of the CSRC include:

- To enact regulations and rules in relation to the supervision and management of the securities and futures market, and to exercise the right of examination, approval or verification according to law;
- To supervise and manage the issuance, listing, trading, registration, deposit and settlement of securities and the listing, trading, settlement, delivery of futures and related activities according to law;
- To supervise and manage the securities activities of the securities issuers, listing companies, securities companies, securities investment funds management companies, securities services organizations, stock exchanges and securities registration and settlement organizations according to law; and to supervise and manage futures business activities of market-related participants, including the futures exchanges, futures companies, other futures business institutions, non-futures companies clearing member, futures margin security depository regulating institutions, futures margin depository bank, delivery warehouse and so forth;

REGULATORY ENVIRONMENT

- To enact qualification standards and practice codes for securities business personnel and futures practitioners according to law, and to supervise the implementation;
- To supervise and inspect the disclosure of information in issuance, listing and trading of securities and information of futures trading according to law; and
- To investigate and punish for activities in violation of laws and administrative regulations in relation to supervision and management of securities market and futures market according to law.

The Securities Association of China (SAC)

The SAC is a self-regulatory organization established under the relevant regulations of the Securities Law and the Society Groups Registration and Management Regulations (社會團體登記管理條例) (which was effective on October 25, 1998), and it is a non-profit society group legal entity, it is subject to the guidance and supervision of the CSRC and the Ministry of Civil Affairs of the PRC, and it regulates the securities industry by its members meeting, which is formed by members such as securities companies.

Stock Exchange

Under the Securities Law, a stock exchange is a self-regulatory legal entity which provides venues and facilities for centralized trading of securities and organizes and supervises trading of securities. According to the Measures for the Administration of Stock Exchange (證券交易所管理辦法) (which was effective on December 12, 2001), the main duties of a stock exchange include:

- To provide venues and facilities for trading of securities;
- To enact operating rules for the stock exchange;
- To accept listing applications and to arrange listing of securities;
- To organize and supervise trading of securities;
- To supervise its members;
- To supervise the listed companies;
- To manage and announce market information;

REGULATORY ENVIRONMENT

- To handle listing suspension of stocks and company securities, resume or termination of listing;
- To adopt measures of technical suspension or to decide for temporary suspension in unexpected incidents; and
- Other duties as assigned by the securities regulatory authorities.

Futures Exchange

Under the Futures Trading Management Regulations (期貨交易管理條例), a futures exchange is a self-regulatory legal entity which provides venues and facilities for centralized trading of futures and organizes and supervises trading of futures. The main duties of a futures exchange include:

- To provide venues and facilities for trading;
- To design contracts and to arrange listing of contracts;
- To organize and supervise trading, clearing and settlement;
- To ensure fulfillment of contracts;
- To supervise and manage its members in accordance with its articles and trading rules; and
- Other duties as specified by the futures supervision and management authorities of the State Council.

According to the Measures for the Administration of Futures Exchange (期貨交易所管理辦法) (which was effective on April 15, 2007), the main duties of a futures exchange include:

- To enact and implement the trading rules and implementing regulations of the futures exchange;
- To announce market information;
- To regulate members and its clients, specified delivery warehouse, futures margin depository bank and futures business of other participants in the futures market; and
- To investigate and punish irregularities.

REGULATORY ENVIRONMENT

Entry Requirements

Entry Requirements for Securities Companies

Establishment requirements

The Securities Law and the Regulations on Supervision and Management of Securities Companies (證券公司監督管理條例) stipulate the authorized business scope of securities companies, establish entry standards and other requirements. Establishment of securities companies must be approved by the CSRC and business license must be obtained. The relevant conditions include:

- The articles of association of the proposed securities company must comply with the laws and administrative regulations;
- The major shareholders of the proposed securities company must have sustained profitability, good reputation and no record of serious violation of law or regulation during the latest three years, and have net assets of not less than RMB200 million;
- If the proposed securities company is to operate the business of securities brokerage, securities investment consultation and financial advisory business in relation to securities trading and securities investment activities, the minimum registered capital shall be RMB50 million; the minimum registered capital for companies operating one of the securities underwriting and sponsorship, securities proprietary, securities assets management and other securities businesses shall be RMB100 million; the minimum registered capital for companies operating two or more of the securities underwriting and sponsorship, securities proprietary, securities assets management and other securities businesses shall be RMB500 million;
- The directors, supervisors, senior management of the proposed securities company must be qualified, the practitioners must have securities practice qualification and no less than three of them shall be senior management officers with each with at least two years of experience in senior management in securities industry;
- The proposed securities company must have good risk management system and internal control system; and
- The proposed securities company must have suitable premises and facilities for operation.

The Rules for Establishment of Foreign-invested Securities Companies (外資參股證券公司設立規則) (which was effective on July 1, 2002 and amended on December 28, 2007) clearly sets out the conditions and procedures for establishment of Foreign-invested Securities Companies. The accumulated (including direct holding and indirect control) shareholdings of foreign shareholders or their interest proportions in a foreign-invested securities company shall not exceed 1/3; among the domestic securities companies which are domestic shareholders, at

REGULATORY ENVIRONMENT

least one of them shall have a shareholding or an interest proportion in a foreign-invested securities company of not less than 1/3; and after the domestic securities company has been converted into a foreign-invested securities company, the shareholding proportion of at least one domestic shareholder shall be no less than 1/3. For foreign investors who lawfully hold 5% or more of the shares in a listed domestic securities company acquired by buying securities on a security exchange or who jointly hold with others by agreement and other arrangement more than 5% of the shares of a listed domestic securities company, approval from the CSRC must be obtained, and the shareholdings held (including direct holding and indirect control) by a single foreign-investor in a listed domestic securities company shall not exceed 20%. Shareholdings held (including direct holding and indirect control) by all foreign investors in a listed domestic securities company shall not exceed 25%. Establishment of a foreign-invested securities company must be approved by the CSRC and business license must be obtained. The relevant conditions include:

- The registered capital must meet the requirements of the Securities Law;
- The shareholders must have the qualifications as prescribed in the Rules, their proportions of capital and contribution patterns must comply with the Rules;
- As required by the CSRC, the number of staff with securities practice qualification shall not be less than 30, and it shall have necessary accountants, legal and computer professionals;
- It shall have good internal management and risk control systems and a system that separately manages the businesses of underwriting, brokerage and self-operation in terms of various aspects, such as organization, personnel, information, business implementation, etc., and it shall have a proper internal control technology system;
- It must have premises that meet the requirements and qualified business facilities; and
- Other prudential requirements as prescribed by the CSRC.

In addition, according to the requirements of the Working Guidelines for the Examination and Approval in Connection with the Administrative Permission of Securities Companies No. 10: Share Increase and Changes in Equity Interests of Securities Companies (證券公司行政許可審核工作指引第10號 – 證券公司增資擴股和股權變更) promulgated on June 17, 2011, in the case of an enterprise with direct or indirect equity participation from a foreign investor taking an equity interest in a securities company, the percentage of the equity interest in the securities company owned indirectly by the foreign investor, as calculated based on equity penetration, may not reach 5%. A foreign investor may be exempted from such restriction if they satisfy all of the following circumstances:

- (1) The foreign investor indirectly holds the securities company's equity interest by taking an equity interest in a listed company;
- (2) The largest shareholder, controlling shareholder or de facto controller of the listed company is a Chinese investor;

REGULATORY ENVIRONMENT

- (3) If there is a change in the equity structure of the listed company in the future and the foreign investor indirectly controls the equity interest of the securities company by taking control of the listed company, thereby violating China's open door policy, the matter shall be rectified within a time limit, and the relevant equity interest may not carry any voting rights if the matter is not rectified before the deadline; and
- (4) The overseas investor may not establish any equity securities joint venture with a domestic securities company or make a strategic investment in a listed securities company during the period in which the overseas investor indirectly owns at least 5% of the equity interest of one or more domestic securities company(ies).

Business scopes

According to the Securities Law, upon approval of the CSRC, a securities company can engage in some or all of the following business:

- Securities brokerage;
- Securities investment advisory;
- Financial consultations in relation to securities trading and securities investment activities;
- Securities underwriting and sponsorship;
- Securities proprietary;
- Securities assets management; and
- Other securities businesses.

According to Tentative Provisions for the Examination and Approval of the Scope of Business of Securities Companies (證券公司業務範圍審批暫行規定) which was effective from December 1, 2008, securities companies which are under common control of the same entity or individual or mutual control relationship exists between them shall not operate in the same business, unless the relevant companies adopt effective measures to obviously distinguish the operating regions or the target clients and there is no competition between the companies; unless otherwise provided for by the CSRC, when the securities company is established, the CSRC approves its business scope according to the statutory provisions and grants approval to not more than four types of business to the newly established company; the securities company shall obtain approval from the CSRC for any change of the business scope while the number of additional types of business to apply for shall not exceed two; subject to the approval by the CSRC, securities company may operate the business not clearly stated in the Securities Law, the Regulations on Supervision and Management of Securities Companies (證券公司監督管理條例) and the rules and regulations of the CSRC.

REGULATORY ENVIRONMENT

According to the Rules for Establishment of Foreign-invested Securities Companies (外資參股證券公司設立規則), foreign-invested securities companies may carry the following business:

- (1) underwriting and sponsorship of shares (including RMB ordinary shares and foreign-invested shares) and bonds (including government bonds and corporate bonds);
- (2) brokerage of foreign-invested shares;
- (3) brokerage and proprietary trading of bonds (including government bonds and corporate bonds); and
- (4) any other business approved by the CSRC.

Material changes

According to the rules of Securities Law and the Regulations on Supervision and Management of Securities Companies (證券公司監督管理條例), approval from the CSRC must be obtained before a securities company can establish, acquire or de-register a branch, or change of the business scope or registered capital, or change of any shareholder holding more than 5% of the shares, change of de facto controller, change of important provisions of the articles of association of the company, or any merger, division, change of incorporation, cessation, dissolution and bankruptcy.

According to Administrative License in Relation to the First Eleven Local Branch Offices Exam and Approve Some of the Securities Institutes (CSRC Notice [2011] No. 15) (關於首批授權11家派出機構審核部分證券機構行政許可事項的決定) (中國證監會公告[2011]15號) (which was effective on July 1, 2011) promulgated by the CSRC on June 29, 2011, the local branch offices of the CSRC in 11 provinces such as Shanghai have the examination and approval authority in the following five types of administratively approved matters:

- (1) change of important provisions of the articles of association of the company;
- (2) establish, acquire or de-register a branch;
- (3) change of the registered capital, with the exception of the following: a listed securities company changes its registered capital; the existing shareholders of an unlisted securities company increase the registered capital without creation of shareholder(s) with more than 5% of the shareholdings and there is no change to the de facto controller, controlling shareholder(s) and the largest shareholder of the securities company;
- (4) a change of shareholder(s) with more than 5% of shareholdings and de facto controller, with the exception of a change of shareholder(s) with more than 5% of shareholdings and de facto controller of a listed securities company;

REGULATORY ENVIRONMENT

- (5) increase or decrease business of securities brokerage, securities investment consultation and financial advisory business in relation to securities trading and securities investment activities, proprietary trading of securities, management of securities assets and underwriting of securities.

On September 2, 2011 and December 9, 2011, CSRC authorized local branch offices of the CSRC in another 25 provinces and counties to accept the above matters, and make decisions on the relevant administrative license.

Establishment of subsidiaries and branches

According to The Provisional Regulatory Requirements on Establishment of Subsidiaries of Securities Companies (證券公司設立子公司試行規定) which was effective from January 1, 2008, subject to the approval of the CSRC, securities companies may establish wholly-owned subsidiaries, and also invest jointly in the establishment of subsidiaries with other investors who meet the required conditions for shareholders of securities companies stipulated in the Securities Law. However, operation of similar businesses that face conflicts of interest or competition, is not permitted for a securities company and its subsidiaries, or for subsidiaries that are under common control of the same securities company. The Regulatory Requirements on Branches of Securities Companies (Provisional) (證券公司分公司監管規定(試行)) that was effective from May 13, 2008 and Rules for Further Regulation of Securities Operating Outlets (關於進一步規範證券營業網點的規定) which was effective from November 1, 2009 provide that securities companies in compliance with the regulatory requirements can establish new branches and operating outlets upon approval of the CSRC. The Securities Law and the Regulations on Supervision and Management of Securities Companies (證券公司監督管理條例) regulate that, approval from the securities regulatory authorities of the State Council must be obtained before a securities company can establish, acquire or de-register a branch or before merger or division; approval from the CSRC must be obtained before a securities company establish, acquire or purchase shares of any securities operating institutions outside the PRC.

Entry requirements for fund management companies

Establishment requirements

The Securities Investment Funds Law of the PRC (中華人民共和國證券投資基金法) and the Management Rules for Securities Investment Fund Management Companies (證券投資基金管理公司管理辦法) establish entry standards and other requirements for fund management companies. Establishment of a foreign-invested securities company must be approved by the CSRC and business license must be obtained. The relevant conditions include:

- The articles of association of the proposed fund management company must comply with the Securities Investment Funds Law of the PRC (中華人民共和國證券投資基金法) and the Companies Law;
- The registered capital of the proposed fund management company must not be less than RMB100 million, and it must be paid-in capital by cash, foreign shareholders shall be able to freely convert currencies for contribution;

REGULATORY ENVIRONMENT

- The major shareholders of the proposed fund management company shall have good operation performance and good social reputation in securities business, securities investment advisory, trust assets management or other financial assets management, there was no record for violation of law during the last three years, and that the registered capital shall not be less than RMB300 million;
- The proposed fund management company shall have senior management who are in compliance with laws, administrative regulations and rules of the CSRC and staff engage in research, investment, valuation and marketing business, the number of the proposed senior management and operating staff shall not be less than 15, and they shall obtain funds practice qualification;
- The proposed fund management company must have good internal control systems that are in compliance with the requirements of the CSRC for supervision, auditing and risk control; and
- The proposed fund management company must have operating premises, security facilities and other facilities in relation to fund management business in compliance with the requirements;

The Management Rules on Securities Investment Funds Management Companies (證券投資基金管理公司管理辦法) stipulates a series of regulatory conditions for foreign shareholders of Sino-foreign joint venture fund management companies, including:

- Foreign shareholders shall meet the following conditions:
 - (1) It is a financial institution established and lawfully existing under the laws of its home country or region with financial asset management experience, is in sound financial conditions and on good credit standing, and has not been subject to penalty by the regulatory or judicial authority in the most recent three years;
 - (2) Its home country or region has sound systems for securities laws and regulation, and the securities regulatory authority has signed a memorandum of understanding on securities regulatory cooperation, and is maintaining effective regulatory cooperation, with the CSRC or another authority recognized by the CSRC;
 - (3) Its paid-up capital is not less than RMB300 million or equivalent in a freely convertible currency; and
 - (4) Other conditions stipulated by the CSRC that are approved by the State Council.

REGULATORY ENVIRONMENT

- The Capital Contribution Ratio or the equity interests may not, in aggregate (including direct and indirect holdings), exceed the commitment to open up the securities industry to foreign investors made by the State.
- In respect of an overseas shareholder of a Sino-foreign equity joint venture Fund Management Company, in the event that there are requirements on record filing of overseas investment by the competent authority at the place in which such overseas shareholder is registered or in which its principal business is conducted, if such overseas shareholder submits the relevant record filing materials to the competent authority after it has obtained the approval document from the CSRC in accordance with the law, it shall at the same time provide a copy of the materials to the CSRC.

In addition, Management Rules on Securities Investment Fund Management Companies impose restriction on the number of fund management companies a shareholder may invest, that is, the number of fund management companies that an institution or institutions under the control of the same de facto controller may invest must not exceed two, of which the number of fund management companies in which such institution or institutions hold controlling interests must not exceed one.

Material changes

According to Management Rules on Securities Investment Fund Management Companies, the following material changes of fund management companies must be reported to the CSRC for approval:

- Any change of shareholders, registered capital or proportion of shareholders' contribution;
- Any change of name, address;
- Any amendment to the articles of association; and
- Any change of other material matters as stipulated by the CSRC.

Entry requirements for futures companies

Establishment requirements

The Futures Trading Management Regulations (期貨交易管理條例) and the Administrative Measures for Futures Companies (期貨公司管理辦法) provide for the entry standards and other requirements. Establishment of futures companies must be approved by the CSRC. The relevant conditions include:

- The minimum registered capital of the proposed futures company is RMB30 million. The registered capital shall be paid-in capital. Shareholders shall contribute by cash or non-monetary assets which are necessary for the operations of the futures company, the proportion of monetary contribution shall not be lower than 85%;

REGULATORY ENVIRONMENT

- The directors, supervisors and senior management of the proposed futures company shall be qualified for their positions; practitioners shall have futures practice qualifications; the number of staff with futures practice qualifications shall not be less than 15; and the number of senior management staff with practice qualifications shall not be less than three;
- The articles of association of the proposed futures company must comply with the requirements of laws and regulations;
- The major shareholders and de facto controller of the proposed futures company shall have sustained profitability, good reputation, and no record of serious violation of law or regulation during the last three years;
- The proposed futures company must have qualified premises and facilities for operation;
- The proposed futures company shall have sound risk management and internal control systems; and
- According to the Provisions on Issues Relating to the Regulation of Controlling Interests and Equity Interests in Futures Companies (關於規範控股、參股期貨公司有關問題的規定) (which was effective on June 1, 2008) promulgated by CSRC on May 22, 2008, the number of futures companies that an institution may take a controlling stake and invest must not exceed two, of which the number of futures companies in which such institution holds controlling interests must not exceed one.

Material changes

According to the Administrative Measures for Futures Companies (期貨公司管理辦法), approval of the CSRC shall be obtained for change of shareholdings in any one of the situations below:

- Shareholding of one single shareholder to be increased up to 5% or above, or the accumulated shareholding of the associated shareholders is to be increased up to 5% or above; and
- Shares are to be transferred to shareholders holding 5% or above of the shares, or to associated shareholders accumulatively holding 5% or above of the shares.

Any change of registered capital of a futures company shall be examined and approved by the CSRC. If a futures company changes its legal representative, the futures company shall submit application material to its local branch office of the CSRC. If a futures company changes its address, it shall submit application material to the branch office of the CSRC at the place where it is to be moved to. If a futures company closes its business, it shall submit application material to the CSRC. For any establishment, change, dissolution, bankruptcy,

REGULATORY ENVIRONMENT

revocation of futures business license of a futures company or the establishment, change or termination of its operation branches, the futures company shall announce the same on the press or media as designated by the CSRC.

Establishment of branches

A futures company can establish operation branches; if a futures company applies to establish an operation branch, it shall submit application to the branch office of the CSRC at the place where the proposed operation branch is to be established.

Regulation on Operations

Securities

Securities and related business we currently engage in include, but not limited to, securities brokerage, securities proprietary trading, securities underwriting and sponsorship, securities investment consulting, financial advisory relating to securities trade and securities investment activities, securities assets management, direct investment business, securities investment fund distribution, provision of intermediary business for futures companies, margin financing and securities lending, and QDII-related business. Securities companies that engage in securities business in the PRC are subject to various laws and regulations. Laws and regulations and policy documents including the Securities Law (中華人民共和國證券法), the Regulations on Supervision and Management of Securities Companies (證券公司監督管理條例), Tentative Provisions for the Examination and Approval of the Scope of Business of Securities Companies (證券公司業務範圍審批暫行規定), the Provisional Measures on Management of Investment Consultations on Securities and Futures (證券、期貨投資諮詢管理暫行辦法) (which was effective on April 1, 1998), the Management Measures on Securities Issuing and Underwriting (證券發行與承銷管理辦法) (which was effective on September 19, 2006 amended on October 11, 2010), Measures for the Administration of the Sponsorship of the Offering and Listing of Securities (證券發行上市保薦業務管理辦法) (which was effective on December 1, 2008 amended on May 13, 2009), the Regulations on Investment Scopes of Proprietary Trading Business of Securities Companies and the Relevant Matters (關於證券公司證券自營業務投資範圍及有關事項的規定) (which was effective on June 1, 2011), the Provisional Measures on Client Assets Management of Securities Companies (證券公司客戶資產管理業務試行辦法) (which was effective on February 1, 2004), the Management Measures on Margin Financing and Securities Lending (證券公司融資融券業務管理辦法) (which was effective on August 1, 2006 amended on October 26, 2011), the Guidelines of Supervision and Administration for Direct Investment Business of Securities Companies (證券公司直接投資業務監管指引) (which was effective on July 8, 2011), the Management Measures on Sales of Securities Investment Funds (證券投資基金銷售管理辦法) (which was effective on July 1, 2004 amended on October 1, 2011), the Provisional Measures on Provision of Futures IB Business (證券公司為期貨公司提供中間介紹業務試行辦法) (which was effective on April 20, 2007), the Provisional Measures on Management of Investing in Overseas Securities by Qualified Domestic Institutional Investors (合格境內機構投資者境外證券投資管理試行辦法) (which was effective on July 5, 2007) and the Provisional Measures on Investing in Domestic

REGULATORY ENVIRONMENT

Securities by RMB Qualified Foreign Institutional Investors of Funds Management Companies and Securities Companies (基金管理公司、證券公司人民幣合格境外機構投資者境內證券投資試點辦法) (which was effective on December 16, 2011) regulate the operations of securities companies.

Securities brokerage

The Securities Law of the PRC and the Regulations on Supervision and Management of Securities Companies provide (i) that securities companies that engage in securities brokerage shall examine the sufficiency of the funds and securities of a client's account; (ii) a securities company may appoint a person other than those of the securities company as a securities broker; and (iii) for a securities company that engages in the business of securities brokerage, the trading settlement funds of its client shall be deposited in a designated commercial bank, and a separate account shall be opened and managed for each of the clients. A securities company is not allowed to categorize the transaction settlement funds of the clients as its own property. Access of the trading settlement funds of the clients shall be handled by the designated commercial banks. The securities company cannot accept authorizations to engage in discretionary securities trading on its customer's account, including, for example, deciding the type, quantity and price of securities to buy or sell for its customers.

On March 13, 2009, the CSRC promulgated the Provisional Measures on Management of Securities Brokers (證券經紀人管理暫行規定) to further strengthen the supervisions on the securities brokers and to regulate the activities of securities brokers. Pursuant to these measures, securities brokers are required to pass the qualifying exam, complete professional training and register their qualification status with the SAC.

Securities investment consulting

According to the Provisional Measures on Management of Investment Consultations on Securities and Futures (證券、期貨投資諮詢管理暫行辦法), a business license approval must be obtained from the CSRC in accordance with the regulations of the Provisional Measures so as to engage in securities investment consulting business. Institutions engage in securities investment consulting business and its investment consulting personnel provide direct or indirect paid consulting services activities (securities investment analysis, prediction or recommendation, etc.) to securities investors or clients in the following manner:

- accept the delegation of investors or clients to provide securities investment consulting services;
- organize securities investment consultation seminar, public lecture, analytical meeting, etc.;
- publish securities investment consultation articles, discussions, reports, and provide securities and futures investment consultation services through public media (radio, television, etc.); and

REGULATORY ENVIRONMENT

- provide securities investment consultation services through telecommunication equipment systems including telephone, facsimile, computer network, etc.

Institutes proposed to engage in qualified securities investment consulting shall meet the necessary conditions and obtain a business license from the CSRC; personnel proposed to engage in investment consulting business of securities and futures must obtain qualification for investment consulting in securities and join a qualified institute of securities investment consulting before engaging in the business of securities investment consulting.

Securities proprietary trading

The Securities Law (中華人民共和國證券法) and the Regulations on Supervision and Management of Securities Companies (證券公司監督管理條例) stipulate the categories of securities that a securities company can sell and purchase in its securities proprietary business; a securities company that engages in securities proprietary business shall use real name securities proprietary account, and shall report to the stock exchange for records within three trading days from the date when the proprietary account is opened; the scope of activities of a securities company which engages in securities proprietary business; risk control indicators such as the proportion of proprietary securities in the Net Capital of the company, the proportion of the value of one single security in the Net Capital of the company, the proportion of the amount of one single security in the total amount of issued securities, shall be in accordance with the requirements of the CSRC. The securities company must conduct its proprietary trading business in its own name and use their own funds or funds lawfully raised.

In order to urge the securities companies to reform the securities proprietary systems and to guard against the risks of securities proprietary business, the CSRC promulgated the CSRC Notice on Forwarding the “Guidelines on Proprietary Business of Securities Companies” and Strengthening the Regulation on Proprietary Business of Securities Companies (中國證券監督管理委員會關於轉發<證券公司證券自營業務指引>, 加強證券公司自營業務監管的通知) on November 11, 2005, which stipulates that securities companies must establish comprehensive securities management system for securities proprietary business, investment decision-making mechanism, operating procedures and risk control system, and shall conduct proprietary business with risks that can be measured, controlled and affordable.

On April 29, 2011, the CSRC promulgated the Regulations on Investment Scopes of Proprietary Trading Business of Securities Companies and the Relevant Matters (關於證券公司證券自營業務投資範圍及有關事項的規定), which became effective from June 1, 2011, and further clarified the investment scopes of the securities proprietary business of securities companies. Accordingly, the following securities are allowed for the proprietary trading business of securities companies:

- securities which have been or may be legally listed and traded on a domestic stock exchange.

REGULATORY ENVIRONMENT

- securities which have been or may be legally listed and traded on the domestic inter-bank market, including:
 - (1) Government bonds;
 - (2) RMB bonds issued by international development institutions;
 - (3) Central bank bills;
 - (4) Financial bonds;
 - (5) Short-term financing bonds;
 - (6) Corporate bonds;
 - (7) Medium-term notes; and
 - (8) Enterprise bonds.

- securities issued with the approval of the CSRC or after filing with the CSRC and traded over the counters of domestic financial institutions.

A securities company may form subsidiary companies to invest in financial products other than those listed above. To form such a subsidiary company, a securities company shall be qualified for the proprietary trading business. A securities company shall not provide financing or guarantee for a subsidiary company as mentioned above.

Securities underwriting and sponsoring

According to the Measures for the Administration of the Sponsorship of the Offering and Listing of Securities (證券發行上市保薦業務管理辦法), securities companies must apply for the sponsoring institution qualification from the CSRC in accordance with the regulations, so as to engage in securities issuance, listing and sponsoring business. Sponsoring institutions should designate an individual, who has obtained sponsor representative qualification, to be responsible for sponsorship duties, so as to discharge sponsorship responsibilities. Issuers should employ securities companies which have obtained sponsoring institution qualification to perform the sponsorship duties for the following matters:

- Initial public offering and listing;
- Issuance of new shares and convertible corporate bonds by listing companies; and
- Other conditions identified by the CSRC.

REGULATORY ENVIRONMENT

To apply for sponsoring institution qualification, securities companies shall meet the following conditions:

- Registered capital of not less than RMB100 million, and the Net Capital of not less than RMB50 million;
- With comprehensive corporate governance and internal control systems, and the risk control indicators shall be in compliance with the relevant provisions;
- The sponsoring business department shall have comprehensive business procedures, internal risk assessment and control systems and reasonable internal structuring, and shall have appropriate back-office supports such as research capabilities and marketing capabilities;
- With good sponsoring business team and reasonable professional structuring, the number of practitioners shall not be less than 35, including not less than 20 staff who have been working in sponsoring-related business in the last three years;
- No less than four personnel are qualified to be sponsor representative;
- Without any administrative penalties because of significant violation of laws and rules in the last three years; and
- Other conditions regulated by the CSRC.

In addition, Measures for the Administration of the Sponsorship of the Offering and Listing of Securities (證券發行上市保薦業務管理辦法) stipulates that, if the aggregate holding of a sponsoring institution and its controlling shareholder, de facto controller, important related party exceeds 7% of the issuer's shares, or an issuer holds or controls more than 7% of the shares of the sponsoring institution, the institute shall perform the duties of sponsoring with an unrelated sponsoring institute, which shall perform as main sponsor upon sponsoring the listing of securities of the issuer. Meanwhile, according to Guidelines on Supervision and Administration of Direct Investment Business of Securities Companies (證券公司直接投資業務監管指引) promulgated by the CSRC on July 8, 2011, a direct subsidiary, direct investment fund, fund for industry and fund management of a company which is the counseling institute, financial advisor, sponsoring institute or main underwriter of a to-be-listed company shall not invest in the said company after the execution of the relevant agreement or the practical commencement of the relevant business.

The Management Measures on Securities Issuing and Underwriting (證券發行與承銷管理辦法) which was effective from September 19, 2006 and amended on October 11, 2010 regulates the issuance of shares or convertible bonds in the PRC by issuers, the underwriting of securities in the PRC by the securities companies, and the investors' subscription of securities issued in the PRC. The securities company shall submit offering and underwriting plans to the CSRC prior to engaging in any underwriting activities.

REGULATORY ENVIRONMENT

Securities assets management

According to the Provisional Measures on Client Assets Managements of Securities Companies (證券公司客戶資產管理業務試行辦法), securities companies engaging in client assets managements shall apply to the CSRC for qualification on client assets managements according to the provisions of the Measures. Subject to the approval of the CSRC, a securities company may engage in handling targeted asset management businesses for single clients, handling collective asset management businesses for multiple clients and handling specific-purpose special asset management businesses for clients. A securities company engaging in client assets managements shall comply with the following conditions:

- It shall be approved by the CSRC as a comprehensive securities company;
- Its Net Capital shall not be less than RMB200 million, and it shall comply with the requirements of the CSRC on the various risk control indicators of comprehensive securities companies;
- Practitioners of clients assets managements shall have securities practice qualification, and have no record of bad behavior, and the number of staff who have three years of experience in securities proprietary, assets management or securities investment funds management shall not be less than five;
- It shall have good corporate governance structure, comprehensive internal control and risk management system, which are effectively implemented;
- It has not been subjected to administrative punishment or criminal punishment within the past one year; and
- Other conditions as specified by the CSRC.

According to the Securities Law and the Regulations on Supervision and Management of Securities Companies, securities companies which engage in securities assets management shall not do the following:

- guarantee the clients that their principal assets will not suffer loss or promise that they will receive a minimum profit;
- the assets value of one single entrustment of a client is lower than the minimum value as specified by the CSRC;
- use the assets of the client for unnecessary securities tradings;
- carry out transactions between securities proprietary accounts and assets management accounts or among different securities assets management accounts, and there is no sufficient evidence that they have been separated according to law; and

REGULATORY ENVIRONMENT

- Other activities prohibited by laws, regulations and the CSRC.

The Detailed Implementation Rules for the Targeted Asset Management Business of Securities Companies (Trial Implementation) (證券公司定向資產管理業務實施細則(試行)) and the Detailed Rules for the Implementation of the Collective Asset Management Business of Securities Companies (Trial Implementation) (證券公司集合資產管理業務實施細則(試行)), which were both promulgated by CSRC on May 31, 2008, and the Trial Rules for Fund Management Companies' Asset Management Business for Specific Clients (基金管理公司特定客戶資產管理業務試點辦法) which was promulgated by CSRC on August 25, 2011 and takes effect on October 1, 2011, set detailed regulations on the targeted asset management business and collective asset management business of securities companies.

Margin financing and securities lending (including margin and securities refinancing)

According to the Securities Law (中華人民共和國證券法) and the Regulations on Supervision and Management of Securities Companies (證券公司監督管理條例), securities companies engage in margin financing and securities lending shall enter into margin financing and securities lending contracts with the client, and open client securities guarantee account at the securities registration and settlement institution under the name of the securities company, and open client capital guarantee account at designated commercial banks.

The Management Measures on Securities Companies Margin Financing and Securities Lending (證券公司融資融券業務管理辦法) promulgated by the CSRC on June 30, 2006 and amended on October 26, 2011 clearly state that approval from the CSRC must be obtained for a securities company to carry out margin financing and securities lending business; it is stipulated in the operating regulations that, among others, securities companies doing margin financing and securities lending business shall by reference to third-party custody of the client's transaction settlement funds enter into client credit funds custody agreement with their clients and commercial banks; debt guarantees and interest processing, etc., are clearly stipulated; supervision and management of securities companies engaged in margin financing and securities lending by the CSRC, the stock exchanges and securities registration and settlement institutions.

Pursuant to the recently amended Management Measures on Securities Companies Margin Financing and Securities Lending (證券公司融資融券業務管理辦法), PRC securities firms that apply for the qualification to engage in margin financing and securities lending business must satisfy of the conditions set out below:

- (i) have a minimum operation history of three years in the securities brokerage business;
- (ii) have a sound system of corporate governance and effective internal control in place that enable the securities firm to identify, control and prevent any potential operation risk and internal control risk;

REGULATORY ENVIRONMENT

- (iii) the securities firms and their respective directors, supervisors and senior management must not have been subject to any administrative and criminal penalty for any violation of relevant laws and regulations in their operation during the past two years, and they are not subject to any investigation or rectification, orders by the CSRC for any regulatory non-compliances;
- (iv) a sound financial position, with each of their risk control indicators in compliance with the relevant requirements for the most recent two years and their registered capital and Net Capital also in compliance with the requirements subsequent to the commencement of conducting the margin financing and securities lending business;
- (v) clients' assets remain secured and intact with effective measures in place for clients' third-party fund depository, and client's particulars remain true and intact;
- (vi) the establishment of a comprehensive complaint-feedback mechanism that ensures the timely and due solution to any disputes with clients;
- (vii) the maintenance of a stable information security system, with no material incident occurred during the past year due to any management issue, and the systems designated for margin financing and securities lending business have been approved by the applicable PRC stock exchange and registrars;
- (viii) an appropriate number of qualified senior management and professionals who are responsible for the margin financing and securities lending business, and the proposals and internal control system have been approved and accredited by the SAC; and
- (ix) any other conditions stipulated by the CSRC.

On October 26, 2011, the CSRC promulgated the Trial Supervision and Management Measures on Margin and Securities Refinancing Business (轉融通業務監督管理試行辦法) and specified (i) the requirements for the establishment and operation of the Securities Finance Company; (ii) the responsibilities of the Securities Finance Company, which include, among others, providing funding and securities refinancing services to support the margin financing and securities lending business of PRC securities firms; (iii) the rules and regulations relating to the margin and securities refinancing business; (iv) the source of funding and securities to be used in the margin and securities refinancing business by the Securities Finance Company; and (v) that Securities Finance Company shall establish compliance and risk management system to ensure its compliance with rules and regulations relating to risk control indicators.

On November 25, 2011, the Shanghai Stock Exchange and the Shenzhen Stock Exchange separately announced the Implementation Rules of Shanghai Stock Exchange on Margin Financing and Securities Lending (上海證券交易所融資融券交易實施細則) and the Implementation Rules of Shenzhen Stock Exchange on Margin Financing and Securities Lending (深圳證券交易所融資融券交易實施細則) which, among others, contain express rules on regulating the specific procedures for this business and the requirements for eligible securities. On the same day, according to the implementation rules, the Shanghai Stock Exchange and the Shenzhen Stock Exchange announced new notices to expand the scope of securities eligible for margin finance and securities lending business from 90 stocks to 278 stocks and 7 ETFs. The new notices have become effective on December 5, 2011.

REGULATORY ENVIRONMENT

Direct investment

According to the provisions of the Letter on the Relevant Work of Direct Investment Business Trials of Securities Companies (關於證券公司直接投資業務試點有關工作的函) and its attachment Guidelines for Direct Investment Business Trials of Securities Companies (證券公司直接投資業務試點指引), approval from the CSRC shall be obtained for a securities company to carry out direct investment business, and no objection letter allowing companies at trials to carry out direct investment business shall be obtained. Without consent of the CSRC, a securities company is not allowed to carry out direct investment business by any means. For a securities company to carry out direct investment business trials, it shall set up a subsidiary which engages in direct investment business (the “direct investment subsidiary” hereinafter) to carry out direct investments.

Guidelines on Supervision and Administration of Direct Investment Business of Securities Companies (證券公司直接投資業務監管指引) made a series of requirements in respect to investment amount, risk control, compliance management, management of personnel, the establishment of direct investment fund by direct investment subsidiary, and the operation and management of direct investment fund for securities companies directly engaging in investment.

For a securities company to carry out direct investment business, several regulatory requirements shall be complied with, such as:

- For those investing in a direct investment subsidiary, direct investment funds, industry funds and fund management institutions with its own funds, the aggregate amount shall not exceed 15% of the Net Capital of the securities company;
- A sound internal control mechanism shall be established, risks management and compliance management shall be strengthened, conflict of interests with the direct investment subsidiary, the risks of transfer of benefits, “black box” operations and moral hazard shall be avoided;
- Where a security company acts as counseling agency, financial advisor, sponsor or lead underwriter of a company to be listed, with effect from the date on which relevant agreement are signed or relevant business are carried out in a substantive manner, its direct investment subsidiary, direct investment fund, industry fund and fund management institution are no longer allowed to invest in the said company;
- Be independent with the direct investment subsidiary with respect to personnel, constitution, finance, assets, management, business operation, etc; and
- All of the risk control indicators continue to meet the requirements; after establishment of direct investment companies, all of the risk control indicators comply with the regulations.

REGULATORY ENVIRONMENT

Subject to the approval of the CSRC, a direct investment subsidiary may engage in the following business:

- use its own funds to invest in shareholdings of domestic enterprises;
- provision of financial advisory services on equity investment to clients;
- establish direct investment funds, raise and manage clients' fund and carry out equity investments;
- use unemployed capital to invest in securities with low risk but high liquidity such as national debts, investment grade corporate bonds, money market fund and central bank bills, and the approved establishment of collection of asset management plan and specific asset management plan of securities companies for the purpose of cash management provided that effective control of risk and continuous liquidity is maintained; and
- other business with the consent of the CSRC.

Securities investment funds distribution

On June 25, 2004, the CSRC promulgated the Management Measures on Sales of Securities Investment Funds (證券投資基金銷售管理辦法) which took effect on July 1, 2004. On June 9, 2011, the CSRC promulgated the new Management Measures on Sales of Securities Investment Funds (新《證券投資基金銷售管理辦法》), which was effective from October 1, 2011, and the Management Measures on Sales of Securities Investment Funds with effect from July 1, 2004 was abolished on October 1, 2011.

The new Management Measures on Sales of Securities Investment Funds provides new requirements a securities company which applies for the qualification for funds distribution business shall satisfy:

- It shall have good corporate governance structure, comprehensive internal control and risk management system, which are effectively implemented;
- It shall have good financial conditions, standardized and stable operations;
- It shall have a place of business, security facilities and other facilities suitable for carrying out funds distributions business;
- It shall have safe and efficient technical facilities to handle funds offering, application and redemption which shall comply with CSRC's requirements for information management platform for funds distribution business, the technology systems for funds distribution business have been connected and tested with the corresponding technology systems of the fund managers and China Securities Depository and Clearing Company Limited, and the test results are in line with the standards of the PRC;

REGULATORY ENVIRONMENT

- It shall have formulated comprehensive fund clearance processes and fund management conforming to CSRC's requirements for funds distribution settlement fund management;
- It shall have a method system for assessing risk-bearing capacity of fund investors and risk level of fund products;
- It shall establish management systems for funds distributions such as comprehensive business processes, practice rules of salesmen and emergency response measures, etc., which conform to CSRC's requirements for internal control of fund distribution institutions;
- It shall establish internal control systems related to anti-money laundering as required by laws and regulations; and
- Other requirement promulgated by CSRC.

Provision of Futures IB Business

According to Provisional Measures on Provision of Futures IB Business (證券公司為期貨公司提供中間介紹業務試行辦法), a securities company applying for the qualification for the provision of futures IB Business to futures companies shall comply with the following conditions:

- All risk control indicators meet the required standards in the six months before application;
- The third-party custody system for client transaction settlement funds has been set up according to the regulations;
- It wholly owns or controls a futures company, or is under control of the same institution with a futures company, and that futures company has the membership qualification to be a futures exchange implementing members classification settlement system, and the risks regulatory indices thereof are continuously in compliance with the required standards in the two months before the application date;
- It has necessary operational staff, and there are at least five and two operational staff with futures practice qualification respectively in the headquarter of the company and in the operational department;
- Comprehensive systems of operational procedures, internal control, risks isolation and compliance inspection, etc., have been established according to the regulations;
- There are technology systems that meet the demands of the business; and
- Other conditions as required by the CSRC based on the developments of the market and the principle of prudential regulation.

REGULATORY ENVIRONMENT

Securities companies which engage in futures IB Business shall obtain futures IB Business qualification according to the provisions of the Measures, and shall operate carefully and uniformly manage the futures IB Business carried out by its operational department. A securities company engaged by a futures company to carry out futures IB Business shall provide the following services:

- Assist in account opening procedures;
- Provide information on the futures market and trading facilities; and
- Other services as required by the CSRC.

Securities companies cannot carry out futures trading, clearing, settlement or delivery for their clients, and they cannot receive or pay futures deposits for futures companies or clients, to save, withdraw or transfer futures deposits for clients with the securities capital accounts. Securities companies can only engage in the provision of futures IB Business to their wholly-owned or controlling futures companies, or futures companies with which they are under common control of the same institute. They cannot engage in the provision of futures IB Business to other futures companies. Securities companies shall have adequate business staff with futures practice qualifications and cannot employ business staff without futures practice qualifications to engage in the provision of futures IB Business. Staff engaging in futures IB Business in securities companies cannot carry out futures trading. Securities companies cannot, directly or indirectly, raise funds or provide guarantee in futures trading for clients.

QDII

According to the Provisional Measures on Management of Investing in Overseas Securities by Qualified Domestic Institutional Investors (合格境內機構投資者境外證券投資管理試行辦法), QDIIs carrying out the business of overseas securities investments shall engage domestic commercial banks to be responsible for assets custody, and they can engage overseas securities service institutions for sale and purchase of securities. Securities companies which are QDIIs can raise funds by setting up collection schemes, etc., and to use the funds raised in the overseas securities market. Applying to be a QDII shall comply with the following conditions:

- All risk control indicators shall meet the required standards; the Net Capital shall not be less than RMB800 million; the proportion of Net Capital in the net assets shall not be less than 70%; it shall have been engaging in collection of assets management scheme (“collection scheme” hereinafter) for more than one year; the value of assets under management as of the last quarter-end shall not be less than RMB2 billion or its equivalent in foreign currency;
- It shall have staff with overseas investment and management related experience in compliance with the regulations;
- It shall have sound governance structure and comprehensive internal control system, and standardized operations;

REGULATORY ENVIRONMENT

- It has not been subject to material penalty by any regulatory body in the last three years, and is not being investigated by any judiciary or regulatory body for any serious matter; and
- Other conditions as required by the CSRC based on the principle of prudential regulation.

RQFII

According to the Provisional Measures on Investing in Domestic Securities by the RMB Qualified Foreign Institutional Investors of Funds Management Companies and Securities Companies (基金管理公司、證券公司人民幣合格境外機構投資者境內證券投資試點辦法), which was effective on December 16, 2011 and specifically targets investment in the domestic securities market using the RMB raised in Hong Kong by the Hong Kong subsidiaries of the domestic funds management companies and securities companies (HK subsidiaries hereinafter), HK subsidiaries shall obtain CSRC's approval before they invest in domestic security market and obtain investment quota approved by SAFE. HK subsidiaries carrying out the trial business of domestic securities investment shall engage domestic commercial banks with QFII trustee qualification for asset custody, and they can engage domestic securities companies for sale and purchase of securities. HK subsidiaries may also authorize domestic fund management companies and securities companies to manage domestic securities investment. QFIIs are supervised and administrated by the CSRC, PBOC and SAFE.

The following requirements shall be complied by the HK subsidiaries to conduct domestic securities investment trial business using RMB raised in Hong Kong:

- It shall possess the qualification issued by the Hong Kong securities supervision and administration authority in asset management business and has commenced such business with sound finance and credit;
- It shall have sound corporate governance and comprehensive internal control, and its staff shall be qualified according to the related professional regulations and standards in Hong Kong;
- The business of the applicant and its domestic parent company shall be under lawful and compliant operation, without major punishment rendered by the local supervision and administration authorities within the past 3 years;
- Its domestic parent company shall possess the business qualification of securities asset management; and
- Other conditions as required by the CSRC based on the principle of prudential regulation.

REGULATORY ENVIRONMENT

Pursuant to the Measures on Implementation of the Provisional Measures on Investing in Domestic Securities by RMB Qualified Foreign Institutional Investors of Funds Management Companies and Securities Companies (關於實施《基金管理公司、證券公司人民幣合格境外機構投資者境內證券投資試點辦法》的規定) promulgated by CSRC on December 16, 2011, the trial institution with qualification of domestic securities investment (“the trial institution”) may, within the approved quota, invest stocks, bonds, warrants, securities investment funds tradable in domestic securities exchanges and other financial tools allowed by CSRC and PBOC. Additionally, the trial institution may subscribe for issuance of new shares, convertible bonds, additional issuance of shares and allotment of shares. Within approved investment quota, capital for investment in stocks and stock funds shall not exceed 20% of the fund-raising scale; capital for investment in fixed income securities (including bonds and fixed income funds) shall be no less than 80% of the fund-raising scale.

Pursuant to the Notice on Relevant Issues of the Provisional Measures on Investing in Domestic Securities by RMB Qualified Foreign Institutional Investors of Funds Management Companies and Securities Companies (關於基金管理公司、證券公司人民幣合格境外機構投資者境內證券投資試點有關問題的通知) promulgated by SAFE on December 20, 2011, a RQFII shall not transfer, re-sell its approved quota to other institutions or individuals. The approved quota which is not used by the RQFII within one year from the approval date will be reduced or even canceled by SAFE.

Funds

Funds management companies engage in funds business in the PRC are also subject to regulations of various laws and regulations. Laws and regulations as well as policy documents such as the Securities Investment Funds Law of the PRC (中華人民共和國證券投資基金法), the Management Rules on Securities Investment Funds Companies (證券投資基金管理公司管理辦法) and the Administration of Securities Investment Fund Operations Procedures (證券投資基金運作管理辦法) regulate various aspects of the business of the funds companies.

Under the Securities Investment Funds Law of the PRC, offering funds for sale or raising funds by funds management companies shall be approved by the CSRC; funds management companies shall publish the prospectus, funds contracts and other relevant documents three days before offering of the funds; upon expiry of the funds raising period, if the total amount of funds raised by closed-end funds reaches 80% of the approved amount, or if the total amount of funds raised by open-ended funds exceed the approved minimum raising amount, and that the number of fund holders is in line with the requirements of the CSRC, the fund management company shall appoint authorized capital verification company to verify capital ten days after expiry of the fund-raising period, and submit the capital verification report to the CSRC within ten days after receipt of the capital verification report for records, make funds records, and shall announce the same; the close-end funds can be listed at the stock exchange for trading upon application by the funds management company and approval of the CSRC; the fund managers are responsible for the application, redemption and registration of open-end funds; sufficient cash or government bonds shall be reserved for the open-end funds to prepare for redemption payment to the fund holders.

REGULATORY ENVIRONMENT

These laws also provide for the products capable of being invested in with the funds and the prohibited usages, the disclosure obligations of fund information, the rights of fund holders and the ways to exercise such rights, which include: in the circumstance where fund holders holding 10% or above of the funds request to convene the general meeting of fund holders on the same matter, but the fund management company and the fund custodian refuse to convene, fund holders holding 10% or above of the funds has the right to convene by themselves, and report to the CSRC for records. The general meeting of fund holders can only be held when fund holders holding 50% or above of the funds attend the meeting. The decisions made at the meeting on the matter under consideration shall be passed by more than 50% of the voting rights of the fund holders attending the meeting. However, for change of the operation mode of funds, replacement of fund managers or fund custodians, or early termination of fund contracts shall be passed by two-thirds of the voting rights of the fund holders attending the meeting. The matters decided by the general meeting of fund holders shall be reported to the CSRC for approval or records, and the same shall be announced.

In addition, our Company is one of the first four securities companies who have obtained fund evaluation license in May 2010 by SAC, based on which we can evaluate securities investment funds and release funds evaluation results in public. As to the evaluation of funds, the Tentative Measures on the Administration of Evaluation Businesses of Securities Investment Funds (證券投資基金評價業務管理暫行辦法), promulgated by CSRC on November 6, 2009 and came into effect on January 1, 2010) and the Rules on the Self-Regulatory Administration of Securities Investment Fund Valuation Services (Trial Implementation) (證券投資基金評價業務自律管理規則(試行)), promulgated by SAC in January 11, 2010), set rules about the conditions, operation and supervision for carrying out fund evaluation business for securities companies. Our Company is subject to such regulations and rules when engaged in fund evaluation business.

Futures

Futures companies which engage in futures business in the PRC are also subject to regulations of various laws and regulations. Laws, regulations and policy documents such as the Futures Trading Management Regulations (期貨公司交易管理條例), the Provisional Measures on Futures Investment Consulting Business by Futures Companies (期貨公司期貨投資諮詢業務試行辦法) effective from May 1, 2011 regulate various businesses of futures companies.

The Futures Trading Management Regulations clearly states, among other things, that a licensing system applies to the business of futures companies. The CSRC is responsible for issuance of licenses according to the types of business of the commodity futures and financial futures. Apart from domestic futures brokerage business, futures companies can also apply to conduct business of overseas futures brokerage, futures investment consulting and other futures business as specified by the CSRC, and to obtain the business qualification; the deposits system shall be strictly applied to futures trading. The futures company trade futures in its own name for its customers and cannot engage in proprietary trading of futures.

The Rules on Management of Client Accounts Opening in Futures Market (期貨市場客戶開戶管理規定) enacted and effective on August 27, 2009 refined the rules for opening accounts by the clients and management of client information by futures companies.

REGULATORY ENVIRONMENT

On March 23, 2011, the CSRC promulgated the Provisional Measures on Futures Investment Consulting Business by Futures Companies (期貨公司期貨投資諮詢業務試行辦法), which clearly states that for futures companies to engage in futures investment consulting business, approval from the CSRC shall be obtained to be qualified to do futures investment consulting business. Staff conducting futures investment consulting business in futures companies shall obtain the practice qualification for futures investment consulting business.

Stock Index Futures

On April 21, 2010, the CSRC promulgated the Guidelines for Securities Companies Participating in Stock Index Futures Trading (證券公司參與股指期貨交易指引), which regulates the activities of securities companies participating in stock index futures trading. Securities companies that participate in the trading of stock index futures through securities proprietary business, collection assets management business, directed assets management business or amount-limited and specific assets management business shall comply with the rules of the China Financial Futures Exchange (hereinafter the “CFFE”) regarding hedging. Securities companies that participate in stock index futures trading through securities proprietary business without the purpose of hedging shall get approval from the CSRC. The securities company is allowed to trade stock index futures as part of its asset management business.

On the same date, the CSRC promulgated the Guidelines for Securities Investment Funds Participating in Stock Index Futures Trading (證券投資基金參與股指期貨交易指引), which provides that equity funds, hybrid funds and capital preservation funds can participate in trading of stock index futures, while bond funds and money market funds are not allowed to participate in trading of stock index futures; and the specific procedures and investment proportion limits for funds in participating in stock index futures trading.

The Guidelines for Qualified Foreign Institutional Investors Participating in Transaction of Stock Index Futures (合格境外機構投資者參與股指期貨交易指引) enacted by the CSRC and was effective on May 4, 2011 provides, among other things, that qualified investors participating in trading of stock index futures can only engage in hedging transactions; each qualified investor can appoint not more than three domestic futures companies to conduct the stock index futures trading; qualified investors, custodians and futures companies shall, according to the relevant rules of the CFFE, ascertain the trading and clearing modes of stock index futures trading participated by qualified investors.

Corporate Governance and Risk Control

Corporate Governance and Risk Control of Securities Companies

Corporate Governance

The Company Law (中國人民共和國公司法), the Securities Law (中華人民共和國證券法), the Regulations on Supervision and Management of Securities Companies (證券公司監督管理條例), the Rules for Governance of Securities Companies (Trial Implementation) (證券公

REGULATORY ENVIRONMENT

司治理準則(試行)) and other laws, regulations and regulatory documents of the PRC provides a clear basis for corporate governance. Securities companies shall have independent directors in accordance with the requirements of the CSRC. A securities company that engages in two or more businesses in securities brokerage business, securities capital management business, margin financing and securities lending business, securities underwriting and sponsoring business, its board of directors shall have a remuneration and nomination committee, an audit committee and a risk control committee to exercise the rights and perform the duties as specified in the articles of association of the company. A securities company shall have a secretary for the board of directors to be responsible for the preparation of shareholders meetings and directors meetings, preservation of documents and management of shareholders information. A securities company shall set up an organization to perform the duties of operation and management of the securities company, the name, composition, duties and rules of procedures of the organization shall be set out in the articles of association of the company, and the members of the organization shall be the senior managements of the securities company. At the same time, the above laws and regulations also provide that the directors, supervisors, senior managements of the securities company shall be honest, with good character, be familiar with securities laws and administrative regulations, and with the operating and management capabilities as required for discharging the duties, and they shall obtain the approval of the securities regulatory authorities to hold the post before taking office. A person in one of the following circumstances shall not be a director, supervisor or senior management of a securities company:

- No civil capacity or with limited capacity for civil conduct;
- Sentenced to criminal penalty because of corruption, bribery, seizure of property, misappropriation of property or damage to the socialist market economic order, and it has not been five years since the expiry of the execution period, or was deprived of political rights for crime and it has not been five years since the expiry of the execution period;
- Has been a director, factory director or manager of a liquidated company or enterprise, and was personally liable for the bankruptcy of the company or enterprise, and it has not been three years since completion of the bankruptcy or liquidation of the company or enterprise;
- Has been the legal representative of a company or enterprise of which the business license was revoked for violation of law and which was ordered to be closed, and was personally liable, and it has not been three years since the revocation of the business license of such company or enterprise;
- Has large amount of outstanding personal debts;
- A person in charge of a securities exchange or a securities registration and clearing institution, or a director, supervisor or senior management of a securities company, who was relieved of his duties due to illegal or disciplinary behaviors, and it has not been five years since the date when he was relieved of his duties; and

REGULATORY ENVIRONMENT

- A lawyer, certified public accountant or a professional of an investment advisory institution, financial consultancy institution, credit rating institution, assets evaluation institution or certification institution, whose qualification was revoked due to illegal or disciplinary behavior, and it has not been five years since the date when the qualification was revoked.

On December 1, 2006, the Regulatory Measures on Qualifications of Directors, Supervisors and Senior Management of Securities Companies (證券公司董事、監事和高級管理人員任職資格監管辦法) came into effect, which further refined the regulations on the qualifications of directors, supervisors and senior management.

Risk Control

The Securities Law provides for the risk control system of securities companies, which include: the state establishes the Investor Protection Fund; a securities company shall reserve for trading risk from the annual after-tax profits to cover the loss of securities trading; a securities company shall establish and enhance its internal control system, and to adopt effective isolation measures to prevent conflicts of interest between the company and its clients and among different clients; a securities company must handle its securities brokerage business, securities underwriting business, securities proprietary business and securities assets management business separately, mixed operations are prohibited; the transaction settlement funds of the clients of a securities company shall be deposited in commercial banks, a separate account shall be opened and managed for each of the clients; a securities company is not allowed to categorize the transaction settlement funds of the clients as its own property, any unit or person is not allowed to misappropriate the transaction settlement funds or securities of clients in any way.

Under the “Guidelines on Internal Control of Margin Financing and Securities Lending of Securities Companies” (證券公司融資融券業務內部控制指引), which was effective from August 2, 2006 and amended on October 26, 2011 by the CSRC, a securities company shall improve its business isolation system, and implement centralized management for margin financing and securities lending; a securities company shall establish decision-making and authorization systems for margin financing and securities lending; establish client choice and credit systems; develop rules and procedures for compulsory liquidation; establish technology systems for margin financing and securities lending managed by the headquarter; strengthen the risk control of margin financing and securities lending and examinations of business; establish scale monitoring and adjustment mechanism centralized in Net Capital for margin financing and securities lending.

The Regulations on Risk Handling of Securities Companies (證券公司風險處置條例) was effective on April 23, 2008; it provides that the CSRC is responsible for the organization, coordination and supervision of the risk handling of securities companies. In circumstances where the risk indicators of a securities company do not comply with the regulations, or material risk control indicators, the risk handling measures include temporary closure for rectification, custody, taking over, administrative reorganization, liquidation and restructuring; the legal liabilities of the controlling shareholders, actual controllers, directors, supervisors, senior managements of securities companies are also stipulated.

REGULATORY ENVIRONMENT

Under the Administrative Measures for Risk Control Indicators of Securities Companies (證券公司風險控制指標管理辦法) (which was effective from November 1, 2006 and was amended on June 24, 2008), a securities company shall calculate the Net Capital and reserve of risk capital, prepare Net Capital calculation sheets, risk capital reserves calculation sheets and risk control indicator supervision statements according to the regulations. The CSRC may make appropriate adjustments to the standards for risk control indicators and the calculated proportion of risk capital reserve of a particular business of different kinds of companies based on the principle of classification and according to the governance structure, the internal control and risk control of the securities companies. The CSRC and its local counterparts shall inspect the generation of the risk control data of securities companies and supervise the authenticity, accuracy and completeness of such data regularly or from time to time. They may require a securities company to engage certified public accountants with relevant securities qualifications to audit its monthly Net Capital calculation sheets, risk capital reserves calculation sheets and risk control indicators supervision statements. A securities company shall establish dynamic monitoring and amendment mechanisms for risk control indicators, and to ensure that all risk control indicators such as Net Capital are in compliance with required standards at any time.

Under the Risk Control Indicator Measures, a securities company is required to maintain a minimum level of Net Capital that varies based on its business activities. According to the Risk Control Indicator Measures, Net Capital is measured by subtracting from net assets the risk-adjusted value of the securities company's financial assets, the risk-adjusted value of its other assets, and the risk-adjusted value of its contingent liabilities, and further adding or subtracting any other adjustments determined or authorized by the CSRC. The Risk Control Indicator Measures stipulate a warning ratio and a minimum regulatory ratio for certain risk control indicators. A securities company shall comply with the following risk control indicators standards on a continuing basis:

	Warning level ⁽¹⁾	Minimum level
Net Capital/total risk capital reserves (%)	>120.0%	>100.0%
Net Capital/net assets (%)	>48.0%	>40.0%
Net Capital/total liabilities (%)	>9.6%	>8.0%
Net assets/total liabilities (%)	>24.0%	>20.0%
Value of equity securities and derivatives held/Net Capital (%)	<80.0%	<100.0%
Value of fixed income securities held/Net Capital (%)	<400.0%	<500.0%

(1) The warning level is set by the CSRC according to the Risk Control Indicator Measures. If a risk control indicator is required to stay above a minimum level, the warning level is 120% of the minimum requirement, and if a risk control indicator is required to stay below a maximum level, the warning level is 80% of the maximum requirement.

REGULATORY ENVIRONMENT

According to the Administrative Measures for Risk Control Indicators of Securities Companies (證券公司風險控制指標管理辦法), a securities company shall calculate its risk capital reserve according to a certain standard and establish corresponding relation between the risk capital reserve and the Net Capital, when operating business and establishing branches and other activities which may incur the risk of loss of Net Capital. The Regulations on Calculation Standard for Risk Capital Reserve of Securities Companies (關於證券公司風險資本準備計算標準的規定, promulgated by the CSRC on June 24, 2008 and came into effect on December 1, 2008) set different standards to calculate risk capital reserve for different businesses of a securities company and securities companies of different classifications.

In addition, the Administrative Measures for Risk Control Indicators of Securities Companies require a securities firm to comply with the following requirements when engaging in proprietary trading: (i) the cost of holding one kind of equity securities shall not exceed 30% of its Net Capital; and (ii) the market value of one kind of equity securities held by a securities company shall not exceed 5% of its total market value, excluding the situations resulted from the underwriting or other regulations by the CSRC. Meanwhile, when conducting margin financing and securities lending activities, a securities firm needs to comply with the following requirements: (i) the margin financing value for a single customer should not exceed 5% of its Net Capital; (ii) the business scale of securities lending business for a single customer should not exceed 5% of its Net Capital; and (iii) the market value it accepts for a single security-backed stock should not exceed 20% of its total market value.

Under the Regulations on Classification of Securities Companies (證券公司分類監管規定) (which was effective from May 26, 2009), the CSRC and its branches classify the securities companies into five types and eleven categories as A (AAA, AA, A), B (BBB, BB, B), C (CCC, CC, C), D, E, on the basis of six indicators: capital adequacy, corporate governance and compliance management, dynamic risk control, safety of information system, protection of clients' rights and interests and the information disclosure. The CSRC and its branches implement different regulatory policies on different kinds of securities companies according to the classification results for securities companies.

In March 2011, the CSRC issued Questions Concerning Strengthening the Ability of the Newly Established Securities Sales Department in Providing Service to Clients and Policy of Setting Commission of Securities Trade in a Scientific Way Official Reply (關於新設證券營業部強化客戶服務能力和科學制定證券交易佣金政策有關問題的覆函), which clearly requests to strengthen the supervision on the ability of newly established sales departments of securities companies in the provision of service to their clients as well as the setting of commission in a scientific way.

REGULATORY ENVIRONMENT

Corporate Governance and Risk Control of Funds Companies

Corporate Governance

On June 15, 2006, the Governance Guidelines for Securities Investment Funds Companies (證券投資基金管理公司治理準則) enacted and promulgated by the CSRC enhance the corporate governance of securities investment funds management companies, and clearly stipulates the duties and rights of the shareholders meeting, board of directors, supervisors or executive supervisors, managements and the inspector general. The above regulations stipulate that shareholders may make special arrangements for the exercise of some of their rights within the scope as allowed by the laws, administrative regulations and the regulations of the CSRC, and they may resolve to pass the contents of the articles of association; the articles of associations clearly state the duties of the shareholders meeting, the company shall develop procedures for the shareholders meetings; the articles of associations clearly state the duties of the board of directors, the company shall develop procedures for the board meetings and independent directors system; the articles of associations shall clearly state the duties, personnel, procedures, voting procedures, etc.; the company shall have a inspector general who is responsible for supervision and inspection of legality and compliance of the operations of the funds and the company and the internal risk control of the company, and to exercise the duties and rights as provided by the laws, administrative regulations, the CSRC and the articles of association of the company; the avoid-voting system for related party transactions; the company shall establish long-term incentive and restraint mechanisms such as equity incentives.

In order to enhance the internal control of the funds management companies, the CSRC promulgated the Guidance Opinions on Management of Investment Management Personnel of Funds Management Companies (基金管理公司投資管理人員管理指導意見) on March 17, 2009, which further provides for, among other things, the basic code of conduct of the investment management personnel of the funds management companies and the supervision and management systems for the management personnel of the funds management companies.

Risk Control

The CSRC Notice on the Relevant Issues about Risk Reserve of Funds Management Companies (中國證券監督管理委員會關於基金管理公司提取風險準備金有關問題的通知) effective from August 14, 2006 was amended by the CSRC Notice about Amending the “Notice on the Relevant Issues about Risk Reserve of Funds Management Companies” (中國證券監督管理委員會關於修改〈關於基金管理公司提取風險準備金有關問題的通知〉) (which was effective from November 24, 2008), provides that funds management companies shall reserve for risk funds from the income of funds management fee on a monthly basis, the proportion of the reserve shall not be less than 10% of the income of funds management fee. No reserve will be required if the balance of the risk reserve reaches 1% of the net value of the fund assets. Upon use of the risk reserve, if the balance thereof falls below 1% of the net value of the fund assets, the funds management company shall continue to reserve until the proportion of the risk reserve in the net value of the fund assets achieves 1%. Funds management companies shall establish a

REGULATORY ENVIRONMENT

management system for risk reserves to regulate the procedures of reservation, transfer, use and payment, etc., of the risk reserves, the same shall be approved by the board of directors and then reported to the CSRC for records.

Corporate Governance and Risk Control of Futures Companies

Corporate Governance

The Management Measures on Futures Companies (期貨公司管理辦法) provides that the CSRC implements the qualification management system on the directors, supervisors, senior managements and other futures practicing persons of the futures companies and other futures operating institutions; the business, personnel, assets, finance and place of business of a futures company shall be strictly separated from those of its controlling shareholders, the operations and accounting shall be independent; the shareholders meeting of a futures company shall consider and vote for the matters within their scope of duties according to the Companies Law and the articles of association of the company. The shareholders meeting shall be held at least once a year; a futures company shall have a board of directors. The board meeting shall be held at least two times a year; the circumstances which shall be noticed to all shareholders in writing by the futures companies and shall be reported to the local branch of the CSRC of the futures company are also stipulated; futures companies with the qualification for clearing business of a futures exchange under the membership classification and clearing system and wholly-owned futures companies, etc., shall have directors; a futures company shall have a board of supervisors or supervisors, and a chief risk officer as well.

The Management Measures on Qualifications of Directors, Supervisors and Senior Managements of Futures Companies (期貨公司董事、監事和高級管理人員任職資格管理辦法) enacted by the CSRC and was effective from July 4, 2007 further strengthens the management of qualifications of the directors, supervisors and senior managements of futures companies. Effective on the same date, the Management Measures on Futures Practitioners (期貨從業人員管理辦法) regulates the activities of the futures practitioners; the awarding and revocation of the practice qualification and practice rules for futures practitioners are also provided.

Risk Control

According to the Regulations on Management of Futures Trading, a futures company engages in futures brokerage and other futures business shall strictly implement the systems for separation of business and separation of capital, mixed operations are prohibited; the CSRC makes regulations on the risk regulatory indices such as the proportion of Net Capital in the net assets, the proportion of Net Capital in the business scale of domestic futures brokerage and overseas futures brokerage etc., and the ratio of current assets and current liabilities of the futures companies; the CSRC makes requirements on the operating conditions, risk management, internal control, depositories, related party transactions etc. of the futures companies and their branches; a futures company shall set up risk management department or positions to manage and control the operating risks of the futures company. A futures company shall set up compliance department or positions to review and examine the operating and

REGULATORY ENVIRONMENT

management activities of the futures company; a futures company is not allowed to operate and manage its business department through joint venture or cooperation with others, and the business department is not allowed to be contracted, leased or delegated to others for operation and management.

The Guidance on Further Strengthen the Management of Information Technologies of Futures Companies (關於進一步加強期貨公司信息技術管理工作的指導意見) which was enacted by the CSRC and was effective on July 3, 2009 provides guidelines for the futures companies to strengthen the establishment and management of information systems, and to control the technology operating risks of the industry effectively.

In order to enhance the long-term mechanism for protection of futures investors, the CSRC promulgated the Regulations on the Relevant Matters about Contribution of Futures Investors Protection Fund by the Futures Exchanges and Futures Companies (關於期貨交易所、期貨公司繳納期貨投資者保障基金有關事項的規定) on March 15, 2010, which provides that futures companies shall contribute to the Futures Investors Protection Fund, and the specific proportion and rules for contribution to the Futures Investors Protection Fund by the Futures Companies.

The Regulations on Management of Information Publications of Futures Companies (期貨公司信息公示管理規定) effective from November 16, 2009 provides that the basic information, information about the senior management and the staff, information about the shareholders, information about the credit records, etc., of the futures companies and its subsidiaries shall be published to the public.

On April 12, 2011, the CSRC enacted and promulgated the Regulations on Classification and Supervision of Futures Companies (期貨公司分類監管規定), which provides that the CSRC shall establish the Evaluation Committee for Classification and Supervision of Futures Companies to determine the classes of the futures companies according to the evaluation indicators.

Regulation on Anti-money Laundering

The Anti-money Laundering Law of the PRC (中華人民共和國反洗錢法) effective on January 1, 2007 provides for the duties of the relevant financial regulatory authorities in anti-money laundering, which includes participation in enactments of rules and regulations on anti-money laundering of the financial institutions under their supervisions, and require the financial institutions to establish comprehensive anti-money laundering internal control systems.

In order to promote the implementation of the Anti-money Laundering Law of the PRC, the PBOC promulgated the Provisions on Anti-money Laundering of Financial Institutions (金融機構反洗錢規定), which was effective on January 1, 2007. According to these regulations, financial institutions shall establish internal anti-money laundering procedures, and shall establish independent anti-money laundering department or appoint the relevant departments to implement the anti-money laundering procedures.

REGULATORY ENVIRONMENT

According to the Measures on Administration of Identification of Clients and Preservation of Client Identities Information and Trading Records of Financial Institutions (金融機構客戶身份識別和客戶身份資料及交易記錄保存管理辦法) which was enacted by The People's Bank of China, China Banking Regulatory Commission, the CSRC, China Insurance Regulatory Commission and was effective on August 1, 2007, financial institutions shall establish client identification systems, and shall record the identities of all clients and the information about each of the transactions, and shall preserve the retail trading documents and books.

According to the Administrative Measures for the Financial Institutions' Report of Large-sum Transactions and Doubtful Transactions (金融機構大額交易和可疑交易報告管理辦法) which was enacted by The People's Bank of China and was effective on March 1, 2007 once a suspicious transaction or a transaction involving a large amount of money is found, the financial institutions shall report the relevant transaction to the PBOC or the Administration of Foreign Exchange (if applicable). When necessary, financial institutions shall cooperate with the government authorities in anti-money laundering actions and assets freezing in accordance with the appropriate procedures. According to the Anti-money Laundering Law of the PRC, the PBOC supervises and conducts on-site inspections on the compliance with the anti-money laundering regulations by the financial institutions, and will impose penalties for any violating activities.

The Measures on the Anti-money Laundering by Securities and Futures Industry (證券期貨業反洗錢工作實施辦法), which was enacted by the CSRC and was effective on October 1, 2010, further provides for the anti-money laundering regulations for the Securities and Futures Industry, as well as the anti-money responsibilities of the institutions engage in sales of funds in funds selling business, securities and futures institutions shall establish and enhance internal control systems for anti-money laundering.

Exchange Control

The State Administration of Foreign Exchange ("SAFE") promulgated the Notice of SAFE on the Relevant Issues Concerning Foreign Exchange Administration of Foreign Investment by Funds Management Companies and Securities Companies (國家外匯管理局關於基金管理公司和證券公司境外證券投資外匯管理有關問題的通知) on September 29, 2009, which regulates the exchange control for investments in overseas securities by funds management companies and securities companies. It is stipulated that for securities operating institutions which have the qualification to engage in foreign exchange business to conduct investments in overseas securities, they shall apply to the SAFE for investment quotas; the SAFE adopts the method of quota balance in managing the investment quotas, the net amount remitted by a securities operating institution shall not exceed the approved investment quota, a securities institution is not allowed to transfer or sell its investment quota to other institutions in any form; a securities operating institution may raise foreign exchange funds from the domestic investors, or it may raise capital in RMB from the domestic investors to purchase foreign currency for investments in overseas securities, domestic investors are not allowed to purchase the relevant products issued by securities operating institutions with foreign

REGULATORY ENVIRONMENT

currencies; a securities company shall, within seven working days after establishment of each product, report to the SAFE the situations such as the actual size and source of funds of the product, a securities operating institution shall, within seven working days after the end of each month, report to the SAFE the aggregate data on overseas securities investments by that institution, a domestic custodian shall, within seven working days after the end of each month, report to the SAFE the relevant data for investments in overseas securities by the securities operating institutions under the custody. Securities operating institutions and domestic custodians shall discharge their declaration responsibilities in accordance with the relevant provisions of the declaration of international balance of payment statistics.

The Provisions on Foreign Exchange Administration of Domestic Securities Investments by Qualified Foreign Institutional Investors (合格境外機構投資者境內證券投資外匯管理規定) which was effective from September 29, 2009 provides that the state adopts a quota management system on the investments in domestic securities by the qualified foreign investors. The SAFE approves the investment amount of the individual qualified investors; the investment amount applied for by an individual qualified investor shall not be less than the equivalent of US\$50 million each time, and the aggregate total amount shall not exceed the equivalent of US\$1 billion. The SAFE has the right to adjust. A qualified investor is not allowed to apply to increase the investment amount within one year after approval of the investment amount last time. The lock-up period for the investment principal amount of the qualified investors such as pension funds, insurance funds, mutual funds, charity funds, endowment funds, governments and monetary authorities, and the open-end China funds established by the qualified investors is three months; the lock-up period for the investment principal amount of other qualified investors is one year; a custodian shall, within five working days after opening of the foreign currency account and RMB special account of the qualified investors, report to the local foreign exchange bureau for records, and submit the formal custody agreement to the SAFE, and to collect the “Foreign Exchange Registration Certificate” (外匯登記證) for the qualified investors. The Provisions on Foreign Exchange Administration of Domestic Securities Investments by Qualified Foreign Institutional Investors (合格境外機構投資者境內證券投資外匯管理規定) also specifies the account management, foreign exchange management, statistics and supervision management of the qualified investors.

Regulation on the Listed Companies

Our A Shares were listed on the Shanghai Stock Exchange in 2007, therefore our Company shall comply with the Securities Law and the listing rules of the Shanghai Stock Exchange. The listing rules of the Shanghai Stock Exchange regulate the listing matters and the information disclosures by the listed companies (including our Company), with the aim to maintain the order of the stock market and to protect the interests of the investors. As the A Shares of our Company are listed on the Shanghai Stock Exchange, the various obligations as provided by the Shanghai Stock Exchange must be complied with, including:

- Publication of annual, interim and quarterly reports;

REGULATORY ENVIRONMENT

- Disclosure of all information that may have an important impact on the affairs of our Company;
- Publication of announcements in relation to certain affairs of our Company; and
- Appointment of a secretary for the board of directors of our Company to be responsible for matters including certain administrative affairs and disclosure of information of our Company.

Our Company is also subject to various laws of the PRC regulating the securities market. The CSRC is responsible for drafting the securities market regulatory rules and regulations to regulate the securities companies, to manage the Chinese listed companies in issuing securities to the public, and to manage securities trading. For example, it is prohibited for a listed company to use inside information in securities issuing or trading. Companies whose securities are listed in both China and overseas also have to comply with the laws and regulations of China and the regulations of the relevant country in relation to management of securities market, and shall disclose important information to the investors.

HONG KONG REGULATORY OVERVIEW

Securities and Futures Commission

The SFC is a statutory regulatory body in Hong Kong that administers the SFO, which governs the securities and futures markets and the non-bank retail leveraged foreign exchange market in Hong Kong.

Securities and Futures Ordinance

The SFO is the primary legislation regulating the securities and futures industry in Hong Kong, including the regulation of securities, futures and leveraged foreign exchange markets, the offering of investments to the public in Hong Kong, trading services, margin financing, asset management, credit rating services and intermediaries conducting regulated activities. Part V of the SFO particularly deals with licensing and registration matters.

REGULATORY ENVIRONMENT

Types of Regulated Activities

The SFO promulgates a single licensing regime where a person needs only one license to carry on different types of regulated activity as defined in Schedule 5 to the SFO for which it is licensed provided that the individual is fit and proper to do so.

The SFO prescribes ten types of regulated activities, namely:

- Type 1: dealing in securities;
- Type 2: dealing in futures contracts;
- Type 3: leveraged foreign exchange trading;
- Type 4: advising on securities;
- Type 5: advising on futures contracts;
- Type 6: advising on corporate finance;
- Type 7: providing automated trading services;
- Type 8: securities margin financing;
- Type 9: asset management; and
- Type 10: providing credit rating services.

The SFC is currently reviewing the regulatory framework in respect of regulating the over-the-counter derivatives market through amendments to the SFO and the introduction of a new regulated activity. The new regulations will cover areas including reporting, clearing and trading of over-the-counter derivatives. The SFC is aiming to have the new regulations on over-the-counter derivatives to take effect by the end of 2012.

As of the Latest Practicable Date, the following Group companies are licensed under the SFO to carry out the following regulated activities:

Group Companies	Licensed to carry out the following regulated activities:
HFT Investment Management (HK) Limited	Type 4 and Type 9
Hai Tong Asset Management (HK) Limited	Type 4, Type 5 and Type 9
Hai Tong Capital (HK) Limited	Type 6
Haitong International Asset Management Limited	Type 4, Type 5 and Type 9
Haitong International Capital Limited	Type 6
Haitong International Consultants Limited	Type 1, Type 4 and Type 9
Haitong International Futures Limited	Type 2 and Type 5
Haitong International Investment Managers Limited	Type 1, Type 4 and Type 9
Haitong International Investment Services Limited	Type 1
Haitong International Research Limited	Type 4
Haitong International Securities Company Limited	Type 1, Type 3 and Type 4

REGULATORY ENVIRONMENT

Overview of Licensing Requirements

Under the SFO, any person who:

- (a) carries on a business in a regulated activity; or
- (b) holds itself out as carrying on a business in a regulated activity

must be licensed under the relevant provisions of the SFO to carry on that regulated activity, unless one of the exceptions under the SFO applies. It is a serious offense for a person to conduct any regulated activity without the appropriate license.

Further, if a person actively markets (whether by itself or another person on his behalf and whether in Hong Kong or from a place outside of Hong Kong) to the public in Hong Kong any services that it provides and such services, if provided in Hong Kong, would constitute a regulated activity, then that person will also be subject to the licensing requirements under the SFO.

In addition to the licensing requirements on corporations, any individual who:

- (a) performs any regulated function in relation to a regulated activity carried on as a business; or
- (b) holds himself out as performing such regulated function,

must separately be licensed under the SFO as a licensed representative accredited to his principal.

For each regulated activity conducted by a licensed corporation, it must appoint at least two responsible officers, at least one of whom must be an executive director, to supervise the business of the regulated activity. A responsible officer is an individual approved by the SFC to supervise the regulated activity or activities of the licensed corporation to which he/she is accredited. In addition, every director of the licensed corporation who actively participates in or is responsible for directly supervising the licensed corporation's regulated activity or activities must apply to the SFC to become a responsible officer.

Fit and Proper Requirement

Persons applying for licenses under the SFO must satisfy and continue to satisfy after the grant of such licenses by the SFC that they are fit and proper persons to be so licensed. In simple terms, a fit and proper person means one who is financially sound, competent, honest, reputable and reliable.

REGULATORY ENVIRONMENT

In considering whether an applicant is a fit and proper person to be licensed under the SFO, the SFC will have regard to:

- (a) the financial status or solvency of the applicant;
- (b) the educational or other qualifications or experience of the applicant having regard to the nature of the functions to be performed;
- (c) the ability of the applicant to carry on the regulated activity competently, honestly and fairly;
- (d) the reputation, character, reliability and financial integrity of the applicant; and
- (e) any decisions made by competent authority or regulatory organization whether in Hong Kong or elsewhere in respect of the applicant.

The above matters will also be considered in respect of any officer of the applicant where the applicant is a corporation.

In considering the fitness and properness of a corporate applicant, the SFC will also take into account, among other things:

- (a) whether the applicant has established effective internal control procedures and risk management systems to ensure compliance with all applicable regulatory requirements;
- (b) the state of affairs of any other business which the applicant carries on or proposes to carry on; and
- (c) any information in the possession of the SFC relating to:
 - any substantial shareholder or officer of the applicant;
 - any person who is or is to be employed by, or associated with, the applicant for the purposes of the regulated activity in question;
 - any person who will be acting for or on behalf of the applicant in relation to the regulated activity in question; and
 - any other corporation in the same group of companies as the applicant, and any substantial shareholder or officer of any such intra-group company.

REGULATORY ENVIRONMENT

Continuing Obligations of Licensed Corporations

Licensed corporations, licensed representatives and responsible officers must remain fit and proper at all times. They are required to comply with all applicable provisions of the SFO and its subsidiary rules and regulations as well as the codes and guidelines issued by the SFC.

Outlined below are some of the key continuing obligations of a licensed corporation:

- maintenance of minimum paid-up share capital and liquid capital, and submission of financial returns to the SFC, in accordance with the requirements under the Securities and Futures (Financial Resources) Rules (as discussed in more detail below);
- maintenance of segregated account(s), and custody and handling of client securities in accordance with the requirements under the Securities and Futures (Client Securities) Rules;
- maintenance of segregated account(s), and holding and payment of client money in accordance with the requirements under the Securities and Futures (Client Money) Rules;
- issue of contract notes, statements of account and receipts, in accordance with the requirements under the Securities and Futures (Contract Notes, Statements of Account and Receipts) Rules;
- record keeping requirements prescribed under the Securities and Futures (Keeping of Records) Rules;
- submission of audited accounts and other required documents in accordance with the requirements under the Securities and Futures (Accounts and Audit) Rules;
- payment of annual fees and submission of annual returns to the SFC, within one month after each anniversary date of the license;
- maintenance of insurance against specific risks for specified amounts in accordance with the requirements under the Securities and Futures (Insurance) Rules;
- notification to the SFC of certain changes and events, in accordance with the requirements under Securities and Futures (Licensing and Registration) (Information) Rules;
- complying with the continuous professional training requirements under the Guidelines on Continuous Professional Training issued by the SFC;

REGULATORY ENVIRONMENT

- implementation of appropriate policies and procedures relating to customer acceptance, customer due diligence, record keeping, identification and reporting of suspicious transactions and staff screening, education and training, in accordance with the requirements under the Prevention of Money Laundering and Terrorist Financing Guidance Note issued by the SFC (as discussed in more detail below); and
- business conduct requirements under the Code of Conduct for Persons Licensed by or Registered with the SFC, the Management, Supervision and Internal Control Guidelines for Persons Licensed by or Registered with the SFC, and other applicable codes and guidelines issued by the SFC.

Securities and Futures (Financial Resources) Rules (“Financial Resources Rules”)

Subject to certain exemptions described below, a licensed corporation is required to maintain minimum paid-up share capital of:

- HK\$5,000,000 – in the case of: (i) a corporation licensed for Type 1 regulated activity that does not provide securities margin financing; (ii) a corporation licensed for Type 2 or Type 7 regulated activity; (iii) a corporation licensed for Type 3 regulated activity that is an approved introducing agent; (iv) a corporation licensed for Type 4, Type 5, Type 9 or Type 10 regulated activity that is not subject to the licensing condition that it shall not hold client assets; or (v) a corporation licensed for Type 6 regulated activity that is subject to the no sponsor work licensing condition (but is not subject to the licensing condition that it shall not hold client assets);
- HK\$10,000,000 – in the case of (i) a corporation licensed for Type 1 regulated activity that provides securities margin financing; (ii) a corporation licensed for Type 8 regulated activity; or (iii) a corporation licensed for Type 6 regulated activity that is not subject to the no sponsor work licensing condition; or
- HK\$30,000,000 – in the case of a corporation licensed for Type 3 regulated activity that is not an approved introducing agent.

There is no minimum paid-up share capital requirement if the corporation is (i) licensed for Type 1 regulated activity and is an approved introducing agent or a trader; (ii) licensed for Type 2 regulated activity and is an approved introducing agent, a trader or a futures non-clearing dealer; (iii) licensed for Type 4, Type 5, Type 9 or Type 10 regulated activity that is subject to the licensing condition that it shall not hold client assets; or (iv) licensed for Type 6 regulated activity that is subject to both the licensing condition that it shall not hold client assets and the no sponsor work licensing condition.

REGULATORY ENVIRONMENT

Pursuant to the Financial Resources Rules, a licensed corporation shall also maintain minimum liquid capital of the higher of the amount of (a) and (b) below:

- (a) the amount of:
- HK\$100,000 – in the case of a corporation licensed for Type 4, Type 5, Type 6, Type 9 or Type 10 regulated activity that is subject to the licensing condition that it shall not hold client assets;
 - HK\$500,000 – in the case of (i) a corporation licensed for Type 1 regulated activity that is an approved introducing agent or trader; or (ii) a corporation licensed for Type 2 that is an approved introducing agent, a trader or a futures non-clearing dealer; or
 - HK\$3,000,000 – in the case of (i) a corporation licensed for Type 1 regulated activity that is not an approved introducing agent or a trader; (ii) a corporation licensed for Type 2 that is not an approved introducing agent, a trader or a futures non-clearing dealer; (iii) a corporation licensed for Type 3 regulated activity that is an approved introducing agent; (iv) a corporation licensed for Type 4, Type 5, Type 6, Type 9 or Type 10 regulated activity that is not subject to the licensing condition that it shall not hold client assets; or (v) a corporation licensed for Type 7 or Type 8 regulated activity; or
 - HK\$15,000,000 – in the case of a corporation licensed for Type 3 regulated activity that is not an approved introducing agent; and
- (b) its variable required liquid capital, as defined in the Financial Resources Rules.

If the licensed corporation is licensed for more than one type of regulated activity, the minimum paid-up share capital and liquid capital that the corporation should maintain shall be the highest amount required among those regulated activities.

Anti-Money Laundering and Terrorist Financing

Licensed corporations are also required to comply with applicable anti-money laundering laws and regulations in Hong Kong, as well as the Prevention of Money Laundering and Terrorist Financing Guidance Note (“Guidance Note”) issued by the SFC.

The Guidance Note sets out the steps that a licensed corporation and its representatives should implement to discourage and identify any money laundering or terrorist financing activities. Under the Guidance Note, licensed corporations should, among other things:

- develop customer acceptance policies and procedures to identify the types of customers that are likely to pose a higher than average risk of money laundering and terrorist financing;

REGULATORY ENVIRONMENT

- take all reasonable steps to establish the true and full identity of each customer, and of each customer's financial situation and investment objectives;
- ensure compliance with all applicable record keeping requirements and maintain such records that are sufficient to permit reconstruction of individual transactions; and
- conduct ongoing monitoring for identification of suspicious transactions and ensure compliance with their legal obligations of reporting funds or property known or suspected to be proceeds of crime or terrorist property to the Joint Financial Intelligence Unit, a unit jointly run by the Hong Kong Police Force and the Hong Kong Customs & Excise Department to monitor and investigate suspected money laundering.

We set out below a brief summary of the principal legislation concerned with money laundering and terrorist financing in Hong Kong.

(1) Drug Trafficking (Recovery of Proceeds) Ordinance (Chapter 405 of the Laws of Hong Kong) ("DTROP")

Among other things, the DTROP contains provisions for the investigation of assets suspected to be derived from drug trafficking activities, the freezing of assets on arrest and the confiscation of the proceeds from drug trafficking activities. It is an offence under the DTROP if a person deals with any property knowing or having reasonable grounds to believe it to represent the proceeds of drug trafficking. The DTROP requires a person to report to an authorized officer if he/she knows or suspects that any property (directly or indirectly) represents the proceeds of drug trafficking or is intended to be used or was used in connection with drug trafficking, and failure to make such disclosure constitutes an offence under the DTROP.

(2) Organized and Serious Crimes Ordinance (Chapter 455 of the Laws of Hong Kong) ("OSCO")

Among other things, the OSCO empowers officers of the Police and the Customs and Excise Department to investigate organized crime and triad activities, and it gives the courts jurisdiction to confiscate the proceeds of organized and serious crimes, to issue restraint orders and charging orders in relation to the property of defendants of specified offences. The OSCO extends the money laundering offence to cover the proceeds of all indictable offences in addition to drug trafficking.

REGULATORY ENVIRONMENT

(3) *United Nations (Anti-Terrorism Measures) Ordinance (Chapter 575 of the Laws of Hong Kong) (“UNATMO”)*

Among other things, the UNATMO provides that it would be a criminal offence to: (i) provide or collect funds (by any means, directly or indirectly) with the intention or knowledge that the funds will be used to commit, in whole or in part, one or more terrorist acts; or (ii) make any funds or financial (or related) services available, directly or indirectly, to or for the benefit of a person knowing that, or being reckless as to whether, such person is a terrorist or terrorist associate. The UNATMO also requires a person to report his knowledge or suspicion of terrorist property to an authorized officer, and failure to make such disclosure constitutes an offence under the UNATMO.

HISTORY AND CORPORATE STRUCTURE

OUR HISTORY

The history of our Company traces back to August 1988 when Shanghai Haitong Securities Company* (上海海通證券公司), our Company's predecessor, was established in the PRC as an enterprise owned by the whole people (全民所有制企業) with a registered share capital of RMB10 million and solely funded by Bank of Communications, Shanghai Branch.

We were one of the founding members of the Shanghai Stock Exchange in 1990, and we became a member of the Shenzhen Stock Exchange when it started admitting members in 1992.

On September 27, 1994, our Company was converted into a limited liability company, and was renamed as Haitong Securities Company Limited* (海通證券有限公司).

On January 28, 2002, upon approval from the CSRC and the Shanghai municipal government, Haitong Securities Company Limited was converted into a joint-stock limited liability company, and was renamed as Haitong Securities Co., Ltd* (海通證券股份有限公司).

On July 31, 2007, we were listed on the Shanghai Stock Exchange via a reverse takeover of SUABC with stock code 600837.

We provide a comprehensive range of financial products and services and primarily focus on five principal business lines in the PRC, including securities and futures brokerage (including margin financing and securities lending), investment banking, asset management, proprietary trading and direct investment. We also provide a variety of securities products and services overseas.

MAJOR INCREASE IN SHARE CAPITAL

On December 29, 2000, upon the approval from the CSRC, the registered share capital of our Company was increased to RMB3,746,928,000.

On December 6, 2002, upon the approval from the CSRC, the registered share capital of our Company was increased to RMB8,734,438,870.

On July 6, 2007, the registered share capital of our Company was changed to RMB3,389,272,910 as a result of the reverse takeover of SUABC.

On November 21, 2007, the registered share capital of our Company was increased to RMB4,113,910,590 as a result of issuance of 724,637,680 shares in a non-public offering.

On June 11, 2008, upon the approval by our Shareholders in the 2007 Shareholders' meeting, we distributed a cash dividend of RMB411,391,059 together with a total of 1,234,173,177 bonus shares, and a total of 2,879,737,413 A Shares by converting a portion of our capital reserve into share capital. As a result, our total share capital was increased to RMB8,227,821,180.

HISTORY AND CORPORATE STRUCTURE

BUSINESS MILESTONES IN OUR HISTORY

We have achieved the following important milestones in the history of our business:

- 1990 In November, we became one of the founding members of the Shanghai Stock Exchange.
- 1992 In January, we started our B share business.
- In July, we were admitted as a member of the Shenzhen Stock Exchange.
- 1999 In April, Fullgoal Fund Management, one of the first ten fund management companies authorized by the CSRC to provide asset management services in the PRC, was established, and we held 27.775% of its equity interests as of the Latest Practicable Date.
- 2003 In April, HFT Investment Management was established in the PRC, and we held 51.00% of the equity interests of HFT Investment Management as of the Latest Practicable Date.
- 2004 In October, we established Haitong-Fortis PE Management (the first private equity fund management company in the PRC) to act as the manager of the China-Belgium Fund (the first industrial private equity fund approved by PRC government) which was jointly set up by the governments of the PRC and Belgium in November; we held 67.00% of the equity interest in Haitong-Fortis PE Management as of the Latest Practicable Date.
- 2005 In May, we were qualified by the SAC as one of the pilot innovative securities companies.
- In August, we took over the business of Gansu Securities Co., Ltd.* (甘肅證券有限責任公司), with its nine sales branches, six services branches and all of its operational assets and necessary trading seats in relation to functional division associated with brokerage business, increasing our customer base and branch offices.
- In October, we acquired 56.67% of the equity interest in Shanghai Huanghai Futures Brokerage Co., Ltd.* (上海黃海期貨經紀有限公司), currently known as Haitong Futures, which marked the launch of our futures business; we held 66.67% of its equity interest as of the Latest Practicable Date.
- In December, we took over the securities business of Xing'an Securities Co., Ltd. (興安證券有限責任公司), with its 23 sales branches, 30 services branches and all of its operational assets and necessary trading seats in relation to functional division associated with brokerage business, increasing our customer base and branch offices.

HISTORY AND CORPORATE STRUCTURE

- 2007 In July, our wholly-owned subsidiary Haitong Finance Holding (HK) Co., Ltd. (currently known as Haitong International Holdings) was incorporated in Hong Kong, through which we provide securities and futures brokerage, margin financing and securities lending, corporate finance and advisory services and asset management products and services.
- In July, our A Shares were listed on the Shanghai Stock Exchange with the stock code 600837 via a reverse takeover of SUABC.
- 2008 In January, we were approved by the CSRC as a QDII.
- In April, we were permitted by the CSRC to provide futures IB business.
- In July, we were approved by the CSRC as one of the pilot companies in direct investment, and in October, we incorporated Haitong Capital Investment, a wholly-owned subsidiary, to develop the direct investment business.
- In July, we were first granted an “AA” rating by the CSRC, and have received such a rating for the past four consecutive years.
- 2009 In December, through Haitong Finance Holding (HK) Co., Ltd. (currently known as Haitong International Holdings), we acquired 52.86% of the equity interest of Taifook Securities (currently known as Haitong International Securities), a company listed on the Hong Kong Stock Exchange with stock code 00665, and through a series of purchase and loan capitalization, we increased our equity interest to 69.74% as of the Latest Practicable Date.
- 2010 In February, Haitong Futures qualified as one of the first PRC futures companies to open accounts for stock index futures tradings.
- In March, we qualified as one of the first PRC securities companies to participate in the pilot program of margin financing and securities lending.
- In August, a subsidiary of Taifook Securities (currently known as Haitong International Securities) successfully launched the first offshore RMB fixed income fund in Hong Kong.
- In November, Taifook Securities was renamed as Haitong International Securities.
- 2011 In June, we applied to the CSRC to establish a subsidiary engaging in investment services of alternative financial products.
- 2012 In January, a subsidiary of Haitong International Securities successfully launched one of the first offshore investment funds which invest in the domestic securities market through RQFII.

OUR KEY SUBSIDIARIES AND AFFILIATES

Our key subsidiaries and affiliates include:

1. HFT Investment Management

HFT Investment Management was established in April 2003 with a registered capital of RMB150 million. Its main scope of business includes fund raising, fund sale, and asset management. We and BNPP IP BE Holding held 51% and 49% of the equity interest in HFT Investment Management as of the Latest Practicable Date, respectively. According to Measures for the Administration of Securities Investment Fund Management Companies (證券投資基金管理公司管理辦法) promulgated by CSRC on August 10, 2004 and effective from October 1, 2004, equity interest held by non-PRC shareholders in a securities investment fund management company incorporated under the PRC law shall not exceed 49%. Upon Listing, the aggregate of equity interest percentage in HFT Investment Management held by BNPP IP BE Holding and that held by the H Share Shareholders through the Company, which, under the Administration of Securities Investment Fund Management Companies, represents the shareholding percentage of the H Shareholders in the Company multiplied by the equity interest percentage of the Company in HFT Investment Management, will exceed 49%. Accordingly, we have undertaken to the CSRC to take appropriate measures to ensure the shareholding structure of HFT Investment Management complies with the relevant regulatory requirements within one year following the Listing.

2. Haitong International Holdings and Haitong International Securities

Haitong International Holdings, our wholly-owned subsidiary, was incorporated in July 2007 in Hong Kong with an authorized capital of HK\$4 billion. Haitong International Securities is a company listed on the Hong Kong Stock Exchange with stock code 00665. As of the Latest Practicable Date, 69.74% of its equity interest was held by Haitong International Holdings. The main scope of business of these two companies includes investment holding, brokerage business, corporate finance and asset management business authorized by Hong Kong securities regulatory rules through various subsidiaries, and other businesses.

HISTORY AND CORPORATE STRUCTURE

3. Haitong Futures

Haitong Futures is a limited liability company incorporated in the PRC in March 1993 with a registered capital of RMB1.0 billion. Its main scope of business includes commodity futures brokerage and financial futures brokerage.

4. Haitong Capital Investment and its subsidiaries

Haitong Capital Investment, our wholly-owned subsidiary, was established in October 2008 with a registered capital of RMB4 billion. Its main scope of business includes equity investments in domestic enterprises, investment in treasury bonds and central bank notes, financial advisory services on equity investment, and establishment of direct investment funds. Haitong Jihe Management and Haitong Chuangxin Management are subsidiaries of Haitong Capital Investment.

Haitong Jihe Management was established in November 2010 with a registered share capital of RMB50 million. Its main scope of business includes management of equity investment and investment consultancy.

Haitong Chuangxin Management was established in February 2011 with a registered share capital of RMB50 million. Its main scope of business includes investment management, asset management, investment consultancy, industrial investment, and venture capital investment.

5. Haitong-Fortis PE Management

Haitong-Fortis PE Management was established in October 2004 with a registered capital of RMB20 million. Its main scope of business includes industrial investment fund management, investment advisory, and establishment of investment funds by way of promotion.

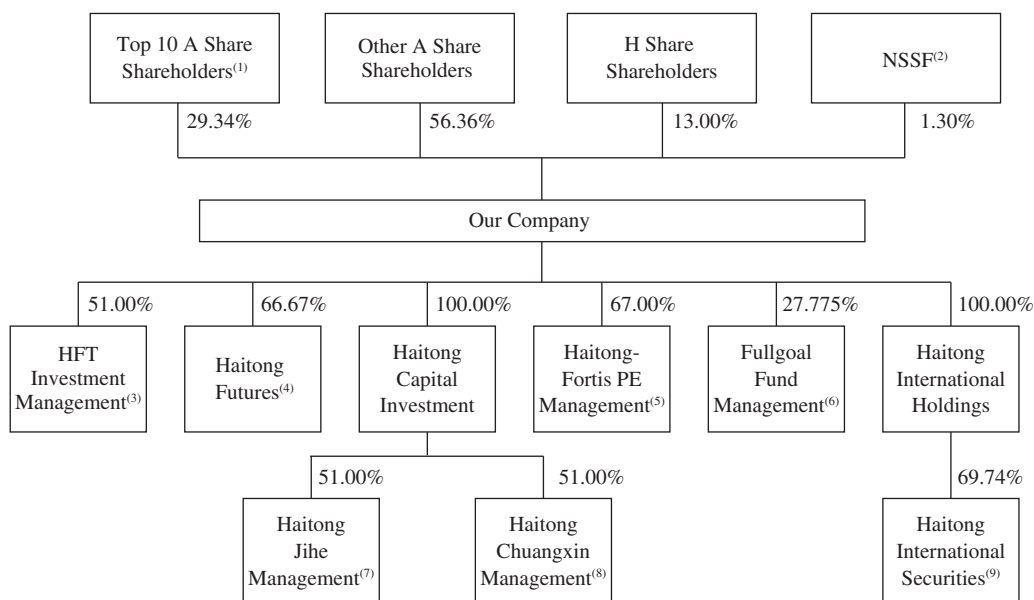
6. Fullgoal Fund Management

Fullgoal Fund Management was established in April 1999 with a registered capital of RMB180 million. Its main scope of business includes the provision of traditional fund management services, fund raising, fund sale, and asset management.

HISTORY AND CORPORATE STRUCTURE

OUR SHAREHOLDING AND GROUP STRUCTURE

The following chart sets out our simplified shareholding structure and key subsidiaries and affiliates, immediately following the completion of the Global Offering (assuming there is no change in the number of Shares held by the top ten A Share Shareholders of our Company and the shareholdings held by our Company in our subsidiaries after the Latest Practicable Date and the Over-allotment Option is not exercised):



- (1) The top ten shareholders of our Company are Bright Food (Group) Co., Ltd., Shanghai Haiyan Investment Management Company Limited, Shanghai Electric (Group) Corporation, Shenergy Group Company Limited, Shanghai Jiushi Company, Shanghai Shangshi, Shanghai Friendship Group Incorporated Company, Wenhui-Xinmin United Press Group, Shanghai Lansheng Corporation, and Liaoning Energy Investment (Group) Co., Ltd. Immediately following completion of the Global Offering, none of the top ten A Share Shareholders will directly or indirectly control, or is entitled to exercise, or control the exercise of, 5% or more of our total issued share capital. As of the Latest Practicable Date, to the Directors' best knowledge, eight of our ten largest shareholders are controlled by Shanghai SASAC and such shareholders held an aggregate of approximately 27.94% shareholding in the Company. However, under the Hong Kong Listing Rules, a PRC Governmental Body as defined under Rule 19A.04 such as Shanghai SASAC is normally not considered as a Connected Person or a controlling shareholder of a PRC issuer.
- (2) H Shares that are converted from an equal number of A Shares immediately after the completion of the Global Offering (assuming the Over-allotment Option is not exercised) are held by the NSSF. For details, please see "Share Capital – Share Capital – Transfer of the State-owned Shares to the NSSF" in this prospectus.
- (3) The rest of the equity interest in HFT Investment Management is held by BNPP IP BE Holding. BNPP IP BE Holding is a member of BNP Group, which is in turn a banking group headquartered in Paris, France. The principal businesses of BNP Group are retail banking, corporate and investment banking, and investment solutions. Investment solutions provides integrated solutions to investors (including institutional investors, businesses, individuals and high net worth clients) and to its distribution partners. Investment solutions' services encompass amongst others wealth management, asset management and securities services. BNP Group is a Connected Person of our Group due to and solely due to its shareholding in HFT Investment Management and Haitong-Fortis PE Management.

HISTORY AND CORPORATE STRUCTURE

- (4) The rest of the equity interest in Haitong Futures is held by Shanghai Shengyuan Real Estate (Group) Co., Ltd.* (上海盛源房地產(集團)有限公司) (“Shanghai Shengyuan Real Estate (Group)”). Shanghai Shengyuan Real Estate (Group) is a limited liability company incorporated in the PRC and primarily engaged in the development and valuation of real estate, maintenance of real estate properties, and management of real estate properties. Shanghai Shengyuan Real Estate (Group) is an independent third party.
- (5) The rest of the equity interest in Haitong-Fortis PE Management is held by BNPP IP BE Holding. BNPP IP BE Holding is a member of BNP Group, which is in turn a banking group headquartered in Paris, France. The principal businesses of BNP Group are retail banking, corporate and investment banking, and investment solutions. Investment solutions provides integrated solutions to investors (including institutional investors, businesses, individuals and high net worth clients) and to its distribution partners. Investment solutions’ services encompass amongst others wealth management, asset management and securities services. BNP Group is a Connected Person of our Group due to and solely due to its shareholding in HFT Investment Management and Haitong-Fortis PE Management.
- (6) The rest of the equity interest in Fullgoal Fund Management is held by Shenyn & Wanguo Securities Co., Ltd. (27.775%), Bank of Montreal (27.775%), and Shandong International Trust Corporation (16.675%), respectively. Shenyn & Wanguo Securities Co., Ltd. is a limited liability company incorporated in the PRC, and it is primarily engaged in securities brokerage, securities investment advisory, financial advisory related to securities trading and investment, proprietary trading, securities underwriting and sponsoring, asset management, futures IB business and margin financing and securities lending business. Bank of Montreal is a banking group the headquarters of which is in Canada, and it is primarily engaged in investment and corporate banking and wealth management. Shandong International Trust Corporation is a limited liability company incorporated in the PRC; it is primarily engaged in various trust business, investment banking business and proprietary trading. Each of Shenyn & Wanguo Securities Co., Ltd., Bank of Montreal and Shandong International Trust Corporation is an independent third party.
- (7) The rest of the equity interest in Haitong Jihe Management is held by Jilin Investment Group Co., Ltd.* (吉林省投資(集團)有限公司) (43%) and Hangzhou Wulian Investment Management Company* (杭州五聯投資管理有限公司) (6%). Jilin Investment Group Co., Ltd. is a limited liability company incorporated in the PRC and it is primarily engaged in investment, financing, asset management and investment consultancy business. Hangzhou Wulian Investment Management Company is a limited liability company incorporated in the PRC, and it is primarily engaged in investment management consultancy. Jilin Investment Group Co., Ltd. is a Connected Person of our Group due to and solely due to its shareholding in Haitong Jihe Management. Hangzhou Wulian Investment Management Company is an independent third party.
- (8) The rest of the equity interest in Haitong Chuangxin Management is held by Xi’an Space Center Chuangxin Investment Co., Ltd.* (西安航天基地創新投資有限公司). Xi’an Space Center Chuangxin Investment Co., Ltd. is a limited liability company incorporated in the PRC and it is primarily engaged in investment in high-tech projects, investment consultancy and management consultancy business. Xi’an Space Center Chuangxin Investment Co., Ltd. is a Connected Person of our Group due to and solely due to its shareholding in Haitong Chuangxin Management.
- (9) Haitong International Securities is a company listed on the Hong Kong Stock Exchange, the stock code of which is 00665. It was previously named Taifook Securities until November 2010.

BUSINESS

OVERVIEW

We are a leading full-service securities firm in the PRC with an integrated business platform, extensive branch network and substantial customer base. We have established prudent operating strategies and are the only major PRC securities firm founded in the 1980s that remains in operation under the same brand without receiving government-backed capital injections or being the target of a successful acquisition. Leveraging our integrated business platform, we provide a comprehensive range of financial products and services, and primarily focus on five principal business lines in the PRC, comprising securities and futures brokerage (including margin financing and securities lending), investment banking, asset management, proprietary trading and direct investment. We have gained leading market positions across multiple business lines in the PRC securities industry. We also provide a variety of securities products and services overseas.

We are one of the largest securities firms in the PRC. According to the SAC, we ranked second among all securities firms in the PRC in terms of total assets and net assets as of December 31, 2011 and second in terms of total revenue in 2011⁽¹⁾. As of December 31, 2011, we owned 216 securities and futures brokerage branches, the fourth largest branch network among all PRC securities firms according to the data from the Shanghai Stock Exchange and the China Futures Association. Headquartered in Shanghai, the financial center of the PRC, our branches are located across 27 provinces and 125 cities in the PRC. In addition, as of December 31, 2011, we operated 13 branches in Hong Kong and Macau through our Hong Kong-listed subsidiary, Haitong International Securities. As of December 31, 2011, we had over 4.0 million retail customers (including approximately 2.1 million active customers) and over 12,000 institutional and high net worth customers in the PRC. Our A Shares have been listed on the Shanghai Stock Exchange since July 2007. In July 2007, December 2007 and December 2008, we were admitted to the CSI 300 Index, the SSE 180 Index and the SSE 50 Index, respectively. In addition, in June 2008, our A Shares became one of the constituent stocks of the SSE Corporate Governance Index.

Our five principal business lines in the PRC include:

- *Securities and futures brokerage.* We engage in the trading of equities, bonds, funds and warrants, as well as futures on behalf of our customers, and also provide margin financing and securities lending and investment advisory services.
- *Investment banking.* We provide corporate finance services, including equity underwriting, debt underwriting and financial advisory services to our institutional clients.
- *Asset management.* We offer traditional asset management products and services through our Company and one of our subsidiaries, HFT Investment Management. We operate our private equity asset management business through our subsidiaries, Haitong-Fortis PE Management, Haitong Jihe Management and Haitong Chuangxin Management.

⁽¹⁾ The 2011 data from the SAC was based on the preliminary results of PRC securities firms.

BUSINESS

- *Proprietary trading.* We engage in the trading of equities, bonds, funds, derivatives and other financial products for our own account.
- *Direct investment.* We make direct equity investments in private companies and earn capital gains by exiting from these private equity investments through IPOs or share sales, or by receiving dividends from these portfolio companies. In addition, we invest in private equity funds with our own capital.

We conduct our overseas business primarily through our Hong Kong-based subsidiary, Haitong International Holdings. Haitong International Securities, a subsidiary of Haitong International Holdings, is a leading full-service securities firm in Hong Kong. Haitong International Securities provides securities and futures brokerage, corporate finance and advisory services, asset management services and other securities products and services to a broad range of retail customers and institutional clients in Hong Kong and overseas.

Established in 1988, we have navigated through various market and business cycles, regulatory reforms and industry developments over our 23 years of operating history, including the Asian financial crisis in 1997 and the most recent global financial crisis in 2008. We have established prudent corporate governance and effective risk management and internal control systems to reduce our exposure to various risks in the securities markets. In recognition of our strong capital position, effective risk management and internal control systems, as well as our proven track record, we have received an “AA” regulatory rating from the CSRC for the past four consecutive years, the highest rating given to a PRC securities firm to date.

Leveraging our prudent operating strategies and proven execution capabilities, we have gained leading market positions in securities and futures brokerage, investment banking and other traditional businesses in the PRC, which have experienced steady growth in recent years. According to the data from the SAC, the Shanghai Stock Exchange, the Shenzhen Stock Exchange and the CSRC, among all PRC securities firms, we ranked:

- second in terms of total assets and net assets as of December 31, 2009, 2010 and 2011⁽¹⁾;
- among the top five in terms of securities brokerage trading volume in 2009, 2010 and 2011;
- third in terms of the number of equity securities underwritten in 2011; and
- in the top two in terms of the number of major asset restructuring transactions for listed domestic PRC companies we advised in 2009, 2010 and 2011.

(1) The 2011 data from the SAC was based on the preliminary results of PRC securities firms.

BUSINESS

We have also established leading positions in developing new businesses, such as margin financing and securities lending, stock index futures brokerage and direct investment businesses. We are frequently designated by the PRC regulatory authorities as one of the first PRC securities firms to participate in pilot programs for new securities products and services. Benefiting from our strong capital position, substantial customer base and proven execution capabilities, we have experienced rapid growth and achieved leading market positions in developing new businesses in the PRC securities industry, such as margin financing and securities lending, stock index futures brokerage and direct investment businesses. According to the data from the Shanghai Stock Exchange, the Shenzhen Stock Exchange and the China Financial Futures Exchange, we ranked:

- first among PRC securities firms in terms of margin trading volume in 2011, and in terms of margin loan balance and market value of securities lent as of December 31, 2011;
- first among PRC futures companies in terms of stock index futures brokerage trading volume in 2011; and
- second among PRC securities firms in terms of registered capital of direct investment subsidiaries as of December 31, 2011.

In recent years, we have received numerous awards and honors in recognition of our outstanding performance and management capabilities, including, among others:

- “2011 Best PRC Securities Firm” by Moneyweek;
- “2011 Best PRC Investment Bank” by Moneyweek;
- “2011 Most Respectable Investment Bank” by New Fortune Magazine;
- “2011 Best Margin Financing Broker” by Securities Times;
- “2011 Best IB Business Underwriter” by Securities Times;
- “2010 Best PRC Securities Firm” by 21st Century Business Herald;
- “2010 Top 10 PRC Investment Banks” by Moneyweek; and
- “2009 Best Securities Broker” by Securities Times.

BUSINESS

As of December 31, 2009, 2010 and 2011, we had total assets of RMB120,730.2 million, RMB115,413.1 million and RMB98,977.0 million, respectively, and total equity of RMB44,518.6 million, RMB45,616.8 million and RMB46,610.7 million, respectively. For the years ended December 31, 2009, 2010 and 2011, our total revenue and other income was RMB11,315.8 million, RMB11,304.9 million and RMB10,860.4 million, respectively, and our profit was RMB4,661.7 million, RMB3,868.2 million and RMB3,282.0 million, respectively.

COMPETITIVE STRENGTHS

We believe the following competitive strengths contribute to our success and distinguish us from our competitors:

Full-service securities firm in the PRC with leading market positions across multiple business lines

We are one of the largest securities firms in the PRC. According to the SAC, we ranked second among PRC securities firms in terms of total assets and net assets as of December 31 2009, 2010 and 2011⁽¹⁾, respectively. We primarily focus on five principal business lines in the PRC, including securities and futures brokerage, investment banking, asset management, proprietary trading and direct investment. Each of these businesses contributed 38.3%, 9.8%, 10.1%, 10.5% and 0.5%, respectively, to our total revenue and other income in 2011. Our overseas business, conducted primarily through Haitong International Holdings, contributed 8.8% to our total revenue and other income in 2011.

With our extensive network, substantial customer base and proven track record, we have gained leading market positions in the securities and futures brokerage and investment banking businesses in the PRC and have established a well-recognized brand. According to the Shanghai Stock Exchange and the Shenzhen Stock Exchange, among PRC securities firms, we ranked among the top five in terms of securities brokerage trading volume in 2009, 2010 and 2011, among the top two in terms of the number of domestic listed PRC companies we advised on major asset restructuring transactions in 2009, 2010 and 2011 and third in terms of the number of equity securities underwritten in 2011. In addition, we have experienced rapid growth and achieved leading market positions in developing new businesses, such as margin financing and securities lending, stock index futures brokerage and direct investment.

Our diversified business model has allowed us to achieve sustainable growth. Our securities and futures brokerage and asset management businesses have achieved steady growth and provided us with stable revenue streams. In addition, our investment banking, proprietary trading, direct investment businesses and the development of new businesses have served as additional growth drivers. We believe our business model generates balanced revenue streams which provide sustainable profits and strong growth prospects.

In addition, we believe our integrated business platform has allowed us to benefit from revenue and cost synergies across different business lines and enhanced our capabilities to attract and retain customers by maximizing cross-selling opportunities and the sharing of business resources.

(1) The 2011 data from the SAC was based on the preliminary results of PRC securities firms.

BUSINESS

Strategically located branch network across the PRC with a substantial and stable customer base

We have an extensive nationwide branch network in the PRC. As of December 31, 2011, we had 216 securities and futures brokerage branches spanning across 27 provinces and 125 cities in the PRC, as well as 13 branches in Hong Kong and Macau operated through our subsidiary, Haitong International Securities. According to the data from the Shanghai Stock Exchange and the China Futures Association, we ranked fourth among all securities firms in the PRC in terms of the number of securities and futures brokerage branches as of December 31, 2011. In addition, in order to adapt to the evolving competitive landscape and development trends specific to different regions, we have established 20 branch offices in Beijing, Shanghai and several other provinces. Such branch offices directly manage and supervise regional securities brokerage branches and allow us to enhance management efficiency and resource allocation at our branches.

Our branches are also strategically located. We are headquartered in Shanghai, the financial center in the PRC. We first expanded into the Yangtze River Delta, Pearl River Delta and Bohai Rim where high net worth customers and SMEs are concentrated. As of December 31, 2011, approximately half of our securities brokerage branches were located in these well-developed regions. We also established branches in less penetrated regions such as the northeastern, central and western regions of the PRC. While expanding our traditional branch network, we have also developed a web-based platform, which our customers can use to trade online. In addition, our customer service representatives at our branches offer real-time advisory services to our customers. This has provided a solid foundation for attracting new customers and expanding our businesses. We believe that our balanced geographic coverage of branches in the PRC has enabled us to benefit from the rapid economic growth and accelerating urbanization in certain developing regions.

We believe our strategic geographic coverage has enabled us to provide localized services to our customers and capture growth potential and cross-selling opportunities among multiple business lines. For example, we have identified investment banking opportunities from our numerous SME customers covered by our branch network. Our extensive branch network and localized services also support our distribution of differentiated and value-added products and services, such as our wealth management products.

Leveraging our extensive and strategically located branch network, we have built a large and stable customer base. As of December 31, 2011, we had over 4.0 million retail customers (including approximately 2.1 million active customers) and over 12,000 institutional and high net worth customers in the PRC. Among these customers, approximately 76% had opened accounts with us for over three years and approximately 38% had a business relationship of over ten years with us.

BUSINESS

A pioneer in the PRC securities industry for offering new businesses

In recognition of our strong capital position, effective risk management and internal controls and proven execution capabilities, we are frequently designated by the regulatory authorities as one of the first few securities firms to participate in pilot programs for new businesses in the PRC securities industry, for example:

- in February 2010, we became one of the first few PRC securities firms approved by the CSRC to conduct a stock index futures brokerage business in the PRC;
- in March 2010, we were designated by the CSRC as one of the first six securities firms in the PRC to pilot run the margin financing and securities lending business;
- in October 2008, we became one of the first few PRC securities firms to launch a direct investment business. As early as 2004, we co-founded the China-Belgium Fund with other shareholders and established Haitong-Fortis PE Management to enter into the private equity investment and management businesses; and
- in April 2008, we were among the first few PRC securities firms approved by the CSRC to conduct futures IB business.

In recent years, we have experienced rapid growth and established leading market positions in our new businesses. According to data from the Shanghai Stock Exchange, the Shenzhen Stock Exchange and the China Financial Futures Exchange, we ranked:

- first among PRC securities firms in terms of margin trading volume during the year ended December 31, 2011, and in terms of margin loan balance and market value of securities lent as of December 31, 2011;
- first among PRC futures companies in terms of stock index futures brokerage trading volume in 2011; and
- second among PRC securities firms in terms of registered capital of direct investment subsidiaries as of December 31, 2011.

We believe our substantial customer base, strong capital position, extensive branch network, strong cross-selling and execution capabilities have enabled us to gain a first-mover advantage in offering new businesses. In addition, we believe our integrated business platform has enabled us to expand our new businesses quickly. For example, our sizable proprietary trading business has provided a sufficient pool of stocks to expand our securities lending business and our strong futures IB business platform has contributed to the rapid growth of our stock index futures and futures brokerage businesses.

BUSINESS

We believe that our leadership in new businesses could enable us to further expand our market share in traditional securities businesses. For example, our leading market position in margin financing and securities lending and stock index futures businesses has expanded our source of revenue, diversified our product and service offerings and enhanced customer loyalty in our brokerage business.

We expect the CSRC to continue to launch pilot programs and encourage the introduction of new businesses in the PRC securities markets. With the gradual relaxation of the PRC securities regulations, we believe we are well-positioned to capture future market opportunities by leveraging our leading market positions in multiple business lines and our first-mover advantage in new businesses.

Well-established international platform to capture growing cross-border business opportunities

In December 2009, we acquired a controlling interest in Taifook Securities in Hong Kong, which we subsequently renamed as Haitong International Securities. The acquisition and successful integration of Taifook Securities allowed us to establish a foothold in Hong Kong and provided a platform for further overseas expansion.

Haitong International Securities is one of the leading local full-service securities firms in Hong Kong, with 39 years of operating history, and has been awarded the best equity house in Hong Kong for over ten consecutive years by internationally renowned financial media, such as FinanceAsia, Asiamoney and Euromoney. Currently, through 13 branches in Hong Kong and Macau, two representative offices in Beijing and Shanghai and six investment advisory centers in six major cities in the PRC, Haitong International Securities serves over 145,000 brokerage customers with comprehensive securities and futures brokerage products and services, and other clients with corporate finance and advisory services and asset management services. Currently, there are only a small number of PRC securities firms which have listed business platforms in Hong Kong, among which Haitong International Securities has a long operating history, with the most extensive distribution network in Hong Kong.

The full-service overseas platform of Haitong International Securities and its overseas customer base and branch network have allowed us to capture increasing cross-border business opportunities and to meet changing customer demands in the Greater China region. We are well-positioned to benefit from potential cross-selling opportunities among our PRC and overseas customer bases. For example:

- we have successfully referred large PRC institutional and QDII brokerage clients, as well as corporate clients who intend to raise capital overseas to Haitong International Securities;
- with the potential launch of the International Board, Haitong International Securities is positioned to refer overseas clients who intend to raise capital in the PRC to our investment banking business; and

BUSINESS

- we are well-positioned to develop RQFII and QDII businesses through our PRC and Hong Kong platforms. In addition, our Hong Kong platform will continue to capture business opportunities arising from the on-going internationalization of the Renminbi. For example, a subsidiary of Haitong International Securities launched the first SFC-authorized public offshore Renminbi fund in Hong Kong in August 2010 and one of the first offshore investment funds which invest in the domestic securities market through RQFII in January 2012.

The overseas platform of Haitong International Securities enables us to enhance our brand recognition overseas. The successful acquisition and integration of Haitong International Securities have helped us realize our business strategy of capitalizing on growing cross-border business opportunities. It also provided us with a solid foundation for pursuing overseas acquisitions in the future.

Prudent corporate governance and effective risk management and internal control systems

We have navigated through various market and business cycles, regulatory reforms and industry developments over our 23 years of operating history, including the most recent global financial crisis in 2008. We have established prudent corporate governance, effective risk management and internal control systems to reduce our exposure to various risks in the securities markets. We are the only major PRC securities firm founded in the 1980s that remains in operation under the same brand without receiving government-backed capital or being the target of a successful acquisition.

Since our listing on the Shanghai Stock Exchange, we have maintained effective and transparent corporate governance measures as required by the Shanghai Stock Exchange and the CSRC. We have developed a comprehensive, firm-wide risk control system that effectively manages market risk, credit risk, liquidity risk and operational risk, and have received an “AA” regulatory rating from the CSRC for the past four consecutive years, the highest rating given to a PRC securities firm to date. We have also established effective Chinese walls and precautionary mechanisms across our business lines to prevent potential conflicts of interests. In addition, we have established an independent and centralized internal audit and compliance system, which effectively monitors our operations and transactions. In June 2008, our A Shares became one of the constituent stocks of the SSE Corporate Governance Index in recognition of our sound corporate governance.

In addition, we have no single shareholder owning more than 6.0% of our total outstanding A Shares as of December 31, 2011. Such shareholding structure allows our Board of Directors and senior management team to exercise independent judgment and a high level of professionalism, with a view to maximizing our corporate value in the best interest of all shareholders.

Experienced and stable management team with a highly proficient professional workforce

Our success is attributable to the sound leadership of our Directors and senior management. The majority of our Directors, including our Chairman and Vice Chairman, and members of our senior management, including our General Manager, Deputy General Manager, Chief Financial Officer and General Compliance Officer, have an average of 20 years of experience in the PRC financial and securities industries. Most of them have served us for over ten years.

BUSINESS

We believe that the strategic vision of our senior management team has distinguished us from our competitors and has allowed us to capture business opportunities arising from product innovation and globalization of the PRC securities industry. In recognition of the achievements of our senior management team, from 2008 to 2010, our Board of Directors was awarded as “Excellent Board of Directors” by the “Directors and Boards” magazine for each of years from 2008 to 2010. Our Chairman, Mr. Wang Kaiguo, was awarded “The Most Visionary Chairman of the Board” by “Directors and Boards” magazine in 2010. Our General Manager, Mr. Li Mingshan, was awarded “The Most Respected Chief Executive Officer of a PRC Securities Firm” by “Directors and Boards” magazine in 2011.

We have a highly proficient professional workforce. As of December 31, 2011, 5,377 of our employees held a bachelor’s or more advanced degree, representing 73.7% of the total number of our employees. Our Directors believe that the retention of key employees is attributable to our well-recognized brand name, business prospects and successful recruitment and customized professional training programs.

BUSINESS STRATEGIES

We aim to become a domestically top-tier and globally renowned financial group with a distinct focus on our securities business. Through continuous innovation and leveraging our international platform, we plan to focus on the PRC market and stay committed to core financial intermediary services, including our securities and futures brokerage, investment banking and asset management businesses. Further, we intend to expand and promote our proprietary trading and direct investment businesses to supplement our core financial intermediary businesses while generating competitive risk-adjusted returns. In addition, we plan to strengthen our business infrastructure, including risk management, research capabilities, IT and human resources, to support our business growth. Our specific strategies include the following:

Further enhance our leading market position and profitability in the securities and futures brokerage business

The securities and futures brokerage business is one of our core businesses with stable revenue streams and considerable growth potential. We believe our securities and futures brokerage business will continue to be a major source of revenue. We will continue to focus on serving retail customers, institutional clients and high net worth customers and expanding our futures and cross-border brokerage businesses. We plan to enhance our leading market position and profitability in the securities and futures brokerage business by improving our market share, increasing customer loyalty and enhancing pricing power through the implementation of the following strategies:

- further improving customer segmentation by offering customized investment solutions and differentiated products and services, such as investment advisory services, wealth management services, futures IB services and research reports support, to our high-end retail customers, institutional clients and high net worth customers;

BUSINESS

- actively promoting new businesses and products, such as margin financing and securities lending and stock index futures brokerage, and enhancing cross-selling capabilities by leveraging our integrated business platform in order to diversify the revenue composition and optimize the profit-making model of our brokerage business;
- organically broadening our coverage and optimizing operating efficiency by strategically positioning our branches, such as establishing, subject to the PRC regulatory approvals, a number of new branches each year in central and western regions and second and third-tier cities of the PRC, which we believe are less penetrated and offer significant growth potential, and introducing flagship branches as permitted by the CSRC that are established to offer financial products, investment advisory, wealth management and other value-added services, as well as improving the quality and training of our brokers who support our branch network expansion;
- capturing market consolidation and acquisition opportunities of selected securities firms in the PRC to enhance our geographic reach and market share; and
- leveraging Haitong International Securities' presence in Hong Kong to develop cross-border brokerage businesses in the PRC and overseas markets by offering comprehensive financial products and services to overseas customers to further expand our customer base while providing our domestic customers with access to international markets to further strengthen our competitiveness.

Maintain the growth momentum of our investment banking business and further integrate our business platform

Our investment banking business grew rapidly in recent years, and we believe it has significant growth potential. In addition, the rapid growth of our investment banking business will substantially enhance our brand name and provide cross-selling opportunities across different business lines. We plan to strengthen our market leadership in our investment banking business by implementing the following strategies:

- enhancing our customized investment banking solutions to clients, in particular those in the PRC financial, technology and cultural industries, while strengthening our coverage of both large corporations and SMEs. We cover large corporations by industry sectors and provide localized services to SMEs, including private enterprises;
- focusing on SMEs, in particular private enterprises, to better capture business opportunities arising from the fast growing ChiNext Board and SME Board, as well as the potential launch of the New OTC Board in the PRC;

BUSINESS

- maximizing synergies between our PRC and overseas business platforms to capture new business opportunities, such as the increasing demand for overseas fundraising by PRC enterprises and the potential launch of the International Board in the PRC, and to capitalize on potential cross-selling opportunities;
- strengthening our debt underwriting capabilities and financial advisory services to capture the growth potential of debt financing and M&A activities in the PRC capital markets, and increase their revenue contribution;
- further developing our equity and debt capital markets divisions to enhance our pricing and distribution capabilities; and
- integrating the back office operations of equity underwriting, debt underwriting and financial advisory services to improve operating efficiency.

Strategically expand our asset management business to provide comprehensive product offerings to meet increasing and diversifying customer demands

We believe our asset management business is a strategically important business with long-term growth potential and will allow us to improve our revenue composition and effectively serve our retail and institutional clients with sizable investment assets.

We will leverage our extensive branch network and substantial customer base to capture potential cross-selling opportunities between our asset management business and other business lines and to further develop our asset management products and services in order to increase the range of our product suites, our AUM and operating income.

For our traditional asset management business, we plan to implement the following to broaden our product and service offerings, enhance our ability to design new and customized products, integrate our distribution channels and improve the quality of customer service:

- building on HFT Investment Management's platform of mutual fund products that are primarily offered to retail customers, we intend to actively expand asset management services for institutional clients, such as enterprise annuity and investment advisory services for QFII;
- continuing to expand Fullgoal Fund Management's mutual fund products that are primarily offered to retail customers, further enhancing its brand name and expediting the development of product distribution channels; and
- establishing a wholly-owned asset management subsidiary to serve mid to high-end retail customers and high net worth individual customers. Such subsidiary will adopt an optimized investment decision-making process and an enhanced performance appraisal system with market-driven incentive schemes to attract and retain professionals.

BUSINESS

For our alternative asset management business, we intend to continue to focus on private equity asset management and other relevant businesses by implementing the following:

- leveraging our competitive advantages in the direct investment business to establish a leading franchise in private equity asset management; and
- expanding our alternative asset management services and providing new products such as real estate investment trusts and commodity trading advisory services to meet the diversified demand of our customers.

Continue to expand and promote new businesses and products with high growth potential

The development of new businesses is key to our continued growth and successful transformation. These new businesses will enhance our service quality and customer loyalty, strengthen our competitive advantage in traditional businesses and contribute to additional revenue growth. We will keep abreast of market dynamics and continue to expand and compete through new and differentiated products and services with high growth potential.

We intend to further enhance our existing new businesses by implementing the following strategies:

- *Margin financing and securities lending:* Our margin financing and securities lending service is a value-adding service, which allows our securities brokerage customers to diversify their trading strategies while promoting customer loyalty. We believe margin financing and securities lending will not only help maintain our market leading position in securities brokerage but also expand our revenue streams. On October 26, 2011, the CSRC converted margin financing and securities lending business from a pilot program conducted by CSRC-designated PRC securities firms to a regular business operation available to all the PRC securities firms that meet certain requirements. In addition, on the same day, the CSRC promulgated the Trial Supervision and Management Measures on Margin and Securities Refinancing Business (轉融通業務監督管理試行辦法) pursuant to which we expect a pilot program for the margin and securities refinancing business to be launched in the PRC. On December 5, 2011, the Shanghai Stock Exchange and the Shenzhen Stock Exchange further expanded the scope of securities eligible for the margin financing and securities lending business from 90 stocks to 278 stocks and 7 ETFs. Please see “– Our Business and Operations – Securities and Futures Brokerage – Margin financing and securities lending.” In order to capture the new business opportunities, we aim to expand our margin financing and securities lending business by (i) deploying additional capital to expand the scale of such business; (ii) promoting cross-selling in order to increase customer penetration; and (iii) developing our margin and securities refinancing business in order to enhance our financial leverage and, as a result, the profitability of our margin financing and securities lending business.

BUSINESS

- *Direct investment:* Our direct investment business allows us to further expand our private equity asset management business and positions our investment banking business to capture future opportunities in securities underwriting for our SME customers. We intend to increase capital contributions in Haitong Capital Investment and to continue to establish, invest in, and manage a variety of private equity funds to further develop our private equity asset management business. For example, we invested in Jilin Modern Agricultural and Emerging Industrial Investment Fund (吉林省現代農業和新興產業投資基金) and Xi'an Aerospace and New Energy Industry Fund (西安航天新能源產業基金), which are managed by Haitong Jihe Management and Haitong Chuangxin Management, respectively, both of which are subsidiaries of Haitong Capital Investment. In addition, we have gained approval from the Shanghai municipal government and the CSRC to establish the Shanghai Cultural Industry Fund.
- *Financial futures and other derivatives business:* The development of financial futures and other derivatives products such as stock index futures which was launched in February 2010 enables us to offer our brokerage and asset management customers comprehensive investment solutions and to reduce volatility in our proprietary trading business. We plan to increase capital contributions to expand our financial futures and other derivatives business, including, but not limited to, stock index futures and other financial derivative products, such as interest rate futures and options and foreign currency futures and options, when they are introduced to the market. Meanwhile, we will adhere to our stringent risk management procedures as we grow this business.

In addition, we also intend to promote the following newly-introduced securities businesses:

- *Alternative financial product investment:* We plan to invest in alternative financial products to enhance the diversity and stability of our proprietary trading business while developing a market-making business to facilitate trading and issuance of financial products. According to regulations promulgated by the CSRC in April 2011, in addition to the three categories of investment products that have been approved for trading, PRC securities firms can also establish subsidiaries to engage in investment activities involving alternative financial products, such as derivative investment, trust and inter-bank wealth management products. We became the first PRC securities firm to apply to the CSRC in July 2007 for establishing such a subsidiary to diversify our investment product suite, such as developing our market making business and broadening our revenue streams. Please see “– Our Business and Operations – Proprietary Trading.” We plan to contribute RMB3.0 billion to our proposed subsidiary for alternative financial product investments as initial registered capital. We expect to build a team of professional staff with two to five years of experience in derivative and alternative financial product investments. We intend to independently operate this business through our designated subsidiary and establish a risk control management system through which we can designate its

BUSINESS

directors, impose investment limitations, formulate risk control indicators, establish an effective reporting structuring and perform regular inspections and reviews. We have also conducted a feasibility study with respect to the alternative financial product investment business, which was presented to our Board of Directors for consideration and was subsequently approved.

Going forward, we will continue to seek opportunities in new businesses in response to changes in PRC regulatory requirements, market trends and customer demands, and to capture new business opportunities, such as the potential launch of the International Board, the New OTC Board, margin and securities refinancing and financial derivatives in the PRC by capitalizing on our strong capital position, integrated business platform and innovation, execution and risk management capabilities.

Actively pursue our internationalization strategy to capture cross-border opportunities

Our internationalization strategy forms an important part of our overall business strategy. We aim to implement a customer-focused strategy to satisfy our customers' increasing demands for cross-border financial services and further enhance our ability to service our customers in the PRC and overseas, optimize our revenue composition and enhance our brand recognition overseas.

By leveraging Haitong International Holdings as the flagship of our overseas business, we plan to expand the scale of our overseas operations and business platform through organic growth and/or acquisitions. Our criteria for overseas acquisition targets include: (i) meaningful presence in local markets; (ii) complementary business and synergies with our business; (iii) ability for us to exercise control in the target; and (iv) likelihood to strengthen our existing customer base, distribution network and professional expertise. As of the Latest Practicable Date, we have not identified any specific acquisition targets.

We also intend to implement the following strategies with respect to our existing international platform:

- strengthening Haitong International Securities' leading position in Hong Kong market and taking advantage of its proximity to overseas markets, sales network and international customer base;
- expanding cross-selling opportunities among PRC and overseas customers and developing new businesses by capitalizing on Hong Kong's position at the forefront of the internationalization of RMB. We intend to offer more RMB-related products and services, such as RMB funds, RMB-denominated IPOs, RMB bond underwriting and RQFII products; and
- developing cross-border business and realizing synergies between our PRC and overseas businesses, especially in the areas of investment banking, asset management, securities brokerage and research. For example, our PRC and overseas businesses can refer investment banking, assets management and securities brokerage customers to each other and share research resources.

BUSINESS

Strengthen our risk management systems, internal controls, IT capabilities, research capabilities and human resource management to support our business operations

We believe an effective risk management system, internal controls, research and IT capabilities and human resource management are essential to developing a sustainable business and maintaining our market leadership. We plan to strengthen our overall risk management and regulatory compliance by implementing the following strategies:

- enhancing our internal control and risk management framework;
- strengthening our risk management capabilities through classification of risk profile;
- enhancing the monitoring system of the Net Capital-based risk control indicators and optimizing capital allocation efficiency among different business lines; and
- strengthening the Chinese walls across various business divisions.

We recognize the importance of a strong research team to the development of our principal business lines. We will continue to enhance our research capability to support our business development by:

- expanding our research team and enhancing its market recognition;
- upgrading our research knowledge management and database infrastructure; and
- increasing our research coverage for listed companies in the PRC and developing our overseas research capabilities in a focused manner.

We also plan to devote more resources to enhance our IT systems in order to provide efficient, secure and stable technology services to support our business operations. We plan to strengthen our IT systems by implementing the following strategies:

- conducting a full review of our IT infrastructure and strengthening our IT administration and risk management capabilities;
- further strengthening the development of our IT infrastructure; and
- upgrading critical IT applications relating to our operational and management functions.

Our success, to a large extent, depends on our ability to attract, motivate and retain professional and experienced personnel. In order to maintain our competitive advantage in the marketplace, we intend to:

- continue to attract and retain qualified professionals, such as senior management, licensed sponsor representatives and experienced investment managers with international vision;

BUSINESS

- offer professional training to our employees and provide clear career advancement and comprehensive development opportunities; and
- promote a merit-based compensation system across all business lines and continue to support and recognize the importance of a market-driven compensation system that rewards performance and results.

OUR BUSINESS AND OPERATIONS

Our five principal business lines in the PRC comprise securities and futures brokerage (including margin financing and securities lending), investment banking, asset management, proprietary trading and direct investment. In addition, we conduct our overseas business primarily through our Hong Kong-based subsidiary, Haitong International Holdings.

The following table sets forth the breakdown of our total revenue and other income by business segments and segment revenue and other income (excluding inter-segment revenue), expressed as a percentage of our total revenue and other income for the periods indicated:

	Year ended December 31,					
	2009		2010		2011	
	(RMB in millions)	%	(RMB in millions)	%	(RMB in millions)	%
PRC business						
Securities and futures brokerage	7,284.0	64.4	5,774.8	51.1	4,163.1	38.3
Investment banking	496.8	4.4	1,091.7	9.7	1,068.6	9.8
Asset management	878.9	7.8	868.5	7.7	1,092.1	10.1
Proprietary trading	804.8	7.1	779.8	6.9	1,144.8	10.5
Direct investment	52.1	0.5	106.0	0.9	55.0	0.5
Headquarters and others ⁽¹⁾	1,602.0	14.1	1,779.1	15.7	2,382.3	22.0
Overseas business	197.2	1.7	905.0	8.0	954.5	8.8
Total	<u>11,315.8</u>	<u>100.0</u>	<u>11,304.9</u>	<u>100.0</u>	<u>10,860.4</u>	<u>100.0</u>

(1) Revenue and other income in headquarters and others mainly includes: (i) interest income from our own bank deposits and deposits we hold on behalf of our customers; and (ii) dividends and other investment gains as well as government grants. Please see “Financial Information – Summary Segment Results” and “Appendix I – Accountants’ Report” in this prospectus.

Securities and Futures Brokerage

Overview

Our securities and futures brokerage business primarily engages in the following activities:

- securities brokerage;
- futures brokerage;

BUSINESS

- margin financing and securities lending; and
- investment advisory services.

As of December 31, 2011, through our 216 securities and futures brokerage branches located in 27 provinces and 125 cities across the PRC and utilizing over 6,300 sales and marketing personnel, we provide securities brokerage services to over 4.0 million retail customers (including approximately 2.1 million active customers) and over 12,000 institutional and high net worth customers, as well as futures brokerage services to over 40,000 customers in the PRC.

Historically, revenue from our securities and futures brokerage business has represented the largest source of our revenue. For the years ended December 31, 2009, 2010 and 2011, segment revenue and other income from our securities and futures brokerage business amounted to RMB7,284.0 million, RMB5,774.8 million and RMB4,163.1 million, respectively, representing 64.4%, 51.1% and 38.3% of our total revenue and other income, respectively.

According to the Shanghai Stock Exchange and the Shenzhen Stock Exchange, from 2009 to 2011, we ranked among the top five PRC securities firms in terms of securities brokerage trading volume. According to the Shanghai Stock Exchange and the Shenzhen Stock Exchange, we ranked first in terms of margin trading volume among PRC securities firms in 2011 and first in terms of margin loan balance and market value of securities lent among PRC securities firms as of December 31, 2011. In addition, according to the China Financial Futures Exchange, we ranked first among PRC securities firms in terms of stock index futures brokerage trading volume in 2011.

In recent years, we received the following major awards in recognition of our securities and futures brokerage business:

- “2011 Best PRC Securities Firm” by Moneyweek;
- “2011 Best Margin Financing Broker” by Securities Times;
- “2010 Best Securities Firm in the PRC” by the 21st Century Business Herald;
- “2009 Best PRC Securities Broker” by Securities Times; and
- “2009 Best Corporate Brand in the PRC Futures Market Award” by Shanghai Securities News.

Securities brokerage

We engage in the trading of a wide range of financial products on behalf of our customers, including:

- *Stocks* – primarily shares of listed companies on the Shanghai Stock Exchange, the Shenzhen Stock Exchange and the OTC markets in the PRC;

BUSINESS

- *Funds* – listed funds, including open-end funds, closed-end funds and ETFs;
- *Bonds* – enterprise bonds (bonds issued by private companies), corporate bonds (bonds issued by listed companies), financial bonds (bonds issued by financial institutions), government bonds and convertible bonds; and
- *Derivatives* – derivative products, such as warrants, listed on the Shanghai Stock Exchange and the Shenzhen Stock Exchange.

The following table sets forth the breakdown by product type of our securities brokerage business in terms of trading volume and market share for the periods indicated:

	Year ended December 31,		
	2009	2010	2011
Trading volume			
(RMB in billions)			
Stocks	4,448.2	4,419.6	3,447.3
Funds	45.5	57.2	55.6
Bonds	575.1	846.0	2,100.4
Warrants	342.7	75.9	17.1
Total	5,411.5	5,398.7	5,620.4
Market share (%)⁽¹⁾			
Stocks	4.2	4.1	4.1
Funds	2.3	3.4	4.6
Bonds	8.2	6.9	5.6
Warrants	3.2	2.5	2.5
Total	4.3	4.3	4.6

(1) Market share is calculated based on total trading volume of member securities firms of the Shanghai Stock Exchange and Shenzhen Stock Exchange.

Source: Shanghai Stock Exchange and Shenzhen Stock Exchange

We classify our securities brokerage business into two categories based on customer types: (i) retail brokerage business and (ii) brokerage business for institutional and high net worth customers.

Retail brokerage business

Our retail brokerage business is the foundation of our brokerage business. It serves individual customers with less than RMB10 million of assets in their accounts held with us. We provide standard brokerage trading services, investment advisory and other value-added services to our retail customers. We have also established the “Rainbow Treasure Club,” a loyalty program that is dedicated to providing our retail customers with active trading and sizable assets, through which we offer customized and differentiated services. Please see “– Customer Services.” In addition, we distribute asset management products and introduce futures products to customers through our sales and marketing team, enabling us to diversify our product and service offerings while promoting cross-selling across multiple business lines.

BUSINESS

As of December 31, 2011, we had over 4.0 million retail brokerage customers (including approximately 2.1 million active customers) in the PRC, one of the largest customer bases among PRC securities firms. Of our retail customer base, approximately 76% had maintained accounts with us for over three years and approximately 38% had a business relationship of over ten years with us. We believe that a sizeable and stable retail customer base provides a solid foundation for our future business growth.

Brokerage business for institutional and high net worth customers

We provide securities brokerage services for institutional and high net worth customers. Our institutional brokerage customers primarily include fund management companies, commercial banks, trust companies and other large corporations. As of December 31, 2011, we had over 12,000 institutional and high net worth customers in the PRC.

In addition to traditional brokerage trading services, we also provide other value-added products and services to our institutional and high net worth customers, such as customized research, block trades, financial advising, mutual funds distribution, securities custodian services, wealth management and tax planning services.

We also provide trading, research and investment advisory services to QFII clients. We are an authorized broker in the PRC for a number of large QFIIs, including investment banks, commercial banks and asset management firms. The total assets our QFII clients have entrusted to us amounted to approximately RMB27.5 billion as of December 31, 2011, with QFII brokerage trading volume amounting to approximately RMB72.0 billion in 2011.

Futures brokerage

We provide futures brokerage services through our subsidiary, Haitong Futures. As of December 31, 2011, our futures products included all 26 commodity and stock index futures that are listed and traded on the PRC futures exchanges.

We became one of the first PRC securities firms to launch a futures brokerage business after we acquired a controlling interest in Huanghai Futures (renamed as Haitong Futures) in October 2005. As of December 31, 2011, among the 163 PRC futures brokerage firms, we had a market share of 4.4% in terms of futures brokerage trading volume.

We are one of the founding members of the Shanghai Futures Exchange, the Dalian Commodity Exchange and the Zhengzhou Commodity Exchange. We are also one of the first clearing members of the China Financial Futures Exchange since December 2007. In addition, we were among the first group of futures companies to be certified for ISO9001:2008 Quality Management System Certification in recognition of our effective risk management system. In March 2010, we were one of the first futures companies to be licensed to conduct the stock index futures brokerage business. According to the China Financial Futures Exchange, we ranked first among PRC futures companies in terms of brokerage trading volume of stock index futures in 2011, representing an approximately 8.3% of the total market share.

BUSINESS

The following table sets forth the total trading volume and market share of our futures brokerage business for the periods indicated:

	Year ended December 31,		
	2009	2010	2011
Trading volume (RMB in billions) ⁽¹⁾	1,866.8	10,517.5	12,094.8
Market share (%) ⁽²⁾	1.4	3.4	4.4

(1) The trading volume of the PRC futures market before 2011 includes both sides of the trades. Since 2011, the trading volume of the PRC futures market includes only one side of the trades.

(2) Market share is based on the total trading volume disclosed by the China Futures Association.

As of December 31, 2011, we had 23 futures brokerage branches in 21 cities in the PRC. Furthermore, 73 of our 193 securities brokerage branches are qualified for futures IB business, which allows those branches to refer their securities brokerage customers to Haitong Futures.

As of December 31, 2011, our futures brokerage business had over 40,000 customers. From 2009 to 2011, the number of our futures brokerage customers increased at a CAGR of approximately 46.3% and the trading volume of our futures brokerage increased at a CAGR of approximately 154.5%.

Margin financing and securities lending

In March 2010, we were authorized by the CSRC as one of the first six PRC securities firms to pilot a margin financing and securities lending business. Our margin financing services involve offering securities-backed loans to brokerage customers who wish to finance their securities purchases. Margin financing offers funding flexibility to our brokerage customers and assists them in maximizing investment returns through leverage. Our securities lending services involve the lending of securities held on our own account to customers. Securities lending allows our brokerage customers to borrow securities to take advantage of potential short selling opportunities in the markets. Our agreements with customers typically include terms such as margin loan or securities lending amount, maturity date and interest rate, which represents a percentage of our customers' margin loan balance and the market value of the securities we lent. Currently, we charge an annualized interest rate on margin financing and securities lending, which was approximately 9.1% as of December 31, 2011. In addition, we charge brokerage commission fees on margin trading and short selling.

BUSINESS

Benefiting from our substantial securities brokerage customer base, distribution network, capital strength, proprietary business capabilities and brand recognition, our margin financing and securities lending business has grown rapidly since its launch in March 2010. We ranked first among PRC securities firms in terms of margin trading volume in 2011 and margin loan balance and the market value of securities lent as of December 31, 2011. As of December 31, 2011, 175 of our 193 securities branches in the PRC were allowed to provide margin financing and securities lending services. At the same time, we had 68,737 customers who were eligible for margin financing and securities lending services, among which 13,489 customers had opened margin financing and securities lending accounts with us and 5,713 had executed transactions, representing 19.6% and 8.3%, respectively, of our eligible customer pool. As such, we believe there is significant growth potential in our margin financing and securities lending business.

In 2011, interest income from our margin financing and securities lending business in the PRC amounted to RMB280.2 million. According to the data from the Shanghai Stock Exchange and the Shenzhen Stock Exchange, we had a margin loan balance of over RMB3.6 billion as of December 31, 2011, representing 9.8% of total market share in the PRC. We had margin trading volume of approximately RMB47.7 billion in 2011, representing 16.4% of total market share in the PRC. In addition, according to data from the Shanghai Stock Exchange and the Shenzhen Stock Exchange, as of December 31, 2011, the market value of securities we lent was approximately RMB254.1 million, representing 38.6% of total market share in the PRC. As of December 31, 2011, there were 278 stocks and 7 ETFs eligible for margin financing in the PRC, of which we offered 221 stocks and 3 ETFs to customers for securities lending and we deemed 277 stocks and 7 ETFs eligible for margin financing.

The following table sets forth a summary of the operating and financial information of our margin financing and securities lending business:

	As of and for the year ended December 31, 2010	As of and for the year ended December 31, 2011
Number of our customers who are eligible for margin financing and securities lending services ⁽¹⁾	88,031	68,737
Percentage of total number of brokerage customers (%): . . .	2.3%	1.7%
Number of customers with margin financing and securities lending accounts	5,068	13,489
Percentage of total number of brokerage customers (%): . . .	0.1%	0.3%
Margin trading volume (RMB in billions)	19.2	47.7
Market share of margin trading volume	27.5%	16.4%
Margin loan balance (RMB in millions)	2,091	3,675
Market share of margin loan balance ⁽²⁾	16.4%	9.8%
Market value of securities lent (RMB in millions)	0.3	254.1
Market share of market value of securities lent ⁽²⁾	2.5%	38.6%

(1) As a result of the adverse market condition in the second half of 2011, the number of customers eligible for the margin financing and securities lending business declined in 2011 as fewer customers could maintain a minimum balance of RMB500,000 in their brokerage accounts with us, which is one of the criteria for the margin financing and securities lending business.

(2) Market share is calculated based on margin loan balance and market value of securities lent as disclosed by the Shanghai Stock Exchange and Shenzhen Stock Exchange.

BUSINESS

We have established strict criteria for acquiring new customers and a rigorous risk management system in our margin financing and securities lending business. In compliance with the CSRC's guidance, we require our customers to maintain a brokerage account with us for at least 18 months before they become eligible for margin financing and securities lending services. In addition, we require our customers to maintain a minimum balance of RMB500,000 in their brokerage accounts upon their applications for margin financing and securities lending accounts. Furthermore, we require our customers to have sound credit history and strong risk tolerance. We require our customers to deposit with us a portion of the cash or securities in their accounts. We also hold the securities acquired from margin financing or the funds received from short selling by our customers as collateral. We determine the credit limit we extend to our customers based on various factors, such as the value of their total assets maintained with us and their creditworthiness. We determine a customer's eligibility for a new transaction based on the credit line available to the client and the balance of the client's deposits. We have also established a margin call risk control mechanism through which we monitor the value of our customers' collateral on a real-time basis.

While margin financing and securities lending is an established business in many mature securities markets in the world, it is still an emerging business in the PRC. The CSRC imposed stringent entry requirements regarding a securities firm's Net Capital, risk management capabilities and regulatory ratings. In addition, the CSRC imposed specific restrictions on the margin financing and securities lending business in the PRC when the pilot program was launched in March 2010. For example:

- a securities firm can only use its own funds for margin financing services and its own securities for securities lending services; and
- potential customers must have maintained a brokerage account with the same securities firm for at least 18 months in order to open a margin financing and securities lending account.

On October 26, 2011, the CSRC revised the Management Measures on Securities Companies Margin Financing and Securities Lending Trials (證券公司融資融券業務試點管理辦法) and Guidelines on Internal Control of Margin Financing and Securities Lending Trials of Securities Companies (證券公司融資融券業務試點內部控制指引), and converted margin financing and securities lending business from a pilot program conducted by CSRC-designated PRC securities firms to a regular business available to all the PRC securities firms that meet certain requirements. In addition, on the same day, the CSRC promulgated the Trial Supervision and Management Measures on Margin and Securities Refinancing Business (轉融通業務監督管理試行辦法) pursuant to which we expect a pilot program for the margin and securities refinancing business to be launched in the PRC. On December 5, 2011, the Shanghai Stock Exchange and the Shenzhen Stock Exchange further expanded the scope of securities eligible for the margin financing and securities lending business from 90 stocks, being the constituent stocks of the SSE 50 Index and SZSE Component Index and representing only 3.1% of the total number of stocks listed on the two exchanges as of December 31, 2011, to 278 stocks and 7 ETFs, which accounted for 9.8% of the total number of stocks listed on the two exchanges as of December 31, 2011.

BUSINESS

Following the lifting of restrictions on the use of external funding and securities borrowing, the expansion of the scope of securities eligible for margin trading and short selling, the relaxation of account opening requirements and the conversion of the margin financing and securities lending business from a pilot program to a regular business, we believe the margin financing and securities lending business has great potential for further development. We aim to expand our margin financing and securities lending business by (i) deploying additional capital to expand the scale of such business; (ii) promoting cross-selling in order to increase our customer base; and (iii) developing the margin and securities refinancing business in order to enhance our financial leverage and, as a result, the profitability of our margin financing and securities lending business.

Customers

We develop and maintain our brokerage customer base through various channels:

- *Retail brokerage customers* – we primarily source and serve retail customers through our nationwide securities branch network and over 6,300 marketing and sales personnel;
- *Institutional and high net worth customers* – we primarily established contact with such customers through our headquarters and nationwide branch network, as well as internal referrals from our other business lines. To expand our customer base, we also maintain good relationships with major custodian banks and global financial institutions.

As of December 31, 2011, we provided securities brokerage services to over 4.0 million retail customers (including approximately 2.1 million active customers) and over 12,000 institutional and high net worth customers, as well as futures brokerage services to over 40,000 customers in the PRC. The following table sets forth the breakdown of our securities brokerage customers in the PRC for the periods indicated:

	As of December 31,		
	2009	2010	2011
Retail brokerage customers	3,721,430	3,746,659	4,097,269
Institutional and high net worth customers	11,742	12,078	12,134
Total customers	3,733,172	3,758,737	4,109,403

BUSINESS

We maintain long-term and stable relationships with our customers. The following table sets forth the breakdown of our brokerage customers in the PRC in terms of account holding period for the periods indicated:

	As of December 31,					
	2009		2010		2011	
		(%)		(%)		(%)
Account holding period						
not less than ten years	1,082,650	29.0	1,320,641	35.1	1,556,143	37.9
five to ten years (excluding five and ten years).	719,482	19.3	429,235	11.4	291,128	7.1
three to five years (excluding three and five years)	120,643	3.2	1,024,823	27.3	1,283,678	31.2
less than three years	1,810,397	48.5	984,038	26.2	978,454	23.8
Total	<u>3,733,172</u>	<u>100.0%</u>	<u>3,758,737</u>	<u>100.0%</u>	<u>4,109,403</u>	<u>100.0%</u>

We believe we have successfully maintained our customers' loyalty as a result of our well-established brand, comprehensive customer services, strong capital base and stable operations. As of December 31, 2011, approximately 76% of our brokerage customers had maintained accounts with us for over three years and approximately 38% had a business relationship of over ten years with us. We believe that a sizeable and stable customer base provides a solid foundation for our future business growth.

Our retail customers, representing the majority of our brokerage customers, are the foundation of our brokerage business. We intend to diversify our retail brokerage business by expanding our wealth management services for retail customers in the first-tier cities and by originating new customers in the second and third-tier cities, where we believe brokerage business has lower market penetration and less competition.

We are committed to developing our base of institutional and high net worth customers and expanding cross-selling opportunities by leveraging our full-service integrated platform.

Brokerage commission and fee income

We receive commission and fee income from customers who trade securities and futures through our trading platforms. For the years ended December 31, 2009, 2010 and 2011, segment revenue and other income from our securities and futures brokerage business in the PRC accounted for 64.4%, 51.1% and 38.3% of our total revenue and other income, respectively.

BUSINESS

The following tables set forth the total trading volume and commission and fee income of our securities and futures brokerage business in the PRC market and the average commission rate for stocks and funds in the PRC market for the period indicated:

	Year ended December 31,		
	2009	2010	2011
Securities Business			
Trading volume ⁽¹⁾ (RMB in billions)	4,866	4,562	3,891
Commission and fee income ⁽²⁾ (RMB in millions)	6,777	5,242	3,426
Futures Business			
Trading volume ⁽³⁾ (RMB in billions)	1,867	10,518	12,095
Commission and fee income (RMB in millions)	143	273	279
Total commission and fee income (RMB in millions)	6,920	5,515	3,705
Average securities brokerage commission rate	0.147%	0.118%	0.100%

(1) Sourced from our internal data.

(2) Commission and fee income includes commission and fee income from our securities brokerage business and other fee income from fund management firms, our margin financing and securities lending and QFII clients.

(3) According to the practice adopted by the China Financial Futures Exchange, the trading volume of the PRC futures market before 2011 included both sides of each trade. Since 2011, the trading volume of the PRC futures market has only included one side of the trade.

In recent years, intense competition in the PRC securities brokerage business has lowered commission rates for the securities brokerage business. Please see “Risk Factors – Risks Relating to Our Business and Industry – Our securities and futures brokerage business is subject to various risks and we cannot assure you that our brokerage commission and fee income can be sustained.”

In order to mitigate the impact of price competition, we have implemented the following measures:

- further developing and expanding the scope of our products and services, including margin financing and securities lending, stock index futures brokerage and futures IB businesses and investment advisory services. Moreover, we offer differentiated products and services to our customers to avoid homogeneous competition, as well as to diversify our revenue streams;

BUSINESS

- further improving the quality of our customer service and providing customized and comprehensive investment solutions for our customers. We aim to implement a vertically integrated service platform and to enhance our customers' loyalty, especially those customers with sizable assets, by providing customized wealth management services;
- expanding our branch network with strategic coverage and improving our operating efficiency to further expand our customer coverage. Please see “– Business Network;” and
- further enhancing our research capabilities and expanding our professional research team to provide better securities brokerage services for our customers.

We monitor and adjust the structure and the level of our brokerage commission rates on a regular basis based on geographic location, asset size, trading pattern and loyalty of our customers. We charge different commission rates for different services in accordance with our internal rating and classification system. Nonetheless, we adhere to the principle of equal treatment of clients in terms of services provided and fees charged in accordance with the Circular on Further Reinforcing the Management of Securities Firms' Client Service and Commission Income of Securities Transactions (關於進一步加強證券公司客戶服務和證券交易佣金管理工作的通知) promulgated by the SAC.

Investment Banking

Overview

We provide corporate finance services, including equity underwriting, debt underwriting and financial advisory services to our institutional clients. We are committed to offering our clients customized corporate finance services and expanding cross-selling opportunities across multiple business lines through our integrated investment banking platform.

We have gained a leading position in the PRC investment banking industry and aim to continue to improve this position. According to the SAC, we ranked third among PRC securities firms in terms of the number of equity securities underwritten in 2011. According to the CSRC, as measured by the number of major asset restructuring transactions we advised for A share listed companies, we ranked in the top two PRC securities firms for the past three consecutive years.

BUSINESS

In recent years, we have received the following major awards in recognition of our investment banking business:

- “2011 Best PRC Investment Bank” by Moneyweek;
- “2011 Most Respectable Investment Bank” by New Fortune Magazine;
- “2011 Best Local Investment Banking Team” by New Fortune Magazine;
- “2011 Best Follow-on Offering” by New Fortune Magazine;
- “2011 Best Rights Issue” by New Fortune Magazine;
- “2011 Best IB Business Underwriter” by Securities Times;
- “2011 Best PRC Investment Bank For Equity Refinancing” by Moneyweek; and
- “2010 Top 10 PRC Investment Banks” by Moneyweek.

Equity underwriting

Equity underwriting is the core strength of our investment banking business in the PRC. We sponsor and underwrite IPOs, follow-on offerings and rights issues on the A share market to assist our clients’ equity financing activities. Up to December 31, 2011, we had acted as the lead underwriter for equity offerings of over 224 institutional clients. During the Track Record Period, we acted as the lead underwriter for equity offerings with an aggregate value of RMB72.2 billion, including RMB37.2 billion from 31 IPOs, RMB28.3 billion from 22 follow-on offerings and RMB6.7 billion from four rights issues.

According to the Measures for the Administration of the Sponsorship of the Offering and Listing of Securities (證券發行上市保薦業務管理辦法) promulgated by the CSRC, the CSRC only allows a qualified securities firm to underwrite equity offerings on the A share market, and such firm is required to designate two sponsor representatives to be principally responsible for each offering. As a result, the number of sponsor representatives is key to the scale of a securities firm’s equity underwriting business. As of December 31, 2011, we had 74 qualified sponsor representatives and an additional 20 sponsor representative candidates who are in the process of applying for qualification. The number of sponsor representatives we have ranks among the top in the PRC securities industry.

BUSINESS

The following table sets forth a breakdown of equity offerings for which we acted as the lead underwriter in terms of listing venues for the periods indicated:

	Year ended December 31,		
	2009	2010	2011
Number of equity offerings	10	26	21
Main board	5	11	5
SME Board	2	11	10
ChiNext Board	3	4	6
 Total amount underwritten			
(RMB in millions)	7,530.4	49,657.7	15,091.0
Main board	4,366.7	37,771.5	5,257.5
SME Board	1,618.8	8,716.2	7,497.2
ChiNext Board	1,544.9	3,170.0	2,336.3

We have successfully completed several landmark equity offerings in the PRC, including acting as:

- the lead underwriter for the A share follow-on offering of Shanghai Shangling Electric Appliances in 1999. This transaction was the first in the PRC to apply a market price discount method that followed the international general pricing standard, a method which is now widely adopted by listed companies in the PRC for their follow-on offerings;
- the lead underwriter for the first IPO of a commercial bank, Shanghai Pudong Development Bank, after the removal of restrictions on the listing of PRC financial institutions in 1999; and
- the lead underwriter for the first IPO of a non state-owned commercial bank, China Minsheng Banking Corp., Ltd., in 2000.

We divide our institutional clients into large corporate clients and SME clients based on the scale of their business. We provide customized coverage and equity underwriting services based on prevailing market conditions and customer needs. We have established sector-focused groups of designated relationship managers to serve our large corporate clients. We cover our SME clients through local relationship managers deployed in strategically important markets in the PRC.

We have participated in a number of landmark equity offerings involving large corporate clients in the PRC and have established long-term business relationships with them. For example, during the Track Record Period, we acted as:

- the joint sponsor and the joint lead underwriter for China Construction Bank Corporation in its rights offering;

BUSINESS

- the joint lead underwriter for SAIC Motor Corporation Limited in its private placement; and
- the sponsor and the lead underwriter for Fosun Pharmaceutical (Group) Co., Ltd. in its private placement.

In addition, we participated in various financing activities for China Minsheng Banking Corp., Ltd., including its IPO, follow-on offerings, subordinated bond issuance and hybrid capital bond issuance in the PRC. We also participated in at least three financing activities for each of the Bank of Communications Co., Ltd., Shenzhen Development Bank Co., Ltd. and Shanghai Shimao Co., Ltd.

We are also focused on providing equity underwriting services to SMEs, especially non state-owned companies, which have contributed significantly to our fast-growing investment banking business. From 2009 to 2011, we acted as the lead underwriter for 36 equity offerings on the SME Board and the ChiNext Board. The total proceeds raised from these equity offerings increased from RMB3.2 billion in 2009 to RMB9.8 billion in 2011, representing a CAGR of 76.3%. In 2011, we acted as the lead underwriter for 16 equity offerings on the SME Board and the ChiNext Board. The revenue contribution from our equity underwriting on the SME Board and the ChiNext Board increased from approximately 57% in 2009 to 82% in 2011 of our total revenue from equity underwriting in those years. In addition, based on the equity offerings in which we participated in the past, underwriting fee rates of the SME Board and the ChiNext Board are generally higher than those of the main board in the PRC.

Debt underwriting

We underwrite enterprise bonds, corporate bonds, financial bonds, medium-term notes, short-term commercial papers and asset-backed securities to assist our clients' debt financing activities.

Our debt underwriting business primarily serves large corporate clients. In recent years, our debt underwriting business expanded rapidly. For the years ended December 31, 2009, 2010 and 2011, the total amount of bonds we underwrote as the lead underwriter was RMB10.6 billion, RMB12.3 billion and RMB19.2 billion, respectively, representing a CAGR of 34.2% from 2009 to 2011. We have increased the employee headcount in our debt underwriting business from 45 as of December 31, 2009 to 67 as of December 31, 2011 in order to better capture the strategic opportunities in, and to meet increasing demands from, the fast-developing debt underwriting market in the PRC.

BUSINESS

The following table sets forth our performance as lead underwriter in debt underwriting business for the periods indicated:

	Year ended December 31,		
	2009	2010	2011
Number of debt offerings	8	10	11
Total amount underwritten (RMB in millions)	10,640.0	12,320.0	19,158.0

We believe that we have established a competitive advantage in the marketing and innovation capabilities of our debt underwriting business. We have established a distribution network for fixed income products that covers major investors such as large commercial banks, insurance companies, fund management companies and rural credit cooperation associations. We assign our sales and marketing personnel to cover specific geographic regions and maintain nationwide sales coverage. We are a pioneer in product innovation and are committed to assisting our clients to achieve lower financing costs. For example, according to China Central Depository & Clearing Co., Ltd., the bond issuance by Shanghai Huayi (Group) Company, underwritten by us in 2007, was the first floating rate notes offering benchmarking Shibor and represented a milestone of the PBOC's efforts to promote Shibor.

Financial advisory services

We provide financial advisory services on M&A, restructuring, stock option schemes of listed companies and private financing transactions. During the Track Record Period, we mainly provided financial advisory services to listed companies across different industry sectors in the PRC. We provide localized customer coverage through our branch network nationwide in order to develop an in-depth understanding of our customers' needs and provide customized financial advisory services.

According to the CSRC, for each of the years ended December 31, 2009, 2010 and 2011, we were among the top two financial advisors in the PRC in terms of the number of major asset restructuring transactions we advised for domestic listed PRC companies. From 2009 to 2011, we advised on 14 major asset restructuring transactions with a total transaction value of RMB41.4 billion. In addition, we have strong innovation capability. For example, we advised on the first listing of a publication group through reverse takeover in the PRC. In terms of financial advisory services relating to non-tradable shares reform in the PRC, we have advised 133 companies since the launch of such reform in 2005, representing approximately 10.0% of total market share in terms of the number of transactions, ranking first in the PRC securities industry.

Asset Management

Overview

We offer traditional asset management products and services through our Company and our subsidiary, HFT Investment Management and our affiliate, Fullgoal Fund Management. In addition, we operate our private equity asset management business through Haitong-Fortis PE Management, Haitong Jihe Management and Haitong Chuangxin Management.

In recent years, we have received the following major awards in recognition of our achievements in the asset management business, including:

- HFT Investment Management was awarded the “Top Ten Fund Companies” by Securities Times in 2010 and was rated “M2+” by Fitch Ratings from 2009 to 2011 in recognition of our accomplishments;
- “Best Collective Asset Manager among PRC Securities Firms” by Thomson Reuters and Sinolink Securities in 2008, “Continued Excellence Award for Private Equity Funds in the PRC” by Sinolink Securities in 2009, and our Haitong Stable Growth Collective Asset Management Scheme was awarded “Best Collective Asset Management Product of PRC Securities Firms” sponsored by Thomson Reuters and Sinolink Securities in 2008; and
- In 2008 and 2009, the president of Haitong-Fortis PE Management was awarded by Forbes as the “Best China Venture Capitalists”. Haitong-Fortis PE Management was also awarded “Top Ten Chinese Private Equity Investment Institution” by China Venture in 2008, 2009, 2010 and 2011, and “PE Exit Winner of the Year 2010” by Zero2IPO in December 2010.

Traditional asset management products and services

We develop asset management products and services based on asset size and customer demands, which mainly include collective asset management schemes and targeted asset management schemes. As of December 31, 2011, we had seven collective asset management schemes and seven targeted asset management schemes. The total AUM at our Company level

BUSINESS

amounted to approximately RMB13.7 billion as of December 31, 2011. The table below sets forth the total AUM of our different asset management schemes for the periods indicated:

	As of December 31,		
	2009	2010	2011
	(RMB in millions)		
Collective asset management schemes	1,102.7	1,054.7	2,506.0
Targeted asset management schemes	2,944.2	7,644.6	11,185.6
Total	4,046.9	8,699.3	13,691.6

Collective asset management schemes include large and small collective asset management schemes. As of December 31, 2011, all of our collective asset management schemes were large collective asset management schemes. We are also in the planning stage to launch small collective asset management schemes. Large collective asset management schemes, designed mainly for retail customers and certain institutional customers, typically have a minimum subscription amount of RMB50,000 to RMB100,000 per customer. We charge a management fee of 0.6% to 1.5% of the total AUM of such schemes, plus a pre-agreed performance fee for certain schemes. In order to meet investor demands with different risk profiles, we provide diversified products, such as equity funds, balanced funds, bond funds, FOF and money market funds. Small collective asset management schemes, designed mainly for up to 200 institutional and high net worth customers, typically have a total AUM of up to RMB1 billion with a minimum subscription amount of RMB1 million per customer. We plan to charge a management fee of up to 1.5% of the total AUM of such schemes, plus a pre-agreed performance fee for certain schemes.

We also provide targeted asset management schemes, which are customized wealth management plans designed for a single customer and typically have a minimum subscription amount of RMB10 million. We charge a management fee of up to 2.0% of the total AUM of such schemes, plus a pre-agreed performance fee. Through our targeted asset management schemes, we provide customized investment plans to our customers based on their characteristics and investment needs, as well as the most suitable financial products available in the market, such as fixed income funds, balanced funds, selected FOF, selected equity funds and stock index futures.

We have formulated different marketing strategies and established various sales channels for our products. Our collective asset management products are promoted through our branches nationwide or through agency banks. We cross-sell our diversified asset management products and services to our brokerage customers through our nationwide sales network. Our customer managers analyze our customers' needs in order to identify suitable candidates for our targeted asset management products. Institutional clients are also referred by our investment banking business and securities brokerage business.

BUSINESS

HFT Investment Management

HFT Investment Management is our fund management subsidiary in which we own a 51.0% equity interest. Please see “History and Corporate Structure”. HFT Investment Management offers a full range of asset management products and services, including mutual funds, enterprise annuities, segregated account management services and QFII investment advisory services. As of December 31, 2011, HFT Investment Management managed mutual funds, including 20 open-end funds, which had total AUM of over RMB32.5 billion. Meanwhile, HFT Investment Management acted as the investment manager for more than 60 enterprise annuity funds, which had total AUM of approximately RMB15.9 billion. Total AUM under HFT Investment Management’s segregated account management reached over RMB2.8 billion as of December 31, 2011. Since the end of 2004, HFT Investment Management has been offering investment advisory and sub-management services to QFIIs and other domestic and overseas investment portfolios. As of December 31, 2011, the assets managed by our customers to whom HFT Investment Management provides investment advisory services amounted to approximately RMB20.6 billion. During the Track Record Period, the management fee rate charged by HFT Investment Management ranged from 0.33% to 2.0%, subject to adjustments, according to different asset sizes and types of funds and investment portfolios. During the same period, the management fee rate of mutual funds ranged from 0.33% to 1.8%, and varied by different product types such as stocks and bonds. The management fee rate of segregated account management services ranged from 0.4% to 2.0%, plus a performance fee if certain conditions are satisfied.

The following table sets forth the total AUM of our different types of asset management products as of the dates indicated:

	As of December 31,		
	2009	2010	2011
	(RMB in millions)		
Product			
Mutual funds	45,818.9	46,898.4	32,488.4
Enterprise annuities	10,096.8	13,607.1	15,887.5
Segregated account management services.	1,039.4	2,553.6	2,862.8

HFT Investment Management, with its diversified product offerings, attracts a wide spectrum of customers. Its customer base ranges from retail individuals to high net worth and institutional customers. The minimum subscription amount of the products offered by HFT Investment Management is RMB1,000. As of December 31, 2011, HFT Investment Management had approximately 1.27 million retail customers and over 680 institutional clients. In December 2010, HFT Investment Management was designated by the NSSF as its entrusted domestic investment manager. Thus, HFT Investment Management became a fully-licensed fund management company offering asset management products such as mutual funds, segregated account management services and enterprise annuity plans. We are also licensed to provide asset management services to QDIIs.

Fullgoal Fund Management

Fullgoal Fund Management is an affiliate fund management company in which we own an equity interest of approximately 28%. Please see “History and Corporate Structure”. As of December 31, 2011, Fullgoal Fund Management managed 26 mutual funds and provided various segregated account management services and enterprise annuity fund management services, with a total AUM of approximately RMB72.4 billion. Fullgoal Fund Management primarily distributes investment management products to retail and institutional customers nationwide through banks, securities firms and our branches. In December 2010, Fullgoal Fund Management was designated by the NSSF as its entrusted domestic investment manager. Thus, Fullgoal Fund Management became a fully-licensed fund management company offering asset management products such as mutual funds, segregated account management services and enterprise annuity plans. We are also licensed to provide asset management services to QDIIs.

Private equity asset management business

In addition to our traditional asset management business, by leveraging our experience and advantages in direct investment business, we have developed our private equity asset management business and thereby broadened the revenue streams of our asset management business through management fees and performance fees received from private equity funds we manage.

We established Haitong-Fortis PE Management in 2004 to manage the assets of the China-Belgium Fund. Please see “– Our Business and Operations – Direct Investment – China-Belgium Fund.” Haitong-Fortis Private Equity Fund Management was the first industry investment fund management company in the PRC, approved by the NDRC. As of December 31, 2011, Haitong-Fortis Private Equity Fund Management is a joint venture fund management company in which we and BNPP IP BE Holding (formerly known as “Fortis Investment Management SA/NV”) hold equity interests of 67.0% and 33.0%, respectively. In addition, we manage several private equity funds through Haitong Jihe Management and Haitong Chuangxin Management, which are subsidiaries of Haitong Capital Investment. These private equity funds include Jilin Modern Agriculture and Emerging Industry Investment Fund and Xi’an Aerospace New Energy Fund. Please see “– Our Business and Operations – Direct Investment” for details of these private equity funds.

Proprietary Trading***Overview***

We engage in the trading of equities, bonds, funds, derivatives and other financial products for our own account. For the years ended December 31, 2009, 2010 and 2011, segment revenue and other income from our proprietary trading business in the PRC was RMB804.8 million, RMB779.8 million and RMB1,144.8 million, respectively, accounting for 7.1%, 6.9% and 10.5% of our total revenue and other income, respectively.

BUSINESS

According to the Regulations on Investment Scopes of the Proprietary Trading Business of Securities Companies and the Relevant Matters (關於證券公司自營業務投資範圍及有關事項的規定) promulgated in April 2011, PRC securities firms can invest in three categories of investment products, including (i) securities listed on domestic stock exchanges; (ii) securities traded in the domestic inter-bank market (including government bonds, RMB denominated bonds issued by international development agencies, instruments of central banks, financial bonds, short-term financing bonds, corporate bonds, medium-term notes and enterprise bonds); and (iii) securities approved by or filed with the CSRC that are issued and traded over the counters of domestic financial institutions. In addition, the CSRC allows PRC securities firms to set up special purpose subsidiaries in the PRC for trading certain alternative financial products with its own capital in addition to the above three categories. In June 2011, we became the first PRC securities firm to apply to the CSRC for establishing a subsidiary for investments in alternative financial products. With the ability to invest in an additional array of financial products, we are well-positioned to diversify our investment product suite, such as developing our market making business and broadening future revenue streams.

Investment portfolio

We invest in a diversified suite of financial products, including debt securities, equity securities, funds and derivatives for our own account. The table below sets forth our investment portfolio of financial instruments held for trading in our proprietary trading business as of the dates indicated:

	As of December 31,					
	2009		2010		2011	
	(RMB in millions)	%	(RMB in millions)	%	(RMB in millions)	%
Debt securities	5,539.1	45.8	7,508.9	67.4	11,303.0	81.0
Equity securities	2,038.6	16.9	2,851.4	25.6	1,503.0	10.8
Funds	4,278.1	35.4	785.7	7.0	1,053.0	7.5
Derivatives	230.6	1.9	–	–	101.0	0.7
Total	12,086.4	100.0%	11,146.0	100.0%	13,960.0	100.0%

The table below sets forth our investment portfolio of available-for-sale investments in our proprietary trading business as of the dates indicated:

	As of December 31,					
	2009		2010		2011	
	(RMB in millions)	%	(RMB in millions)	%	(RMB in millions)	%
Debt securities	40.7	0.9	201.1	5.0	436.0	10.8
Equity securities	4,256.9	99.1	3,774.2	94.8	3,611.0	89.2
Funds	–	–	6.4	0.2	–	–
Total	4,297.6	100.0%	3,981.7	100.0%	4,047.0	100.0%

Investment strategies

For our investment in equity securities, we adhere to a value-investing strategy with the aim of achieving stable returns. We make equity investment decisions based on our research, which covers macroeconomics, industry sectors and individual stocks. We have an equity securities investment product selection pool consisting of over 300 stocks listed on domestic stock exchanges. Before reaching an investment decision, our investment managers select different types of stocks for investment from the selection pool based on our research, discussions with research analysts and the prevailing market conditions. After our investment decision committee approves an investment decision, our investment managers seek final authorizations from different levels of management based on the value of each investment and subsequently place orders with our traders.

For our investments in debt securities, we have adopted a stringent risk management system to keep our investment risks within a reasonable level. We strictly control our investment periods to minimize the risk of default. Currently, most of our debt securities comprise short-term and mid-term bonds which mature within five years. Based on prevailing market conditions, we actively adjust our investment strategies and asset allocation between aggressive and conservative approaches to minimize risks and capture gains. In addition, to manage our credit risks in investing in debt securities, we adopt the following measures:

- primarily purchasing investment products with high credit ratings issued by major state-owned enterprises in the PRC. We invest in long-term debt securities that are rated AA or higher, and short-term debt securities that are rated A-1 or higher in the PRC;
- diversifying our investment portfolio and closely monitoring the business operations and credit rating of the issuers of our debt securities; and
- classifying our counterparties based on their credit ratings and setting our settlement methods and trading scope accordingly.

We conduct derivative trading activities primarily through the trading of ETFs and stock index futures. Our traders and analysts select suitable derivative products for investment based on internal research and analysis and our special investment decision committee reviews and gives final approval for such investment decisions.

BUSINESS

Direct Investment

Overview

We classify our direct investment activities into the following two categories:

- making direct equity investments in private companies and earning capital gains by exiting from these private equity investments through IPOs or share sales, or by receiving dividends from these portfolio companies; and
- investing in private equity funds with our own capital.

The following table sets forth a summary of our direct investments as of December 31, 2011:

Fund Investment Company	Date (year/month) of establishment	Management company	Focused industries	Size of funds	Our share of interest in the funds	Number of investment projects as of December 31, 2011	Amounts invested as of December 31, 2011 (RMB in millions) ⁽¹⁾
Haitong Capital Investment	2008/10	–	Renewable and clean energy, new materials, consumer goods, biomedicine, IT, communications and advanced manufacturing	RMB4,000 million	100.0%	36	1,569
Jilin Modern Agricultural and Emerging Industrial Investment Fund	2010/12	Haitong Jihe Management	Emerging industries such as modern agriculture and biotechnology	RMB800 million	37.5%	6	272
Xi'an Aerospace and New Energy Industry Fund	2011/1	Haitong Chuangxin Management	Emerging industries such as aerospace, green energy, clean technology and new materials	RMB1,000 million	37.0%	10	440
China-Belgium Fund	2004/11	Haitong-Fortis PE Management	All industries (excluding real estate)	EUR100 million	10.0%	33	1,250

(1) Invested amounts include re-investments after we exit our previous investment projects.

Haitong Capital Investment

We were among the first PRC securities firms to engage in the direct investment business after the CSRC launched a pilot program to allow securities firms to engage in direct investment business in September 2007. We established a wholly owned subsidiary, Haitong Capital Investment, to engage in direct investment business after we received the approval from the CSRC in 2008. The CSRC requires PRC securities firms to conduct direct investment activities through their subsidiaries and limit the capital dedicated to their direct investment business to 15% of its Net Capital. As of the Latest Practicable Date, Haitong Capital Investment had a registered capital of RMB4.0 billion, and as of December 31, 2011, it was the second largest direct investment subsidiary of PRC securities firms. Haitong Capital Investment mainly invests in industries with steady growth potential, which include renewable and clean energy, new materials, consumer products, biomedicine, IT, telecommunications and advanced manufacturing. According to our investment policy, Haitong Capital Investment cannot hold more than 20% equity interest in a target company. In addition, we generally invest in companies with the following characteristics: a clean corporate history, clear shareholding structure, operating in a sector with viable growth potential, being profitable, and having the potential for IPO within three years. Haitong Capital Investment generally imposes an investment period of four to six years.

Haitong Capital Investment successfully completed its first exit from a private equity investment in 2010. From its inception in 2008 through December 31, 2011, Haitong Capital Investment had invested in 36 companies with a total investment amount of approximately RMB1.6 billion, and among these companies, four have been listed in the PRC. Major awards that Haitong Capital Investment has received include:

- the “Distinguished Securities Firms for Direct Investment Business” by Securities Times in May 2011;
- the “Best Securities firm for Direct Investment Business” by 21st Century Business Herald in 2010; and
- the “Outstanding Investment Institution Award” by Shanghai Securities News in May 2010.

With the rapid development of emerging industries in the PRC, we will continue to broaden the scope of our direct investment business. In 2010, Haitong Capital Investment established Jilin Modern Agricultural and Emerging Industrial Investment Fund and Xi’an Aerospace and New Energy Resources Industry Fund. Jilin Modern Agricultural and Emerging Industrial Investment Fund is managed by Haitong Jihe Management, a subsidiary of Haitong Capital Investment, and mainly invests in emerging industries such as modern agriculture and biotechnology. As of December 31, 2011, this fund has invested in six projects. Xi’an Aerospace and New Energy Resources Industry Fund is managed by Haitong Chuangxin Management, a subsidiary of Haitong Capital Investment, and mainly invests in emerging industries such as aerospace, new energy, green technology and new materials. As of December 31, 2011, this industry fund has invested in ten projects. Moreover, we have gained approval from the Shanghai municipal government and the CSRC and are in the process of establishing a Shanghai Cultural Industry Fund.

China-Belgium Fund

Before the CSRC allowed PRC securities firms to conduct direct investment business, we co-founded the China-Belgium Fund with the Ministry of Finance of the PRC, the National Council for Social Security Fund Committee, China Development Bank and Fortis Bank in November 2004 with an initial capital of EUR100 million. We have also established and owned a controlling interest in Haitong-Fortis Private Equity Fund Management to manage the China-Belgium Fund which principally invests in domestic high-tech SMEs that are at a high-growth stage with a clear path to IPO, adhering to its prudent investment strategy. As of December 31, 2011, the China-Belgium Fund had invested in 33 portfolio companies, 11 of which were completely or partially exited.

In July 2011, the CSRC promulgated guidelines that allow a PRC securities firm's direct investment subsidiary to raise funds through private placement and to use its proceeds, in addition to its own capital, to make direct investments. Following these guidelines, we believe that there is great potential for our direct investment business in the PRC, and we will continue to expand our direct investment business under active and prudent management strategies. We believe that Haitong Capital Investment and China-Belgium Fund will continue to exit from existing direct investment projects. In addition, in order to further strengthen our direct investment business and capture market opportunities, we intend to increase the capital of Haitong Capital Investment and invest in more PRC industry funds.

Overseas Business***Overview***

In addition to our PRC business operations, we are also actively developing our business overseas. In July 2007, we established Haitong International Holdings in Hong Kong. In December 2009, we acquired a controlling interest in Taifook Securities and, through acquisition, became among the first group of PRC securities firms to own a full-service overseas securities platform. Please see "History and Corporate Structure" for more information. Established in 1973 and listed on the Hong Kong Stock Exchange in August 1996, Taifook Securities was a leading local full-service securities firm in Hong Kong. In November 2010, we renamed Taifook Securities as Haitong International Securities. As of June 30, 2011, Haitong International Securities had total assets of approximately RMB10.0 billion and was the largest listed securities firm in Hong Kong with a PRC background in terms of total assets.

Through Haitong International Securities, we provide securities and futures brokerage (including margin financing and securities lending), corporate finance and financial advising, wealth management and other financial services overseas. As of December 31, 2011, we had 13 branches located in Hong Kong and Macau with approximately 152 account executives, two representative offices located in Beijing and Shanghai and six investment advisory centers located in Beijing, Shanghai, Guangzhou, Shenzhen, Hangzhou and Xiamen. Our high-quality service is well recognized in the securities industry, and we have been named the best equity house in Hong Kong for over ten consecutive years by internationally renowned financial

BUSINESS

media, such as FinanceAsia, Asiamoney and Euromoney. In 1999, we were among the first group of Hong Kong securities firms to obtain the ISO9002 Quality Control System Certification. We have established an outstanding track record in fund management. We received the Lipper Fund Award as the “Best Pension Fund Over Five Years, Equity Hong Kong” for three consecutive years from 2008 to 2010 and the “Best Fund Over Three Years, Equity China” in 2010.

The number of our overseas brokerage customers increased from approximately 100,000 as of December 31, 2009 to approximately 145,000 as of December 31, 2011. Apart from retail customers, we also have a large institutional and QDII customer base, including large well known PRC-based institutional investors, such as China Asset Management Corporation, China Southern Fund and China Merchants Fund.

For the years ended December 31, 2009, 2010 and 2011, revenue and other income generated from our overseas business was RMB197.2 million, RMB905.0 million and RMB954.5 million, respectively, representing 1.7%, 8.0% and 8.8% of our total revenue and other income. In addition, our segment results from our overseas business amounted to RMB109.6 million, RMB178.8 million and RMB120.9 million for the years ended December 31, 2009, 2010 and 2011, respectively, representing 1.9%, 3.6% and 2.9% of our profit before income tax during those years.

Brokerage services

We provide innovative and flexible securities trading and investment services to our global institutional, corporate and retail customers, such as trading of securities and derivatives, futures and options, bonds, bullion and forex, margin financing, wealth management, nominee and custodian services and research.

Corporate finance and financial advisory services

We provide corporate finance and financial advisory services to companies listed in Hong Kong, the PRC and other global exchanges, as well as private enterprises. Our services include IPO sponsorship, underwriting and pre-IPO financing, financial advisory services and compliance advisory services. During the Track Record Period, we sponsored eight IPOs, underwrote 50 IPOs and completed 16 private placements and rights issues, raising total proceeds of approximately HK\$226.1 billion in Hong Kong.

In 1999, we became one of the first group of GEM sponsors approved by the SFC and sponsored the first H share IPO of a PRC state-owned enterprise on GEM. Our landmark corporate finance transactions include acting as:

- the joint bookrunner and joint lead manager for the offshore RMB bonds offering of RMB1.25 billion issued by Zhongsheng Group Holdings Limited in April 2011;

BUSINESS

- the joint sponsor, joint bookrunner and joint lead manager for the listing of the H shares of Goldwind Science & Technology Co., Ltd. in 2010, raising approximately HK\$8.2 billion, the fourth largest H share IPO in 2010; and
- the joint bookrunner and joint lead manager for the listing of the H shares of China Minsheng Banking Corp., Ltd. in 2009, raising approximately HK\$31 billion, the largest Hong Kong IPO in 2009.

Asset management and wealth management

We provide our institutional and retail customers with a wide range of fund management services. We are also one of the service providers for the Hong Kong mandatory provident funds.

Capitalizing on the opportunities arising from RMB appreciation and internationalization and fast growing offshore RMB deposits, in August 2010 we launched Haitong Global RMB Fixed Income Fund, which is the first SFC-authorized public offshore RMB fund and in January 2012 we launched Haitong China RMB Income Fund, which is one of the first offshore funds which invest in the domestic securities market through RQFII. We also intend to raise other types of RMB-denominated funds, such as RMB money-market funds and high-yield RMB-funds.

Synergies

Hong Kong is a major international financial center which connects the PRC's capital markets to the international capital markets. As such, we believe that our service platform in Hong Kong and our ability to attract international customers could enable us to capture fast-growing cross-border opportunities for expanding our overseas business, gain brand recognition overseas and benefit from synergies between our PRC and overseas operations.

Major examples of cross-selling opportunities between Haitong International Securities and our PRC operations are as follows:

- in securities brokerage, we have introduced a number of large institutional and QDII customers to Haitong International Securities;
- in corporate finance, we have referred large PRC corporate clients to Haitong International Securities for their fund raising activities in Hong Kong. These clients include, among others, China Minsheng Banking Corp., Ltd., China Pacific Insurance (Group) Co., Ltd. and Goldwind Science & Technology Co., Ltd;
- Haitong International Securities can benefit from the comprehensive coverage and in-depth understanding of the PRC economy and enterprises of our research team; and

BUSINESS

- our operations in the PRC can benefit from Haitong International Securities' experience and use of best practices in the international capital markets to gain insight into the development of international securities markets and new businesses.

Delineation of businesses

Currently, we principally conduct all our business in Hong Kong and Macau through Haitong International Securities, which is controlled by Haitong International Holdings, one of our wholly owned subsidiaries. Haitong International Holdings is the holding company of our operating subsidiaries in Hong Kong and Macau and does not itself conduct any other material business operations. Haitong International Securities and its subsidiaries have licenses to conduct securities-related business in Hong Kong and Macau. As of the Latest Practicable Date, apart from our operations in Hong Kong and Macau, Haitong International Securities had six investment advisory centers and two representative offices in the PRC to promote its overseas business and provide assistance to customers with respect to their investments outside the PRC.

Following the Listing, Haitong International Holdings will continue to be our overseas platform, while Haitong International Securities will continue to be our flagship company in Hong Kong and Macau through which we conduct our business in Hong Kong and Macau and cross-border business between the PRC and Hong Kong and Macau. If we decide to pursue any new business opportunities in the future, we intend to continue to follow such strategies in assigning different businesses to different members of our Group to avoid any potential conflicts of interest.

Given the cooperative nature of the business relationship and the clear delineation of business between Haitong International Securities and the rest of our Group, and as both Haitong International Securities and the rest of our Group are under the supervision of a number of regulators, we believe that minority shareholders of our Company and Haitong International Securities will be adequately protected when new business opportunities arise in the future.

RESEARCH

Our research capability is one of our core competencies and plays a key role in the development of our principal business lines. In recent years, we have increased our resource allocation to strengthen our research capability. The number of employees in our research team has increased from 85 as of December 31, 2009 to 114 as of December 31, 2011. Over 92% of our research analysts hold master's degrees and a number of our research analysts hold professional qualifications, such as CFA, FRM and CIIA. We encourage our research analysts to participate in training to enhance their professional expertise. Our research team provides research reports and regular company updates to external customers, including domestic fund management companies, insurance companies and institutional investors, assisting them in identifying and evaluating investment opportunities. In addition, our research team provides support to our other business lines, such as our investment banking, asset management and proprietary trading businesses.

BUSINESS

We have broad research coverage, including macroeconomic analysis, investment strategies, industry sector and company research, fixed income products, derivatives, financial engineering and policy studies. Our equity research covers 28 industry sectors and over 1,013 listed companies in the PRC. As of December 31, 2011, the total market capitalization of the listed companies under our research coverage accounted for over 71% of the aggregate market capitalization of the Shanghai Stock Exchange and the Shenzhen Stock Exchange. In May 2010, we were among the first securities firms in the PRC to obtain qualification from the CSRC to evaluate PRC mutual funds. As of the Latest Practicable Date, there were only four securities firms in the PRC with such qualifications.

In addition to our research department, our subsidiary, Haitong Futures, has established a dedicated research team focusing on technical analysis of futures products and providing recommendations to its customers to maximize their returns while minimizing investment risks. As of December 31, 2011, our Haitong Futures research team consisted of 14 research analysts, covering commodities futures, financial futures, financial engineering and investment strategies.

In addition, our Hong Kong-based research team under Haitong International Securities provides research coverage on Hong Kong-listed companies, which serves to complement our research coverage on domestic listed companies. As of December 31, 2011, the research team of Haitong International Securities consisted of 18 research analysts and has covered 13 sectors and over 130 listed companies in Hong Kong since 2009.

In recent years, we have received a number of awards in recognition of our research capabilities, including:

- first in the wholesale and retail sector by New Fortune Magazine in 2009, 2010 and 2011;
- third in the petrochemical sector by New Fortune Magazine in 2011;
- awards for two outstanding research analysts for the IT and consumer durables and software and services industries by Thomson Reuters StarMine in 2011;
- second in the transportation and logistics sector by Financial Times in 2010;
- five awards from the Shanghai Futures Exchange for outstanding analysts and research teams in our Haitong Futures research department in 2010; and
- third in Hang Seng Index Recommendation, fourth in SME Stock Recommendation and seventh in HSCEI Recommendation for our Haitong International Securities research department from South China Morning Post/StarMine in 2010.

BUSINESS

TREASURY MANAGEMENT

We believe the management of our liquidity and capital resources is critical to our success. Our planning and finance department actively monitors our capital structure, source of financing and liquidity, and is responsible for ensuring the liquidity and safety of our capital while improving yields on surplus cash.

We have a comprehensive budgeting system that forecasts our cash inflow, cash outflow, and cash balance and estimates our liquidity needs for business expansion and other investments. We have also established stringent treasury management measures based on our Net Capital, which require stress tests on overall liquidity and other financial indicators before we make any capital investments.

To manage our liquidity while improving yields on surplus cash, in addition to bank deposits and inter-bank borrowings, we actively manage our liquid assets through money market and bond market operations by investing in liquid financial instruments with low risk, such as fixed income securities and financial assets held under resale agreements.

We seek to diversify our source and type of financing to meet various liquidity needs in our operations. Currently, we derive short-term financing for our PRC operations primarily from bond repurchase transactions in the interbank market or through stock exchanges.

Income from our treasury management activities is included in the revenue and other income of headquarters and others. Please see “Financial Information – Summary Segment Results” and “Appendix I – Accountants’ Report”.

BUSINESS NETWORK

As of December 31, 2011, we had 216 brokerage branches, including 193 securities brokerage branches and 23 futures brokerage branches in the PRC, as well as 13 securities brokerage branches in Hong Kong and Macau. According to the data from the Shanghai Stock Exchange and the China Futures Association, we ranked fourth among all PRC securities firms in terms of branch network coverage in the PRC as of December 31, 2011.

The table below sets forth the total numbers of our securities and futures brokerage branches in the PRC as of the indicated dates.

	As of December 31,		
	2009	2010	2011
Securities brokerage	180	183	193
Futures brokerage	18	18	23
Total	198	201	216

BUSINESS

Our business network in the PRC covers 27 provinces (excluding Tibet, Qinghai, Inner Mongolia and Ningxia in the PRC) and 125 cities, as well as Hong Kong and Macau. In addition, we have 20 branch offices in Beijing, Shanghai and several other provinces to manage our brokerage branches locally, which could contribute to greater operating efficiency and more effective resource allocation.

In expanding our branch network, we also consider the differences in securities market developments and the regulatory requirements of different regions. Our branches are strategically located in the economically well-developed coastal regions in Eastern China and Southern China with high concentrations of affluent individuals and SME clients, such as Shanghai, Zhejiang, Shandong, Jiangsu and Guangdong. We also set up branches in less penetrated regions with high growth potential but less price competition, such as Heilongjiang, Gansu, Jiangxi and Anhui. As such, we have developed a strategically located branch network, with coverage spanning from first-tier cities to third-tier cities. As of December 31, 2011, approximately half of our securities branches were located in developed areas including the Yangtze River Delta, the Bohai Rim and the Pearl River Delta and the remaining half were located in the PRC's central, western and northeastern regions.

The following table sets forth the coverage of our securities brokerage branches in the PRC by region as of December 31, 2011:

Location	Number	Percentage
Yangtze River Delta	56	29.0%
Central and western region	51	26.4%
Northeastern region	43	22.3%
Bohai Rim	26	13.5%
Pearl River Delta	13	6.7%
Hainan and Fujian provinces	4	2.1%
Total	193	100.0%

In terms of staff structure at the branches, each branch has its sales and marketing teams, customer service centers and back-office operations. Our sales and marketing team is typically composed of marketing managers and licensed brokers, primarily engaging in business development and product promotion. Our customer service centers engage in the provision of customer service, customer management and investment advisory services, as well as the provision of sales and trading-related services. Our back-office team provides comprehensive support to other teams, including finance, accounting and IT functional support.

We have established a top-down management structure governing our local branches based on our business management model, with the aim of forming a comprehensive local platform. We intend to extend the services we provide through our branch network from local brokerage services to one-stop customer solutions.

Our extensive network and market presence in strategic locations in the PRC has enabled us to provide regionally focused customer service and coverage. In addition, through our branch network and together with our substantial customer base, we believe we can maximize

BUSINESS

cross-selling opportunities across our business segments. For example, products such as margin financing and securities lending, asset management and stock index futures may be cross-sold to retail customers, while business opportunities with investment banking and customized financial products may be developed among institutional customers.

We believe, to some extent, the extensive coverage of branches will play a more important role in the competition among securities firms, especially if current regulations set limitations to mitigate commission competition among securities firms in the PRC. In addition, given the CSRC's regulatory requirements governing the opening of securities brokerage branches, the size of branch networks of securities firms has become an important factor for gaining competitive edge. Therefore, we have been actively developing and expanding our branch network and we strive to achieve a balance between branch network expansion and profitability at individual branches. Specifically, our criteria for opening a brokerage branch in a particular location typically take into consideration the size of the local brokerage market as compared to the overall PRC brokerage market, as well as its growth potential.

We have been actively adjusting and optimizing our existing network coverage. Since 2009, we have been establishing new branches in fast-growing second- and third-tier cities and relocating branches from highly competitive and concentrated regions to regions with relatively low penetration, moderate competition and high growth potential. We will continue to establish new branches in order to expand our brokerage network coverage to increase our revenue.

Development of our futures business network has always been one of our business focuses. We increased our futures brokerage branches to 23 as of December 31, 2011 compared to 18 as of December 31, 2009. Our futures brokerage branches and securities brokerage branches are complementary to each other. In regions where our securities brokerage business has less customer penetration, we intend to devote more resources to develop our futures business platform in order to capture a larger market share. We intend to allocate resources towards developing our futures business network to capture a dominant market position.

SALES AND MARKETING

Our sales and marketing team not only has extensive sales and marketing experience in the financial and securities industries, but also possesses a broad knowledge of financial products. In order to maintain our competitive advantage, we require our sales and marketing professional staff to complete rigorous training and examinations. In addition, we have implemented a competitive incentive scheme to reward sales and marketing personnel who demonstrate outstanding performance.

To support local sales and marketing teams, our branches have established service centers to handle customers' enquiries, account opening procedures and the offering of after-sales services and technical support. As of December 31, 2011, we had over 1,800 customer service staff members serving at our service centers.

BUSINESS

The stability of our sales and marketing teams is crucial to the ongoing development of our new businesses and serving of our existing customers. The size of our sales and marketing team increased from approximately 3,000 as of December 31, 2009 to over 6,300 as of December 31, 2011, including 4,815 licensed brokers who have an exclusive agent contract with us. Given their independent nature, these licensed brokers are not considered our employees. The remuneration of our brokers primarily depends on the brokerage commissions contributed by their respective clients, their compensation index and the results of our monthly broker performance appraisal. Among these factors, the compensation index depends on the rank and seniority of each broker, and the results of our monthly broker performance appraisal are based on a grading system that factors in the broker's personal performance and compliance history. We conduct monthly reviews of our brokers' compliance and have established a detailed point deduction system for any non-compliance.

The licensed brokers system was amended in accordance with Provisional Measures on Management of Securities Brokers (證券經紀人管理暫行規定) promulgated by the CSRC in March 2009 pursuant to which securities brokers are required to pass a qualifying exam, complete certain professional training and register their qualification status with the SAC. For details, please see "Regulatory Environment – Regulation on the PRC Securities Industry – Regulation on Operations – Securities – Securities brokerage." To comply with these provisions, we do not allow our brokers to engage in securities brokerage activities until they have passed the qualification exam, completed required professional training and registered their qualification status with the SAC. Through the implementation of these measures, the number of our licensed brokers increased significantly from 349 as of December 31, 2009 to 3,762 as of December 31, 2010 and further to 4,815 as of December 31, 2011. The table below sets forth the total number of our licensed brokers as of the dates indicated:

	As of December 31,		
	2009	2010	2011
Number of licensed brokers	349	3,762	4,815

As of December 31, 2011, we ranked first in the PRC securities industry in terms of the total number of licensed brokers we contracted with.

To maximize our sales and marketing efforts, we leverage cross-selling opportunities among our various business operations, as well as between our PRC and overseas platforms. For example, our investment banking business may refer high net worth customers and institutional clients to our securities and futures brokerage business, while our securities and futures business may refer potential institutional clients to our direct investment business. In addition, our brokerage business may also refer customers to our asset management business.

To enhance brand awareness, our sales and marketing team conducts face-to-face meetings with prospective customers, hosts public relations and investor education events and attends industry conferences. Our sales and marketing team also distributes our featured research reports and provides other value-added financial advisory services to our customers in order to enhance customers' loyalty.

BUSINESS

CUSTOMER SERVICES

We operate a customer service network that provides a full range of services through different channels, including our nationwide branch network, customer service hotline, Rainbow Treasure Club and online platform. Our customer services principally include:

- *Branches:* We offer customized services at our branches. Many of our branches in the PRC have different service zones to provide specific types of services to our customers.
- *Customer service hotline:* Our customer service hotline is a comprehensive platform that combines trading, information, consultation and marketing functions. Our customer service hotline was awarded five-star head office level accreditation under the Customer Contact Center Standard in 2009, making us the first PRC securities firm to receive such an accreditation.
- *Rainbow Treasure Club:* Our Rainbow Treasure Club is a loyalty program dedicated to our active retail customers with sizable assets. Under this program, we designate our investment advisors to provide customized and value-added services, including investment advice on securities and other financial products, to our members.
- *Online platform:* Our online platform allows our customers to execute real-time trades, record trading status and records, and check position and account information. We also offer stock quotes, financial news, global market updates and financial commentaries, as well as research reports on stocks through our online platform. In 2011, online trading accounted for more than 80% of our total securities and futures trading volume. Please see “Risk Factors – Risks Relating to Our Business and Industry – We rely heavily on IT systems to process and record our transactions and offer online products and services” for risks associated with our online platform.

In addition, we actively provide customized and value-added services to institutional clients to satisfy their demands through our nationwide branch network and comprehensive services, such as product recommendations, advice on asset allocation and distribution of featured research reports.

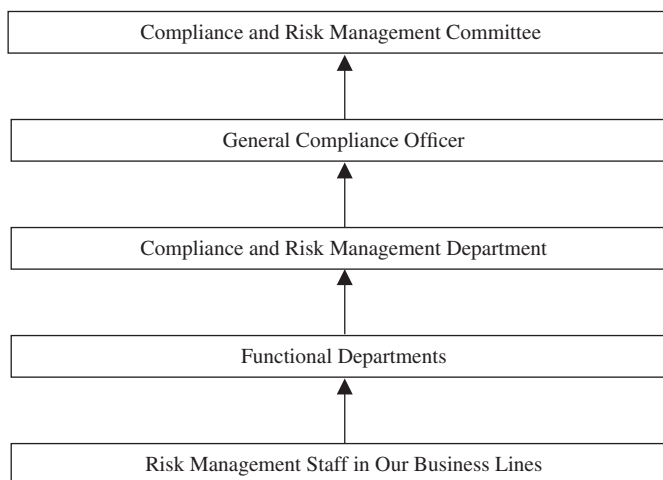
INTERNAL CONTROL AND RISK MANAGEMENT

Governance Structure

We believe effective risk management and internal controls are key to our success. We have established an effective and comprehensive risk management and internal control system to identify, evaluate and manage the risks we face in our business operations. As a result of our sound internal controls and risk management capabilities, we have received an “AA” regulatory rating from the CSRC for the past four consecutive years, the highest rating given to a PRC securities firm to date. In 2007, we were selected by the CSRC as one of the first six PRC securities firms to participate in the pilot compliance management program.

BUSINESS

We have established a five-level risk management and internal control governance structure, which includes: (i) the Compliance and Risk Management Committee; (ii) the General Compliance Officer; (iii) the Compliance and Risk Management Department; (iv) the functional departments; and (v) the risk management staff in our business lines. The following chart sets forth a brief overview of our five-level governance structure:



Compliance and Risk Management Committee

The Compliance and Risk Management Committee is the highest level of our risk management and internal control structure. Organized under our Board, the Compliance and Risk Management Committee is designed to assist our Board in overseeing our compliance with the laws and regulations applicable to our business operations. The Compliance and Risk Management Committee is mainly responsible for:

- overseeing our general risk management and internal control systems;
- reviewing and modifying our internal control policies; and
- ensuring all risks associated with our business activities are identified and controlled.

As of December 31, 2011, the Compliance and Risk Management Committee consisted of five members of our Board, including Mr. Li Mingshan, Mr. Zhou Donghui, Mr. Feng Huang, Mr. Zhang Huiquan and Mr. Dai Genyou. They have long-term professional experience in the PRC securities, financial management, investment and/or legal industries. For more details about their background, please see “Directors, Supervisors and Senior Management.”

General Compliance Officer

The General Compliance Officer appointed by our Board is independent from our management and reports directly to our Board and other PRC regulatory authorities. Our General Compliance Officer serves as the counsel to the Compliance and Risk Management Committee and advises our Board and the Compliance and Risk Management Committee on a regular basis about the following major areas:

- implementing our risk management and internal control policies;
- overseeing and identifying risks management issues in our material corporate decisions and business activities;
- conducting independent investigations into potential non-compliance incidents; and
- engaging external counsels or third parties, at its discretion, to conduct independent assessments of major corporate activities, such as mergers and acquisitions.

Our General Compliance Officer, Mr. Wang Jianye, who is also our Chief Risk Control Executive, has over 25 years of working experience in the PRC banking and securities industries, including 15 years of management experience. For more details about Mr. Wang's background, please see "Directors, Supervisors and Senior Management."

Compliance and Risk Management Department

The Compliance and Risk Management Department reports directly to our Board and our General Compliance Officer on a regular basis and plays a critical role in implementing our internal control policies through assisting our General Compliance Officer in:

- designing our internal compliance protocols relating to our business, employees and subsidiaries;
- preparing our internal control reports, manuals and training materials;
- monitoring our compliance risks;
- evaluating whether each of our business operations, branch offices and subsidiaries adhere to our internal control policies; and
- implementing Chinese wall policies and managing our anti-money laundering and foreign exchange risks.

BUSINESS

As of December 31, 2011, our Compliance and Risk Management Department consisted of 40 professional staff, among which approximately 20 had over five years of professional risk management experience. Our Compliance and Risk Management Department currently has eight different operating units, including (i) compliance monitoring unit; (ii) trading risk management unit; (iii) operation risk management unit; (iv) investment banking risk management unit; (v) compliance and review unit; (vi) inspection and audit unit; (vii) legal and litigation unit; and (viii) regulatory liaison unit. In addition to the risk management staff at our head office, we recruit additional staff at our branch offices, brokerage branches and subsidiaries to assist us in monitoring and managing our risk management and internal control systems on-site.

Functional Departments

Our functional departments primarily include our brokerage operation center, finance and planning department and IT department. Our functional departments cooperate with the Compliance and Risk Management Department to manage risk exposure arising from the securities trading, capital deployment and asset allocation, financial, accounting and IT systems, as well as to implement department-specific risk management procedures.

As of December 31, 2011, our functional departments consisted of 131 professional staff, among which approximately 110 had over five years of working experience in the industry.

Risk Management Staff in Our Business Lines

We have risk management staff in our principal business lines to monitor and manage risks specific to our business activities, and these staff work closely with our Compliance and Risk Management Department.

As of December 31, 2011, we had 207 risk management staff, among which approximately 160 had over five years of working experience in the industry.

Risk Management and Internal Control Policies and Procedures

We have implemented a series of risk management and internal control procedures to manage risks that are specific to our business activities.

Brokerage Business

To ensure our brokerage business and branch network's compliance with the applicable laws and regulations and to standardize our brokerage business practice, we have established comprehensive internal rules and guidelines for our brokerage business. We manage our brokerage branch network based on a three-level governance structure: (i) head office; (ii) branch offices; and (iii) brokerage branches.

BUSINESS

We manage the risks associated with our brokerage business through the following major risk management measures:

Account opening procedures	Our account opening procedures are designed to ensure that our customers' account opening information is accurate, sufficient and in compliance with the applicable PRC regulations and our internal control policies. For example, our account executives are required to obtain the original IDs of our brokerage customers before opening accounts for them.
Customer risk profiling	To assess our customers' risk tolerance on a particular type of financial product, we evaluate our customers' risk profiles based on a combination of factors, such as financial strength, knowledge of financial products and investment experience, as well as educational background.
Segregation of customer deposits	According to the relevant laws and regulations that govern cash held on behalf of customers, we require our brokerage branches to maintain trust accounts with qualified commercial banks and authorized financial institutions to hold customer deposits. We also prohibit our sales and marketing personnel from managing customer accounts or handling customer deposits to minimize the occurrence of improper trading.
Real-time monitoring system	Through our IT system, we are able to monitor our customers' transactions on a real-time basis and detect unusual transactions and irregular trading patterns.
Centralized brokerage trading	To prevent our customers' funds from misappropriation, we have established and implemented standardized procedures for brokerage deposit, account management, contract execution, fund transfers, liquidation and transfer of customers' assets. Our brokerage operation center conducts account liquidation, registration, deposit and settlement of our customers' securities and funds on a centralized and independent basis.

BUSINESS

Segregation of front and back offices

We also have segregated supervision and management of our branch network's front and back offices. We have a dedicated internal control team to manage access controls and segregation of duties among our employees. We prohibit our back office's operational and risk management personnel from participating in sales and marketing activities, managing customer accounts or handling customer deposits.

Regular and special audit

Our internal audit department and the Compliance and Risk Management Department schedule regular and special audits on our brokerage business department and branch network with respect to their internal controls, ordinary business operations, financial and accounting management and operational performance.

In response to the increasing risks associated with the margin financing and securities lending business, we:

- have established a monitoring system based on Net Capital requirements to strictly control the scale of our margin financing and securities lending business and to prevent concentration of business in a single customer or single kind of stock;
- perform a credit check on each margin financing and securities lending customer, assign different credit ratings to different customers based on standardized customer selection and rating systems and grant credit to customers based on decisions made by our margin financing and securities lending credit granting management committee;
- determine different financing limits for different customers and set warning notices, margin call notices and closing notices to ensure that we hold an adequate amount of collateral from each customer; and
- use a mark-to-market system to monitor customer transactions on a real-time basis and issue margin call notices and closing notices, or impose compulsory liquidation if our customers fail to cover shortfalls on collaterals or repay the financing granted after we issue warning notices.

We also have stringent internal control measures that monitor and control the size of our margin financing and securities lending business. We generally perform the following steps to determine and control the size of our margin financing and securities lending business:

- conducting surveys on customers' demands and the value of their applicable assets in accounts with us in order to estimate the potential size of our margin financing and securities lending business;

BUSINESS

- conducting stress tests to assess whether our proposed business size would comply with the applicable PRC regulatory requirements, especially Net Capital requirements;
- determining the size and required funding for our margin finance and securities lending business;
- submitting the proposed size of our business to our Board for approval; and
- monitoring and controlling the size of our margin financing and securities lending business based on our margin loan balance and the value of securities we lend on a daily basis.

We also have predetermined parameters in our operating systems when conducting margin financing and securities lending business to ensure compliance with the PRC regulations: (i) the business scale of margin financing business for a single customer should not exceed 5% of our Net Capital; (ii) the business scale of securities lending business for a single customer should not exceed 5% of our Net Capital; and (iii) the market value we hold for a single kind of securities should not exceed 20% of its total market value.

Investment Banking Business

We control and manage the risk exposures associated with our investment banking business through the Internal Review Group, the Quality Control Group and the Compliance and Risk Management Department, which are generally involved in project approval, on-site due diligence, documents review, internal review meetings and continuous supervision.

Project approval

An internal committee of our investment banking business holds meetings to discuss whether to proceed with an underwriting mandate based on its independent business judgment and submits its recommendation to our Internal Review Group for further action.

BUSINESS

On-site due diligence

Our Quality Control Group and our Compliance and Risk Management Department conduct on-site reviews in connection with each transaction, primarily including the following procedures:

- reviewing due diligence documents and gathering and analyzing data;
- visiting manufacturing facilities and office buildings; and
- attending meetings and interviews with the issuer's management and employees, customers and suppliers.

Documents review

Our Compliance and Risk Management Department conducts preliminary reviews of the major transaction documents. Our Internal Review Group then conducts a thorough review of the issuer's corporate, legal and financial matters to ensure that these transaction documents are accurate and complete, without any material misstatements or omissions, and comply with the relevant listing requirements. After receiving the review opinion, we require our investment banking team in charge of the particular transaction to examine and address any queries or recommendations raised by our Compliance and Risk Management Department and Internal Review Group.

Internal review meeting

Our Internal Review Groups holds meetings to give opinions and decide whether to approve an underwriting transaction based on their professional independent business judgment.

Two of our sponsor representatives in charge of the transaction will sign the transaction mandate and bear personal responsibility for our role as sponsor.

Continuous supervision

Based on the PRC regulations on the continuous supervision of listed companies, we are responsible for overseeing our listed clients' compliance with the CSRC's requirements, internal controls, corporate governance, disclosure matters and other obligations during a post-listing continuous supervision period. We have established detailed internal guidelines on the continuous supervision of our listed investment banking clients. To ensure strict compliance with the applicable PRC regulations and our internal guidelines, we have prepared various documentation templates to standardize our supervision practices. If any particular issue is identified during the continuous supervision period, our internal control teams will submit a report to our investment banking department for further action.

Asset Management Business

Our Compliance and Risk Management Department monitors and evaluates our exposure to potential market risks, operational risks, credit risks and regulatory risks arising from our asset management business. It cooperates with our risk management staff working for our asset management business to monitor market risks, operational risks, credit risks and regulatory risks in order to ensure effective implementation of our entrusted responsibilities, the accuracy of our disclosure of risk-related information, prudence to develop our business and the protection of our legal interests and the rights of our investors.

The primary internal control and risk management measures of our asset management business include:

- maintaining segregated asset management accounts at qualified commercial banks and authorized financial institutions to hold customer funds;
- monitoring our daily asset management activities to ensure that the investment strategy and scope, asset allocation, selection of asset class and concentration level of each asset management product matches its product descriptions and disclosure in marketing materials;
- maintaining a carefully selected "securities pool" for our investments based on research recommendations; and
- scheduling a quarterly on-site review of our overall asset management activities and engaging independent accountants to perform special audits.

BUSINESS

In addition, we manage the risks associated with our asset management business by the following three steps:

**Risk control indicators
formulation**

Our asset management department formulates compliance indices for each product in accordance with the contracts entered into with our clients and relevant laws and regulations and implements measures to prevent losses in the investment-making process.

**Risk control indicators
monitoring**

Our risk management staff set thresholds for the compliance indicators in the investment and trading risk management system. We rely on technical methods to set such thresholds in our system. Our risk management staff monitors compliance indicators on a real-time basis to ensure that non-compliance incidents are discovered early.

**Risk control indicators
evaluation**

Our risk management staff within our asset management business and our Compliance and Risk Management Department are responsible for reporting circumstances where the value of relevant indicators exceed their respective predetermined thresholds and monitoring the adjustments conducted by our investment managers.

At the subsidiary level, we have appointed directors, supervisors and senior management to supervise and monitor the risk management and internal control measures of our asset management subsidiaries. We require our asset management subsidiaries to establish their own risk management and internal control systems based on applicable PRC regulations and our internal policies. We oversee and monitor these subsidiaries' implementation of our internal policies and review the effectiveness of their risk management and internal control systems on a regular basis. We also have a reporting system which requires the compliance officer of each subsidiary to report its overall risk management and internal controls to us at least twice a year and to timely notify us of any material risk management issues.

BUSINESS

Proprietary Trading Business

We have established a four-level risk management governance structure to manage the risks associated with our proprietary trading business, which includes: the Board of Directors, the investment decision committee, the Compliance and Risk Management Department and the proprietary trading department.

The Board of Directors

Our Board determines the size of our proprietary trading activities based on PRC regulatory requirements such as Net Capital requirements, the size of our assets, liabilities and income, our capital adequacy and our business strategy.

Any subsequent increase in the size of our proprietary trading activities must be approved by our Board.

Investment decision committee

Our investment decision committee:

- determines our business strategy with respect to proprietary trading activities and adjusts our decision-making procedures and risk management system;
- determines the size and allocation of our investments in different asset classes or underlying industries; and
- researches major factors affecting our proprietary trading business, including but not limited to adverse changes to the securities markets and our response.

BUSINESS

Compliance and Risk Management Department

Our Compliance and Risk Management Department:

- collects trading position data through trading and settlement systems;
- uses a market risk monitoring system based on risk control indicators, such as VaR, basis point value and portfolio beta;
- monitors the size of our proprietary trading activities and our risk exposures and ensures that they are within the limits prescribed by our Board;
- implements a “stop-loss” policy and monitors our investment portfolio on a daily basis to limit our potential loss, especially with respect to high-risk financial products such as stock index futures; and
- monitors and evaluates our hedging activities to ensure that our risk exposure and losses do not exceed the predetermined limits.

Proprietary trading department

Our proprietary trading department:

- manages and adjusts our risk exposure range within its authorized limits;
- closes out a position when the losses incurred exceed the predetermined maximum loss limit;
- establishes the counterparty credit approval policy and adopts different settlement methods with counterparties with different credit ratings to manage counterparty risk; and
- develops investment restrictions based on the rating of credit products.

BUSINESS

In addition, our internal audit department and the Compliance and Risk Management Department schedule quarterly on-site reviews and special audits of our overall proprietary trading business with respect to its internal controls, ordinary business operations, financial and accounting management and the operational performance of our proprietary trading business.

Direct Investment Business

We conduct our direct investment business primarily through Haitong Capital Investment, which has established its own investment decision committee to review and approve its investment decisions. We have appointed several directors, supervisors and senior management of Haitong Capital Investment to supervise and monitor its risk management and internal control systems. We oversee and monitor Haitong Capital Investment's implementation of our internal policies and review the effectiveness of its risk management and internal control systems on a regular basis. We also have a reporting system which requires Haitong Capital Investment to report its overall risk management and internal controls to us at least twice a year and to notify us on a timely basis of any material risk management issues.

Haitong Capital Investment has established stringent risk management and internal control systems based on applicable PRC regulations and our general internal policies, covering investment target selection, negotiation, due diligence review, investment strategy, contract execution, post-investment management and project exits. For example, Haitong Capital Investment requires its internal audit managers and compliance officers to participate in all project approval meetings and financial due diligence interviews as well as to attend the target company's board and shareholder meetings in order to closely monitor the target's business operations.

The investment decision committee of Haitong Capital Investment manages the risks associated with direct investment activities by keeping the size of our investments within the limits authorized by our Board. The investment decision committee is responsible for reviewing investment plans and strategies relating to medium and long-term investments and approving decisions for investments valued at less than RMB80 million. The members of the investment decision committee must reach unanimous agreement to implement the relevant investment decisions. For any investment valued over RMB80 million, the investment decision committee recommends such investments to our Board for approval.

The investment decision committee consists of Haitong Capital Investment's chairman of the board, Ms. Zhang Saimei, general manager, Mr. Zhang Xiangyang, and chief investment officer, Ms. Xiong Xumin, all of whom have over ten years of experience in the PRC securities industry. Among them, the chairman is qualified as a senior economist and served as the general manager of our derivative products department, strategies department and investment banking department; the general manager served as the general manager of our Compliance and Risk Management Department; and the chief investment officer is qualified as a sponsor representative and served in our derivative products department and investment banking department.

BUSINESS

Overseas business

Currently, we principally conduct our businesses in Hong Kong and Macau through Haitong International Securities. The board of directors of Haitong International Securities has the ultimate responsibility for Haitong International Securities' internal controls and, through the audit committee, the board of directors of Haitong International Securities is responsible for reviewing the effectiveness of its internal control systems.

The audit committee currently comprises three independent non-executive directors of Haitong International Securities, namely Mr. Man Mo Leung (Chairman of the committee), Mr. Tsui Hing Chuen, William and Mr. Lau Wai Piu, Bill and one non-executive director, Mr. Ji Yuguang. The chairman of the audit committee has appropriate professional qualifications and experience in financial matters. The audit committee meets not less than twice a year to review the following:

- business affairs managed by the executive directors, particularly in relation to connected transactions and continuing connected transactions, if any;
- the interim and annual financial statements before their submission to the board of directors and the annual general meeting for approval; and
- the effectiveness of the internal control and risk management system.

In addition to the audit committee, Haitong International Securities has an independent internal audit team, which plays a major role in monitoring the corporate governance of Haitong International Securities and providing objective assurance to the board of directors of Haitong International Securities that sound internal control systems are maintained and operated by management. The head of the internal audit team directly reports to the board of directors of Haitong International Securities and the audit committee on audit matters.

BUSINESS

Haitong International Securities adopts a risk-based approach to evaluate risk levels in a controlled environment and maintains up-to-date operations manuals with ISO certification. Haitong International Securities also adopts specific risk management policies and monitoring systems to manage its risk exposure associated with credit, liquidity, market and IT in its business operations:

Credit risk

Members of the credit committee currently comprise some of the executive directors and senior executives of Haitong International Securities and its subsidiaries. The main responsibility of this committee is to formulate credit policies and to manage the asset quality of Haitong International Securities and its subsidiaries.

The credit control department is responsible for monitoring securities transactions made on credit and making margin calls to customers whose trades exceed their respective limits. Any such excess is required to be covered within two days from the date of the deficiency report for securities and the next day for futures. The deficiency report is monitored daily by Haitong International Securities' finance director and responsible officers.

Liquidity risk

Haitong International Securities' operating units are subject to various statutory liquidity requirements as prescribed by the relevant regulatory authorities in Hong Kong. Haitong International Securities has established a monitoring system to ensure that it maintains adequate liquidity to fund its business commitments and to comply with the rules and regulations applicable to it. Haitong International Securities also maintains long-term and other stand-by banking facilities with banks to meet any contingencies in its operations.

Market risk

Haitong International Securities has adopted detailed investment policies to limit its proprietary trading, exposed underwriting commitments and position exposures.

IT risk

Haitong International Securities is able to effectively monitor the availability and performance of various IT systems. A vigilant team acts and reports to the senior management in the event of disruption or other crisis that affects its IT systems.

Chinese walls

As a securities firm with a diversified range of businesses, we inevitably face situations where two or more interests conflict. We recognize the importance of managing such conflicts of interest in order to protect the interests of our customers and staff. Therefore, we have established Chinese walls in different business lines to prevent and minimize potential conflicts of interest by controlling the flow of material non-public information and ensuring compliance with relevant rules and regulations.

A Chinese wall is a barrier to ensure that material non-public information obtained by one division of our business regarding listed companies is not released to our other divisions. A Chinese wall aims to isolate those persons who make investment decisions from those who are privy to material non-public information which may influence those decisions.

We have developed and implemented reasonable policies and procedures to safeguard insider information and to prevent improper trading activities. To enforce the Chinese wall policy, we have established physical segregation and password-protected access between departments and operational units, including the following:

- Brokerage;
- Investment banking;
- Asset management;
- Proprietary trading;
- Equity research; and
- Legal and compliance.

Our staff engaged in a particular operational activity is prohibited from entering the premises or office area used to undertake any other operational activities on the other side of a Chinese wall without prior permission from our senior management.

Segregation of Duties

To minimize the opportunity for collusion and the occurrence of improper trading, duties and functions within each of our business operations are assigned to and discharged by different teams of employees. The following is an overview of the allocation of duties within our brokerage division, our largest business line:

- Customer service: We employ a team of customer service personnel responsible for handling account opening applications and customer enquiries. Policies governing the opening of customer trading accounts are governed by our internal guidelines;

BUSINESS

- Taking trade orders: PRC brokerage customers can place orders by phone, internet and counter trading systems;
- Dealing and broking in securities: Dealing orders placed by brokerage customers are processed via a direct dealing system, which interfaces with stock exchanges' trading systems. Hong Kong brokerage customers may also issue deal orders to be processed by our licensed account executives through our trading system;
- Account management: Printing and mailing of customer statements are handled by staff members of the settlement department. Customers can also obtain a summary of orders via the Internet. Normally we will mail a summary of orders to our customers on a regular basis (monthly or yearly). The process is computerized to minimize time and costs and to maintain customer confidentiality;
- Custody of customer assets: We ensure that our customers' assets are adequately safeguarded and properly accounted for. We have established procedural guidelines in accordance with relevant PRC regulations. For example, PRC customers' money must be deposited into trust accounts at an authorized financial institution after our receipt of such monies and no account executive is allowed to handle customer fund deposits or transfers;
- Customer complaints: Complaints from customers are reported to and handled by our General Compliance Officer and our legal and compliance department. According to our internal policy, no staff is allowed to handle customer complaints without first notifying our General Compliance Officer. Upon receipt of a complaint, the legal and compliance team gather information and conduct independent investigations. Investigation reports are promptly presented to our Board of Directors for consideration; and
- Our General Compliance Officer ultimately responds to the customer with investigation results and takes remedial measures as directed by our Board of Directors.

Conflicts of Interest

Conflicts of interest arise in situations where two or more interests within our business legitimately exist but are in competition or conflict. Conflict may arise between (i) interests of our different operating units; (ii) our interests and those of our customers; (iii) interests of different customers; (iv) our interests and the interests of our staff's personal activities; or (v) interests of our staff's personal activities and those of our customers.

BUSINESS

Our employees' personal activities include any personal trading, outside directorships and businesses. The Securities Law states that PRC securities professionals are prohibited from engaging in personal stock transactions. Our internal policies require that there is an adequate level of awareness by our staff of the issues relating to conflicts of interest and that our staff understand the basic principles relating to customer priority, insider dealing, confidentiality, staff dealing and Chinese walls. In addition, policies emphasize avoidance or minimization of conflicts of interest. Under these policies, where a conflict cannot be reasonably avoided, staff must ensure that the conflict is properly disclosed to relevant parties and that approval is sought from management before any action can be taken. Under all circumstances, staff must ensure customers are fairly treated and the interests of staff should be subordinated to those of our customers where any conflict arises between our staff and customers.

Anti-Money Laundering

We are fully committed to establishing and enforcing appropriate policies and procedures to prevent money laundering and terrorist financing and are compliant with all relevant legal and regulatory requirements. Money laundering covers a wide range of activities intended to mask or alter the source of illegally obtained money. Our staff are required to comply with PRC laws and regulations. When new customers apply to open trading accounts, our staff must manually check their identities and backgrounds. Staff members who know, suspect or have reasonable grounds to believe that a customer might have engaged in money laundering activities must immediately report the details to the General Compliance Officer and our Compliance and Risk Management Department.

In addition, we have established a risk-based approach in our customer acceptance policy which aims to identify those types of customers that are likely to pose a higher than average risk of money laundering and terrorist financing. This approach is based on a customer due diligence process that takes into account factors such as the customer's background, the nature of its business, its origin or residence, associated persons or entities, its structure of ownership and any other information that may suggest that the customer presents any risk in respect of money laundering and terrorist financing.

We have never engaged in or knowingly assisted any money laundering activities. For risks associated with money laundering activities, please see "Risk Factors – Risks Relating to Our Business and Industry – We may not be able to fully detect money laundering and other illegal or improper activities in our business operations on a timely basis."

Risk Management

We have historically been focused on risk prevention and control in line with our prudent and conservative investment policies. We have developed dedicated systems for our securities brokerage, investment banking, asset management and proprietary trading businesses. We have also built sophisticated risk monitoring systems for new businesses development.

BUSINESS

Principal types of risks inherent to our business include market risk, credit risk, liquidity risk and operational risk. Market risk includes the risk of price volatility, foreign exchange risk and interest rate risk, and is associated with the possibility of loss or reduction in income due to partial or overall changes in the securities market. Credit risk occurs when a borrower or financing counterparty fails to perform its duties. Liquidity risk relates to whether our assets in the foreseeable future could repay debt without any loss of value. Operational risk includes risks involving errors, omissions, imperfect internal processes, incomplete information systems and transaction failure and fraud, all of which can occur in our businesses.

In accordance with the five-level internal control and risk management structure set forth above, the Compliance and Risk Management Committee, our General Compliance Officer and our Compliance and Risk Management Department work together in managing and monitoring these exposures to ensure appropriate measures are implemented in a timely and efficient manner.

LEGAL AND REGULATORY

Licensing requirements

We conduct our securities business mainly in the PRC and Hong Kong and are, therefore, subject to the restrictions and regulatory requirements of the PRC and Hong Kong. Our Directors and our PRC legal advisors, Grandall Law Firm (Shanghai), confirmed that, during the Track Record Period and up to the Latest Practicable Date, we have complied with the relevant PRC regulatory requirements and guidelines in all material respects and obtained all the important consents and licenses necessary for our operations in accordance with the PRC laws and regulations. To the best knowledge of our Directors after due inquiry, our Directors confirm that as of the Latest Practicable Date all of our employees and brokers have obtained the relevant licenses as required for their business activities. Since our A Share offering in July 2007 and up to the Latest Practicable Date, neither our Company nor any of our Directors have been subject to auditing or administrative penalty by the CSRC, or been criticized or publicly reprimanded by the Shanghai Stock Exchange for violations of any listing rules or other applicable rules.

Due to the licensing regimes of the SFC, some of our Hong Kong subsidiaries must obtain licenses to conduct their businesses in Hong Kong. These subsidiaries have obtained the relevant licenses and have been in compliance with the relevant regulatory requirements.

BUSINESS

The following table sets forth a summary of the relevant licenses currently held by our licensed subsidiaries in Hong Kong:

Name of the licensed subsidiaries	Type 1 Dealing in securities	Type 2 Dealing in futures contracts	Type 3 Leveraged foreign exchange trading	Type 4 Advising on securities	Type 5 Advising on futures contracts	Type 6 Advising on corporate finance	Type 9 Asset management
HFT Investment Management (HK) Limited				✓			✓
Hai Tong Asset Management (HK) Limited				✓	✓		✓
Hai Tong Capital (HK) Limited						✓	
Haitong International Asset Management Limited				✓	✓		✓
Haitong International Capital Limited						✓	
Haitong International Consultants Limited	✓			✓			✓
Haitong International Futures Limited		✓			✓		
Haitong International Investment Managers Limited	✓			✓			✓
Haitong International Investment Services Limited	✓						
Haitong International Research Limited				✓			
Haitong International Securities Company Limited	✓		✓	✓			

Our Directors confirmed that, during the Track Record Period and up to the Latest Practicable Date, we had complied with the relevant Hong Kong regulatory requirements and guidelines in all material respects and obtained the permits and licenses necessary for our operations in accordance with Hong Kong's laws and regulations.

Legal proceedings

We are a party to a number of legal proceedings arising in the ordinary course of our business. As of the Latest Practicable Date, we had four interrelated pending legal proceedings, each with a potential claim amount of RMB5 million or above, and as far as our Directors are aware, the potential maximum claim amount of these four interrelated proceedings was approximately RMB26.8 million (excluding interest) in the aggregate. We summarize these four interrelated pending proceedings below:

Our former branch office in Hubei Province and our Zhongbei Road and Jiangda Road brokerage branches were defendants in four interrelated legal proceedings in connection with tort claims arising from a stock trading dispute with an aggregate claim amount of approximately RMB53.1 million (excluding interest). In March 2009, the Higher People's Court of Hubei delivered a final judgment in favor of the plaintiffs and ordered us to pay approximately RMB26.3 million (excluding interest) to the plaintiffs. We have fulfilled the court judgment and reflected the claim expenses in our financial statements accordingly.

BUSINESS

Recently, the PRC Supreme People's Court received a formal protest filed by the PRC Supreme People's Procuratorate against the final judgment delivered by the Higher People's Court of Hubei in connection with these four interrelated proceedings, citing erroneous application of the law. After reviewing the merits of the protest, the PRC Supreme People's Court issued a summons in November 2011 to the original defendants requiring them to appear in the PRC Supreme People's Court. In the event the PRC Supreme People's Court issues an adverse judgment against us, we may face an aggregate maximum claim amount of approximately RMB26.8 million (excluding interest).

As of the Latest Practicable Date, the aggregate outstanding claim or judgment amount of our pending legal proceedings (including the four material pending proceedings discussed above and other immaterial proceedings) amounted to approximately RMB27.2 million, which is less than 1% of the profit attributable to the owners of the Company in 2011. Our Directors and PRC legal advisors confirmed that, as of the Latest Practicable Date, none of the legal proceedings to which we were a party, individually or in the aggregate, would have a material effect on our business, financial condition or results of operations.

Regulatory non-compliances

We are subject to a number of regulatory requirements and guidelines issued by the regulatory authorities in the PRC, Hong Kong and Macau (including but not limited to the CSRC, the Shanghai Stock Exchange, the Hong Kong Stock Exchange, the SFC and their respective local branches and offices (if applicable)).

We or our employees have, from time to time, been involved in incidents of regulatory non-compliance and received related notices or warnings from the relevant regulatory authorities. Based on the nature of the cases, we classify the incidents of regulatory non-compliance committed by us and our employees into the following three categories: (i) non-compliance incidents that led to administrative penalties; (ii) non-compliance incidents that led to regulatory measures and the deduction of regulatory points; and (iii) employee non-compliance incidents.

Our Directors and our PRC legal advisors confirm that the regulatory non-compliance incidents disclosed in this prospectus are not significant to our business operations and did not have any material adverse effect on our business, financial condition and results of operations. Our Directors also confirm that none of our existing Directors or members of our senior management were involved in any regulatory non-compliance incidents.

BUSINESS

Non-compliance incident that led to administrative penalties

We set out below the details of our non-compliance incident that led to the administrative penalties during the Track Record Period and up to the Latest Practicable Date and the primary remedial measures we adopted:

Non-compliance incident	Brief explanation and our primary remedial measures
<p>In December 2008, the PBOC Taiyuan Branch imposed an administrative penalty on our Xinjianlu Branch in Taiyuan, Shanxi for its failure to obtain customer identity information (such as occupation) in relation to agency agreements entered into for our securities brokerage business. This failure required prompt remediation and payment of a fine of RMB50,000. Two responsible officers were also fined a total of RMB8,000.</p>	<p>After our investigation, we found that this incident was caused by the introduction of a new PBOC regulation that became effective in 2007 and required the collection of customer identification information in account opening procedures which was not otherwise required by the SAC prior to 2007. We promptly revised our account opening procedures and handled our customer account opening in accordance with this new regulation after 2007. For our customers who opened their brokerage accounts before the new regulation, we attempted to collect all their missing identification information. However, due to our failure to reach some of our existing customers, or their inability to provide necessary information in a timely manner, some customers' identification information was still missing by the time the regulator conducted its regulatory investigation on us.</p> <p>Immediately after the incident, we reviewed our account opening policies to ensure that they were fully compliant with the PBOC requirements. We have also adopted the following remedial measures: (i) proactively contacted our customers to obtain missing information through various channels, including mailing notices and publishing notices in the local newspapers; and (ii) suspended all fund transfers from customers' securities accounts to bank accounts if we found that the account holder's ID card recorded in our system had expired for more than three months.</p> <p>We did not receive any follow-up comments from the regulator in connection with this incident. As of the Latest Practicable Date, we have collected the identification information from substantially all of our retail brokerage customers and are currently attempting to obtain the missing information from the remaining customers.</p>

Our PRC advisors confirmed that, apart from the non-compliance incident disclosed above, there were no other regulatory non-compliance incidents that led to material monetary fines or administrative penalties during the Track Record Period and up to the Latest Practicable Date.

BUSINESS

Non-compliance incidents that led to regulatory measures and the deduction of regulatory points

We set out below the details of non-compliance incidents that led to regulatory measures and the deduction of regulatory points imposed by the CSRC during the Track Record Period and up to the Latest Practicable Date and the primary remedial measures we adopted in response to these incidents:

Non-compliance incidents	Brief explanation and our primary remedial measures
<p>In March 2006, our Youhaobei Road Branch in Urumqi opened a sub-branch to conduct securities brokerage business in Karamay City, Xinjiang prior to receiving authorization from the CSRC. We received a warning letter from the Xinjiang Securities Regulatory Bureau in 2008 in relation to our unauthorized branch-opening incident in 2006.</p>	<p>We closed this unauthorized sub-branch when the PRC securities market was at an early stage of comprehensive regulation and supervision and the CSRC required unauthorized securities brokerage branches of all PRC securities firms to be closed. In addition, we made proper arrangements with our customers affected by the closure of this sub-branch.</p> <p>We reviewed our internal control procedures on branch opening and strengthened our internal measures for the administration of brokerage branches in September 2006 and 2009. Our revised measures require, among other things, our internal committee to conduct a more comprehensive approval process and review all necessary approvals and permits before we open a brokerage branch to ensure that we are in compliance with the relevant regulations in the PRC.</p> <p>Since this incident, we have found no occurrence of similar incidents nor have we received any similar warning letter from the regulators. According to our PRC legal advisors, all the securities brokerage branches we opened have received the relevant approvals and permits as of the Latest Practicable Date.</p>

Non-compliance incidents

In December 2008, the Zhejiang Securities Regulatory Bureau found our Baiguan Branch in Shangyu to have violated the applicable CSRC rules by (i) having opened brokerage accounts without funds or securities; (ii) acquiring customers from third-party agents and sharing commission received with those institutions; and (iii) recruiting over 20 college students without appropriate qualifications to engage in sales.

Brief explanation and our primary remedial measures

After we were notified by the regulator about this incident, we reviewed our existing internal control procedures that are designed to (i) prevent our brokerage branches from outsourcing their customer acquisition function to third-party agents; and (ii) require regular reviews of brokerage accounts and timely liquidation. Also, we have existing internal policies regulating the qualifications of our sales personnel. We have found these internal control procedures to be adequate. After our internal investigation, we concluded that this incident was caused by this brokerage branch's negligence in breaching our internal policies.

In addition, as part of our on-going compliance practice, we also regularly publicize the qualification of our securities brokers online to increase transparency and promote public awareness of our qualified sales personnel and require our securities brokers to attend 60 hours of training before they join our sales team.

We adopted the following remedial measures immediately after this incident: (i) terminated our relationship with our third-party sourcing agents; (ii) dismissed unqualified sales personnel and only allowed our head office to select and approve internships for sales personnel; (iii) designated a special team to continuously monitor and liquidate dormant brokerage accounts without funds or securities; (iv) improved our compliance review system for our brokerage branches; and (v) degraded the internal rating of Baiguan Branch and publicized this decision among our Group according to our disciplinary policy.

We also submitted a report to the Zhejiang Securities Regulatory Bureau to explain those remedial measures we adopted.

Non-compliance incidents

In December 2009, our Youhaobei Road Branch in Urumqi received a warning letter from the Xinjiang Securities Regulatory Bureau in connection with the content of its fund marketing advertisement published in local newspapers, which was found to be non-compliant with relevant fund marketing regulations in the PRC.

Brief explanation and our primary remedial measures

After we were notified by the regulator about this incident, we reviewed our internal control procedures and found that they were adequate. After internal investigations, we concluded that this incident was caused by this brokerage branch's negligent breach of our internal policies on publishing marketing materials, which require a branch manager to draft an advertisement and then submit it to the branch director for approval.

We took the following remedial measures immediately after this incident: (i) published a correction announcement before the actual fund sale, which did not negatively affect our customers; and (ii) provided a special training session to all sales personnel at Youhaobei Road Branch on the marketing of fund products.

Since this incident and up to the Latest Practicable Date, we have found no occurrence of similar incidents nor have we received any similar warning letters from regulators.

Non-compliance incidents

In April 2010, the Shenzhen Securities Regulatory Bureau found our Shenzhen Honglingnan Road Branch to have sold customers' stocks without proper customer consent in connection with closing inactive accounts and failure to keep certain trading records, which violated relevant regulations in the PRC. The Shenzhen Securities Regulatory Bureau met our responsible officers and urged them to rectify the situation. We received a regulatory notice in May 2010.

Brief explanation and our primary remedial measures

After we were notified by the regulator about this incident, we reviewed our internal control procedures in relation to the administration of non-compliant and dormant accounts and the monitoring of over-the-counter brokerage transactions and found that they were adequate. After internal investigations, we concluded that this incident was caused by this brokerage branch's unauthorized liquidation of approximately 450 accounts with inactive trading records for more than three years, worth approximately RMB0.5 million in total. We recorded the liquidated funds as accounts payable and made appropriate provisions. According to the policies adopted by Shenzhen Honglingnan Road Branch, once the staff at this branch is able to contact those inactive account holders, those customers are entitled to receive their accounts' liquidated value or their current market value, whichever is higher.

Immediately after this incident, we conducted a comprehensive review of our brokerage accounts and adopted a series of measures to further strengthen our supervision over the business activities of our brokerage branches. We also enhanced our internal accountability systems. In response to the liquidation of dormant accounts, we have reserved a special fund to cover potential customer claims.

Since this incident, this branch has not encountered any customer dispute over the liquidation of dormant customers' accounts up to the Latest Practicable Date.

Non-compliance incidents

In October 2010, the Shenzhen Securities Regulatory Bureau issued a regulatory letter to our Huafu Road Branch in Shenzhen which identified that we improperly operated customers' accounts and employed unqualified personnel to engage in sales and marketing, and required this branch to rectify the situation.

Brief explanation and our primary remedial measures

After our investigation, we found this incident to be caused by the fact that some of our brokerage customers have, against our prior warnings, voluntarily disclosed their transaction passwords to their relationship managers and further requested the managers to execute transactions on their behalf.

After we were notified by the regulator about this incident, we reviewed our internal control procedures and found them to be adequate. We reminded our brokerage customers of the risks of releasing their account passwords to third parties when they opened their accounts with us. We have an IT monitoring system that tracks any multi-account brokerage transactions executed on the same IP address. Once the system detects such a transaction, our system will send a confirmation notice to our customer for due authorization. In addition, as part of our ongoing compliance practices, we regularly publicize the qualification of our securities brokers online to increase transparency and promote public awareness of our qualified sales personnel and our requirement that securities brokers attend 60 hours of training before they join our sales team.

Immediately after the incident, we adopted the following remedial measures: (i) promptly formed a rectification team and a cross-department supervision team to conduct a thorough review of our branch network's operating systems in order to improve our compliance practices; and (ii) prohibited the installation of any trading software on employees' work stations at this branch.

BUSINESS

Non-compliance incidents	Brief explanation and our primary remedial measures
	<p data-bbox="722 304 1377 417">We submitted a report to the Shenzhen Securities Regulatory Bureau to explain the remedial measures we adopted.</p> <p data-bbox="722 463 1377 574">According to our disciplinary policy, we degraded the internal rating of Huafu Road Branch and announced this decision within our Group.</p>

In addition to the primary remedial actions we adopted immediately after each incident was reported, we implemented other general remedial and rectification measures to prevent future occurrence of such incidents and received no follow-up comments from the relevant regulatory authorities. These measures include, among other things:

- prompt revision of our internal policies and procedures;
- strict internal inspection and examination; and
- enhanced staff training and a strict internal sanction mechanism.

Employee non-compliance incidents

We set out below the details of our employee non-compliance incidents in which our employees received formal warning letters from the regulatory authorities during the Track Record Period and up to the Latest Practicable Date and the primary remedial measures we adopted:

Non-compliance incidents	Brief explanation and our primary remedial measures
<p>In June 2009, the Shenzhen Stock Exchange publicly reprimanded our two sponsor representatives for not advising Zhejiang Dadongnan Packaging Co., Ltd. to fulfill its ongoing compliance obligations in connection with the misappropriation of funds by the controlling shareholders of Zhejiang Dadongnan Packaging Co., Ltd. and its failure to comply with proper vetting procedures and disclosure obligations.</p>	<p>The responsible sponsor representatives involved in these two incidents carefully considered the issues raised in the reprimand and submitted written reports to the Shenzhen Stock Exchange.</p>
<p>In September 2010, the Shenzhen Stock Exchange publicly reprimanded our two sponsor representatives for not advising Shandong Jining Ruyi Woolen Textile Co., Ltd. to fulfill its ongoing compliance obligations in connection with its non-compliance with relevant vetting procedures and its obligations to disclose daily transactions by Shandong Jining Ruyi Woolen Textile Co., Ltd.</p>	<p>Although the Shenzhen Stock Exchange's reprimand only applied to the sponsor representatives themselves, we adopted a series of remedial measures to improve our internal control systems for sponsorship and other investment banking activities. These measures include the following: (i) in August 2011, we issued detailed internal guidance on continuous supervision of our listed clients. We also prepared various types of documentation templates for our sponsorship and other investment banking activities; (ii) we required our employees to carefully study and comply with our internal guidance on continuous supervision of listed clients; and (iii) we prepared comprehensive training materials for our listed clients during their two-year supervision periods.</p>

BUSINESS

Non-compliance incidents	Brief explanation and our primary remedial measures
<p>In June 2011, in connection with the follow-on offering of Shanghai Shyndec Pharmaceutical Co., Ltd., the CSRC issued a warning letter to our two sponsor representatives for their failure to conduct adequate due diligence on the issuer's financial and accounting matters.</p>	<p>The responsible sponsor representatives carefully considered the issues raised in the warning letter and submitted explanatory reports to the CSRC.</p> <p>After we were notified by the regulator about this incident, we promptly conducted an internal review. In March 2011, we withdrew our sponsorship in connection with the follow-on offering of Shanghai Shyndec Pharmaceutical Co. Ltd.</p>

Although the CSRC's warning only applied to the sponsor representatives themselves, we adopted a series of remedial measures to improve the internal control system for our sponsorship and investment banking activities. These measures include the following: (i) in addition to requiring all of our sponsor representatives to attend professional training organized by the SAC, in August 2011, we provided internal training to all of our investment banking employees regarding key issues arising from the sponsorship and other investment banking activities; (ii) we required our sponsor representatives to strictly comply with relevant PRC regulations and our internal rules on sponsorship and other investment banking activities, particularly those related to due diligence investigation on the issuer's financial and accounting matters; and (iii) we designated a special team to review for a second time the documentation prepared by our sponsor representatives for regulatory approvals, perform substantive analysis and suggest remedial plans on existing matters in our sponsorship activities and conduct on-site inspections, if necessary.

As part of our on-going practice, we review the performance of our sponsor representatives on a regular basis. We downgraded the performance rating of the responsible sponsor representatives involved in these incidents and submitted the results to the CSRC. As of the Latest Practicable Date, we and the relevant sponsor representatives have not received any follow-up comments from the relevant regulatory authorities in connection with these incidents.

Regulatory inspections

The regulatory authorities, such as the CSRC and the SFC, carry out periodic or *ad hoc* inspections, examinations and inquiries in respect of our compliance with the laws, regulations, guidelines and regulatory requirements applicable to us and our business.

During the Track Record Period and up to the Latest Practicable Date, the CSRC and its local offices and bureaus carried out routine or *ad hoc* inspections of our Group covering, among other things, risk management and internal controls, corporate governance and business line specific areas, including our securities brokerage business (including the practice and management of our brokerage branches), futures brokerage business, futures IB business, margin financing and securities lending business and direct investment business. Certain inspections, although not resulting in fines or other penalties, have revealed deficiencies and weaknesses in our business operations, risk management and internal controls, and we took immediate remedial measures and enhanced our risk management and internal control systems in response to the CSRC's recommendations. Recent examples of these inspections are as follows:

- In September 2011, the Shanghai Securities Regulatory Bureau conducted a comprehensive on-site inspection on our business, including, but not limited to, our securities and futures brokerage, investment advisory, research report issuance and proprietary trading businesses, and on November 13, 2011, the bureau provided recommendations in its regulatory opinion with respect to (i) our internal control policy regarding the minimum retention period for the records of customer complaint phone calls; (ii) our investment advisory platform and stock pick text messaging practice; (iii) our internal control policy for authorizing proprietary trading of fixed income securities; and (iv) a stop-loss mechanism that should be established for our proprietary trading of fixed income securities. We took immediate remedial measures by (i) lengthening our minimum retention period for the recordings of customer complaint phone calls from two years to five years; (ii) imposing penalties on the relevant staff and the brokerage branches that violate our investment advisory and stock pick message policy; designating staff to conduct monthly review of the stock pick messages posted by each investment advisor on its online investment advisory board; and requiring each investment advisor to complete a mandatory stock advisory form after sending stock pick messages to its clients, an activity which can only be performed by qualified investment advisors; (iii) strictly following our internal authorization procedures from 2012 onwards for all of our proprietary trading activities; and (iv) revising our internal control and risk management system to specifically provide for a stop-loss mechanism for proprietary trading of fixed income securities. On December 15, 2011, we submitted a rectification report to the Shanghai Securities Regulatory Bureau, which did not raise any follow-up comments on our remedial measures nor the rectification report.

BUSINESS

- In August 2011, the Shanghai Securities Regulatory Bureau conducted an on-site inspection of our direct investment business. Such bureau did not find any instances of material regulatory non-compliance but provided some recommendations in its regulatory opinion to address the internal control weaknesses in our direct investment business with respect to (i) management of conflicts of interest; (ii) information disclosure practices; and (iii) management of investment risks. We took immediate remedial measures by (i) reinforcing our internal compliance manual on conflicts of interest which we required our relevant staff to endorse; (ii) updating the information on our corporate website with respect to (a) our various management systems for our direct investment business; (b) our arrangements for preventing conflicts of interest between Haitong Capital Investment and our Company; and (c) our complaint and reporting procedures; and (iii) requiring Haitong Capital Investment to cease its online subscription for IPO and liquidate all shares it bought immediately and preventing Haitong Capital Investment from conducting similar transactions in the future. Subsequent to this inspection, we submitted a rectification report to the Shanghai Securities Regulatory Bureau, which did not raise any follow-up comments on our remedial measures nor the rectification report.
- In 2011, local securities regulatory bureaus conducted *ad hoc* onsite inspections of our securities brokerage branches in Shandong, Yunnan and Liaoning provinces, and issued several regulatory opinions, which provided that (i) adequate security measures should be implemented on our office computers to monitor brokerage trading; (ii) certain information regarding the legal representative of an institutional client was incomplete; (iii) some of our branches in Yunnan province have a high rate of inactive accounts with little or no balance; (iv) some branches should enhance their account-opening standards to comply with our internal control policy; and (v) our branches should confirm the applicable securities commission rate with each new client upon account opening and file commissions charged on each client with the SAC. We took immediate remedial measures by (i) creating administrator accounts for our IT staff and general accounts for our brokerage employees, and requiring our brokerage employees to strictly operate on pre-installed software and prohibiting them from installing other software such as those that are securities trading-related; (ii) immediately following up for the incomplete information on the legal representative; (iii) we have designated staff to communicate with inactive accounts holders and cancel those accounts if the holders express no intention for brokerage trading and allow securities accounts that are not traded for over three years to go dormant before automatic cancelation; (iv) according to our internal inspection, the limited account opening information in certain institutional accounts was due to our branch's lack of standardized client information tracing system in the early phase of development and relied primarily on information furnished by clients themselves, and such branch is enforcing its policy to verify and track client information to ensure accuracy; and (v) although the Liaoning Securities Association currently does not require securities branches to provide written confirmation on commission rate for new clients and we used to provide oral confirmation, however, going forward, we will file our confirmation letter on

BUSINESS

commission rate for new clients with the Liaoning Securities Regulatory Bureau and the Liaoning Securities Association and send such written confirmation to new clients after approval by local securities authorities. Subsequent to the above inspections, we submitted rectification reports to the relevant securities regulatory bureaus in Shandong, Yunnan and Liaoning, which did not raise any follow-up comments on our remedial measures nor the rectification report.

In 2010 and 2011, the SFC conducted inspections of Haitong International Capital Limited, Haitong International Consultants Limited, Hai Tong Capital (HK) Limited and Hai Tong Asset Management (HK) Limited. For the inspection of Haitong International Capital Limited, no exceptions were noted. For the inspection of Haitong International Consultants Limited, the SFC raised queries regarding its selling practices, and this subsidiary satisfactorily responded to the queries. For the inspection of Hai Tong Capital (HK) Limited and Hai Tong Asset Management (HK) Limited, the SFC raised several recommendations regarding their internal policies and systems, and they have implemented improvements and remedial measures in accordance with the SFC's recommendations. The SFC did not raise any follow-up comments on these remedial measures adopted by these subsidiaries in Hong Kong.

Our Directors confirm that, except as disclosed in the section entitled “– Legal and Regulatory – Regulatory non-compliance,” there were no other material regulatory examination findings or material incidents of regulatory non-compliance during the Track Record Period and up to the Latest Practicable Date.

MAJOR CLIENTS

We serve a diverse base of institutional and retail clients across a spectrum of sectors. Our key clients range from large corporations and SME clients to high net worth individuals and retail customers. Our clients are primarily located in the PRC. We expect to serve more overseas clients as we seek to further expand our overseas operations.

For each of years ended December 31, 2009, 2010 and 2011, our revenue attributable to our five largest clients accounted for less than 30% of our total revenue and other income.

To the knowledge of our Directors, none of our directors, supervisors, their respective associates or any shareholders holding more than 5% of our issued share capital has any interests in any of our five largest clients as of the Latest Practicable Date.

We have no major suppliers due to the nature of our business.

INFORMATION TECHNOLOGY

Our IT system has been an integral part of our operations since our inception. Our IT system consists of three key components: front office, middle office and back office systems that generally cover transaction management, customer service and internal management. Our IT system serves not only as an integral part of our operations, but also our business development platform. Our IT system utilizes products provided by IBM, HP, CISCO and other leading IT system providers. We incur IT-related capital expenditures mainly for the purchase of systems and software. For the years ended December 31, 2009, 2010 and 2011, such expenditures amounted to RMB132.5 million, RMB192.5 million and RMB167.0 million, respectively. We believe our well-developed IT system will improve our operational efficiency and transaction management, customer service and quality of internal management.

Our IT system has three key features that distinguish us from our competitors. On transaction management, our system is among the best in terms of processing capacity. Our IT system can process the transactions on a real-time basis in a timely and cost-efficient manner, which facilitates new businesses development and promotion. In addition, our IT system assists management to gain a better understanding of our products' profitability. On customer service, we are committed to meeting our customer needs through diversified channels, including but not limited to online transactions, mobile transactions and SMS platforms. Our system is able to accommodate over 400,000 customers trading online and provide all the necessary transactions and related information at the same time to support the trading process operating at full capacity. In addition, the internal risk management modules of our system can identify risks promptly and obtain detailed risk-related data in order to respond to the risks imposed in a timely and succinct fashion. Meanwhile, our IT system allows us to standardize our internal procedures. As such, it facilitates our record-keeping, improves our reliability and enhances our communication and operational efficiency. Our system also allows us to have a better understanding of our financial position. We adopt multiple layers of security measures, including firewalls and digitalized verification and intrusion prevention systems, in order to achieve our network security. During the Track Record Period, we did not experience any material malfunctions in our IT system.

COMPETITION

The PRC securities industry is highly competitive. We believe that competition in the PRC securities industry is based on the following principal factors:

- the range of products and services offered;
- pricing;
- customer service;
- network coverage;
- marketing and distributing capacities;

BUSINESS

- perceived financial strength; and
- brand recognition.

For our securities brokerage business, we compete primarily with other PRC securities firms, including CITIC Securities International Company Limited, China Galaxy Securities Co., Ltd., the Guotai Junan Securities Co., Ltd, Guosen Securities Co., Ltd., China Merchants Securities Company Limited, Everbright Securities Company Limited, and Guangfa Securities Company Limited, in terms of pricing and the range of products and services offered. Currently, there are more than 100 registered securities firms in the PRC and intense price competition in recent years has lowered commission rates for our securities brokerage business.

For our investment banking business, we compete primarily with other PRC and Sino-foreign joint venture securities firms as well as PRC commercial banks in terms of brand recognition, marketing and distribution capacity, service quality, execution capacity, financial strength and pricing.

For our asset management business, we compete primarily with fund management companies, banks, insurance companies and other financial institutions in the PRC in terms of the range of products and services offered, pricing and quality of customer service.

For our direct investment business, we compete primarily with other PRC securities firms that are qualified to conduct direct investment business, as well as private equity investment companies qualified for direct investment business.

Some of our competitors may enjoy certain competitive advantages, including greater financial resources, more sophisticated management experience and advanced IT systems, wider geographic coverage and the ability to offer more financial products and services than us.

In addition, with regulatory changes and other factors that contribute to the gradual relaxation of the PRC securities regulations, more competitors are seeking to enter or expand in the market. We believe that the securities industry in China is becoming increasingly competitive. Our failure to maintain a competitive position to compete successfully against our competitors may materially and adversely affect our business, financial position, results of operations and prospects.

Please see “Risk Factors – Risks Relating to Our Business and Industry – We face intense competition and our business could be materially and adversely affected if we are unable to compete effectively.”

BUSINESS

EMPLOYEES

As of December 31, 2009, 2010 and 2011, we had 8,050, 7,638 and 7,294 employees who entered into labor contracts (excluding securities brokers and part-time employees), respectively. The following table sets forth a breakdown of all our employees with labor contracts as of December 31, 2011:

	<u>Number</u>	<u>Percentage</u>
Securities and futures brokerage	4,823	66.1%
Investment banking	349	4.8%
Asset management	264	3.6%
Proprietary trading	36	0.5%
Direct investment	27	0.4%
Overseas business	872	12.0%
Other	923	12.6%
Total	<u>7,294</u>	<u>100.0%</u>

Our core staff are generally young and well-educated. As of December 31, 2011, most of our employees are 35 years old or younger, accounting for approximately 62.4% of the total number of employees. At the same date, we have 5,377 employees holding bachelor's degrees or above, accounting for approximately 73.7% of the total number of employees. The performance of our employees is key to our success. In order to ensure their sustainable contribution to our business, we offer professional training to our employees on a regular basis.

The table below sets forth the breakdown of educational backgrounds and ages of our employees as of December 31, 2011:

	<u>Item</u>	<u>Number</u>	<u>Percentage</u>
Educational background	Doctor's degree	101	1.4%
	Master's degree	1,155	15.8%
	Bachelor's degree	4,121	56.5%
	Junior college graduate and below	1,917	26.3%
	Total	<u>7,294</u>	<u>100.0%</u>
Age distribution	35 or below	4,549	62.4%
	36 to 50	2,422	33.2%
	51 or above	323	4.4%
	Total	<u>7,294</u>	<u>100.0%</u>

BUSINESS

We have not experienced any strikes or other material labor disturbances that have interfered with our operations to date and we believe that our management, the labor union and employees have maintained good relationships with each other. On January 18, 2011, we entered into a collective labor contract with the labor union representing our employees, which has an initial term of six months, subject to automatic renewals. The labor contract provides, among other things, that:

- our employees shall in general work not more than eight hours per day and not more than 40 hours per week, subject to limited circumstances where such restriction is not suitable due to the nature of an employee's work;
- we will provide our employees paid annual vacation days based on the length of their employment;
- our employees are entitled to receive fixed monthly salaries and performance-based bonuses;
- we are obligated to contribute to employee housing fund and pay for basic social insurance premiums on a monthly basis;
- our employees are entitled to receive additional welfare treatments, such as supplementary medical insurance and housing subsidies, subject to our annual economic performance; and
- we will provide no less than 40 hours of training annually, which shall include 15 hours of advanced training for securities professionals.

PROPERTIES

Owned Properties

As of December 31, 2011, we owned 92 properties in the PRC with an aggregate gross floor area of approximately 136,217 square meters, and two properties in Hong Kong with an aggregate gross floor area of approximately 656 square meters.

BUSINESS

The following table sets forth the breakdown of our 92 owned properties in the PRC by provinces and municipalities as of December 31, 2011:

Provinces and Municipalities	Number of Properties
Shanghai	31
Jiangsu	10
Guangdong	8
Shandong	5
Jilin	5
Guizhou	5
Chongqing	4
Liaoning	4
Shaanxi	4
Beijing	3
Zhejiang	3
Hainan	2
Sichuan	2
Heilongjiang	1
Hebei	1
Jiangxi	1
Gansu	1
Henan	1
Yunnan	1
Total	92

Our owned properties are primarily used for business and office purposes, with a range of gross floor area from approximately 39 square meters to 10,395 square meters. In addition, we have a small number of owned properties being used for residential and warehouse purposes, with a range of gross floor areas from approximately 84 square meters to 135 square meters and a range of gross floor area from approximately 97 square meters to 559 square meters, respectively.

As of December 31, 2011, among the properties we owned, we have not obtained proper building ownership certificates and/or land use certificates for 29 properties in the PRC with a gross floor area of approximately 32,805 square meters, representing 24.1% of the aggregate gross floor area of our owned properties. Among these properties:

- We have obtained the relevant building ownership certificates and administrative allocated land use rights certificates in respect of nine properties with a gross floor area of approximately 7,221 square meters, representing 5.3% of the aggregate gross floor area of the properties that we owned. We have been advised by Grandall Law Firm (Shanghai), our PRC legal advisors, that we can legally occupy and use the above properties, but our rights to transfer, lease, mortgage or dispose of such properties are restricted unless we obtain the granted land use rights certificates by paying the relevant land use premiums. We currently have not entered any definitive agreements to transfer, lease, mortgage or dispose of these properties and, accordingly, we are not required to pay the relevant land use premiums in the near term. We are unable to ascertain the relevant land use premiums until, and if, we

BUSINESS

apply for rights to transfer, lease, mortgage or dispose of the above properties. However, we believe that the payment of any such land use premiums, if required, will not have a material effect on our business or financial condition.

- We have obtained the building ownership certificates, but have not obtained the land use rights certificates in respect of 16 properties with a gross floor area of approximately 18,642 square meters, representing 13.7% of the aggregate gross floor area of the properties that we owned. We have been advised by our PRC legal advisors that we can legally occupy, use and lease the above properties, but our rights to transfer, mortgage or dispose of such properties are restricted unless we obtain the relevant land use rights certificates or the approval of the third parties holding such land use rights certificates. We currently have not entered any definitive agreements to transfer, mortgage or dispose of these properties and, accordingly, we are not required to pay the relevant land use premiums in the near term. We are unable to ascertain the relevant land use premiums until, and if, we apply for rights to transfer, lease, mortgage or dispose of the above properties. However, we believe that the payment of any such land use premiums, if required, will not have a material effect on our business or financial condition. We are in the process of applying for the relevant land use rights certificates.
- We have not obtained the building ownership certificates and land use rights certificates in respect of four properties with a gross floor area of approximately 6,942 square meters, representing 5.1% of the aggregate gross floor area of the properties that we owned. While we are unable to ascertain when the relevant land and property management authorities will grant us the relevant title certificates, we are using our commercially reasonable efforts to obtain the relevant title certificates for all of such properties. In the event we are unable to obtain such title certificates and are required to relocate, we may incur additional relocation costs, which we believe would not have a material impact on our business or financial condition.

Our Directors believe that the above 29 owned properties with defective titles are not crucial to, and will not have a material impact on our operations because (i) we have obtained the relevant valid building ownership certificates and/or land use rights certificates for a majority of our owned properties, representing 75.9% of the aggregate gross floor area of our owned properties; (ii) for 25 of the defective owned properties, we have been advised by our PRC legal advisors that we can legally occupy, use and/or lease the properties and, therefore, there is no impact on our business or financial condition; (iii) with respect to the remaining four defective owned properties, if necessary, we would be able to replace such properties with comparable alternative buildings without any material adverse effect on our operations; and (iv) a majority of our securities and futures brokerage branches are located on leased properties.

BUSINESS

Leased Properties

As of December 31, 2011, we leased 279 properties in the PRC with an aggregate gross floor area of approximately 252,710 square meters, and 29 properties in Hong Kong and two properties in Macau with an aggregate gross floor area of approximately 13,772 square meters. Our leased properties are primarily used for business and office purposes, with a range of gross floor area from approximately 12 square meters to 5,351 square meters. In addition, as of December 31, 2011 we have two leased properties being used for residential and warehouse purposes, with a gross floor area of 583 square meters and 45 square meters, respectively.

The following table sets forth the information relating to our total rental expenses and average monthly rental expenses for each of the periods indicated:

	Year ended December 31,		
	2009	2010	2011
	(RMB in millions)		
Total rental expenses	125.0	194.4	234.6
Average monthly rental expenses	10.4	16.2	19.6

For our leased properties in the PRC, as of December 31, 2011, our landlords had not obtained proper ownership certificates for 34 buildings with a gross floor area of approximately 33,509 square meters, representing 13.3% of the aggregate gross floor area of the buildings we leased. Of these 34 buildings, our landlords of 11 buildings, accounting for 3.0% of the aggregate gross floor area of the buildings we leased, had not agreed to indemnify us for any potential liabilities we would incur as a result of the title defects. However, we have been advised by our PRC legal advisors that we will have the right to seek compensation from the lessors pursuant to the relevant lease agreements or confirmation letters from relevant lessors. We are of the view that most of these leased properties we occupy can, if necessary, be replaced by other comparable alternative premises without any material adverse effect on our business or financial condition.

According to section 6(2) of the Companies Ordinance (Exemption of Companies and Prospectuses from Compliance with Provisions) Notice, this prospectus is exempted from compliance with the requirements of section 342(1)(b) of the Companies Ordinance in relation to paragraph 34(2) of the Third Schedule to the Companies Ordinance, which require a valuation report with respect to all our company's interests in land or buildings, for the reason that as of December 31, 2011, the carrying amount of all the owned properties of our company represented approximately 0.7% of the value of our total assets and the leased properties are considered to have no commercial value.

Our Directors confirm that none of our property interests is individually material to us in terms of income contribution or rental expense. The carrying amount of the value of the most valuable single property interest we own is approximately RMB74.1 million, accounting for less than 0.1% of our total assets.

CONNECTED TRANSACTIONS

EXEMPT CONTINUING CONNECTED TRANSACTIONS

In our ordinary course of business, we have entered into certain continuing transactions with BNP BE Group on normal commercial terms in respect of provision of supportive services (such as document translation and information collection) by certain members of the BNP BE Group to our Group and securities brokerage services and investment consultancy services by our Group to certain members of the BNP BE Group.

The historical amounts (where available) of such transactions for each of the three financial years ended December 31, 2009, 2010 and 2011 are RMB142.8 million, RMB154.5 million and RMB122.4 million, respectively.

BNPP IP BE Holding holds 33.00% of the equity interest in Haitong-Fortis PE Management, a subsidiary of the Company in which the Company holds 67.00% of its equity interest. BNPP IP BE Holding also holds 49.00% of the equity interest in HFT Investment Management, a subsidiary of the Company in which the Company holds 51.00% of its equity interest. Accordingly, upon the listing of our H Shares on the Hong Kong Stock Exchange, BNPP IP BE Holding will become a Connected Person of the Company under the Hong Kong Listing Rules and its associates will also become the Company's Connected Persons under the Hong Kong Listing Rules. The transactions between the BNP BE Group and our Group will constitute continuing connected transaction under the Hong Kong Listing Rules.

Based on the above, the members of the BNP BE Group will be Connected Persons at the level of the Company's subsidiaries rather than at the level of the Company. The relevant percentage ratios in respect of HFT Investment Management and Haitong-Fortis PE Management as described under Rule 14A.31(9) of the Hong Kong Listing Rules are less than 10% for each of the three financial years ended December 31, 2009, 2010 and 2011. Pursuant to Rule 14A.31(9) of the Hong Kong Listing Rules, the transactions between the BNP BE Group and our Group are exempt from the reporting, announcement and independent shareholders' approval requirements under Chapter 14A of the Hong Kong Listing Rules.

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

OVERVIEW

Our Board currently consists of 17 Directors, comprising two executive Directors, nine non-executive Directors and six independent non-executive Directors. The Directors were all elected by our Shareholders at the shareholders' meetings for a term of three years, which is renewable upon re-election and re-appointment.

Our Supervisory Committee currently consists of 11 Supervisors. Except for the four employee representative Supervisors elected by the workers' congress, other Supervisors were elected by our Shareholders at the shareholders' meeting for a term of three years, which is renewable upon re-election and re-appointment.

Save as disclosed in this section, each of the Directors, Supervisors and senior management personnel has not been a director of any public company the securities of which are listed on any securities market in Hong Kong or overseas in the three years immediately preceding the date of this prospectus.

Save as disclosed in this section, none of our Directors are engaged in any businesses which compete or are likely to compete, either directly or indirectly, with our business under Rule 8.10(2). The Director(s) who have conflict of interest in certain matters shall abstain from voting on the resolutions in relation to such matters at the board meeting pursuant to the Articles of Association of the Company and the relevant PRC and Hong Kong laws and regulations.

Directors

The following table sets forth information regarding our Directors. All of our Directors meet the qualification requirements under relevant PRC laws and regulations and the Hong Kong Listing Rules for their respective positions.

Name	Age	Position
Mr. Wang Kaiguo (王開國)	53	Executive Director and Chairman
Mr. Li Mingshan (李明山)	59	Executive Director and General Manager
Mr. Qian Shizheng (錢世政)	59	Non-executive Director and Vice Chairman
Mr. Zhuang Guowei (莊國蔚)	57	Non-executive Director
Mr. Zhou Donghui (周東輝)	42	Non-executive Director
Mr. He Jianyong (何健勇)	49	Non-executive Director
Mr. Zhang Jianwei (張建偉)	57	Non-executive Director
Mr. Xu Chao (徐潮)	56	Non-executive Director
Mr. Wang Hongxiang (王鴻祥)	56	Non-executive Director
Mr. Li Gewei (李葛衛)	44	Non-executive Director
Mr. Feng Huang (馮煌)	41	Non-executive Director
Mr. Xia Bin (夏斌)	60	Independent Non-executive Director
Mr. Chen Qiwei (陳琦偉)	60	Independent Non-executive Director
Mr. Zhang Huiquan (張惠泉)	44	Independent Non-executive Director
Mr. Zhang Ming (張鳴)	53	Independent Non-executive Director
Mr. Dai Genyou (戴根有)	62	Independent Non-executive Director
Mr. Liu Chee Ming (劉志敏)	61	Independent Non-executive Director

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Executive Directors

Mr. Wang Kaiguo (王開國), aged 53, serves as our Chairman and an executive Director. Mr. Wang joined our Company in February 1995 as deputy general manager and has been our Chairman since May 1998. He was appointed as our Director on August 23, 1996. He has over 15 years of management experience in securities industry. Mr. Wang obtained a bachelor's degree in economics from Jilin University in July 1984, a master's degree in economics from Jilin University in July 1987, and a doctor's degree in economics from Xiamen University in July 1990. Mr. Wang is a senior economist recognized by Economics and Accounting Senior Professional and Technical Title Evaluating Committee* (經濟會計系列高級專業技術職務評審委員會) of Bank of Communications Co., Ltd. in December 1997. Mr. Wang previously served in various positions in Research Institute of National State-owned Assets Administration Bureau* (國家國有資產管理局研究所) from July 1990 to February 1995, including deputy head of this bureau, mainly in charge of policy research in relation to state-owned asset management and internal management. He was also director of policy research office of policy and regulation department of the same bureau from March 1992 to February 1994, mainly in charge of SOE(s) reform and policy research. Mr. Wang was deputy general manager of our Company from February 1995 to November 1997 mainly in charge of investment banking business and financial management, secretary of Communist Party of China ("CPC") party group of our Company from November 1997 to December 1998 and general manager of our Company from November 1997 to May 2001. Mr. Wang has been secretary of CPC party committee of our Company since December 1998, director of the Shanghai Stock Exchange since April 1999 and vice president of SAC since July 2002. In addition, Mr. Wang was a non-executive director of Shanghai Shimao Co., Ltd. (上海世茂股份有限公司) from October 2000 to February 2009 (a company listed on the Shanghai Stock Exchange and its stock code is 600823). Mr. Wang has been a non-executive director of Shenzhen Development Bank Co., Ltd. (深圳發展銀行股份有限公司) (a company listed on the Shenzhen Stock Exchange and its stock code is 000001) since June 2006 and an independent non-executive director of Shanghai Chlor-Alkali Chemical Co., Ltd. (上海氯鹼化工股份有限公司) (a company listed on the Shanghai Stock Exchange and its stock code is 600618) since December 2009.

Mr. Li Mingshan (李明山), aged 59, serves as our General Manager and an executive Director. Mr. Li joined our Company in May 2001 and has been our General Manager since then. He has been our Director since November 28, 2002. He is fully in charge of the overall management of our operations. He has around 20 years of management experience in securities industry. Mr. Li graduated from East China Normal University as a post-graduate with a major in global economics in May 1998 and obtained a master's degree in business administration from Asia International Open University (Macau) in September 2000. Mr. Li is a senior economist recognized by Shanghai Professional Qualification Evaluation Centre* (上海市任職資格評價中心) in June 2001. Mr. Li previously worked at CPC Shanghai Committee and guard department of Shanghai Public Security Bureau from May 1978 to January 1993, mainly in charge of safety and security. Mr. Li was previously vice general manager of Shanghai Shenyin Securities Co., Ltd. (上海申銀證券公司, predecessor of Shenyin & Wanguo Securities Co., Ltd. (申銀萬國證券股份有限公司)) from January 1993 to June 1996 and vice general manager of

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Shenyin & Wanguo Securities Co., Ltd. from June 1996 to March 1998, mainly in charge of brokerage business. Mr. Li was also deputy general manager of the Shanghai Stock Exchange from March 1998 to May 2001 mainly in charge of communication, trading system and membership management. Mr. Li was a non-executive director and chairman of Haitong International Securities from January 2010 to April 2011 and also chairman of Haitong International Holdings from August 2010 to March 2011. Mr. Li has been deputy secretary of CPC party committee of our Company since March 2002 and a director of Fullgoal Fund Management since 2005.

Non-executive Directors

Mr. Qian Shizheng (錢世政), aged 59, serves as our Vice Chairman and a non-executive Director. Mr. Qian has been our Director and our Vice Chairman since May 30, 2006. Mr. Qian obtained a bachelor's degree in economics from Shanghai University of Finance and Economics in July 1983, and a doctor's degree in management from Fudan University in July 2001. Mr. Qian lectured in accounting department of Fudan University from September 1983 to December 1997. Mr. Qian joined SIIC in January 1998 and has been vice president since then mainly in charge of financial management. He has been an executive director and vice president of Shanghai Industrial Holdings Limited (上海實業控股有限公司) (a company listed on the Hong Kong Stock Exchange and its stock code is 00363), which is an affiliate of Shanghai Shangshi¹, since January 2002 (mainly in charge of financial management), an independent non-executive director of Lonking Holdings Limited (中國龍工控股有限公司) (a company listed on the Hong Kong Stock Exchange and its stock code is 03339) since February 2005, an independent non-executive director of Zoomlion Heavy Industry Science & Technology Development Co., Ltd. (中聯重工科技發展股份有限公司) (a company listed on both the Shenzhen Stock Exchange and the Hong Kong Stock Exchange and its stock code is 000157 and 01157 respectively) since July 2010 and an executive director of Shanghai Industrial Urban Development Group Limited (上海實業城市開發集團有限公司) (a company listed on the Hong Kong Stock Exchange and its stock code is 00563) since July 2010.

Mr. Zhuang Guowei (莊國蔚), aged 57, serves as a non-executive Director. Mr. Zhuang has been our Director since July 16, 2007. Mr. Zhuang obtained a bachelor's degree in economics from Party School of the Central Committee of the CPC* (中共中央黨校函授學院) in December 1994, graduated from Shanghai Academy of Social Sciences as a postgraduate in economics in January 1996, and obtained a master's degree in business administration from Arizona State University in May 2009. Mr. Zhuang is a registered manager* (註冊經理) of Chinese Registered Career Manager (中國註冊職業經理人) recognized by China Enterprises Evaluation Association (中國企業評價協會) in 2005. Mr. Zhuang previously served in various positions in Shanghai Wusi Farm* (上海市五四農場) and Shanghai NGS (Group) Wusi Corporation* (上海農工商集團五四總公司) from July 1984 to August 1999, including general manager and deputy secretary of its CPC party committee, mainly in charge of management

* For identification purpose only

¹ Shanghai Shangshi held 2.94% shareholding in our Company prior to the Global Offering as of the Latest Practicable Date.

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

and operations. He was manager of asset operation department of Shanghai NGS (Group) Corporation (上海市農工商(集團)總公司) from August 1999 to April 2001 and was deputy general manager of the same company from April 2001 to August 2006, mainly in charge of corporate management and land and asset management. He was deputy chairman of Shanghai Urban Agro-Business Co., Ltd. (上海市都市農商社股份有限公司) from June 2001 to February 2003 and chairman of Shanghai HaiBo Co., Ltd. (上海海博股份有限公司) (a company listed on the Shanghai Stock Exchange and its stock code is 600708) from February 2004 to April 2009. In addition, Mr. Zhuang has been vice president of Bright Food (Group) Co., Ltd.² (光明食品(集團)有限公司) since August 2006 (mainly in charge of corporate management and land and asset management), chairman of Bright Dairy & Food Co., Ltd. (光明乳業股份有限公司) (a company listed on the Shanghai Stock Exchange and its stock code is 600597) since April 2010, a director of Shanghai HaiBo Co., Ltd. since April 2009 and chairman of NGS Real Estate (Group) Co., Ltd* (農工商房地產(集團)股份有限公司) since December 2011.

Mr. Zhou Donghui (周東輝), aged 42, serves as a non-executive Director. Mr. Zhou has been our Director since May 8, 2009. He has over ten years of financial management experience. Mr. Zhou graduated with a major in accounting from Adult Education College* (成人教育學院) of Fudan University in July 2001. Mr. Zhou is a senior accountant recognized by State Tobacco Monopoly Administration of PRC* (中國國家煙草專賣局) in December 2007. Mr. Zhou previously served in various positions in the finance and price department of Shanghai Tobacco (Group) Company* (上海煙草(集團)公司) (predecessor of Shanghai Tobacco (Group) Co., Ltd* (上海煙草(集團)有限責任公司)) from July 1991 to October 2000, including deputy section chief of finance section and deputy section chief of fund and price section. Mr. Zhou was also deputy manager of finance department of China Tobacco Shanghai Import & Export Co., Ltd.* (中國煙草上海進出口有限責任公司) from October 2000 to August 2003, manager of that department from August 2003 to October 2008 and was deputy director of investment management division of Shanghai Tobacco (Group) Company from October 2008 to May 2011. Mr. Zhou has been deputy director of finance management division of Shanghai Tobacco (Group) Co., Ltd. since May 2011 and a non-executive director of Orient Securities Company Limited (東方證券股份有限公司) since May 2009. As Orient Securities Company Limited is mainly engaged in, among others, securities underwriting, proprietary trading, investment consultation, financial advisory, enterprise mergers and acquisitions and asset management, it competes or is likely to compete, either directly or indirectly, with some aspects of the business of the Company.

² Bright Food (Group) Co., Ltd. held 5.87% shareholding in our Company prior to the Global Offering as of the Latest Practicable Date.

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Mr. He Jianyong (何健勇), aged 49, serves as a non-executive Director. Mr. He has been our Director since September 16, 2011. Mr. He obtained a bachelor's degree in economics from Northeast Finance Institute in July 1986 and graduated from Liaoning University in December 1999 as a postgraduate (part time) with a major in accounting. Mr. He previously served in various positions in Liaoning Energy Development Corporation* (遼寧省能源開發公司) from August 1986 to December 1989, including assistant accountant of the finance department and deputy manager of the energy-efficient product distribution department, mainly in charge of power plant investment, budget auditing, financing and marketing of energy-saving products. Mr. He worked with the Provincial "San Liao" Poverty Aid Taskforce at Kazuo County in Liaoning Province* (遼寧省政府駐喀左縣“三遼”扶貧工作隊) from December 1989 to December 1990 and served as head of the finance department of Liaoning Energy and Materials Company* (遼寧能源物資公司) from December 1990 to July 1995. He was deputy manager of Liaoning Energy Efficiency and Thermal Electricity Group Company* (遼寧節能熱電集團公司) from July 1997 to January 1999, mainly in charge of operation management and financing. He was deputy general manager and then executive deputy general manager of Liaoning Energy Corporation* (遼寧能源總公司) from January 1999 to December 2003, mainly in charge of operation management and financing. He joined Liaoning Energy Investment (Group) Co., Ltd.³ (遼寧能源投資(集團)有限責任公司) in December 2003 and served in various positions including general manager and vice chairman, and is currently chairman of this company, mainly in charge of the overall management of operation.

Mr. Zhang Jianwei (張建偉), aged 57, serves as a non-executive Director. Mr. Zhang has been our Director since November 28, 2002. He has nine years of management experience in securities industry. Mr. Zhang obtained a junior college degree in industrial economic management from Fudan University in July 1986 and also graduated with a major in enterprise management from Fudan University (Evening School) in July 1995, respectively. He also obtained a master's degree in business administration from China Europe International Business School in May 1999. Mr. Zhang is a senior economist recognized by Shanghai Economics (Circulation) Senior Professional and Technical Title Qualification Evaluating Committee* (上海市經濟系列(流通領域)高級專業技術職務任職資格評審委員會) in May 2000. He previously served in various positions in Shanghai Jiushi Corporation Co., Ltd.⁴ (上海久事公司) from July 1994 to December 2002, including general manager of industry division and assistant to general manager, mainly in charge of external equity investment. Mr. Zhang has been deputy general manager of Shanghai Jiushi Corporation Co., Ltd. since December 2002 mainly in charge of foreign investment, asset management and real estate investment, a non-executive director of Shenyin & Wanguo Securities Co., Ltd. (申銀萬國證券股份有限公司) since January 2002, a director of Shanghai International Trust Corp., Ltd. (上海國際信託有限公司) since June 2005, a director of Shenergy Company Limited (申能股份有限公司) (a company listed on the Shanghai Stock Exchange and its stock code is 600642) since May 2008, a director of Shanghai Highly (Group) Co., Ltd. (上海海立股份有限公司) (a company listed on

³ Liaoning Energy Investment (Group) Co., Ltd. held 1.93% shareholding in our Company prior to the Global Offering as of the Latest Practicable Date.

⁴ Shanghai Jiushi Corporation Co., Ltd. held 2.95% shareholding in our Company prior to the Global Offering as of the Latest Practicable Date.

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

the Shanghai Stock Exchange and its stock code is 600619) since May 2008 and a supervisor of China Pacific Insurance Group Co., Ltd. (太平洋保險集團股份有限公司) (a company listed on both the Hong Kong Stock Exchange and the Shanghai Stock Exchange and its stock code is 02601 and 601601 respectively) since February 2011. As Shenyin & Wanguo Securities Co., Ltd. is mainly engaged in, among others, securities brokerage, securities investment advisory, financial advisory related to securities trading and investment, proprietary trading, securities underwriting and sponsoring, asset management, futures IB business and margin financing and securities lending business, it competes or is likely to compete, either directly or indirectly, with some aspects of the business of the Company.

Mr. Xu Chao (徐潮), aged 56, serves as a non-executive Director. Mr. Xu has been our Director since May 16, 2011. Mr. Xu graduated with a major in Marxism-Leninism theory from Cadre Training College of Shanghai Municipal Party School (Junior College)* (上海市委黨校幹部專修科(大專)) in July 1985 and obtained a master's degree in business administration from China Europe International Business School in April 2000. Mr. Xu is a senior economist recognized by Shanghai Economics Senior Professional and Technical Title Qualification Evaluating Committee* (上海市經濟系列高級專業技術職務任職資格審定委員會) in December 2009. Mr. Xu successively served as deputy secretary of CPC party branch, secretary of CPC party branch and deputy director of reform office of Shanghai Turbine Works* (上海汽輪機廠) from 1986 to June 1994, mainly in charge of administrative management. He was director of financial division, head of financial department and chief financial officer of Shanghai Turbine Co., Ltd.* (上海汽輪機有限公司) from August 1996 to October 2004 mainly in charge of financial management, and vice president of the same company from October 2004 to October 2006 mainly in charge of financial management. He joined Shanghai Electric Capital Management Co., Ltd.*⁵ (上海電氣資產管理有限公司) in October 2006 and served in various positions including chief financial officer from March 2007 to October 2011 and vice president of the same company since May 2008, mainly in charge of production management and financial management. He was head of financial budget department of Shanghai Electric (Group) Corporation*⁵ (上海電氣(集團)總公司) from October 2010 to October 2011. He has also been the executive director and legal representative of Shanghai Electrical Industrial Investment Co., Ltd.*⁵ (上海電氣實業公司) since May 2010, a non-executive director of Orient Securities Company Limited (東方證券股份有限公司) since March 2011, chairman of supervisory committee of Shanghai Prime Machinery Co., Ltd. (上海集優機械股份有限公司) (a company listed on the Hong Kong Stock Exchange and its stock code is 02345) since May 2010, vice chairman of Shanghai Highly (Group) Co., Ltd (上海海立(集團)股份有限公司) since June 2011 and chairman of supervisory committee of Shanghai Automation Instrumentation Co., Ltd (上海自動化儀錶股份有限公司) (a company listed on the Shanghai Stock Exchange and its stock code is 600848) since June 2011. As Orient Securities Company Limited is mainly engaged in, among others, securities underwriting, proprietary trading, investment consultation, financial advisory, enterprise mergers and acquisitions and asset management, it competes or is likely to compete, either directly or indirectly, with some aspects of the business of the Company.

⁵ Shanghai Electric Capital Management Co., Ltd. and Shanghai Electrical Industrial Investment Co., Ltd. are affiliates of Shanghai Electric (Group) Corporation* (上海電氣(集團)總公司), which held 4.77% shareholding in our Company prior to the Global Offering as of the Latest Practicable Date.

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Mr. Wang Hongxiang (王鴻祥), aged 56, serves as a non-executive Director. Mr. Wang has been our Director since May 16, 2011. He has over 20 years of finance and accounting working experience since he graduated from university. Mr. Wang obtained a bachelor's degree in accounting from Xiamen University in July 1983 and an EMBA degree from Shanghai University of Finance and Economics in June 2006. Mr. Wang is a senior accountant recognized by Shanghai Accounting Senior Professional and Technical Title Qualification Evaluating Committee* (上海市會計系列高級專業技術職務任職資格評審委員會) in 1999. Mr. Wang was an associate professor at Shanghai University of Finance and Economics for a number of years. Mr. Wang has been deputy chief accountant of Shenergy Group Company Limited⁶ (申能(集團)有限公司) mainly in charge of financial work since December 1998.

Mr. Li Gewei (李葛衛), aged 44, serves as a non-executive Director. Mr. Li has been our Director since May 16, 2011. Mr. Li obtained a bachelor's degree in science from Lanzhou University in June 1989. Mr. Li is an economist recognized by Professional and Technical Title Qualifications Evaluating Committee of Nankai District, Tianjin* (天津市南開區專業技術任職資格評審委員會) in August 1998. Mr. Li was a director of Lingyun Industrial Corporation Limited (凌雲工業股份有限公司) (a company listed on the Shanghai Stock Exchange and its stock code is 600480) from April 2010 to January 2012, mainly in charge of investment management. Mr. Li has been an executive director of New World Strategic Investment Limited (新世界策略投資有限公司) since June 2003, vice general manager of Tibet Linzhi Fuxi Jewels & Gold Co., Ltd.*⁷ (西藏林芝福禧珠寶金行有限公司) since October 2010, and executive vice chairman of Shenzhen Sunlong Communication Co., Ltd. (深圳市翔龍通訊有限公司) since March 2006, in charge of investment management for all of these three companies. Mr. Li has been an independent non-executive director of Orient Group Incorporation (東方集團股份有限公司) (a company listed on Shanghai Stock Exchange and its stock code is 600811) since June 2008. As an independent non-executive director of Sichuan Direction Photo-electricity Co., Ltd. (四川方向光電股份有限公司) from April 2002 to April 2007, Mr. Li was held responsible, and received a warning letter from CSRC in February 2006, for such company's failure to disclose balances of related parties transactions in accordance with applicable regulations in its interim reports and annual reports for 2003 and 2004.

Mr. Feng Huang (馮煌), aged 41, serves as a non-executive Director. Mr. Feng has been our Director since May 16, 2011. Mr. Feng obtained a bachelor's degree in hotel management from Shanghai Jiao Tong University in July 1993, and a master's degree in business administration from Webster University in November 1998. Mr. Feng is an economist recognized by Ministry of Personnel of PRC in November 2001, and an in-house legal counsel recognized by Ministry of Personnel, Ministry of Justice and State-owned Assets Supervision and Administration Commission of PRC in October 2007. Mr. Feng joined SIIC Investment

⁶ Shenergy Group Company Limited held 4.11% shareholding in our Company prior to the Global Offering as of the Latest Practicable Date.

⁷ Tibet Linzhi Fuxi Jewels & Gold Co., Ltd. held 0.56% shareholding in our Company prior to the Global Offering as of the Latest Practicable Date.

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

(Shanghai) Co., Ltd.⁸ (上實投資(上海)有限公司) in January 1999 and served in various positions, and has been vice president since June 2010 mainly in charge of investment and asset management. He has been a director and president of Shanghai SIIC Investment Management Consulting Co., Ltd.*⁸ (上海上實投資管理諮詢有限公司) since August 2007 mainly in charge of operations, a director of Shanghai Lujiazui Finance & Trade Zone United Development Co., Ltd.* (上海陸家嘴金融貿易區聯合發展有限公司) since July 2004, vice chairman of Shanghai Qixiang Qingchen New Materials Co., Ltd.* (上海奇想青晨新材料股份有限公司) since December 2007, chairman of Shanghai Zhendong Auto Service Company* (上海振東汽車服務有限公司) since September 2008 and a director of Shanghai Information Investment Inc. (上海市信息投資股份有限公司) since June 2011.

Independent Non-executive Directors

Mr. Xia Bin (夏斌), aged 60, serves as an independent non-executive Director. Mr. Xia has been our Director since May 30, 2006. He has over 28 years of management experience in banking and securities industry. Mr. Xia obtained a master's degree in economics from the Graduate School of PBOC in December 1984. Mr. Xia is a researcher recognized by PBOC Research Senior Professional and Technical Title Evaluating Committee* (中國人民銀行研究系列高級專業技術職務評審委員會) in November 1997. Mr. Xia served as director and deputy head of financial research institute of PBOC mainly in charge of research on macroeconomic and financial policy from January 1982 to March 1993 and from March 1993 to July 1993, respectively. He served as director of trading department of CSRC from July 1993 to October 1993 mainly in charge of management of secondary market, the Shanghai Stock Exchange and the Shenzhen Stock Exchange, general manager of the Shenzhen Stock Exchange from July 1993 to October 1993 mainly in charge of the overall management of the daily operation and marketing of the exchange, deputy director of policy research office of PBOC from October 1996 to September 1998 mainly in charge of macro-policy research and drafting major financial regulations and director of non-bank institution department of PBOC from August 1998 to September 2002 mainly in charge of supervision of non-bank financial institutions. Mr. Xia has been head of Institute of Finance of Development Research Centre of State Council since September 2002. Mr. Xia has been an independent non-executive director of Tsinghua Tongfang Co., Ltd. (清華同方股份有限公司) (a company listed on the Shanghai Stock Exchange and its stock code is 600100) since May 2006. Mr. Xia has been a supervisor of China Everbright Bank Co., Ltd. (中國光大銀行股份有限公司) (a company listed on the Shanghai Stock Exchange and its stock code is 601818) since September 2006.

Mr. Chen Qiwei (陳琦偉), aged 60, serves as an independent non-executive Director. Mr. Chen has been our Director since July 16, 2007. Mr. Chen obtained a bachelor's degree in economics from East China Normal University in September 1982 and a doctor's degree in economics from East China Normal University in October 1988. Mr. Chen is a professor recognized by the Teachers' Senior Professional and Technical Title Evaluating Committee of Shanghai Jiao Tong University* (上海交通大學教師高級專業技術職務任職資格評審委員會) in October 1992. Mr. Chen has been professor and doctoral supervisor of Antai College of

⁸ SIIC Investment (Shanghai) Co., Ltd. and SIIC Investment Management Consulting Co., Ltd. are affiliates of Shanghai Shangshi.

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Economics & Management, Shanghai Jiao Tong University (上海交通大學安泰經濟與管理學院) since August 1997, chairman of Shanghai Asia Business Development Group Co., Ltd.* (上海亞商發展集團有限公司) since March 2004, an independent non-executive director of Shanghai Oriental Pearl (Group) Co., Ltd.⁹ (上海東方明珠(集團)股份有限公司) (a company listed on the Shanghai Stock Exchange and its stock code is 600832) since June 2008, an independent non-executive director of Guangzhou Development Industry (Holdings) Co., Ltd. (廣州發展實業控股集團股份有限公司) (a company listed on the Shanghai Stock Exchange and its stock code is 600098) since July 2009, a director of China Entrepreneurs Forum (中國企業家論壇) and a rotating chairman of New Shanghai Businessman Federation (新滬商聯合會) since December 2008.

Mr. Zhang Huiquan (張惠泉), aged 44, serves as an independent non-executive Director. Mr. Zhang has been our Director since July 16, 2007. He has around 15 years of working experience in legal compliance. Mr. Zhang obtained a bachelor's degree in law from Nanjing Institute of Politics of the People's Liberation Army* (中國人民解放軍南京政治學院) in July 1990 and a master's degree in economic law from Peking University in July 2002. Mr. Zhang was granted the Certificate of PRC Lawyer by the PRC Ministry of Justice in September 1995. Mr. Zhang was previously an officer of political department of People's Court of Jingshan District, Beijing (北京市景山區人民法院) from October 1996 to March 2000 and a director of research office and judge of the same court from April 2000 to December 2002. Mr. Zhang has been a lawyer of Union Best Partner (北京嘉誠泰和律師事務所) since December 2002.

Mr. Zhang Ming (張鳴), aged 53, serves as an independent non-executive Director. Mr. Zhang has been our Director since May 5, 2008. He has over 25 years of working experience in relation to accounting. Mr. Zhang obtained a bachelor's degree in accounting, a master's degree in accounting and a doctor's degree in economics from the accounting department of Shanghai University of Finance and Economics in June 1983, June 1988 and January 1996, respectively. Mr. Zhang lectured in Shanghai University of Finance and Economics since graduation in 1983 and has successively been deputy director, professor and doctoral supervisor of the accounting college of the same university. Mr. Zhang has been an independent non-executive director of Shanghai Shenda Co., Ltd. (上海申達股份有限公司) (a company listed on the Shanghai Stock Exchange and its stock code is 600626) since May 2010, and an independent non-executive director of SGSB Group Co., Ltd. (上工申貝(集團)股份有限公司) (a company listed on the Shanghai Stock Exchange and its stock code is 600843) since June 2009.

Mr. Dai Genyou (戴根有), aged 62, serves as an independent non-executive Director. Mr. Dai has been our Director since May 16, 2011. He has around 35 years of working experience in financial industry including over 25 years of management experience. Mr. Dai graduated with a major in political economics from Anhui Labor University (predecessor of Anhui University) in September 1977. Mr. Dai is a senior economist recognized by PBOC in 1989. He was granted a special allowance by the State Council in October 2000. Mr. Dai previously served in various positions in PBOC. He successively served as vice president of Anqing

⁹ Shanghai Oriental Pearl (Group) Co., Ltd. held 1.84% shareholding in our Company prior to the Global Offering as of the Latest Practicable Date.

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Branch of PBOC, director of the first economic analysis division of research and investigation department of PBOC, and head and deputy director of economic analysis division of survey and statistics department of PBOC from October 1983 to February 1993. He held a position at the finance and trade group of the Leading Group for Financial and Economic Affairs of the CPC Central Committee* (中央財經領導小組辦公室財貿組) from February 1993 to November 1997 and was a deputy leader thereof since September 1994 and concurrently was deputy director and inspector of survey and statistics department of PBOC. He was head of monetary policy department and secretary-general of monetary policy committee of PBOC from November 1997 to November 2003, director of credit information system bureau of PBOC from November 2003 to April 2004, and director of credit information center of PBOC from April 2004 to March 2010. Mr. Dai has been an independent non-executive director of Zhangjiang High-Tech Park Development Co., Ltd. (上海張江高科技園區開發股份有限公司) (a company listed on the Shanghai Stock Exchange and its stock code is 600895) since April 2010.

Mr. Liu Chee Ming (劉志敏), aged 61, serves as an independent non-executive Director. Mr. Liu has been our Director since September 16, 2011. Mr. Liu obtained a bachelor's degree in business administration from National University of Singapore in July 1976. He has been a member of the Takeovers Appeal Committee under the Hong Kong SFC (香港證券及期貨事務監察委員會收購上訴委員會) since May 1995, and deputy chairman of the Takeovers and Mergers Panel since April 2008, the duties include reviewing mergers and acquisition cases and dealing with relevant appeals. In addition, he established the Platinum Holdings Company Limited (百德能控股有限公司) in April 1996 and oversees the stock broking, corporate finance and asset management businesses. He has been an independent non-executive director of Kader Holdings Company Limited (開達集團有限公司) (a company listed on the Hong Kong Stock Exchange and its stock code is 00180) since June 1998, an independent non-executive director of CIMC Raffles Offshore (Singapore) Limited (中集來福士海洋工程(新加坡)有限公司) since December 2005, and an independent non-executive director of StarHub Ltd (星和有限公司) (a company listed on the Singapore Exchange and its stock code is STH SP) since August 2004.

On March 14, 2012, the Board passed a resolution that the appointment of Mr. Zhu Xiaogang as a non-executive Director in replacement of Mr. Zhou Donghui will be submitted to both holders of our A Shares and holders of our H Shares for approval at the next annual general meeting of our Company expected to be convened by June 2012. Such appointment is subject to approvals from both holders of our A Shares and holders of our H Shares. After the appointment of Mr. Zhu Xiaogang is approved at such annual general meeting, such appointment will be submitted to the CSRC for approval. Except for (i) the approvals from both holders of our A Shares and holders of our H Shares, on the assumption that the Global Offering is completed on April 27, 2012, and (ii) the approval from the CSRC, the appointment of Mr. Zhu Xiaogang is not subject to any other condition. The detailed biography of Mr. Zhu Xiaogang will be included in the circular to be despatched by June 2012 to both holders of our A Shares and holders of our H Shares, on the assumption that the Global Offering is completed on April 27, 2012, for the purpose of such annual general meeting.

Save as disclosed above, there are no other matters that need to be brought to the attention of the Shareholders of the Company in connection with the appointment of our Directors and there is no other information relating to our Directors that should be disclosed pursuant to Rule 13.51(2) of the Hong Kong Listing Rules.

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Supervisors

The following table sets forth information regarding our Supervisors. Our Supervisors all meet the qualification requirements under relevant PRC laws and regulations and the Hong Kong Listing Rules for their respective positions.

Name	Age	Position
Mr. Wang Yimin (王益民)	60	Chairman of Supervisory Committee, Employee Supervisor
Mr. Yang Qingzhong (楊慶忠)	55	Vice Chairman of Supervisory Committee, Employee Supervisor
Mr. Yuan Lingcai (袁領才)	51	Supervisor
Mr. Dong Xiaochun (董小春)	47	Supervisor
Mr. Wu Zhilin (吳芝麟)	60	Supervisor
Ms. Jin Yanping (金燕萍)	56	Supervisor
Mr. Xu Qi (許奇)	49	Supervisor
Mr. Xing Jianhua (邢建華)	52	Supervisor
Mr. Wang Yugui (王玉貴)	60	Supervisor
Ms. Qiu Xiaping (仇夏萍)	51	Employee Supervisor
Mr. Du Hongbo (杜洪波)	49	Employee Supervisor

Mr. Wang Yimin (王益民), aged 60, serves as our employee Supervisor and our Chairman of Supervisory Committee. Mr. Wang joined our Company in January 2010 and was appointed as our Supervisor on April 7, 2010. He has around 20 years of experience as a director, supervisor and senior management of securities companies. Mr. Wang graduated with a major in economics by correspondence from Fudan University (undergraduate) in July 1992, and obtained a master's degree in economics and a master's degree in business administration from Shanghai University of Finance and Economics and China Europe International Business School in January 1997 and in April 2000 respectively, and a doctor's degree in management from Tongji University in November 2001. Mr. Wang is a senior economist recognized by China People's Construction Bank (predecessor of China Construction Bank) in February 1993. Mr. Wang served in various positions in China Construction Bank (Shanghai Branch) from September 1979 to September 1990, including section chief and deputy division chief, mainly in charge of planning, statistics, capital and project review. Mr. Wang served as vice president of China Construction Bank (Shanghai Pudong Branch) mainly in charge of planning and credit from September 1990 to October 1992, an executive director and deputy general manager of Guotai Securities Co., Ltd. (國泰證券有限公司) (predecessor of Guotai Jun'an Securities Co., Ltd. (國泰君安證券股份有限公司)) mainly in charge of operation and management from October 1992 to August 1999, chairman of supervisory committee and secretary of discipline inspection commission of Guotai Jun'an Securities Co., Ltd. from August 1999 to September 2004, mainly in charge of the chairing of the supervisory committee and the discipline inspection commission, and chairman of Orient Securities Company Limited (東方證券股份有限公司) and secretary of CPC party committee from September 2004 to January 2010 mainly in charge of the chairing of the Board of Directors and the CPC party committee. Mr. Wang has also been a member of the CPC party committee of our Company since January 2010.

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Mr. Yang Qingzhong (楊慶忠), aged 55, serves as our employee Supervisor and our Vice Chairman of Supervisory Committee. Mr. Yang joined our Company in 1998 and was appointed as our Supervisor on May 21, 2004. He has around 13 years of working experience in securities industry. Mr. Yang obtained a bachelor's degree in economic management from Party School of the Central Committee of CPC in December 1995 and graduated as a postgraduate with a major in management science and engineering from Shanghai University in April 2001. Mr. Yang is a senior political officer recognized by Shanghai Senior Professional and Technical Titles of Enterprise Personnel of Political Work Qualification Evaluating Committee* (上海市企業思想政治工作人員高級專業職務任職資格評審委員會) in December 2000. Mr. Yang worked in the People's Liberation Army Navy (中國人民解放軍海軍) from December 1974 to August 1998. He served in various positions in our Company, including deputy director of CPC party committee office and the member of discipline inspection committee from August 1998 to November 2002 and deputy chief of organization department of our CPC party committee from August 1998 to August 2003 and general manager of our training center from May 2003 to April 2005. Mr. Yang has been the director of our department of party-masses relationship since November 2002, the general manager of our human resources development department since August 2003, the head of our organization department of the CPC party committee since August 2003 and the secretary of our discipline inspection commission since October 2008.

Mr. Yuan Lingcai (袁領才), aged 51, serves as a Supervisor. Mr. Yuan joined our Company on May 16, 2011 and has been our Supervisor since then. He has around 30 years of working experience in finance. Mr. Yuan graduated with a major in accounting from China Central Radio and Television University in July 2003. Mr. Yuan is a senior accountant recognized by Shanghai Accounting Senior Professional and Technical Title Qualification Evaluating Committee* (上海市會計系列高級專業技術職務任職資格審定委員會) in March 2003. Mr. Yuan was manager of finance department of Shanghai Hardware Machinery Corporation Metal Material Company* (上海五金機械總公司金屬原料公司) from August 1981 to October 1995, manager of finance department and chief financial officer in Hardware Company of Shanghai Friendship (Group) Co., Ltd.* (友誼集團上海五金公司) from November 1995 to October 1999, assistant to the director of audit and supervision department of Shanghai Friendship (Group) Co., Ltd. (上海友誼(集團)有限公司) from October 1999 to August 2000 mainly in charge of internal auditing and manager of finance department of Haomeijia Decoration Co., Ltd. under Friendship Group* (友誼集團好美家裝潢有限公司) from August 2000 to December 2001. Mr. Yuan was a supervisor of Shanghai SIIC Investment Management Consulting Co., Ltd. (上海上實投資管理諮詢有限公司) from August 2010 to March 2012. Mr. Yuan has been working at SIIC Investment (Shanghai) Co., Ltd. (上實投資(上海)有限公司) since January 2002 and is currently the general manager of the planning and finance department and chief finance officer of the company. He has also been a director of Shanghai SIIC Zhentai Chemical Co., Ltd. (上海實業振泰化工有限公司) since March 2007 mainly in charge of accounting and financial management, and a director of Shanghai SIIC Investment Management Consulting Co., Ltd. (上海上實投資管理諮詢有限公司) since March 2012.

Mr. Dong Xiaochun (董小春), aged 47, serves as a Supervisor. Mr. Dong joined our Company on July 16, 2007 and has been our Supervisor since then. He has over 20 years of working experience in finance and over four years of experience as supervisor. Mr. Dong

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

graduated with a major in accounting from Shanghai TV University in July 1989 and obtained a master's degree in business administration from Shanghai Jiao Tong University in July 2000. Mr. Dong is a senior accountant recognized by Shanghai Accounting Senior Professional and Technical Title Qualification Evaluating Committee* (上海市會計系列高級專業技術職務任職資格審定委員會) in April 2001. Mr. Dong served as chief financial officer and secretary to the board of Hualian Supermarket Co., Ltd. (華聯超市股份有限公司) from October 1992 to August 2004 mainly in charge of financial management and securities management, chief financial officer of department store division of Shanghai Bailian Group Co., Ltd. (formerly known as Bailian Group (百聯集團)) from August 2004 to April 2006 mainly in charge of financial management and a director of Shanghai Bailian Group Co., Ltd. (上海百聯集團股份有限公司) (a company then listed on the Shanghai Stock Exchange until August 2011 and its stock code was 600631) from April 2010 to April 2011. Mr. Dong was secretary to the board and chief financial officer of Shanghai Bailian Group Co., Ltd. from April 2006 to September 2011 mainly in charge of securities management, and he is now secretary to the board and chief financial officer of Shanghai Friendship Group Incorporated Company¹⁰ (上海友誼集團股份有限公司) (a company listed on the Shanghai Stock Exchange and its stock code is 600827) mainly in charge of financial management.

Mr. Wu Zhilin (吳芝麟), aged 60, serves as a Supervisor. Mr. Wu joined our Company on May 19, 2010 and has been our Supervisor since then. He has around 35 years of working experience in media industry. Mr. Wu graduated with a major in Chinese literature from Shanghai Education College* (上海教育學院) in July 1986. Mr. Wu is a senior editor recognized by Shanghai Journalism Senior Professional and Technical Title Qualification Evaluating Committee* (上海市新聞系列高級專業技術職務任職資格審定委員會) in January 1996. Mr. Wu served in various positions in Jiefang Daily (解放日報) from October 1973 to November 1994, which include editorial committee member and director of literature department, mainly in charge of news reporting and editing. Mr. Wu was deputy chief editor of People's Daily East China Branch (人民日報社華東分社) and deputy chief editor of Wenhui Paper (文匯報) from November 1994 to May 1998 and from May 1998 to July 2008, respectively, mainly in charge of news reporting and editing. Mr. Wu has been a member of CPC party committee of Wenhui-Xinmin United Press Group¹¹ (文匯新民聯合報業集團) since July 2008, secretary of the CPC party committee and deputy chief editor of Xinmin Evening News (新民晚報) since July 2008 mainly in charge of the overall operation of the newspaper group and the chairman of supervisory committee of Shanghai Oriental Sports Media Co., Ltd. (上海東體傳媒有限公司) since February 2010.

Ms. Jin Yanping (金燕萍), aged 56, serves as a Supervisor. Ms. Jin joined our Company on July 16, 2007 and has been our Supervisor since then. She has over 25 years of working experience including over four years of experience as supervisor. Ms. Jin obtained a bachelor's degree in literature from Shanghai University of Technology in October 1982. Ms. Jin is a

¹⁰ Shanghai Friendship Group Incorporated Company held 2.61% shareholding in our Company prior to the Global Offering as of the Latest Practicable Date.

¹¹ Wenhui-Xinmin United Press Group held 2.38% shareholding in our Company prior to the Global Offering as of the Latest Practicable Date.

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

senior political officer recognized by Propaganda Department of the CPC Shanghai Committee* (上海市委宣傳部) in May 1992. Ms. Jin was previously member of CPC party committee and deputy director of CPC party committee office of Shanghai Foreign Trade Corporation* (上海對外貿易總公司) from February 1986 to December 1987. Ms. Jin was previously secretary of CPC general branch of Shanghai Overseas Company* (上海海外公司) from January 1988 to December 1990. Ms. Jin also served as deputy secretary of CPC party committee and deputy general manager of Shanghai Advertising Co., Ltd. (上海廣告有限公司) from December 1990 to December 1994 mainly in charge of human resources. Ms. Jin was Shanghai office's executive vice director and secretary of CPC general branch of SIIC from January 1995 to October 1998, head of the research office of Shanghai Lansheng (Group) Co., Ltd. (上海蘭生(集團)有限公司) from October 1998 to March 2001 and manager of the general corporate business department of Shanghai Lansheng (Group) Co., Ltd. from March 2001 to June 2003. Ms. Jin has been assistant to president of Shanghai Lansheng (Group) Co., Ltd. since October 1998, general manager of investment management department of the same company since June 2003, a director of Shanghai Lansheng Corporation¹² (上海蘭生股份有限公司) (a company listed on the Shanghai Stock Exchange and its stock code is 600826) since May 2003, vice chairman of Soochow Asset Management Co., Ltd. (東吳基金管理有限公司) since April 2004 and chairman of supervisory committee of Shanghai CP Guojian Pharma Co., Ltd. (上海中信國健藥業股份有限公司) since February 2011.

Mr. Xu Qi (許奇), aged 49, serves as a Supervisor. Mr. Xu joined our Company on July 16, 2007 and has been our Supervisor since then. He has around 20 years of extensive working experience in finance and accounting and over four years of experience as supervisor. Mr. Xu graduated with a major in economic management (junior college course) from Shanghai Normal University in July 1988. He graduated from East China Normal University as a postgraduate with a major in international enterprise management in November 1997. Mr. Xu is an accountant recognized by Leading Working Group for Shanghai Professional Title Reform* (上海市職稱改革工作領導小組) in July 1992. Mr. Xu was awarded China's outstanding CFO of 2005 by Selection Committee of Annual Figure of China CFO* (中國CFO年度人物評選委員會) and Xinlicai Magazine* (新理財雜誌社) in March 2006. He was a Chinese registered career manager (中國註冊職業經理人) recognized by China Enterprise Evaluation Association (中國企業評價協會) in July 2006. He was a senior member of the Chinese Enterprise Operation and Management Talent Bank* (中國企業經營管理人才庫成員(高級)) recognized by National Talent Service Centre under the Ministry of Human Resources (人事部全國人才流動中心) in September 2006. He was also awarded the Annual Figure of China Chief Financial Officer in November 2006 recognized by Organizing Committee of China CFO International Summit* (中國CFO國際峰會組委會) and China CFO Magazine* (中國總會計師雜誌社). He is a qualified professional director and qualified director and supervisor (Senior) recognized by China Institute of Directors* (中國董事協會) and Chinese Director and Supervisor Certification Experts Committee* (中國職業董監事資格認證專家委員會) in May 2007. He was a senior international finance manager recognized by China Association of Chief Financial Officers (中國總會計師協會), Ministry of Labor and Social Security (中國勞動和社會保障部) and International Financial Management Association (國際

¹² Shanghai Lansheng Corporation held 2.32% shareholding in our Company prior to the Global Offering as of the Latest Practicable Date.

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

財務管理協會) in November 2007. Mr. Xu served in various positions in Shanghai Chlor-Alkali Chemical Co., Ltd. (上海氯鹼化工股份有限公司) (a company listed on the Shanghai Stock Exchange and its stock code is 600618) from April 1988 to June 2002, including deputy manager of asset operation department and deputy manager of asset finance department. He also served as deputy manager of asset finance department of Shanghai Tianyuan Group Co., Ltd. (上海天原集團有限公司) from March 1996 to April 1997 mainly in charge of financial management. Mr. Xu was also manager of planning and finance department and vice chief financial officer of Shanghai Oriental Pearl (Group) Co., Ltd. (上海東方明珠(集團)股份有限公司) (a company listed on the Shanghai Stock Exchange and its stock code is 600832) from July 2002 to March 2003 and March 2003 to March 2004, respectively. Mr. Xu has been chief financial officer of Shanghai Oriental Pearl (Group) Co., Ltd. since March 2004.

Mr. Xing Jianhua (邢建華), aged 52, serves as a Supervisor. Mr. Xing joined our Company on November 28, 2002 and has been our Supervisor since then. He has over four years of experience as supervisor. Mr. Xing obtained a bachelor's degree in economics from East China Normal University in December 1992. Mr. Xing is a senior accountant recognized by Shanghai Accounting Senior Professional and Technical Title Evaluating Committee* (上海市會計系列高級專業技術職務任職資格評審委員會) in December 1998. Mr. Xing was clerk of finance department of Shanghai Chemical Industry Bureau* (上海市化學工業局) from November 1986 to July 1989, and deputy director of finance department of Shanghai Fertilizer United Co., Ltd.* (上海市化肥聯合公司) from July 1989 to April 1993. Mr. Xing was deputy general accountant of Shanghai Rubber Belt Co., Ltd. (上海膠帶股份有限公司) from April 1993 to April 1995 and director and deputy general manager of the same company from April 1995 to July 1996 mainly in charge of strategic planning, asset operation and financial work. Mr. Xing was also manager of asset department of Shanghai Huayi (Group) Company (上海華誼(集團)公司) from July 1996 to April 2001 mainly in charge of property management, enterprise reform and asset operation. He successively served as deputy director and director of finance department of Orient International (Holding) Co., Ltd.¹³ (東方國際(集團)有限公司) from April 2001 to November 2003. He has been director of asset operation department of the same company mainly in charge of asset management and asset operation since April 2002. Mr. Xing was director of Orient International Enterprise Ltd.*¹⁴ (東方國際創業股份有限公司) (a company listed on the Shanghai Stock Exchange and its stock code is 600278) from April 2008 to April 2011. He has been deputy chief economist of Orient International (Holding) Co., Ltd. since February 2009 mainly in charge of asset management and asset operation, vice chairman of Shanghai Orient International Asset Management & Administration Co., Ltd. (上海東方國際資產經營管理有限公司) since April 2007 and a director of Shanghai Silk (Group) Co., Ltd. (上海絲綢(集團)有限公司) since January 2003.

Mr. Wang Yugui (王玉貴), aged 60, serves as a Supervisor. Mr. Wang joined our Company on May 16, 2011 and has been our Supervisor since then. He has around 30 years of financial working experience. Mr. Wang graduated with a major in English from Beijing

¹³ Orient International (Holding) Co., Ltd. held 0.95% shareholding in our Company prior to the Global Offering as of the Latest Practicable Date.

¹⁴ Orient International Enterprise Ltd. held 0.36% shareholding in our Company prior to the Global Offering as of the Latest Practicable Date.

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Second Foreign Language Institute in February 1977. Mr. Wang is a senior economist recognized by Certification Committee of Specialized Technical Post of the Ministry of Communications* (交通部專業技術職務評審委員會) in November 1994. Mr. Wang has been general manager* of China Shipowners Mutual Assurance Association (中國船東互保協會) since February 1993 in charge of shipowners' mutual assurance and relevant work, and a non-executive director of China Minsheng Banking Corp., Ltd. (a company listed on both the Shanghai Stock Exchange and the Hong Kong Stock Exchange and its stock code is 600016 and 01988 respectively) since December 1995.

Ms. Qiu Xiaping (仇夏萍), aged 51, serves as our employee Supervisor. Ms. Qiu joined our Company in November 1994 and has been our Supervisor since July 16, 2007. She has around 30 years of working experience in banking and securities industry and over four years of experience as supervisor. Ms. Qiu graduated with a major in finance from Shanghai TV University (junior college degree) in July 1982 and obtained a bachelor's degree in law from Correspondence Institute of Party School of Central Committee of the CPC* (中共中央黨校函授學院) in December 2005. She graduated from Shanghai Academy of Social Sciences as a postgraduate with a major in economics in January 2002, and a master's degree in business administration from Washington International University in July 2003. Ms. Qiu is an accountant recognized by Industrial and Commercial Bank of China in September 1992. She was an officer of Yangpu branch of Industrial and Commercial Bank of China from August 1980 to August 1992 and worked at Pudong branch of the same bank from March 1993 to August 1993. She also worked at Dongfang Road branch of Huaxia Securities Co., Ltd. from August 1993 to November 1994 mainly in charge of the branch's finance work. She was an officer of our Company from November 1994 to August 1996, section chief of finance and accounting department from August 1996 to April 1998. Ms. Qiu was assistant to general manager and has been deputy general manager of our planning and finance department from April 1998 to July 2000 and since July 2000, respectively. Ms. Qiu has been a director of Haitong Futures since October 2005, a director of Haitong Capital Investment since October 2008, a supervisor of Fullgoal Fund Management since October 2008 and a supervisor of Haitong Jihe Management since November 2010.

Mr. Du Hongbo (杜洪波), aged 49, serves as our employee Supervisor. Mr. Du joined our Company in March 2002 and has been our Supervisor since May 16, 2011. He has around 15 years of working experience in securities industry. Mr. Du obtained a bachelor's degree in industrial automation from Huazhong Institute of Technology (華中工學院) in July 1984. Mr. Du is an engineer recognized by Wuhan Personnel Bureau in December 1992. Mr. Du successively worked at Wuhan Computer Application Institute* (武漢市計算機應用開發研究所), Wuhan Branch of Stone Group Corp.* (四通集團武漢分公司) and Wuhan Software Research Center* (武漢軟件研究中心) from August 1984 to August 1996 mainly in charge of computer application, development and research. Mr. Du worked at information technology department of Guotai Jun'an Securities Co., Ltd. (國泰君安證券股份有限公司) from August 1996 to March 2002 mainly in charge of information systems development and operation management. He was assistant to general manager of the website management department and brokerage business department of our Company from March 2002 to May 2005 and deputy general manager of risk control headquarters of our Company from May 2005 to March 2011. Mr. Du has been our general manager of compliance and risk management headquarters since March 2011 mainly in charge of compliance management and risk control.

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Senior Management

The following table sets forth information regarding our senior management of the Company. Our senior management all meet the qualification requirements under the relevant PRC laws and regulations for their respective positions. Our personnel are responsible for the day-to-day management of the Company's business.

Name	Age	Position
Mr. Li Mingshan (李明山)	59	General Manager
Mr. Shen Degao (沈德高)	59	Deputy General Manager
Mr. Ji Yuguang (吉宇光)	54	Deputy General Manager
Mr. Ren Peng (任澎)	49	Deputy General Manager
Mr. Wu Bin (吳斌)	39	Deputy General Manager
Mr. Li Xunlei (李迅雷)	48	Deputy General Manager
Mr. Hiroki Miyazato (宮里啟暉)	46	Deputy General Manager
Mr. Jin Xiaobin (金曉斌)	57	Secretary to the Board
Mr. Wang Jianye (王建業)	51	General Compliance Officer and Chief Risk Control Executive
Mr. Li Chuqian (李礎前)	55	Chief Financial Officer

Mr. Li Mingshan (李明山), aged 59, is our General Manager. Please see “– Overview – Executive Directors” in this prospectus for his biography.

Mr. Shen Degao (沈德高), aged 59, joined our Company in September 1991 and has been our Deputy General Manager since December 1991. He has over 20 years of management experience in securities industry. Mr. Shen graduated from the People's Liberation Army Air Force Political Science College* (解放軍空軍政治學院) with a major in economic management in July 1999 and obtained a master's degree in business administration from Asia International Open University (Macau) in March 2002. Mr. Shen is an economist recognized by Appraisal Committee of Intermediate Professional Technical Titles* (中級專業技術職務評審委員會) in the Bank of Communications (Shanghai Branch) in December 1992. Mr. Shen served in various positions in the People's Liberation Army Navy (中國人民解放軍海軍) from March 1968 to September 1989. He was a discipline inspector (section chief level) of Bank of Communications (Shanghai Branch) from March 1990 to September 1991. Mr. Shen served in various positions in our Company, including office director from September 1991 to June 1994, member of the CPC party group from June 1994 to December 1998 and secretary of the discipline inspection committee from May 2006 to October 2008. Mr. Shen has been our deputy secretary of CPC party committee since December 1998.

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Mr. Ji Yuguang (吉宇光), aged 54, joined our Company in November 1995 and has been our Deputy General Manager since November 1997. He is mainly in charge of proprietary trading and international business. He has around 25 years of working experience in banking and securities industry including over 15 years of management experience. Mr. Ji obtained a bachelor's degree in economics from Beijing Finance and Commerce College in July 1983 and graduated with a major in economy management as a postgraduate from Party School of Central Committee of the CPC (中共中央黨校) in June 1999. Mr. Ji is a senior economist recognized by Senior Professional and Technical Title Evaluating Committee* (高級專業職務評審委員會) of the Bank of Communications in April 1994. Mr. Ji was an officer of Finance Department of Beijing Planning Commission* (北京市計委財金處) from August 1983 to November 1988. Mr. Ji served in various positions in Bank of Communications (Beijing Branch) from November 1988 to November 1995, including deputy manager and manager of securities trading department of the same branch. He also served as leading officer and general manager of Beijing Langjiayuan Branch of Haitong Securities Company Limited from November 1995 to November 1997. Mr. Ji served as chairman of Jilin Investment Fund from December 2010 to May 2011. Mr. Ji has been a non-executive director of Haitong International Securities since January 2010 and chairman of board of directors of Haitong International Securities since March 2011, a director of Haitong International Holdings since August 2010 and chairman of board of directors of Haitong International Holdings since March 2011.

Mr. Ren Peng (任澎), aged 49, joined our Company in March 1996 and has been our Deputy General Manager since November 1997. He is mainly in charge of investment banking and direct investment businesses. He has around 30 years of working experience in banking and securities industry including over 15 years of management experience. Mr. Ren graduated with a major in finance from Fudan University in January 2004 and obtained a master's degree in business administration from China Europe International Business School in July 2006. Mr. Ren is an economist recognized by the Medium-leveled Professional and Technical Title Evaluating Committee* (中級專業技術職務評審委員會) of Bank of Communications (Hangzhou Branch) in July 1989. Mr. Ren served in several managerial positions in the Xihu Office of the Industrial and Commercial Bank of China from June 1982 to February 1988 and served in various positions in Bank of Communications (Hangzhou Branch) from March 1988 to March 1996 including head of saving business and manager of securities department, mainly in charge of daily operations. In addition, Mr. Ren was manager of Hangzhou branch of Haitong Securities Company Limited from March 1996 to November 1997 mainly in charge of daily operations. Mr. Ren was a director of Haitong Capital Investment from October 2008 to August 2011. He has been a director of China-Belgium Fund since March 2011 and chairman of Jilin Investment Fund since May 2011 mainly in charge of strategies implementation.

Mr. Wu Bin (吳斌), aged 39, joined our Company in July 1998 and has been our Deputy General Manager since March 2012. He is mainly in charge of asset management business, the Company's strategy development and information technology ("IT"). He has around 14 years of working experience in the securities industry including over ten years of management experience. Mr. Wu obtained a bachelor's degree in law from East China Normal University in July 1995, a master's degree in economic law from East China College of Politics and Law in July 1998 and a doctor's degree in economics from Fudan University in June 2003. Mr. Wu

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

obtained the lawyer qualification certificate of China which is recognized by the Ministry of Justice of the PRC (中華人民共和國司法部) in April 1997 and is an economist recognized by PRC Ministry of Personnel (中華人民共和國人事部) in November 2000. Mr. Wu served in various positions in our Company including a project manager in the investment bank department from July 1998 to March 2001, deputy section chief and section chief of the general manager office from March 2001 to October 2003, assistant to general manager in the international business division from October 2003 to May 2005, deputy director in the general manager office from May 2005 to January 2007, chief compliance director from July 2007 to August 2010, director of compliance office and general manager of compliance department from October 2007 to March 2011 during which time he was working part-time as an inspector assistant in the Shanghai municipal government from January 2010 to January 2011. Mr. Wu has been the director of our general manager office since January 2007, a non-executive director of Haitong International Securities since January 2010, a director of Haitong International Holdings since August 2010 and the director of strategic development and IT management committee and the head of preparatory group of Haitong Asset Management Company* (海通資產管理公司) since March 2011.

Mr. Li Xunlei (李迅雷), aged 48, joined our Company in October 2011 and has been our Deputy General Manager and Chief Economist since March 2012. He is mainly in charge of research and institutional business. He has around 15 years of working experience in securities industry, including over ten years of management experience. Mr. Li obtained a bachelor's degree and a master's degree in economics from Shanghai University of Finance and Economics in July 1985 and in July 1991 respectively. Mr. Li was a librarian and assistant researcher of Institute of Economics and Finance in Shanghai University of Finance and Economics from July 1985 to September 1996. Mr. Li was deputy director of research institute of Jun'an Securities Co., Ltd. (君安證券有限責任公司) from September 1996 to August 1999, mainly in charge of research business. He was deputy director of the research institute, director of the research institute and general manager of sales and trading department, assistant to president and chief economist in Guotai Junan Securities Co., Ltd. (國泰君安證券有限公司) from August 1999 to October 2011, mainly in charge of research and institutional business.

Mr. Hiroki Miyazato (宮里啟暉), aged 46, joined our Company in May 2009 and has been our Deputy General Manager since March 2012. He is mainly in charge of securities investment. He has around 20 years of working and management experience in banking and securities industry. Mr. Miyazato obtained a bachelor's degree in science from Fudan University in July 1986 and obtained a master's degree in biophysics and biochemistry from University of Tokyo in March 1993. Mr. Miyazato was a manager in fixed income department of Credit Suisse First Boston (currently known as Credit Suisse Group AG) from April 1993 to March 1994, mainly in charge of Japanese government bond and Euro-yen bond trading and investment in the Asia-Pacific region. He was head of Asia department of Tokyo branch of Deutsche Genossenschaftsbank AG (currently known as Deutsche Zentral-Genossenschaftsbank AG) from April 1994 to March 1998, mainly in charge of European government bond trading and investment in the Asia-Pacific region. Mr. Miyazato was the global market investment manager of proprietary investment department of Tokyo branch of J.P. Morgan from April 1998 to September 1999, mainly in charge of the company's capital operation. Mr. Miyazato was a

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

fund manager of global strategic asset management, a senior fund manager of alternative investment, general manager of the China Investment Department and president of the Greater China area of Nikko (Citi) Asset Management Co., Ltd. from October 1999 to March 2009, mainly in charge of investment and management. He was also a director and the shareholder representative of Rongtong Fund Management Co., Ltd. (融通基金管理有限公司) from April 2007 to April 2009. He was general manager of international business department, commissioner of international business coordination committee and commissioner of strategic development and IT management committee of our Company from May 2009 to March 2012, mainly in charge of expanding international business.

Mr. Jin Xiaobin (金曉斌), aged 57, joined our Company in August 1998 and has been our Secretary to the Board since May 2005 and the deputy director of our investment banking committee since March 2010. He is mainly in charge of the office of the Board and office of Supervisory Committee. He mainly assists in the management of investment banking business. He has 13 years of management experience in securities industry. Mr. Jin obtained a bachelor's degree in political education from Shanghai Second Institute of Education (上海第二教育學院) in July 1988, a master's degree in economics from Fudan University in July 1993, a doctor's degree in economics from Fudan University in January 1997 and a postdoctoral degree in finance from Shanghai University of Finance and Economics in July 1999. Mr. Jin has been a deputy researcher (deputy professor level) recognized by Shanghai University of Finance and Economics since June 1998 and has been an expert with special allowance from the State Council since June 2002. Mr. Jin worked in the People's Liberation Army Navy (中國人民解放軍海軍) from December 1972 to March 1998. Mr. Jin has served in various positions in our Company and subsidiaries including deputy general manager of research and development center from December 1998 to March 2000, head of research institute from March 2000 to August 2004, general manager of brokerage business headquarters from May 2003 to March 2005, general manager of M&A financing department from January 2007 to March 2008, and chairman and legal representative of Haitong Jihe Management from June 2010 to May 2011, mainly in charge of private equity direct equity investment. He was deputy director member of analysts committee of SAC from July 2000 to June 2011. Mr. Jin has been assistant to our general manager since July 2003, secretary to the Board of Directors of our Company since May 2005, the deputy director of investment banking commission of our Company since March 2010, mainly providing assistance in the management of equity financing department, debt financing department and M&A financing department. He has been a professional evaluation expert of securities companies in SAC since January 2011, and leader of preparation team of Liaoning New Resource and Low Carbon Industry Investment Fund* (遼寧新能源和低碳產業投資基金) since June 2011.

Mr. Wang Jianye (王建業), aged 51, joined our Company in August 1994 and has been our General Compliance Officer since July 2010 and our Chief Risk Control Executive since May 2011. He is mainly in charge of compliance and risk management headquarters. He has around 25 years of working experience in banking and securities industry including over 15 years of management experience. Mr. Wang graduated with a major in finance from Shaanxi Institute of Finance and Economics (junior college degree) in June 1984 and graduated with a major in money and banking from Graduate School of Xiamen University in January 1994. Mr.

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Wang is a senior economist recognized by PBOC in July 1993. Mr. Wang was successively deputy director-level clerk* (副主任科員), trainee deputy director, deputy director of education department of financial administration division of PBOC Inner Mongolia Branch from August 1984 to August 1990, deputy director of Financial Administration Division of PBOC Inner Mongolia Branch from August 1990 to May 1992, deputy general manager of the securities department of Inner Mongolia Securities Company* (內蒙古自治區證券公司) from May 1992 to March 1993 and deputy general manager of the same company from March 1993 to July 1994 mainly in charge of securities brokerage and underwriting services. Mr. Wang previously served in various positions in our Company including head of trading department from August 1994 to March 1996, deputy general manager of business management headquarters from March 1996 to September 1998, and general manager of integrated business management headquarters from September 1998 to August 2004. Mr. Wang was assistant to general manager of our Company from June 2001 to February 2011, general manager of brokerage business headquarters from March 2005 to June 2006 and general manager of risk control headquarters from October 2008 to March 2011, and was successively in charge of integrated business management headquarters, brokerage business headquarters, I.T. department, brokerage operations center, sales and transactions headquarters, customer asset management department and risk control department.

Mr. Li Chuqian (李礎前), aged 55, joined our Company in August 1994 and has been our Chief Financial Officer and general manager of planning and finance department since July 2007. He is mainly in charge of planning and finance department and assists in the management of equity management department. He has around 25 years of working experience in financial management including over 15 years of financial experience in securities industry. Mr. Li obtained a bachelor's degree in engineering from Hefei University of Technology in September 1982 and a master's degree in economics from Zhongnan University of Economics (predecessor of Zhongnan University of Economics and Law) in October 1988. Mr. Li is an accountant recognized by the PRC Ministry of Finance in December 1992 and a senior economist recognized by Job Title Qualification Evaluating Committee in the Department of Finance of Anhui Province* (安徽省財政廳機關職稱認定委員會) in April 1993. Mr. Li was previously deputy director clerk of Central Enterprise Department of Anhui Provincial Department of Finance* (安徽省財政廳中企處) from July 1988 to August 1991 and section chief of Anhui Provincial State-owned Assets Supervision and Administration Bureau (安徽省國有資產管理局) from August 1991 to July 1994 mainly in charge of management of state-owned assets of Anhui provincial business agriculture and forestry and administrative institutions. Mr. Li served in various positions in our Company including head of planning and finance department from August 1994 to March 1996, deputy general manager of finance and accounting department from March 1996 to April 1998, general manager of finance and accounting department from April 1998 to July 2001, deputy chief financial officer and general manager of finance and accounting department from July 2001 to July 2007. Mr. Li has been chief supervisor of HFT Investment Management since April 2003, a director of Haitong-Fortis

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

PE Management since June 2010, and a director of Shanghai Jielong Industry Group Corporation Limited (上海界龍實業集團股份有限公司) (a company listed on the Shanghai Stock Exchange and its stock code is 600836) from May 2006 to May 2009.

Joint Company Secretaries

Mr. Jin Xiaobin (金曉斌), one of our joint company secretaries, is also a member of our senior management. Please see “– Overview – Senior Management” in this prospectus for his biography.

Ms. Mok Mingwai (莫明慧), aged 40, was appointed as our joint company secretary on November 8, 2011. She has over 15 years of professional and in-house experience in the company’s secretarial field. Ms. Mok is a fellow member of the Hong Kong Institute of Chartered Secretaries and the Institute of Chartered Secretaries and Administrators in the United Kingdom. Ms. Mok worked in the Corporate Services Division of KPMG from August 1994 to April 2002 in Hong Kong. She subsequently worked for various commercial and professional organizations during the period from April 2002 to March 2008. Ms. Mok acted as the company secretary from March 2008 to December 2010 for a group with two listed companies, namely HKC (Holdings) Limited (香港建設(控股)有限公司) (a company listed on the Hong Kong Stock Exchange and its stock code is 00190) and Hong Kong Energy (Holdings) Limited (now known as China Renewable Energy Investment Limited (中國再生能源投資有限公司)) (a company listed on the Hong Kong Stock Exchange and its stock code is 00987). Ms. Mok is currently an associate director of KCS Hong Kong Limited, a corporate secretarial and accounting services provider in Hong Kong. She currently acts as the joint company secretary of Shanghai Pharmaceuticals Holding Co., Ltd. (上海醫藥集團股份有限公司) (a company listed on the Hong Kong Stock Exchange and its stock code is 02607), Huaneng Renewables Corporation Limited (華能新能源股份有限公司) (a company listed on the Hong Kong Stock Exchange and its stock code is 00958) and China Hanking Holdings Limited (中國罕王控股有限公司) (a company listed on the Hong Kong Stock Exchange and its stock code is 03788), and also acts as the sole company secretary of Hongguo International Holdings Limited (鴻國國際控股有限公司) (a company listed on the Hong Kong Stock Exchange and its stock code is 01028) and Tenfu (Cayman) Holdings Company Limited (天福(開曼)控股有限公司) (a company listed on the Hong Kong Stock Exchange and its stock code is 06868).

BOARD COMMITTEES

The Board delegates certain responsibilities to various dedicated committees. In accordance with relevant PRC laws, regulations, the Articles of Association, and the Hong Kong Listing Rules, we have formed four board committees, namely: the audit committee, the nomination, remuneration and assessment committee, the development strategy and investment management committee and the compliance and risk control committee.

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Audit Committee

We have established an audit committee with written terms of reference in compliance with Rule 3.21 of the Hong Kong Listing Rules and paragraph C3 of the HKSE Corporate Governance Code. The audit committee consists of seven Directors: Mr. Zhou Donghui, Mr. Xu Chao, Mr. Wang Hongxiang, all of whom are non-executive Directors, and Mr. Zhang Huiquan, Mr. Zhang Ming, Mr. Dai Genyou and Mr. Chen Qiwei, all of whom are independent non-executive Directors. Mr. Zhang Ming, who has the appropriate professional qualifications, currently serves as the chairman of the audit committee. The primary duties of the audit committee are to review and supervise our financial reporting process, which include, among others:

- to propose the appointment or removal of the external auditor of the Company and to review and supervise the independence and objectivity of the external auditors and the effectiveness of the audit process;
- to discuss with the external auditor on the nature and scope of the audit work prior to the commencement of the audit work;
- to oversee the Company's internal audit system and its implementation;
- to be in charge of communication between the internal auditors and external auditors and meet the external auditor at least twice a year;
- to review the Company's financial information and disclosure thereof, and to review, where necessary, any major related party transactions;
- to review the internal control systems of the Company and its subsidiaries and branches from the perspective of appropriateness, reasonableness and effectiveness as well as implementation, and make recommendations on the pursuit of accountability of responsible persons;
- to review the arrangements for employees to raise concerns about financial reporting improprieties;
- to make recommendations on performance assessment of internal auditors in discharging their responsibilities; and
- to review the regular and interim audit reports submitted by the internal audit departments of the Company.

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Nomination, Remuneration and Assessment Committee

We have established a nomination, remuneration and assessment committee with written terms of reference in compliance with paragraph B1 of the HKSE Corporate Governance Code. The nomination, remuneration and assessment committee consists of seven Directors: Mr. Qian Shizheng, Mr. He Jianyong, Mr. Li Gewei, all of whom are non-executive Directors, Mr. Zhang Ming, Mr. Liu Chee Ming, Mr. Dai Genyou and Mr. Xia Bin, all of whom are independent non-executive Directors. Mr. Xia Bin currently serves as the chairman of the nomination, remuneration and assessment committee. The primary duties of the nomination, remuneration and assessment committee are to formulate the nomination procedures and standards for candidates for Directors, evaluate the performance of Directors and senior management, make recommendations on the remuneration package of our Directors and senior management, and evaluate and make recommendations on employee benefit arrangements, which include, among others:

- to consider and make recommendation on the selection criteria and procedures applicable to directors and management;
- to carry out extensive search for qualified candidates of directors and management and to consider and make recommendation on the same;
- to review the structure, size and composition of the board of directors at least annually to complement the Company's corporate strategy; where necessary, to seek professional advice to perform its responsibilities;
- to study the performance assessment criteria for directors and management, and to propose the performance assessment system, competitive remuneration package, and the incentive scheme of stock or stock options based on and financial performance and the executive liability insurances in each case based on the characteristics of the financial and securities industry and the job responsibilities of the directors and management as well as the remuneration of the same position in other relevant enterprises;
- to establish the policies on remuneration, including without limitation the performance assessment criteria and procedures and the main evolution system, major plans and policies related to reward and punishment;
- based on the result of the Audit Committee's annual audit, review the performance of the Company's directors and management, conduct annual performance assessment of the directors and management, and make recommendations; and
- to consider and discuss the Company's remuneration reform plan, and to oversee the implementation of the Company's remuneration system.

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Development Strategy and Investment Management Committee

Our development strategy and investment management committee consists of five Directors: Mr. Wang Kaiguo, an executive director, Mr. Qian Shizheng, Mr. Zhuang Guowei, Mr. Zhang Jianwei, all of whom are non-executive Directors, and Mr. Chen Qiwei, an independent non-executive Director. Mr. Wang Kaiguo currently serves as the chairman of this committee. The primary duties of this committee are to conduct studies and submit proposals regarding our mid-to-long-term development strategies and planning of the Company, which include, among others:

- to study and make suggestions to the financing plans of major investment transactions which the Articles of Association of the Company has required to be approved by the Board of Directors;
- to conduct feasibility study and make suggestions to the major capital operation, asset management, mergers and acquisitions which the Articles of Association of the Company has required to be approved by the Board of Directors;
- to study and make suggestions to major issues affecting the development of the Company; and
- to conduct inspection and supervision to the implementation of the above matters.

Compliance and Risk Control Committee

The compliance and risk control committee consists of five Directors: Mr. Li Mingshan, an executive director, Mr. Zhou Donghui, Mr. Feng Huang, all of whom are non-executive Directors, and Mr. Zhang Huiquan and Mr. Dai Genyou, both of whom are independent non-executive Directors. Mr. Zhang Huiquan currently serves as the chairman of the compliance and risk control committee. The primary duties of this committee are to review the Company's compliance operation and risk controls, formulate compliance management policies, review the work report of the General Compliance Officer, diagnose and complete the internal control system, review and monitor the compliance management system, and perform other duties and responsibilities as assigned by our Board, which include, among others:

- to formulate compliance management policies and to regularly or irregularly review the work report of the General Compliance Officer and make suggestions to the improvement of the compliance management;
- to review and monitor the feasibility, rationality, effectiveness and implementation of the compliance management system of the Company;
- to formulate the overall risk management policies and to review and monitor the Company's identification and evaluation of the various existing and potential risks and completeness and effectiveness of the Company's risk control system;

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

- to review and monitor the management of the Company to the risk parameter, formulate the risk control principles and the limitations of major risks for the Company;
- to review and supervise the implementation of the internal control system and provide guidance to the same; and
- to provide evaluation to the business authorization and operation risks, investment risks, financial risks and morality risks, and provide timely guidance to strengthen and improve the risk controls.

CORPORATE GOVERNANCE

Our Directors are aware that, effective from April 1, 2012, the recommended best practice of arranging appropriate insurance cover in respect of legal actions against directors has been upgraded to a code provision in the HKSE Corporate Governance Code. Our Directors are also aware that, upon Listing, we are expected to comply with, but may choose to deviate from such code provision. However, such deviation shall be carefully considered and reasons for such deviation shall be given in the interim report and the annual report of the relevant period. While we are committed to achieving high standards of corporate governance and to complying with the code provisions as set out in the HKSE Corporate Governance Code, we are advised by our PRC legal advisors, Grandall Law Firm (Shanghai), that insurance cover in respect of legal actions against directors shall be approved at general meeting under the SSE Corporate Governance Index. Upon careful consideration, our Directors decided to delay the compliance with such code provision and submit the relevant insurance plans for our Shareholders' approval at our next annual general meeting, which is expected to be held by June 2012 for the following reasons: (i) the deviation from such code provision will be for a short period of time of less than three months, taking into consideration that our Listing Date is expected to be on Friday, April 27, 2012 and our annual general meeting is expected to be held by June 2012; and (ii) to convene an extraordinary general meeting approximately two months before our annual general meeting solely to approve such insurance plans would incur undue administrative cost on the part of our Company and be unduly burdensome for the Company.

Save as disclosed in the above paragraph, we will comply with all other code provisions set out in the HKSE Corporate Governance Code.

COMPENSATION OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

We offer our executive Directors, Supervisors and senior management personnel, who are also employees of our Company, various compensation in the form of salaries, bonuses, social security plans, housing provident fund plans and other benefits. Our independent non-executive Directors and external Supervisors receive compensation based on their responsibilities (including being members or chairmen of Board committees). Total compensation paid to the Directors, Supervisors and senior management for the three years ended December 31, 2009, 2010 and 2011 were approximately RMB19,683,000,

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

RMB21,495,000, and RMB24,347,000, respectively. As required by PRC regulations, we participate in various defined pension schemes for our employees, including those organized by provincial or municipal governments as well as supplemental pension schemes. The employees covered by such schemes include our Directors, Supervisors and senior management personnel. The Company did not contribute any other benefits as post-employment benefits for the Directors, Supervisors and senior management for the three years ended December 31, 2009, 2010 and 2011 except the pension scheme. The aggregate amount of compensation the Company paid to the five highest paid individual employees during the years ended December 31, 2009, 2010 and 2011 were approximately RMB40,563,000, RMB24,829,000, and RMB36,299,000, respectively.

No remuneration was paid by our Group, or was receivable by our Directors or the five highest paid individuals as an inducement to join, or upon joining, us or as compensation for loss of office in 2009, 2010 and 2011. Furthermore, none of our Directors had waived any remuneration during the same period.

Under the existing arrangements currently in force, the aggregate remuneration (excluding the discretionary bonuses) paid/payable to and benefits-in-kind receivable by the Directors (including nine independent non-executive Directors), Supervisors and senior management personnel in respect of the year ending December 31, 2012 will be approximately RMB13,348,285 (including RMB720,000 to be received by the independent non-executive Directors).

JOINT COMPLIANCE ADVISORS

The Company has agreed to appoint Haitong International Capital Limited and BOCOM International (Asia) Limited to be its joint compliance advisors upon listing in compliance with Rules 3A.19 and 19A.05 of the Hong Kong Listing Rules. The Company has entered into a compliance advisor's agreement with the joint compliance advisors prior to the Listing Date, the material terms of which are as follows:

- (a) the Company will appoint Haitong International Capital Limited and BOCOM International (Asia) Limited as the joint compliance advisors for the purpose of Rules 3A.19 and 19A.05 of the Hong Kong Listing Rules for a period commencing on the Listing Date and ending on the date on which the Company complies with Rule 13.46 of the Hong Kong Listing Rules in respect of the financial results of the Company for the first full financial year commencing after the Listing Date, or until the agreement is terminated, whichever is earlier;
- (b) the joint compliance advisors will provide us with certain services, including providing us with proper guidance and advice as to compliance with the requirements under the Hong Kong Listing Rules and applicable laws, rules, codes and guidelines and provide advice to the Company on the continuing requirements under the Hong Kong Listing Rules and applicable laws and regulations;

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

- (c) the joint compliance advisors will, as soon as reasonably practicable, inform us of any amendment or supplement to the Hong Kong Listing Rules announced by the Hong Kong Stock Exchange from time to time, and of any amendment or supplement to the applicable laws and guidelines; and
- (d) the joint compliance advisors will serve as a principal channel of communication of the Company with the Hong Kong Stock Exchange.

SHARE CAPITAL

SHARE CAPITAL

This section presents certain information regarding our share capital prior to the completion of the Global Offering and after the completion of the Global Offering.

Before Global Offering

As of the Latest Practicable Date, the share capital of our Company was approximately RMB8,227,821,180 comprising 8,227,821,180 A Shares with a par value of RMB1.00 each.

	Number of Shares	Approximate percentage of issued share capital (%)
A Shares in issue	8,227,821,180	100.0

Upon Completion of Global Offering

Immediately following the completion of the Global Offering, assuming that the Over-allotment Option is not exercised, the share capital of our Company would be as follows:

	Number of Shares	Approximate percentage of issued share capital (%)
A Shares in issue	8,104,881,180	85.70
H Shares – total	1,352,340,000	14.30
H Shares to be issued under the Global Offering	1,229,400,000	13.00
H Shares to be converted from A Shares and transferred to the NSSF	<u>122,940,000</u>	<u>1.30</u>
Total number of Shares	<u><u>9,457,221,180</u></u>	<u><u>100.00</u></u>

SHARE CAPITAL

Immediately following the completion of the Global Offering, assuming the Over-allotment Option is exercised in full, the share capital of our Company would be as follows:

	Number of Shares	Approximate percentage of issued share capital (%)
A Shares in issue	8,086,440,180	83.87
H Shares – total	1,555,191,000	16.13
H Shares to be issued under the Global Offering	1,413,810,000	14.66
H Shares to be converted from A Shares and transferred to the NSSF	141,381,000	1.47
 Total number of Shares	 9,641,631,180	 100.00

According to the Articles of Association, we have two classes of Shares, (i) domestic listed Shares, namely A Shares (Shares issued and subscribed for in RMB to investors within the PRC and listed in the PRC); and (ii) overseas listed Shares, namely H Shares (Shares to be issued and subscribed for in HK dollars to overseas investors and listed in Hong Kong). A Shares and H Shares are all ordinary Shares in the share capital of our Company. However, apart from certain QDII in the PRC, H Shares generally cannot be subscribed for by or traded between legal or natural persons of the PRC. A Shares can only be subscribed for by and traded between legal or natural persons of the PRC, QFII approved by CSRC or qualified foreign strategic investors and must be traded in RMB. As required by the Company Law, the A Shares held by the Directors, Supervisors and senior management are subject to transfer restrictions. As of the Latest Practicable Date, none of our Directors, Supervisors or senior management has any Shares in our Company.

Shareholders holding different classes of Shares are considered as different classes of Shareholders. Our Company has two classes of Shareholders, namely holders of A Shares and holders of H Shares. The rights conferred on any class of Shareholders may not be varied or abrogated unless approved by a special resolution of Shareholders' general meeting and by holders of Shares of that class at a separate meeting conducted in accordance with the Articles of Association. The circumstances which shall be deemed to be a variation or abrogation of the rights of a class are listed in Appendix V to this prospectus. However, the procedures for approval by separate classes of Shareholders shall not apply (i) where we issue, upon approval by a special resolution of the Shareholders in a general meeting, either separately or concurrently once every 12 months, not more than 20% of each of our then existing issued A Shares and H Shares, (ii) where our plan to issue A Shares and H Shares at the time of our establishment is implemented within 15 months from the date of approval of CSRC and (iii) where the transfer of A Shares for listing and trading on an overseas stock exchange has been approved by the authorized securities regulatory authorities of the State Council. Please see “– Share Capital – Transfer of our Company's A Shares for Listing and Trading on the Hong Kong Stock Exchange as H Shares” below for more details.

SHARE CAPITAL

The differences between the A Shares and H Shares, including provisions on class rights, the dispatch of notices and financial reports to Shareholders, dispute resolution, registration of Shares on different branches of the register of Shareholders, the method of share transfer and appointment of dividend receiving agents are set out in the Articles of Association and summarized in Appendix V to this prospectus. A Shares and H Shares will however rank pari passu with each other in all other respects and, in particular, will rank equally for all dividends or distributions declared, paid or made after the date in this prospectus. The holders of our A Shares and H Shares are equally entitled to our distributable profits accumulated prior to the Listing. For further information on this special dividend, please see “Financial Information – Dividend Policy” in this prospectus. All dividends in respect of the H Shares are to be calculated in RMB and paid by us in Hong Kong dollars whereas all dividends in respect of A Shares are to be paid by us in RMB. In addition to cash, dividends may be distributed in the form of Shares. For holders of H Shares, dividends in the form of Shares will be distributed in the form of additional H Shares. For holders of A Shares, dividends in the form of Shares will be distributed in the form of additional A Shares.

Transfer of our Company’s A Shares for Listing and Trading on the Hong Kong Stock Exchange as H Shares

A Shares and H Shares are generally neither interchangeable nor fungible, and the market prices of our A Shares and H Shares may be different after the Global Offering.

However, if any holder of our A Shares is to transfer its A Shares to overseas investors for listing and trading on the Hong Kong Stock Exchange, such transfer and conversion will need to be approved by the relevant PRC regulatory authorities, including the CSRC, as well as go through the relevant methodology and procedure as disclosed below:

- (1) the holder of A Shares is to obtain the requisite approval of the CSRC or the authorized securities approval authorities of the State Council for the transfer of all or part of its A Shares into H Shares;
- (2) the holder of A Shares is to issue to us a removal request in respect of a specified number of the Shares attaching the relevant documents of title;
- (3) subject to obtaining the approval of the Board, we would then issue a notice to the H Share Registrar with instructions that, with effect from a specified date, our H Share Registrar is to issue the relevant holder with H Share certificates for such specified number of H Shares;
- (4) such specified number of A Shares to be transferred to H Shares are then re-registered on the H Share register maintained in Hong Kong on the condition that:
 - (a) our H Share Registrar lodges with the Hong Kong Stock Exchange a letter confirming the proper entry of the relevant H Shares on the H Share register and the due dispatch of H Share certificate; and

SHARE CAPITAL

- (b) the admission of the H Shares (converted from A Shares) to trade in Hong Kong will comply with the Listing Rules and the General Rules of CCASS and the CCASS Operational Procedures in force from time to time;
- (5) upon completion of the transfer and conversion, the shareholding of the relevant holder of A Shares in our A Share register will be reduced by such number of A Shares transferred and the number of H Shares registered will correspondingly be increased by the same number of H Shares; and
- (6) we will comply with the Listing Rules to inform our Shareholders and the public by way of an announcement of such fact not less than three days prior to the proposed effective date.

Approval from holders of A Shares regarding the Global Offering

Approval from holders of A Shares is required for our Company to issue H Shares and seek the listing of H Shares on the Hong Kong Stock Exchange. Such approval was obtained by us at the Shareholders' general meeting of our Company held on May 16, 2011 and is subject to the following conditions:

(1) *Size of the offer*

The proposed number of H Shares to be offered shall not exceed 13% of the total enlarged issued share capital after the issue of H Shares assuming the Over-allotment Option is not exercised and the Over-allotment Option shall not exceed 15% of the Shares initially available under the Global Offering if fully exercised.

(2) *Method of offering*

The method of offering shall be by way of international offering to institutional investors and public offer for subscription in Hong Kong.

(3) *Target investors*

The H Shares shall be issued to professional institutions, enterprises, individual investors and the public.

(4) *Price determination basis*

The issue price of the H Shares will be determined after due consideration of the interests of existing Shareholders of our Company, according to international practice, through the demands for orders and bookbuilding process, subject to the domestic and overseas capital market conditions and by reference to the valuation level of comparable companies in domestic and overseas markets.

SHARE CAPITAL

(5) *Validity period*

The issue of H Shares and listing of H Shares on the Hong Kong Stock Exchange shall be completed within 18 months from the date when the Shareholders' general meeting was held on May 16, 2011.

There is no other approved offering plans for any other shares except the Global Offering.

Transfer of the State-owned Shares to the NSSF

According to the Interim Measures of the State Council on the Management of Reducing State-owned Shares and Raising Social Security Funds issued by the State Council and the relevant approvals of SASAC on the transfer of state-owned shares, the 20 entities obliged to reduce our shares under the scheme for reducing state-owned shares have undertaken to reduce a number of state-owned A Shares, which in aggregate are equivalent to 10% of the total number of Offer Shares, and accordingly 122,940,000 A Shares before the exercise of the Over-allotment Option or 141,381,000 A Shares after the full exercise of the Over-allotment Option will be converted into H Shares and transferred to NSSF.

The A Shares as described above will be converted into H Shares on a one-for-one basis and such H Shares converted will not constitute part of the Offer Shares but will be considered as part of the Shares to be held by public investors for the purpose of Rule 8.08 of the Listing Rules. Neither our Company nor these state-owned Shareholders will receive any proceeds from the transfer of H Shares to NSSF or any subsequent disposal of such H Shares by NSSF. They have already submitted an application to the SASAC and issued an undertaking letter regarding the transfer of the state-owned Shares. Such conversion and holding of H Shares by NSSF in relation to the Global Offering has been approved by the relevant authorities including CSRC on November 17, 2011¹.

Public Float Requirements

Rules 8.08(1)(a) and (b) of the Hong Kong Listing Rules require that there must be an open market in the securities for which listing is sought and for a sufficient public float of an issuer's listed securities to be maintained. This normally means that (i) at least 25% of the issuer's total issued share capital must at all times be held by the public; and (ii) where an issuer has more than one class of securities apart from the class of securities for which listing

¹ SASAC issued the approval on the transfer of A Shares to NSSF on October 9, 2011 on the condition that the Over-allotment Option is exercised in full and that up to 1,413,810,000 H Shares are issued. If the amount of H Shares issued is less than said 1,413,810,000 H Shares, the number of A Shares transferred by the state-owned Shareholders will decrease accordingly. According to the letter issued by NSSF on October 11, 2011, the NSSF agreed, among other things, that it will hold the Shares to be transferred by the State-owned Shareholders as approved by SASAC and that it entrusts us to apply to CSRC for the conversion of transferable Shares held by the State-owned Shareholders into H Shares when we submit a listing application to CSRC, and that registration be made with the corporate investor account maintained by the NSSF with HKSCC with respect to such converted Shares.

SHARE CAPITAL

is sought, the total securities of the issuer held by the public (on all regulated market(s) including the Hong Kong Stock Exchange) at the time of listing must be at least 25% of the issuer's total issued share capital. However, the class of securities for which listing is sought must not be less than 15% of the issuer's total issued share capital and must have an expected market capitalization at the time of listing of not less than HK\$50 million.

We have applied to the Hong Kong Stock Exchange for, and the Hong Kong Stock Exchange has granted to us, a waiver from strict compliance with the requirements under Rule 8.08(1) of the Hong Kong Listing Rules to allow a minimum public float for the H shares to be the higher of (i) 10% of the total issued Shares or (ii) such a percentage of H Shares held by the public immediately after completion of the Global Offering, as increased by the H Shares which may be issued upon the exercise of the Over-allotment Option and the transfer and conversion of the relevant state-owned shares into H Shares pursuant to the PRC regulations on reduction of state-owned shares.

The above waiver is subject to the condition that we will make appropriate disclosure of the lower prescribed percentage of public float of H Shares and confirm sufficiency of public float of H Shares in successive annual reports after Listing. In the event that the public float percentage falls below the minimum percentage prescribed by the Hong Kong Stock Exchange, we will take appropriate steps to ensure that the minimum percentage of public float prescribed by the Hong Kong Stock Exchange is complied with.

CORNERSTONE INVESTORS

THE CORNERSTONE PLACING

We have entered into cornerstone placing agreements with the following investors (the “**Cornerstone Investors**”, each a “**Cornerstone Investor**”), pursuant to which the Cornerstone Investors have agreed to subscribe at the Offer Price for such number of Offer Shares (rounded down to the nearest whole board lot of 400 H Shares) that may be purchased for an aggregate amount of US\$577.0 million (the “**Cornerstone Placing**”). Assuming an Offer Price of HK\$10.83 (being the mid-point of the indicative Offer Price range stated in this prospectus), the total number of H Shares to be subscribed for by the Cornerstone Investors would be 413,749,200, representing approximately (i) 4.29% of the Shares in issue upon the completion of the Global Offering, assuming that the Over-allotment Option is fully exercised; or (ii) 4.37% of the Shares in issue upon completion of the Global Offering, assuming that the Over-allotment Option is not exercised.

Each of the Cornerstone Investors is an independent third party, is independent with each other, is not our connected person, and is not an existing shareholder of our Company. Details of the actual number of Offer Shares to be allocated to the Cornerstone Investors will be disclosed in the allotment results announcement to be issued by our Company on or around April 26, 2012.

The Cornerstone Placing forms part of the International Offering. The Offer Shares to be subscribed for by the Cornerstone Investors will rank *pari passu* in all respects with the other fully paid H Shares in issue and will be counted towards the public float of our Company. None of the Cornerstone Investors will subscribe for any Offer Shares under the Global Offering (other than and pursuant to the respective cornerstone placing agreements). Upon the completion of the Global Offering, none of the Cornerstone Investors will have any board representation in our Company, nor will any of the Cornerstone Investors become our substantial shareholder. The Offer Shares to be subscribed for by the Cornerstone Investors will not be affected by any reallocation of the Offer Shares between the International Offering and the Hong Kong Public Offering described in “Structure of the Global Offering – The Hong Kong Public Offer”.

CORNERSTONE INVESTORS

We have entered into cornerstone investment agreements with each of the following Cornerstone Investors in respect of the Cornerstone Placing. The information about our Cornerstone Investors set forth below has been provided by the Cornerstone Investors in connection with the Cornerstone Placing:

Albertson

Albertson Capital Limited (“**Albertson**”) has agreed to subscribe for such number of H Shares (rounded down to the nearest whole board lot of 400 H Shares) which may be purchased for US\$15.0 million at the Offer Price. Assuming an Offer Price of HK\$10.83, being the mid-point of the Offer Price range set out in this prospectus, the total number of H shares that

CORNERSTONE INVESTORS

Albertson would subscribe for would be 10,756,000, representing (i) approximately 0.11% of the Shares in issue immediately following the completion of the Global Offering assuming that the Over-allotment Option is fully exercised, or, (ii) approximately 0.11% of the Shares in issue immediately following the completion of the Global Offering, assuming that the Over-allotment Option is not exercised.

Established in 2006, Albertson primarily focuses in investing in PRC companies listed on the Stock Exchange and acted as anchor investors in certain initial public offering of PRC companies. It has also partnered with a financial institution to manage its portfolio in China A share market. Currently, the value of the securities portfolio of Albertson is more than US\$500 million.

D. E. Shaw

D. E. Shaw Valence International, INC. (“**D. E. Shaw**”) has agreed to subscribe for such number of H Shares (rounded down to the nearest whole board lot of 400 H Shares) which may be purchased for US\$100.0 million at the Offer Price. Assuming an Offer Price of HK\$10.83, being the mid-point of the Offer Price range set out in this prospectus, the total number of H shares that D. E. Shaw would subscribe for would be 71,707,200, representing (i) approximately 0.74% of the Shares in issue immediately following the completion of the Global Offering assuming that the Over-allotment Option is fully exercised, or, (ii) approximately 0.76% of the Shares in issue immediately following the completion of the Global Offering, assuming that the Over-allotment Option is not exercised.

D. E. Shaw is a member of the D. E. Shaw group. The D. E. Shaw group is a global investment and technology development firm with more than 1,100 employees; approximately US\$26 billion in aggregate investment and committed capital as of March 1, 2012; and offices in North America, Europe, and Asia. Since its organization in 1988, the firm has a significant presence in many of the world’s capital markets, investing in a wide range of companies and financial instruments within both the major industrialized nations and a number of emerging markets. Its activities range from the deployment of investment strategies based on either mathematical models or human expertise to the acquisition of existing companies and the financing or development of new ones.

KGI Finance

KGI Finance Ltd (“**KGI Finance**”) has agreed to subscribe for such number of H Shares (rounded down to the nearest whole board lot of 400 H Shares) which may be purchased for US\$30.0 million at the Offer Price. Assuming an Offer Price of HK\$10.83, being the mid-point of the Offer Price range set out in this prospectus, the total number of H Shares that KGI Finance would subscribe for would be 21,512,000, representing (i) approximately 0.22% of the Shares in issue immediately following the completion of the Global Offering assuming that the Over-allotment Option is fully exercised, or, (ii) approximately 0.23% of the Shares in issue immediately following the completion of the Global Offering assuming that the Over-allotment Option is not exercised.

CORNERSTONE INVESTORS

KGI Finance is a wholly owned subsidiary and an investment arm of the KGI Securities (Hong Kong) group (“**KGI**”). KGI is a financial services group focusing on Hong Kong and the Asia-Pacific region. It provides a fully functional platform of investment products and services, including securities, futures and options, asset management, derivatives, fixed income, wealth management and corporate finance. KGI has been a major securities and futures brokerage firm in Hong Kong for over ten years, KGI has more than 700 staff and seven offices in Hong Kong, two representative offices in the PRC and an office in Singapore.

Subsequent to the subscription of H Shares by KGI Finance, KGI Finance will arrange a loan of up to US\$15.0 million with a tenure of one-year from The Hongkong and Shanghai Banking Corporation Limited (“**HSBC**”), one of the Joint Bookrunners on normal commercial terms after arm’s length negotiations. All of the H Shares to be subscribed for by KGI Finance will be charged to HSBC as security for such recourse loan. Pursuant to the financing arrangements with HSBC, KGI Finance may be required to repay the loan before its maturity following the occurrence of certain customary events of default and top-up clause has been incorporated so that top-up security must be provided immediately in accordance with any notice or call for top-up security which may be made by HSBC from time to time. Further, HSBC will have the right to enforce its security interest in the H Shares subject to such charge at any time from and inclusive of the Listing Date upon the occurrence of certain customary events of default.

Leading Investment

Leading Investment and Securities Co., Ltd. (“**Leading Investment**”) has agreed to subscribe for such number of H Shares (rounded down to the nearest whole board lot of 400 H Shares) which may be purchased for US\$20.0 million at the Offer Price. Assuming an Offer Price of HK\$10.83, being the mid-point of the Offer Price range set out in this prospectus, the total number of H shares that Leading Investment would subscribe for would be 14,341,200, representing (i) approximately 0.15% of the Shares in issue immediately following the completion of the Global Offering assuming that the Over-allotment Option is fully exercised, or, (ii) approximately 0.15% of the Shares in issue immediately following the completion of the Global Offering, assuming that the Over-allotment Option is not exercised.

Leading Investment is a registered securities firm in Korea which provides various financial services including securities brokerages services, dealings services and investment banking services. Currently, Leading Investment is being managed by IWL Partners LLC, a private equity firm established in Korea. IWL Partners LLC holds 53.1% ownership of Leading Investment through itself and its PE fund under management.

Oman Investment Fund

The Oman Investment Fund has agreed to subscribe for such number of H Shares (rounded down to the nearest whole board lot of 400 H Shares) which may be purchased for US\$30.0 million at the Offer Price. Assuming an Offer Price of HK\$10.83, being the mid-point of the Offer Price range set out in this prospectus, the total number of H Shares that Oman

CORNERSTONE INVESTORS

Investment Fund would subscribe for would be 21,512,000, representing (i) approximately 0.22% of the Shares in issue immediately following the completion of the Global Offering assuming that the Over-allotment Option is fully exercised, or, (ii) approximately 0.23% of the Shares in issue immediately following the completion of the Global Offering assuming that the Over-allotment Option is not exercised.

Oman Investment Fund is a Sovereign Wealth Fund of the Government of Oman responsible for investment in public equity, private equity and real estate opportunities globally.

PAG

PAGAC Horseshoe Holding I SARL (“**PAG**”) has agreed to subscribe for such number of H Shares (rounded down to the nearest whole board lot of 400 H Shares) which may be purchased for US\$300.0 million at the Offer Price. Assuming an Offer Price of HK\$10.83, being the mid-point of the Offer Price range set out in this prospectus, the total number of H Shares that PAG would subscribe for would be 215,121,600, representing (i) approximately 2.23% of the Shares in issue immediately following the completion of the Global Offering assuming that the Over-allotment Option is fully exercised, or, (ii) approximately 2.27% of the Shares in issue immediately following the completion of the Global Offering assuming that the Over-allotment Option is not exercised.

PAG is a private limited liability company incorporated in Luxembourg which is indirectly wholly-owned by PAG Asia I LP, an exempted limited partnership registered in the Cayman Islands. PAG Asia I LP is an investment fund managed by PAG Asia Capital Limited (“**PAG Capital**”) and its affiliates. PAG Capital is a private equity firm which focuses on investments in China and other regions across Asia.

To finance the subscription of H Shares by PAG, PAG is obtaining a medium-term loan (with recourse to the borrower) from a syndicate of lenders arranged by ICBC International Securities Limited (including its affiliates, “**ICBCIS**”) for an amount equal to the Hong Kong dollar equivalent of US\$150 million. The loan is on normal commercial terms after arm’s length negotiations. All of the H Shares to be subscribed for by PAG will be charged to the lenders as security for such loan. Pursuant to the financing arrangements, PAG may be required to repay the loan before its maturity following the occurrence of certain customary events of default. The lenders will have the right to enforce its security interest in the H Shares subject to such charge at any time from and including the Listing Date upon the occurrence of certain customary events of default, save that the lenders agree with PAG not to exercise any enforcement right over the collateral shares until after the date falling six months after the Listing Date.

CORNERSTONE INVESTORS

Progress Investment Management

Progress Investment Management Company (BVI) Limited (“**Progress Investment Management**”) has agreed to subscribe for such number of H Shares (rounded down to the nearest whole board lot of 400 H Shares) which may be purchased for US\$15.0 million at the Offer Price. Assuming an Offer Price of HK\$10.83, being the mid-point of the Offer Price range set out in this prospectus, the total number of H Shares that Progress Investment Management would subscribe for would be 10,756,000, representing (i) approximately 0.11% of the Shares in issue immediately following the completion of the Global Offering assuming that the Over-allotment Option is fully exercised, or, (ii) approximately 0.11% of the Shares in issue immediately following the completion of the Global Offering assuming that the Over-allotment Option is not exercised.

Progress Investment Management is a company incorporated in the British Virgin Islands. It is a company beneficially owned by Mr. David Shou-Yeh Wong, the Chairman and a controlling shareholder of DSFH (as defined below).

SBI

SBI Holdings Inc. (“**SBI**”) has agreed to subscribe for such number of H Shares (rounded down to the nearest whole board lot of 400 H Shares) which may be purchased for US\$30.0 million at the Offer Price. Assuming an Offer Price of HK\$10.83, being the mid-point of the Offer Price range set out in this prospectus, the total number of H Shares that SBI would subscribe for would be 21,512,000, representing (i) approximately 0.22% of the Shares in issue immediately following the completion of the Global Offering assuming that the Over-allotment Option is fully exercised, or, (ii) approximately 0.23% of the Shares in issue immediately following the completion of the Global Offering assuming that the Over-allotment Option is not exercised.

SBI is an Internet-based financial group based in Japan, offering a broad range of financial products and services to its customers. SBI started in 1999 as a venture capital business principally investing in internet-related companies and has since expanded its businesses to include a wide range of Japanese and overseas funds in its asset management business, Japan’s leading online securities company, as well as additional online financial services, housing and real estate and other businesses. SBI’s shares have been listed on the Tokyo Stock Exchange and the Osaka Securities Exchange since 2002 and its Hong Kong depositary receipts have been listed on Hong Kong Stock Exchange since 2011.

Sumitomo Mitsui Trust Bank (a successor to Chuo Mitsui Trust)

On March 30, 2012, The Chuo Mitsui Trust and Banking Co., Ltd. (“**Chuo Mitsui Trust**”) entered into a cornerstone placing agreement pursuant to which the parties to such agreement agreed that Sumitomo Mitsui Trust Bank, Ltd. (“**Sumitomo Mitsui Trust Bank**”), as a successor to Chuo Mitsui Trust as a result of the merger described below, will subscribe for such number of H Shares (rounded down to the nearest whole board lot of 400 H Shares) which

CORNERSTONE INVESTORS

may be purchased for US\$12.0 million at the Offer Price. Assuming an Offer Price of HK\$10.83, being the mid-point of the Offer Price range set out in this prospectus, the total number of H shares that Sumitomo Mitsui Trust Bank would subscribe for would be 8,604,800, representing (i) approximately 0.09% of the Shares in issue immediately following the completion of the Global Offering assuming that the Over-allotment Option is fully exercised, or, (ii) approximately 0.09% of the Shares in issue immediately following the completion of the Global Offering, assuming that the Over-allotment Option is not exercised.

Sumitomo Mitsui Trust Bank, created through the merger among Chuo Mitsui Trust, Chuo Mitsui Asset Trust and Banking Co., Ltd. and The Sumitomo Trust and Banking Co., Ltd. on April 1, 2012, is a company incorporated in Japan and one of the wholly-owned subsidiaries of Sumitomo Mitsui Trust Holdings, Inc. (“**Sumitomo Mitsui Trust Holdings**”). The shares of Sumitomo Mitsui Trust Holdings are listed on the Tokyo and Nagoya Stock Exchanges and the Osaka Securities Exchange (stock code: 8309). Sumitomo Mitsui Trust group, as the largest trust bank group in Japan, provides retail and wholesale banking services, asset management and administration services, and also operates real estate related businesses.

Toyo Securities

Toyo Securities Company Limited (“**Toyo Securities**”) has agreed to subscribe for such number of H Shares (rounded down to the nearest whole board lot of 400 H Shares) which may be purchased for US\$10.0 million at the Offer Price. Assuming an Offer Price of HK\$10.83, being the mid-point of the Offer Price range set out in this prospectus, the total number of H Shares that Toyo Securities would subscribe for would be 7,170,400, representing (i) approximately 0.07% of the Shares in issue immediately following the completion of the Global Offering assuming that the Over-allotment Option is fully exercised, or, (ii) approximately 0.08% of the Shares in issue immediately following the completion of the Global Offering assuming that the Over-allotment Option is not exercised.

Toyo Securities is one of the securities companies incorporated in Japan with its shares listed on the Tokyo Stock Exchange and Osaka Securities Exchange (stock code: 8614). Toyo Securities is primarily engaged in the provision of securities-related services, including the trading (such as the trading of securities listed on the PRC stock exchanges), trading agency, underwriting, sale and public offering of securities, as well as other financial products-related trading businesses.

World Prosper (wholly owned by DSFH)

World Prosper Limited (“**World Prosper**”) has agreed to subscribe for such number of H Shares (rounded down to the nearest whole board lot of 400 H Shares) which may be purchased for US\$15.0 million at the Offer Price. Assuming an Offer Price of HK\$10.83, being the mid-point of the Offer Price range set out in this prospectus, the total number of H shares that World Prosper would subscribe for would be 10,756,000, representing (i) approximately 0.11% of the Shares in issue immediately following the completion of the Global Offering assuming that the Over-allotment Option is fully exercised, or, (ii) approximately 0.11% of the Shares in issue immediately following the completion of the Global Offering, assuming that the Over-allotment Option is not exercised.

CORNERSTONE INVESTORS

World Prosper is a company incorporated in Hong Kong. It is a wholly-owned subsidiary of Dah Sing Financial Holdings Limited (“**DSFH**”). DSFH’s shares are listed on the Hong Kong Stock Exchange (stock code: 440). DSFH, through its holding in the subsidiaries operating or investing in the banking, life and general insurance, investment, and related financial services, is active in the Hong Kong, Macau and the PRC markets. DSFH’s principal and wholly-owned insurance subsidiaries include Dah Sing Life Assurance Company Limited (“**DSL**”), and Dah Sing Insurance Company (1976) Limited, both of which operate mainly in Hong Kong. DSL has a 10.70% interest in Great Wall Life Insurance Company Limited, a life insurance company incorporated and operating in the PRC. DSFH’s principal banking subsidiary is Dah Sing Bank, Limited (“**DSB**”), a licensed bank incorporated and operating in Hong Kong active in the commercial and retail banking businesses. DSB operates its banking businesses in Macau and the PRC through its two wholly-owned banking subsidiaries, Banco Comercial de Macau, S.A. and Dah Sing Bank (China) Limited, which are authorized to carry on banking business under the respective banking regulations of Macau and the PRC.

CONDITIONS PRECEDENT

The subscription obligation of each Cornerstone Investor is subject to, among other things, the following conditions precedent:

- (1) the Hong Kong Underwriting Agreement and the International Underwriting Agreement having been entered into and having become effective and unconditional and not having been terminated (in accordance with their respective original terms or as subsequently waived or varied by agreement of the parties thereto) by no later than the time and date as specified or as subsequently waived or varied by agreement of the parties thereto in such agreements; and
- (2) the Listing Committee having granted the listing of, and permission to deal in, the H Shares and such approval or permission not having been revoked.

RESTRICTIONS ON DISPOSALS BY THE CORNERSTONE INVESTORS

Each of the Cornerstone Investors has agreed that, without the prior written consent of the Company, the Joint Sponsors and the Joint Global Coordinators, it will not, whether directly or indirectly, at any time during a period of six months starting from and inclusive of the Listing Date, dispose of (as defined in the relevant cornerstone investment agreement) any of the H Shares subscribed for by it pursuant to the relevant cornerstone investment agreement. Each Cornerstone Investor may transfer the H Shares so subscribed in certain limited circumstances, such as transfer to a wholly-owned subsidiary of such Cornerstone Investor, provided that such wholly-owned subsidiary agrees to be subject to the restrictions on disposals imposed on such Cornerstone Investor. Certain of our Cornerstone Investors, including KGI Finance and PAG, may pledge to potential lenders in aggregate up to 297,584,800 H Shares out of the total number of H Shares of 308,340,800 that they intend to subscribe in the Global Offering, assuming an Offer Price of HK\$10.83 per H Share.

FINANCIAL INFORMATION

The following discussion and analysis should be read in conjunction with our consolidated financial statements included in “Appendix I – Accountants’ Report,” together with the accompanying notes. The consolidated financial statements have been prepared in accordance with IFRS.

The following discussion and analysis contains forward-looking statements that involve risks and uncertainties. These statements are based on assumptions and analysis made by us in light of our experience and perception of historical trends, current conditions and expected future developments, as well as other factors we believe are appropriate under the circumstances. However, our actual results may differ significantly from those projected in the forward-looking statements. Factors that might cause future results to differ significantly from those projected in the forward-looking statements include, but are not limited to, those discussed in “Risk Factors” and “Forward-Looking Statements” and elsewhere in this prospectus.

OVERVIEW

We are a leading full-service securities firm in the PRC with an integrated business platform, extensive branch network and substantial customer base. We have established prudent operating strategies and are the only major PRC securities firm founded in the 1980s that remains in operation under the same brand without receiving government-backed capital injections or being the target of a successful acquisition. Leveraging our integrated business platform, we provide a comprehensive range of financial products and services, and primarily focus on five principal business lines in the PRC, comprising securities and futures brokerage (including margin financing and securities lending), investment banking, asset management, proprietary trading and direct investment. We have gained leading market positions across multiple business lines in the PRC securities industry. We also provide a variety of securities products and services overseas.

Our five principal business lines in the PRC include:

- *Securities and futures brokerage.* We engage in the trading of equities, bonds, funds and warrants, as well as futures on behalf of our customers, and also provide margin financing and securities lending and investment advisory services.
- *Investment banking.* We provide corporate finance services, including equity underwriting, debt underwriting and financial advisory services to our institutional clients.
- *Asset management.* We offer traditional asset management products and services through our Company and HFT Investment Management. We operate our private equity asset management business through Haitong-Fortis PE Management, Haitong Jihe Management and Haitong Chuangxin Management.

FINANCIAL INFORMATION

- *Proprietary trading.* We engage in the trading of equities, bonds, funds, derivatives and other financial products for our own account.
- *Direct investment.* We make direct equity investments in private companies and earn capital gains by exiting from these private equity investments through IPOs or share sales, or by receiving dividends from these portfolio companies. In addition, we invest in private equity funds with our own capital.

We conduct our overseas business primarily through our Hong Kong-based subsidiary, Haitong International Holdings. Haitong International Securities, a subsidiary of Haitong International Holdings, is a leading full-service securities firm in Hong Kong. Haitong International Securities provides securities and futures brokerage, corporate finance and advisory services, asset management services and other securities products and services to a broad range of retail customers and institutional clients in Hong Kong and overseas.

As of December 31, 2009, 2010 and 2011, we had total assets of RMB120,730.2 million, RMB115,413.1 million and RMB98,977.0 million, respectively, and total equity of RMB44,518.6 million, RMB45,616.8 million and RMB46,610.7 million, respectively. For the years ended December 31, 2009, 2010 and 2011, our total revenue and other income was RMB11,315.8 million, RMB11,304.9 million and RMB10,860.4 million, respectively, and our profit for the year was RMB4,661.7 million, RMB3,868.2 million and RMB3,282.0 million, respectively.

BASIS OF PRESENTATION

The financial information has been prepared in accordance with IFRS and includes applicable disclosures required by the Rules Governing the Listing of Securities in the Stock Exchange and the Hong Kong Companies Ordinance. The financial information has been prepared on a historical cost basis except for certain financial instruments which are measured at fair values, as explained in the accounting policies set out below. Historical cost is generally based on the fair value of the consideration given in exchange for goods.

The financial information incorporates our financial statements and the financial statements of entities controlled by us or our subsidiaries. Control is achieved where we have the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. Where necessary, we make adjustments to the financial statements of our subsidiaries to bring their accounting policies in line with those used by our other members. All intra-group transactions, balances, income and expenses are eliminated in full on consolidation. We acquired Taifook Securities (currently renamed as Haitong International Securities) in December 2009 and have consolidated its income statements into our consolidated income statements since January 1, 2010 and its statements of financial position into our consolidated statements of financial position since December 31, 2009.

FINANCIAL INFORMATION

FACTORS AFFECTING OUR RESULTS OF OPERATIONS

The following factors are the principal factors that have affected, and we expect will continue to affect, our business, financial condition, results of operations and prospects.

Economic and Market Conditions

Our financial performance is highly dependent on the business environment in which we operate. A favorable business environment is generally characterized by, among other factors, high GDP growth, liquid and efficient capital markets, reasonable levels of inflation, high investor confidence, stable geopolitical conditions and strong business earnings. Unfavorable or uncertain economic and market conditions can be characterized by:

- declines in economic growth, business activities or investor confidence;
- decreases in the availability of, or increases in the cost of, credit and capital;
- significant increases in inflation, interest rates, exchange rate volatility or commodity prices;
- outbreaks of hostilities or other geopolitical instability;
- natural disasters or pandemics; or
- a combination of these or other factors.

For example, the tightening monetary policy and high inflation in the PRC, global economic uncertainties and the euro zone sovereign debt crisis have resulted in adverse market conditions and increased volatility in the PRC and overseas securities markets during the second half of 2011. For example, the CSI 300 Index and the Hang Seng Index decreased from 3,044.1 and 22,398.1 as of June 30, 2011, respectively, to 2,345.7 and 18,434.4 as of December 31, 2011, respectively, representing a decline of approximately 22.9% and 17.7%, respectively. As a result, (i) our stocks and funds brokerage trading volume declined by 21.8% in 2011 compared to 2010, which, in turn, reduced our brokerage commission and fee income; (ii) we recorded a net investment gain of RMB342.1 million in our proprietary trading business in the PRC during the second half of 2011 compared to a net investment gain of RMB802.7 million during the first half of 2011; and (iii) we recognized an impairment loss of RMB540.4 million on our available-for-sale investments in 2011.

Our businesses and profitability have been and may continue to be adversely affected by market conditions in many ways, including the following:

- Our securities and futures brokerage business depends heavily on trading volume. Unfavorable market conditions can adversely affect investor sentiment and trading volume, resulting in reduced brokerage commission and fee income.

FINANCIAL INFORMATION

- Our investment banking business depends on the size and number of capital raising and financial advisory transactions in which we participate. Unfavorable economic conditions and other adverse geopolitical conditions may negatively impact investor confidence and corporate finance activities, resulting in significant declines in the size and number of capital raising and financial advisory transactions, which could have an adverse effect on the revenue and profitability of our investment banking business.
- We receive asset management fees based on the value of our customers' portfolios or their investment in funds managed by us. In addition, we also provide private equity fund management, collective asset management and targeted asset management schemes for which we may also earn performance fees. Market volatility and adverse economic conditions may reduce our AUM or affect the performance of the assets or funds we manage, which could adversely affect our ability to earn management fees and performance fees.
- We have net long trading positions in equity securities, fixed income securities and derivatives as part of our proprietary trading business. Because nearly all of these investing and trading positions are marked-to-market, declines in fair values directly impact our earnings and/or capital position, unless we have effectively hedged our exposure to such declines. In certain cases, it may not be possible or economical for us to completely hedge such exposures. Sudden declines and significant volatility in asset prices may substantially curtail market trading. The inability to value or sell our trading assets reduces our ability to limit losses in such positions, which may require us to maintain additional capital and increase our funding costs.

In addition, while the CSI 300 Index and the average daily stocks trading volume in the PRC recovered during the first quarter of 2012 compared to the fourth quarter of 2011, which had a positive impact on our securities and futures brokerage and proprietary trading businesses, they still represented substantial declines from the CSI 300 Index of 3,223.3 as of March 31, 2011 and the average daily stocks trading volume in the PRC of RMB233.7 billion for the first quarter of 2011. We cannot assure you that the market conditions will continue to improve for the remainder of 2012 or beyond.

Competition

The PRC securities industry is highly competitive and we face intense competition in most of our business lines.

- For our securities brokerage business, we compete primarily with other PRC securities firms in terms of pricing and the range of products and services offered. Currently, there are more than 100 registered securities firms in the PRC, and intense price competition in recent years has lowered commission rates for our securities brokerage business.
- For our investment banking business, we compete primarily with other PRC and Sino-foreign joint venture securities firms as well as PRC commercial banks in terms of brand recognition, marketing and distribution capability, service quality, execution capability, financial strength and pricing.

FINANCIAL INFORMATION

- For our asset management business, we compete primarily with fund management companies, banks, insurance companies and other financial institutions in the PRC in terms of the range of products and services offered, pricing and quality of customer service.
- For our direct investment business, we compete primarily with other PRC securities firms that are qualified to conduct direct investment business, as well as private equity firms in the PRC.

In addition, with regulatory changes and other factors that contribute to the gradual easing of PRC securities regulations, more competitors are seeking to enter or expand in the market.

Market share

We believe that our business volume, a major factor affecting our revenue, depends in part on our ability to maintain or increase our current market share in each of our principal business lines.

To differentiate ourselves from our competitors and maintain or increase our market share, we have to maintain our competitive strengths, such as our leading market positions across multiple business lines, strategically located branch network, substantial and stable customer base, reputation as a pioneer in the PRC securities industry for offering new businesses, effective risk management and internal control systems, as well as our experienced and stable management team. Our ability to maintain these strengths will allow us to offer customized, comprehensive and differentiated financial products and services to our customers. If we fail to maintain our competitive strengths, we may lose our current market share in our principal business lines and our revenue may decrease, which may have a negative impact on our business, financial condition and results of operations.

Pricing

The pricing of our products and services has been a principal factor affecting our business, financial condition and results of operations. In the PRC securities market, the pricing of our products and services, particularly in our securities brokerage business, has been largely driven by market competition.

Our brokerage commission and fee income from stocks and funds accounted for a substantial portion of our revenue and other income and is primarily influenced by brokerage commission rates and trading volume. For the years ended December 31, 2009, 2010 and 2011, our average securities brokerage commission rate in the PRC was 0.147%, 0.118% and 0.100%, respectively. Consistent with industry trends, intensified price competition in the securities brokerage business with other PRC securities firms has resulted in reduced brokerage commission rates in the PRC and may force us to charge lower rates in order to stay competitive going forward. Please see “Risk Factors – Risks Relating to Our Business and Industry – We face intense competition and our business could be materially and adversely affected if we are unable to compete effectively.”

We will continue to monitor the pricing of our products and services in relation to our competitors and adjust our commission rates and fee structures to enhance our competitiveness while maintaining our profitability.

FINANCIAL INFORMATION

Product Mix and Offering

We are a full-service securities firm with five principal business lines in the PRC, which include securities and futures brokerage, investment banking, asset management, proprietary trading and direct investment. Our operating margins vary across different business segments as well as different products and services within each business segment. Our product mix and changes to such mix due to our business strategy, market conditions, customer demand and other factors may affect our revenue and profitability over time.

Commission and fee income from our securities and futures brokerage business in the PRC accounted for a substantial portion of our total revenue and other income, and as a result, our profitability depends largely on the operating margin and profit contribution from this segment. While we expect our commission and fee income from the securities and futures brokerage business to increase and continue to be a major source of our revenue in the future, we also expect to increase the revenue contribution from other businesses with relatively higher profit margins, such as margin financing and securities lending, as well as direct investment, all of which we believe have high growth potential due to the gradual relaxation of PRC securities regulations.

With a view to maximizing our revenue and profitability, we intend to regularly monitor and adjust our product mix across our principal business lines and further expand our product offerings. We believe that our comprehensive offering of financial products and services and our first-mover advantage in offering new products and services have allowed us to respond to changes in market conditions, regulatory regimes and customer demand in a timely manner.

Regulatory Environment

Our results of operations, financial condition and prospects are subject to regulatory developments in the PRC and economic measures undertaken by the PRC government. In particular, we believe that our ability to expand our business and broaden the scope of our product and service offerings in the PRC has been, and will continue to be materially affected by changes in the policies, laws and regulations governing the PRC securities industry, including the extent to which we can engage in certain businesses or adopt certain business models and fee structures.

The regulatory regime of the PRC securities industry has been evolving, and the CSRC and other regulatory authorities are committed to the gradual relaxation of PRC securities regulations and broadening the scope of new products and services that securities firms can offer. For example, the CSRC launched the pilot program for the margin financing and securities lending business in early 2010, which has significantly benefited our securities brokerage business. We believe other developments in the PRC securities industry, such as the growth of stock index futures and potential launch of the International Board and New OTC Board, will allow us to further expand and diversify our business and revenue streams as well as maximize our profitability.

FINANCIAL INFORMATION

In addition, new legislation, changes in rules, or changes in the interpretation or enforcement of existing rules and regulations may also limit the scope of our businesses, affect our business practices, increase our capital requirements and impose additional costs on our operations, which could directly affect our future operations and profitability.

SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES

We have identified certain accounting policies and estimates significant to the preparation of our financial information in accordance with IFRS. The Accountants' Report in Appendix I to this prospectus sets forth these significant accounting policies in note 3, which are important for an understanding of our financial condition and results of operations.

Some of our accounting policies involve subjective assumptions, estimates and judgments that are discussed in note 4 of the Accountants' Report in Appendix I to this prospectus. In the application of our accounting policies, our management is required to make estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. Our estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates. Our estimates and underlying assumptions are reviewed by our management on an ongoing basis.

Our management has identified below the accounting policies, estimates and judgments that they believe are critical to the preparation of our financial information.

Significant Accounting Policies

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for services provided in the normal course of business. Revenue is recognized when it is probable that the economic benefits will flow to us and when revenue can be measured reliably, on the following basis:

- Commission income from our brokerage business is recorded as income on a trade date basis, and handling fee income from our brokerage business is recognized when services are provided by us;
- Underwriting and sponsors fees are recognized as income in accordance with the terms of the underwriting agreement or deal mandate when the relevant significant acts have been completed;

FINANCIAL INFORMATION

- Interest income from a financial asset is accrued on a time basis using the effective interest method, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition;
- Financial advisory and consultancy fee income are recognized when the relevant transactions have been arranged or the relevant services have been rendered; and
- Asset management fee income is recognized when management services are provided in accordance with the management contracts.

Financial instruments

Financial assets and financial liabilities are recognized in our consolidated statement of financial position when a group entity becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets or financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognized immediately in profit or loss.

Financial assets

Financial assets can be classified as financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments and available-for-sale investments. Our financial assets are classified into one of the three categories, including financial assets at fair value through profit or loss, loans and receivables and available-for-sale investments. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. All regular way purchases or sales of financial assets are recognized and derecognized on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss represent financial assets held for trading.

FINANCIAL INFORMATION

A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of selling in the near future;
- it is a part of an identified portfolio of financial instruments that we manage and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

Financial assets at fair value through profit or loss are measured at fair value, with changes in fair value arising from re-measurement recognized directly in profit or loss in the period in which they arise. The net gain or loss recognized in profit or loss includes any dividend or interest earned on the financial assets.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables (including advances to customers, accounts receivable, amount due from a subsidiary, bond investments, financial assets held under resale agreements, clearing settlement funds, bank balances and cash, pledged bank deposits, restricted bank deposits, deposits and other receivables), are carried at amortized cost using the effective interest method, less any identified impairment losses (see accounting policy on impairment loss on financial assets below).

Available-for-sale investments

Available-for-sale investments are non-derivatives that are either designated or not classified as financial assets at fair value through profit or loss, loans and receivables or held-to-maturity financial assets.

Available-for-sale investments are measured at fair value at the end of the reporting period. Changes in fair value are recognized in other comprehensive income and accumulated in the investment revaluation reserve, until the financial asset is disposed of or is determined to be impaired, at which time the cumulative gain or loss previously accumulated in the investment revaluation reserve is reclassified to profit or loss (see accounting policy on impairment loss on financial assets below).

For available-for-sale equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity instruments, they are measured at cost less any identified impairment losses at the end of the reporting period (see accounting policy on impairment loss on financial assets below).

FINANCIAL INFORMATION

Impairment of financial assets

Financial assets, other than those at fair value through profit or loss, are assessed for indicators of impairment at the end of the reporting period. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial assets have been affected.

For an available-for-sale equity investment, a significant or prolonged decline in the fair value of that investment below its cost is considered to be objective evidence of impairment.

For all other financial assets, objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty;
- breach of contract, such as default or delinquency in interest and principal payments;
- it becoming probable that the borrower will enter bankruptcy or financial re-organization; or
- the disappearance of an active market for that financial asset because of financial difficulties.

For certain categories of financial assets, such as advances to customers and accounts receivable, assets that are assessed not to be impaired individually are subsequently assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include our past experience of collecting payments and observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortized cost, the amount of the impairment loss recognized is the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the financial asset's original effective interest rate.

For financial assets carried at cost, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss will not be reversed in subsequent periods.

FINANCIAL INFORMATION

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of advances to customers, accounts receivable and other receivables, where the carrying amount is reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognized in profit or loss. When an advance to customers, an account receivable or a receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss.

When an available-for-sale financial asset is considered to be impaired, cumulative gains or losses previously recognized in other comprehensive income are reclassified to profit or loss in the period in which the impairment takes place.

For financial assets measured at amortized cost, if, in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment losses were recognized, the previously recognized impairment loss is reversed through profit or loss to the extent that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognized.

Impairment losses on available-for-sale equity investments will not be reversed through profit or loss in subsequent periods. Any increase in fair value subsequent to impairment loss is recognized directly in other comprehensive income and accumulated in the investment revaluation reserve. For available-for-sale debt investments, impairment losses are subsequently reversed through profit or loss if an increase in the fair value of the investment can be objectively related to an event occurring after the recognition of the impairment loss.

Financial liabilities and equity instruments

Financial liabilities and equity instruments issued by a group entity are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument.

An equity instrument is any contract that evidences a residual interest in our assets after deducting all of its liabilities. Our financial liabilities are generally classified into other financial liabilities.

FINANCIAL INFORMATION

Other financial liabilities

Other financial liabilities including borrowings, accounts payable to brokerage clients, financial assets sold under repurchase agreements, other payables and amount due to a subsidiary are subsequently measured at amortized cost, using the effective interest method.

Equity instruments

Equity instruments issued by us are recorded at the proceeds received, net of direct issue costs.

Effective interest method

The effective interest method is a method of calculating the amortized cost of a financial asset or liability and of allocating interest income or expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) or payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset or liability, or, where appropriate, a shorter period to the net carrying amount of the financial asset or liability on initial recognition. When the difference between the effective interest rate and the contract rate is insignificant, interest income or expense will be calculated using the contract interest rate.

Interest income is recognized on an effective interest basis for debt instruments other than those financial assets classified as fair value through profit or loss, of which interest income is included in net gains or losses. Interest expense is recognized on an effective interest basis.

Derivative financial instruments

Derivatives are initially recognized at fair value at the date a derivative contract is entered into and are subsequently re-measured to their fair value at the end of the reporting period. The resulting gain or loss is recognized in profit or loss immediately unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in profit or loss depends on the nature of the hedge relationship.

Financial assets sold under repurchase agreements and financial assets held under resale agreements

Financial assets sold under repurchase agreements continue to be recognized, which do not result in derecognition of the financial assets, and are recorded as “available-for-sale investments” or “financial assets held for trading.” The corresponding liability is included in “financial assets sold under repurchase agreements.” Financial assets held under agreements to resell are recorded as “financial assets held under resale agreements” as appropriate. Financial assets sold under repurchase agreements and financial assets held under resale agreements are initially measured at fair value and are subsequently measured at amortized cost using the effective interest method.

FINANCIAL INFORMATION

Securities lending

We lend investment securities to clients and the cash collaterals balance required under the securities lending agreements and the interest arisen from these agreements are classified as “accounts payable to brokerage clients.” For those securities we lent to client that do not result in the derecognition of financial assets, they are included in “available-for-sale investments.”

Derecognition

We derecognize a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If we neither transfer nor retain substantially all the risks and rewards of ownership and continues to control the transferred asset, we continue to recognize the asset to the extent of its continuing involvement and recognizes an associated liability. If we retain substantially all the risks and rewards of ownership of a transferred financial asset, we continue to recognize the financial asset and also recognizes a collateralized borrowing for the proceeds received.

On derecognition of a financial asset in its entirety, the difference between the asset’s carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognized in other comprehensive income and accumulated in equity is recognized in profit or loss.

On derecognition of a financial asset other than in its entirety (e.g. when we retain an option to repurchase part of a transferred asset or retain a residual interest that does not result in the retention of substantially all the risks and rewards of ownership and we retain control), we allocate the previous carrying amount of the financial asset between the part it continues to recognize under continuing involvement, and the part it no longer recognizes on the basis of the relative fair values of those parts on the date of the transfer. The difference between the carrying amount allocated to the part that is no longer recognized and the sum of the consideration received for the part no longer recognized and any cumulative gain or loss allocated to it that had been recognized in other comprehensive income is recognized in profit or loss. A cumulative gain or loss that had been recognized in other comprehensive income is allocated between the part that continues to be recognized and the part that is no longer recognized on the basis of the relative fair values of those parts.

Financial liabilities are derecognized when the obligation specified in the relevant contract is discharged, canceled or expires. The difference between the carrying amount of the financial liability derecognized and the consideration paid and payable is recognized in profit or loss.

FINANCIAL INFORMATION

Significant Accounting Estimates and Judgments

Impairment of advances to customers

We review our advances to customers to assess impairment on a periodic basis. In determining whether an impairment loss should be recognized in profit or loss, we make judgments as to whether there is any observable data indicating that there is an objective evidence of impairment that will have a measurable decrease in the estimated future cash flows from a portfolio of advances. Moreover, we also review the value of the securities collateral received from our customers in determining the impairment. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

Impairment of goodwill

Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating units to which goodwill has been allocated. The value in use calculation requires us to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate the present value. Where the actual future cash flows are less than expected, a material impairment loss may arise. Details of the recoverable amount calculation are disclosed in note 20 of the Accountants' Report in Appendix I to this prospectus.

Impairment of available-for-sale investments

The determination of whether an available-for-sale investment is impaired requires significant judgment. For listed available-for-sale equity investments, a significant or prolonged decline in fair value below cost is considered to be objective evidence of impairment. Judgment is required when determining whether a decline in fair value has been significant or prolonged. In making this judgment, we evaluate the duration and extent to which the fair value of an investment is less than its cost. In assessing whether it is prolonged, the decline is evaluated against the period in which the fair value of the asset has been below its original cost at initial recognition. In assessing whether it is significant, the decline in fair value is evaluated against the original cost of the asset at initial recognition. We also take into account other factors, such as the historical data on market volatility and the price of the specific investment, significant changes in technology, markets, economics or the law, as well as industry and sector performance and the financial information regarding the investee that provides evidence that the cost of the equity securities may not be recovered. Judgment is also required to determine whether historical performance remains representative of current and future economic conditions.

FINANCIAL INFORMATION

Fair value of available-for-sale investments with restriction on disposal

For available-for-sale investments that are subject to a legally enforceable restriction that prevents us from disposing them within the specified period, the fair value of these securities are made based on quoted market rates adjusted for specific features of the instrument. The estimation of fair value of these instruments includes some assumptions not supported by observable market prices or rates.

Income taxes

There are certain transactions and activities for which the ultimate tax determination is uncertain during the ordinary course of business. Where the final tax outcome of these matters is different from the amounts that were initially estimated, such differences will impact the current income tax and deferred income tax in the period during which such a determination is made.

No deferred tax asset has been recognized on the tax losses arising from our subsidiaries in Hong Kong due to the unpredictability of future profit streams. The reliability of the deferred tax asset mainly depends on whether sufficient future profits or taxable temporary differences will be available in the future. In cases where the actual profits generated are more than expected, a material deferred tax asset would be recognized in profit or loss for the period. For details of our tax losses, please see note 14 of the Accountants' Report in Appendix I to this prospectus.

PRINCIPAL COMPONENTS OF CONSOLIDATED INCOME STATEMENTS

Revenue and other income

Our revenue and other income primarily consists of commission and fee income, interest income, net investment gains and other income and gains.

Commission and fee income

Our commission and fee income mainly consists of (i) commission and fee income on securities and futures brokerage; (ii) underwriting and sponsors fees; (iii) consultancy and financial advisory fees; and (iv) asset management fees.

We generate commission and fee income on securities and futures brokerage by trading equities, bonds, funds and warrants, as well as futures on behalf of our customers.

We generate underwriting and sponsors fees and consultancy and financial advisory fees in our investment banking business by providing equity and debt underwriting, as well as financial advisory services.

We also generate asset management fees, including performance fees, in our asset management business by managing our customers' assets and investment portfolios.

FINANCIAL INFORMATION

Interest income

Our interest income mainly includes (i) bank interest income from our own deposits and deposits we hold on behalf of our clients; (ii) interest income from margin financing and securities lending; and (iii) interest income from financial assets held under resale agreements.

We generally achieve an interest yield above the prevailing bank deposit interest rates in the PRC through effective treasury management. For example, in order to manage our liquidity, we enter into short-term resale agreements with counterparties (such as banks and other financial institutions), under which we are entitled to receive interest income by purchasing financial assets (such as bonds and notes) from the counterparty and agreeing to resell such assets back to the counterparty at a predetermined price on the maturity date of the resale agreement. Please see “– Liquidity and Capital Resources – Assets and Liabilities – Current assets and liabilities.”

Net investment gains

Our net investment gains include (i) net gains from financial instruments held for trading and (ii) net realized gains from available-for-sale investments.

Our net gains from financial instruments held for trading mainly consist of (i) net gains or losses from disposal of these financial instruments; (ii) fair value change of these financial instruments; and (iii) dividends and interest income from these financial instruments.

Our net realized gains from available-for-sale investments mainly consist of (i) dividends and interest income from these investments; and (ii) net gains or losses from disposal of these investments. Net gains or losses from the disposal of available-for-sale investments primarily represent investment returns from our exits from private equity investments, participation in follow-on offerings and engagement in other trading and market-making activities. As a securities firm, we make private equity investments, participate in follow-on offerings and engage in other types of trading of available-for-sale investments, which form part of our normal course of business, and therefore net gains from these transactions are accounted for as net investment gains.

Other income and gains

Our other income and gains primarily include government grants. We receive our government grants which primarily include local government subsidies intended to support our business operations. As our government grants are non-recurring in nature, we cannot assure you that we will continue to receive them. Our other income and gains also includes net foreign exchange gains.

Total expenses

Our total expenses include staff costs, commission to account executives, brokerage transaction fees and other services expenses, depreciation and amortization, interest expenses and other expenses (including impairment losses).

FINANCIAL INFORMATION

Staff costs

Our staff costs primarily include salaries, bonuses and allowances, and other welfare benefits paid to our employees. Historically, staff costs have been the largest component of our operating expenses and accounted for 41.2%, 41.0% and 35.0% of our total expenses for the years ended December 31, 2009, 2010 and 2011, respectively.

Commission to account executives

Our commission to account executives refers to the performance-based commissions we pay to our licensed brokers, which represents a certain percentage of the brokerage commission and fee income that our licensed brokers generate.

Brokerage transaction fees and other services expenses

Our brokerage transaction fees and other services expenses primarily include securities dealing expenses charged by stock exchanges and other authorized institutions for our use of their transaction and settlement systems.

Depreciation and amortization

Our depreciation and amortization relates primarily to depreciation of our property and equipment and amortization of our intangible assets.

Interest expenses

Our interest expenses primarily include (i) interest expenses on deposits we hold on behalf of our customers; (ii) interest expenses on our borrowings; and (iii) interest expenses from repurchase transactions.

While we earn interest income on deposits we hold on behalf of our customers, we also pay interest expenses on such deposits to our customers with reference to prevailing benchmark interest rates announced by the PBOC.

In order to manage our liquidity, we enter into short-term repurchase agreements with counterparties (such as banks and other financial institutions), under which we incur interest expenses by selling our financial assets (such as bonds and notes) to the counterparty and agreeing to repurchase such assets at a predetermined price on the maturity date of the repurchase agreement. Please see “– Liquidity and Capital Resources – Assets and Liabilities – Current assets and liabilities.”

Other expenses

Our other expenses primarily include rental expenses, administrative expenses, impairment losses and business tax and surcharges.

FINANCIAL INFORMATION

Income tax expense

We are subject to income tax on an entity basis on profits arising in or derived from the jurisdictions in which members of our Group are domiciled and operate. During the Track Record Period, our PRC subsidiaries were subject to an EIT rate of 25.0% in accordance with the EIT law that became effective on January 1, 2008. Assessable profit from our branches located in Shenzhen and Haikou was subject to an EIT rate of 20.0%, 22.0% and 24.0%, respectively, for the years ended December 31, 2009, 2010 and 2011. Our Hong Kong subsidiaries were subject to a 16.5% tax on their assessable profit during the Track Record Period. Our effective income tax rate was 22.1%, 22.5% and 23.7% for the years ended December 31, 2009, 2010 and 2011, respectively.

RESULTS OF OPERATIONS

The following table sets forth our summary results of operations for the periods indicated:

	Year ended December 31,		
	2009	2010	2011
	(RMB in millions)		
Revenue			
Commission and fee income	8,753.4	8,384.1	6,566.8
Interest income	1,407.0	1,647.0	2,553.2
Net investment gains	888.1	1,077.8	1,506.9
Total revenue	11,048.5	11,108.9	10,626.9
Other income and gains	267.3	196.0	233.5
Total revenue and other income	11,315.8	11,304.9	10,860.4
Total expenses	(5,400.0)	(6,393.4)	(6,633.1)
	5,915.8	4,911.5	4,227.3
Share of results of associates	66.0	78.2	72.9
Profit before income tax	5,981.8	4,989.7	4,300.2
Income tax expense	(1,320.1)	(1,121.5)	(1,018.2)
Profit for the year	4,661.7	3,868.2	3,282.0
Attributable to the owners of the Company . . .	4,548.2	3,686.3	3,103.0
Attributable to non-controlling interests	113.5	181.9	179.0

The following discussion compares the major components of our operating results for the years ended December 31, 2009, 2010 and 2011.

FINANCIAL INFORMATION

Revenue and other income

The following table sets forth the breakdown of our total revenue and other income for the periods indicated:

	Year ended December 31,		
	2009	2010	2011
	(RMB in millions)		
Commission and fee income.	8,753.4	8,384.1	6,566.8
Interest income.	1,407.0	1,647.0	2,553.2
Net investment gains	888.1	1,077.8	1,506.9
Other income and gains	267.3	196.0	233.5
Total	11,315.8	11,304.9	10,860.4

2011 compared to 2010

Our total revenue and other income decreased by 3.9% to RMB10,860.4 million in 2011 compared to RMB11,304.9 million in 2010, due primarily to a decrease in our commission and fee income, which was partially offset by an increase in our interest income and net investment gains.

2010 compared to 2009

We acquired a controlling interest in Taifook Securities (currently renamed as Haitong International Securities) in December 2009. We have consolidated the results of Haitong International Securities into our consolidated income statements since January 2010.

Our revenue and other income decreased slightly to RMB11,304.9 million in 2010 compared to RMB11,315.8 million in 2009, due primarily to a decrease in our commission and fee income, which was partially offset by an increase in our interest income and net investment gains.

FINANCIAL INFORMATION

Commission and fee income

The following table sets forth our commission and fee income for the periods indicated:

	Year ended December 31,		
	2009	2010	2011
	(RMB in millions)		
Commission and fee income on securities brokerage	7,264.4	5,938.7	3,934.0
Commission and fee income on futures brokerage	144.8	392.7	393.1
Consultancy and financial advisory fees	151.1	274.8	283.1
Underwriting and sponsors fees.	449.4	1,039.2	960.0
Asset management fees.	743.7	714.8	985.8
Commission on bullion contracts.	–	7.6	8.0
Others	–	16.3	2.8
Total	8,753.4	8,384.1	6,566.8

2011 compared to 2010

Our commission and fee income decreased by 21.7% to RMB6,566.8 million in 2011 compared to RMB8,384.1 million in 2010, due primarily to a decrease in our commission and fee income on securities brokerage. Our commission and fee income on securities brokerage decreased by 33.8% to RMB3,934.0 million in 2011 compared to RMB5,938.7 million in 2010. This decrease was mainly attributable to (i) lower trading volume in our stocks and funds brokerage business that resulted from the weak performance of the securities markets in the second half of 2011; and (ii) lower commission rates for securities brokerage in the PRC due to the increased number of securities brokerage branches in the PRC and the resulting price competition. However, this decrease was partially offset by a 37.9%, or RMB271.0 million, increase in our asset management fees due primarily to the higher performance fees we received. The China-Belgium Fund exited several investments and achieved higher investment gains in 2011 compared to 2010, and we, as the fund manager of the China-Belgium Fund, received higher performance fees as a result.

2010 compared to 2009

Our commission and fee income decreased by 4.2% to RMB8,384.1 million in 2010 compared to RMB8,753.4 million in 2009, due primarily to a decrease in our commission and fee income on securities brokerage. Our commission and fee income on securities brokerage decreased by 18.2% to RMB5,938.7 million in 2010 compared to RMB7,264.4 million in 2009. The decrease was mainly attributable to the lower commission rates for securities brokerage in the PRC due to the increased number of securities brokerage branches in the PRC and the resulting price competition. However, the decrease in our commission and fee income on securities brokerage in the PRC was partially offset by (i) a 119.7%, or RMB595.7 million, increase in our revenue and other income from our investment banking business in the PRC, due primarily to the increase in the value of equity securities underwritten by us, which increased to RMB49,657.7 million in 2010 compared to RMB7,530.4 million in 2009; (ii) a 90.4%, or RMB129.8 million, increase in our commission and fee income on futures brokerage

FINANCIAL INFORMATION

in the PRC, due to significant business growth; and (iii) a significant increase in our commission and fee income from our overseas business, due to our acquisition of a controlling interest in Taifook Securities in December 2009.

Interest income

The following table sets forth our interest income for the periods indicated:

	Year ended December 31,		
	2009	2010	2011
	(RMB in millions)		
Bank interest income	1,359.6	1,399.6	1,944.0
Interest income from advances to customers . . .	8.6	219.0	522.8
Interest income from financial assets held under resale agreements	0.8	27.8	83.7
Interest income from held-to-maturity financial assets	4.4	–	–
Interest income from other bond investments . . .	33.6	–	–
Other interest income	–	0.6	2.7
Total	1,407.0	1,647.0	2,553.2

2011 compared to 2010

Our interest income increased by 55.0% to RMB2,553.2 million in 2011 compared to RMB1,647.0 million in 2010, due primarily to the increase in (i) bank interest income; (ii) interest income from advances to customers; and (iii) interest income from financial assets held under resale agreements.

Our bank interest income (including our own deposits and deposits we hold on behalf of our customers) increased by 38.9% to RMB1,944.0 million in 2011 compared to RMB1,399.6 million in 2010. This increase was mainly attributable to (i) our effective treasury management measures, which led to the increased return on funds; and (ii) higher prevailing market interest rates in the PRC due to increases in benchmark interest rates announced by the PBOC in 2011.

Our interest income from advances to customers increased by 138.7% to RMB522.8 million in 2011 compared to RMB219.0 million in 2010. This increase was mainly attributable to the rapid development of our margin financing and securities lending business and the resulting significant increase in our average margin loan balance.

Our interest income from financial assets held under resale agreements increased significantly by 201.1% to RMB83.7 million in 2011 compared to RMB27.8 million in 2010 due primarily to more resale transactions we conducted to manage our liquidity and enhance our return on liquid funds.

2010 compared to 2009

Our interest income increased by 17.1% to RMB1,647.0 million in 2010 compared to RMB1,407.0 million in 2009, due primarily to an RMB210.4 million increase in interest

FINANCIAL INFORMATION

income from advances to customers. Our margin financing and securities lending business in the PRC has grown rapidly since its launch in March 2010, which resulted in a significant increase in our average margin loan balance. We acquired a controlling interest in Taifook Securities (currently renamed as Haitong International Securities) in December 2009. We have consolidated the interest income from the margin financing and securities lending business of Haitong International Securities into our consolidated income statements since January 2010.

Net investment gains

The following table sets forth our investment gains for the periods indicated:

	Year ended December 31,		
	2009	2010	2011
	(RMB in millions)		
Net realized gains from available-for-sale investments.	211.4	596.2	754.0
Net gains from financial instruments held for trading and derivatives	950.8	378.0	1,226.8
Fair value change of financial instruments held for trading and derivatives	(274.1)	103.6	(473.9)
Total	888.1	1,077.8	1,506.9

2011 compared to 2010

Our net investment gains increased by 39.8% to RMB1,506.9 million in 2011 compared to RMB1,077.8 million in 2010, due primarily to a RMB848.8 million increase in our net gains from financial instruments held for trading and derivatives and a RMB157.8 million increase in our net realized gains from available-for-sale investments that resulted from our prudent trading and hedging strategy amidst market volatility. However, such increase was partially offset by a decrease in the fair value change of our financial instruments held for trading and derivatives that resulted from adverse market conditions and increased volatility in the securities markets in the second half of 2011.

2010 compared to 2009

Our net investment gains increased by 21.4% to RMB1,077.8 million in 2010 compared to RMB888.1 million in 2009, due primarily to (i) an increase in net realized gains from available-for-sale investments in our proprietary trading business; (ii) an increase in our investment gains that resulted from our first exit from a private equity investment in the second half of 2010; and (iii) an increase in the fair value change of our financial instruments held for trading and derivatives. This increase was partially offset by a decrease in our net gains from financial instruments held for trading and derivatives, due primarily to unfavorable market conditions in 2010.

Other incomes and gains

2011 compared to 2010

Our other income and gains increased by 19.1% to RMB233.5 million in 2011 compared to RMB196.0 million in 2010, due primarily to an increase in our foreign exchange gains.

FINANCIAL INFORMATION

2010 compared to 2009

Our other income and gains decreased by 26.7% to RMB196.0 million in 2010 compared to RMB267.3 million in 2009. We recorded gains of RMB43.0 million from the disposal of other bond investments held by Haitong International Holdings in 2009 which did not recur in 2010.

Total expenses

The following table sets forth the breakdown of our total expenses for the periods indicated:

	Year ended December 31,		
	2009	2010	2011
	(RMB in millions)		
Staff costs	(2,225.0)	(2,619.7)	(2,320.0)
Commission to account executives	(51.1)	(278.6)	(297.5)
Brokerage transaction fees and other services expenses	(947.1)	(897.2)	(746.7)
Depreciation and amortization	(236.9)	(288.5)	(300.0)
Interest expenses	(245.1)	(281.5)	(459.8)
Other expenses	(1,694.8)	(2,027.9)	(2,509.1)
Total	(5,400.0)	(6,393.4)	(6,633.1)

2011 compared to 2010

Our total expenses increased by 3.7% to RMB6,633.1 million in 2011 from RMB6,393.4 million in 2010, due primarily to an increase in the impairment losses we recognized on our available-for-sale investments as well as an increase in our interest expenses. Disregarding the impairment loss we recognized on our available-for-sale investments, our total expenses would have decreased by 4.7% from 2010.

2010 compared to 2009

Our total expenses increased by 18.4% to RMB6,393.4 million in 2010 compared to RMB5,400.0 million in 2009, due primarily to the increases in our commission to account executives, staff costs and other expenses.

Staff costs

2011 compared to 2010

Our staff costs decreased by 11.4% to RMB2,320.0 million in 2011 compared to RMB2,619.7 million in 2010, due primarily to a decrease in our performance-based bonus that resulted from adverse market conditions and increased volatility in the PRC securities markets. Our staff costs as a percentage of our total revenue and other income decreased to 21.4% in 2011 compared to 23.2% in 2010.

FINANCIAL INFORMATION

2010 compared to 2009

Our staff costs increased by 17.7% to RMB2,619.7 million in 2010 compared to RMB2,225.0 million in 2009, due primarily to (i) our acquisition of a controlling interest in Taifook Securities in December 2009 and the resulting consolidation of its staff costs into our consolidated income statements since January 2010; (ii) increased staff costs in our futures brokerage business in the PRC due to our rapid business growth; and (iii) an increase in our employee headcount to support our business expansion. Our staff costs as a percentage of our total revenue and other income increased to 23.2% in 2010 compared to 19.7% in 2009.

Commission to account executives

2011 compared to 2010

Our commission to account executives increased by 6.8% to RMB297.5 million in 2011 compared to RMB278.6 million in 2010, due primarily to the increased number of the licensed brokers of our Company and the resulting increase in the commission we paid to these brokers.

2010 compared to 2009

Our commission to account executives increased significantly to RMB278.6 million in 2010 compared to RMB51.1 million in 2009, due primarily to (i) our acquisition of a controlling interest in Taifook Securities in December 2009 and the resulting consolidation of its commission to account executives into our consolidated income statements since January 2010; (ii) increased trading volume of our futures brokerage business in the PRC; and (iii) an increase in the number of our licensed brokers.

Brokerage transaction fees and other services expenses

2011 compared to 2010

Our brokerage transaction fees and other services expenses decreased by 16.8% to RMB746.7 million in 2011 compared to RMB897.2 million in 2010, due primarily to the lower trading volume of our stocks and funds brokerage business in 2011.

2010 compared to 2009

Our brokerage transaction fees and other services expenses decreased by 5.3% to RMB897.2 million in 2010 compared to RMB947.1 million in 2009, due primarily to a decline in the trading volume of our securities brokerage business in 2010 that largely resulted from unfavorable market conditions.

Depreciation and amortization

2011 compared to 2010

Our depreciation and amortization increased by 4.0% to RMB300.0 million in 2011 compared to RMB288.5 million in 2010 due primarily to the investment in IT infrastructure and the slight increase in our investments in fixed assets.

FINANCIAL INFORMATION

2010 compared to 2009

Our depreciation and amortization increased by 21.8% to RMB288.5 million in 2010 compared to RMB236.9 million in 2009 because we opened additional securities brokerage branches and relocated certain existing branches in 2010 to optimize our nationwide branch network.

Interest expenses

The following table sets forth the breakdown of our interest expenses for the periods indicated:

	Year ended December 31,		
	2009	2010	2011
	(RMB in millions)		
Interest on borrowings wholly repayable within five years:			
– Bank loans and overdrafts	6.5	22.8	25.3
– Deposit taken from other financial institutions	–	–	13.4
– Financial assets sold under repurchase agreements	55.0	54.0	209.2
– Accounts payable to brokerage clients	183.6	198.8	209.0
– Others	–	5.9	2.9
Total	245.1	281.5	459.8

2011 compared to 2010

Our interest expenses increased by 63.3% to RMB459.8 million in 2011 compared to RMB281.5 million in 2010, due primarily to an increase in our interest expenses arising from repurchase transactions.

2010 compared to 2009

Our interest expenses increased by 14.9% to RMB281.5 million in 2010 compared to RMB245.1 million in 2009, due primarily to our acquisition of a controlling interest in Taifook Securities in December 2009 and the resulting consolidation of its interest expenses into our consolidated income statements since January 2010.

Other expenses

2011 compared to 2010

Our other expenses increased by 23.7% to RMB2,509.1 million in 2011 compared to RMB2,027.9 million in 2010, due primarily to an increase of RMB540.4 million in impairment losses we recognized on our available-for-sale investments that resulted from adverse market conditions and increased volatility in the securities markets in the second half of 2011.

FINANCIAL INFORMATION

2010 compared to 2009

Our other expenses increased by 19.7% to RMB2,027.9 million in 2010 compared to RMB1,694.8 million in 2009, due primarily to (i) our acquisition of a controlling interest in Taifook Securities in December 2009; (ii) an increase in expenses such as travel and meeting expenses that resulted from our business growth; (iii) increased relocation and rental expenses that resulted from the relocation or addition of 37 securities brokerage branches in 2010; and (iv) increased costs we incurred to strengthen our customer service.

Profit before income tax

2011 compared to 2010

Our profit before income tax decreased by 13.8% to RMB4,300.2 million in 2011 compared to RMB4,989.7 million in 2010.

2010 compared to 2009

Our profit before income tax decreased by 16.6% to RMB4,989.7 million in 2010 compared to RMB5,981.8 million in 2009.

Income tax expense

The following table sets forth our profit before tax, income tax expense and effective tax rate for the periods indicated:

	Year ended December 31,		
	2009	2010	2011
	(RMB in millions, except percentages)		
Profit before income tax	5,981.8	4,989.7	4,300.2
Income tax expense	1,320.1	1,121.5	1,018.2
Effective tax rate	22.1%	22.5%	23.7%

2011 compared to 2010

Our income tax expense decreased by 9.2% to RMB1,018.2 million in 2011 compared to RMB1,121.5 million in 2010, due primarily to the decrease in our taxable income. Our effective tax rate increased to 23.7% in 2011 compared to 22.5% in 2010 due primarily to the increase in our expenses not deductible for tax purposes, partially offset by the increase in our income not taxable for tax purpose.

2010 compared to 2009

Our income tax expense decreased by 15.0% to RMB1,121.5 million in 2010 compared to RMB1,320.1 million in 2009, due primarily to a decrease in our taxable income. Our effective tax rate remained relatively stable in 2009 and 2010 at 22.1% and 22.5%, respectively.

FINANCIAL INFORMATION

Net profit and net margin

The following table sets forth the key measurements of our profitability:

	Year ended December 31,		
	2009	2010	2011
	(RMB in millions, except percentages)		
Operating profit ⁽¹⁾	5,648.5	4,715.5	3,993.8
Operating margin ⁽²⁾	51.1%	42.4%	37.6%
Adjusted operating margin ⁽³⁾	57.6%	48.9%	43.8%
Net profit	4,661.7	3,868.2	3,282.0
Net margin ⁽⁴⁾	42.2%	34.8%	30.9%
Adjusted net margin ⁽⁵⁾	47.5%	40.1%	36.0%

(1) Operating profit = total revenue – total expenses

(2) Operating margin = (total revenue – total expenses)/total revenue

(3) Adjusted operating margin = (total revenue – total expenses)/(total revenue – commission to account executives – brokerage transaction fees and other services expenses – interest expenses).

Adjusted operating margin is presented here because we believe that, after excluding (i) commission to account executives, (ii) brokerage transaction fees and other services expenses and (iii) interest expenses, such measurement provides a meaningful indicator of our results of operations that is more comparable to other PRC listed securities companies due to different presentation requirements from the CSRC. Prospective investors should be aware that adjusted operating margin presented in this prospectus may not be comparable to other similarly titled measures reported by other comparable companies, due to different calculation methods or assumptions.

(4) Net margin = profit for the year/total revenue

(5) Adjusted net margin = (net profit for the year)/(total revenue – commission to account executives – brokerage transaction fees and other services expenses – interest expenses). Adjusted net margin is not a standard measurement under IFRS, but we present it here because we believe that, after excluding (i) commission to account executives, (ii) brokerage transaction fees and other services expenses and (iii) interest expenses, such measurement provides a meaningful indicator of our results of operations. Prospective investors should be aware that adjusted net margin presented in this prospectus may not be comparable to other similarly titled measures reported by other comparable companies, due to different calculation methods or assumptions.

2011 compared to 2010

Our net profit decreased by 15.2% to RMB3,282.0 million in 2011 compared to RMB3,868.2 million in 2010. Our net margin decreased to 30.9% in 2011 compared to 34.8% in 2010. This increase was mainly due to (i) the decrease in our stocks and funds brokerage trading volume due to the adverse market conditions in the second half of 2011 and the decrease in our average securities brokerage commission rate, which resulted in the decrease in our securities brokerage commission and fee income; and (ii) the impairment losses we recognized on our available-for-sale investments that resulted from adverse market conditions and increased volatility in the securities markets in the second half of 2011, partially offset by (i) the increase in interest income due to our effective treasury management measures and expanded margin financing and securities lending business; and (ii) higher performance fees we received from our asset management business.

FINANCIAL INFORMATION

2010 compared to 2009

Our net profit decreased by 17.0% to RMB3,868.2 million in 2010 compared to RMB4,661.7 million in 2009. Our net margin decreased to 34.8% in 2010 compared to 42.2% in 2009, due primarily to (i) the lower commission rates for our securities brokerage business that resulted from the intensified price competition in the PRC securities markets; (ii) the consolidation of Taifook Securities into our income statements since January 2010 that has a relatively lower net margin compared to our businesses in the PRC; and (iii) increased expenses that resulted from our continuous efforts to optimize our branch network and strengthen our marketing capabilities.

SUMMARY SEGMENT RESULTS

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments. Geographically, we divide our business into two main areas: (i) the PRC and (ii) overseas. For our business in the PRC, we generate our revenue primarily from our five principal business lines: securities and futures brokerage, investment banking, asset management, proprietary trading, and direct investment. The following discussion of our segment revenue and other income, segment expenses and segment results include our inter-segment revenue and inter-segment expenses.

The following table sets forth our segment revenue and other income (including inter-segment revenue) for the periods indicated:

	Year ended December 31,					
	2009		2010		2011	
	(RMB in millions)	%	(RMB in millions)	%	(RMB in millions)	%
PRC business						
Securities and futures brokerage	7,897.1	69.8	6,454.2	57.1	4,816.2	44.4
Investment banking	497.6	4.4	1,093.3	9.7	1,069.4	9.8
Asset management	879.3	7.8	868.9	7.7	1,092.4	10.1
Proprietary trading	804.8	7.1	779.8	6.9	1,144.8	10.5
Direct investment	52.1	0.5	106.0	0.9	55.1	0.5
Headquarters and others . .	1,657.3	14.6	1,834.0	16.2	2,651.4	24.4
Overseas business	197.2	1.7	905.0	8.0	954.5	8.8
Inter-segment elimination . .	(669.6)	(5.9)	(736.3)	(6.5)	(923.4)	(8.5)
Total	11,315.8	100.0	11,304.9	100.0	10,860.4	100.0

FINANCIAL INFORMATION

The following table sets forth our segment expenses (including inter-segment expenses) for the periods indicated:

	Year ended December 31,					
	2009		2010		2011	
	(RMB in millions)	%	(RMB in millions)	%	(RMB in millions)	%
PRC business						
Securities and futures brokerage	3,337.3	61.8	3,438.6	53.8	2,943.7	44.4
Investment banking	224.2	4.2	511.7	8.0	520.1	7.8
Asset management	514.1	9.5	530.2	8.3	662.8	10.0
Proprietary trading	92.1	1.7	82.2	1.3	655.5	9.9
Direct investment	15.5	0.3	24.0	0.4	17.5	0.3
Headquarters and others . .	1,746.2	32.3	1,761.9	27.6	1,654.3	24.9
Overseas business	87.6	1.6	726.2	11.3	833.6	12.6
Inter-segment elimination . .	(617.0)	(11.4)	(681.4)	(10.7)	(654.4)	(9.9)
Total	5,400.0	100.0	6,393.4	100.0	6,633.1	100.0

The following table sets forth our segment results for the periods indicated. Our segment results are calculated as our segment revenue and other income (including inter-segment revenue) less segment expenses (including inter-segment expenses):

	Year ended December 31,					
	2009		2010		2011	
	(RMB in millions)	%	(RMB in millions)	%	(RMB in millions)	%
PRC business						
Securities and futures brokerage	4,559.8	77.1	3,015.6	61.4	1,872.5	44.3
Investment banking	273.4	4.6	581.6	11.8	549.3	13.0
Asset management	365.3	6.2	338.7	6.9	429.6	10.2
Proprietary trading	712.7	12.0	697.6	14.2	489.3	11.6
Direct investment	36.6	0.6	82.0	1.7	37.6	0.9
Headquarters and others . .	(88.9)	(1.5)	72.1	1.5	997.1	23.6
Overseas business	109.6	1.9	178.8	3.6	120.9	2.9
Inter-segment elimination . .	(52.6)	(0.9)	(54.8)	(1.1)	(269.0)	(6.5)
Total	5,915.9	100.0	4,911.6	100.0	4,227.3	100.0

FINANCIAL INFORMATION

The following table sets forth our segment margin for the periods indicated. Our segment margin is calculated as our segment results (including inter-segment results) divided by segment revenue and other income (including inter-segment revenue):

	Year ended December 31,		
	2009	2010	2011
PRC business			
Securities and futures brokerage	57.7%	46.7%	38.9%
Investment banking	54.9%	53.2%	51.4%
Asset management	41.5%	39.0%	39.3%
Proprietary trading	88.6%	89.5%	42.7%
Direct investment	70.3%	77.4%	68.3%
Headquarters and others	(5.4%)	3.9%	37.6%
Overseas business	55.6%	19.8%	12.7%
Total	52.3%	43.4%	38.9%

PRC business

Securities and futures brokerage

Segment revenue and other income from our securities and futures brokerage business mainly includes commission and fee income on securities and futures brokerage and interest income from margin financing and securities lending. Segment expenses mainly include rental expenses, depreciation and amortization, staff costs and other general expenses, as well as expenses that are directly correlated to our brokerage trading volume and commission and fee income, such as commission to account executives and brokerage transaction fees and other services expenses.

2011 compared to 2010

Segment results decreased by 37.9% to RMB1,872.5 million in 2011 compared to RMB3,015.6 million in 2010, due primarily to a 25.4%, or RMB1,638.0 million, decrease in our segment revenue and other income during the period. This decrease was mainly attributable to the decrease in our segment commission and fee income as a result of lower trading volume in our stocks and funds brokerage business that resulted from the weak performance of the PRC securities markets in the second half of 2011 and lower commission rates we charged for securities brokerage due to intense price competition in the PRC securities industry. Our stocks and funds brokerage trading volume for stocks and funds decreased by 21.8% from RMB4,476.8 billion in 2010 to RMB3,502.9 billion in 2011 while our average securities brokerage commission rate decreased from 0.118% in 2010 to 0.100% in 2011. However, the decrease in our segment revenue and other income was partially offset by a significant increase in our segment interest income, due primarily to the significant growth of our margin financing and securities lending business and the resulting increase in our average margin loan balance.

As a result, our segment margin decreased to 38.9% in 2011 compared to 46.7% in 2010.

FINANCIAL INFORMATION

2010 compared to 2009

Segment results decreased by 33.9% to RMB3,015.6 million in 2010 compared to RMB4,559.8 million in 2009, due primarily to the following:

- (i) a 18.3% decrease in our segment revenue and other income, from RMB7,897.1 million in 2009 to RMB6,454.2 million in 2010, which resulted from a 21.8% or RMB1,576.9 million decrease in our segment commission and fee income. The decrease in our segment commission and fee income was mainly due to the lower commission rates we charged for securities brokerage in the PRC in response to the increased number of securities brokerage branches in the PRC and the resulting price competition. Our average securities brokerage commission rate for stocks and funds decreased from 0.147% in 2009 to 0.118% in 2010. However, the decrease in our segment commission and fee income was partially offset by a 21.5%, or RMB135.6 million, increase in our segment interest income, due primarily to the launch of our margin financing and securities lending business in March 2010 and higher prevailing market interest rates in the PRC; and
- (ii) a 3.0% increase in our segment expenses that mainly resulted from our relocation and addition of securities brokerage branches in 2010 in order to optimize our branch network and strengthen our marketing capabilities.

As a result, our segment margin decreased to 46.7% in 2010 compared to 57.7% in 2009.

Investment banking

Segment revenue and other income in our investment banking business mainly includes underwriting and sponsors fees as well as consultancy and financial advisory fees. Segment expenses mainly include expenses associated with our underwriting activities and salaries we pay to our professional staff, sales personnel and sponsor representatives.

2011 compared to 2010

Segment results decreased by 5.6% to RMB549.3 million in 2011 compared to RMB581.6 million in 2010, due primarily to a RMB23.9 million decrease in our segment revenue and other income during the period that resulted from our decreased underwriting and sponsors fees. Our underwriting and sponsors fees decreased by 6.6%, or RMB65.7 million, due primarily to the decrease in the number and value of equity offerings underwritten by us, partially offset by an increase in average rates for underwriting and sponsors fees and an increase in the value of debt offerings underwritten by us.

As a result, our segment margin decreased to 51.4% in 2011 compared to 53.2% in 2010.

2010 compared to 2009

Segment results increased significantly to RMB581.6 million in 2010 compared to RMB273.4 million in 2009, due primarily to a significant increase in our segment revenue and other income from RMB497.6 million in 2009 to RMB1,093.3 million in 2010, which resulted

FINANCIAL INFORMATION

from a significant increase in our equity underwriting fees. This increase is mainly attributable to our ability to secure more mandates to underwrite equity offerings, in particular offerings on the SME Board and the ChiNext Board which generally enjoy higher underwriting fee rates and the resulting increase in our market share in equity underwriting in 2010. We acted as the lead underwriter for 26 equity offerings in 2010 compared to ten in 2009, with the total value of equity securities we underwrote increasing from RMB7.5 billion to RMB49.7 billion during the period.

However, our segment expenses also increased significantly, outpacing the growth in our segment revenue and other income. As a result, our segment margin decreased to 53.2% in 2010 compared to 54.9% in 2009.

Asset management

Segment revenue and other income in our asset management business primarily includes asset management fees and performance fees we receive for managing funds and investments for our customers, as well as investment consultancy fees. Segment expenses primarily include marketing and maintenance fees of funds, staff costs, such as salaries paid to our professional staff and marketing personnel, as well as performance-based commissions.

2011 compared to 2010

Segment results increased by 26.8% to RMB429.6 million in 2011 compared to RMB338.7 million in 2010, due primarily to a 25.7%, or RMB223.5 million, increase in our segment revenue and other income, which primarily resulted from (i) higher performance fees we received from the China-Belgium Fund that we managed; and (ii) increased management fees from our private equity asset management subsidiaries, Haitong Jihe Management and Haitong Chuangxin Management, which commenced operations in 2011.

As a result, our segment margin increased to 39.3% in 2011 compared to 39.0% in 2010.

2010 compared to 2009

Segment results decreased by 7.3% to RMB338.7 million in 2010 compared to RMB365.3 million in 2009, due primarily to (i) a 1.2%, or RMB10.4 million, decrease in our segment revenue and other income; and (ii) a 3.2%, or RMB16.1 million, increase in our segment expenses. The decrease in our segment revenue and other income is mainly attributable to (i) a decrease in performance fees we received from the China-Belgium Fund that we managed; and (ii) a decrease in performance fees from our collective asset management schemes in the PRC amid unfavorable market conditions in 2010.

As a result, our segment margin decreased to 39.0% in 2010 compared to 41.5% in 2009.

Proprietary trading

Segment revenue and other income in our proprietary trading business includes net gains from financial instruments held for trading and derivatives and net realized gains from available-for-sale investments. Our segment expenses primarily include business tax and surcharges, salaries we pay to our professional staff and impairment losses.

FINANCIAL INFORMATION

2011 compared to 2010

Segment results decreased by 29.9% to RMB489.3 million in 2011 compared to RMB697.6 million in 2010, due primarily to a RMB573.3 million increase in our segment expenses, which was mainly attributable to the impairment losses we recognized on our available-for-sale investments that resulted from adverse market conditions and increased volatility in the securities markets in the second half of 2011. Such decrease was partially offset by an increase in our net realized gains from available-for-sale investments and derivatives.

As a result, our segment margin decreased to 42.7% in 2011 compared to 89.5% in 2010.

2010 compared to 2009

Segment results decreased by 2.1% to RMB697.6 million in 2010 compared to RMB712.7 million in 2009, due primarily to a 3.1%, or RMB25.0 million, decrease in our segment revenue and other income. This decrease is mainly attributable to the unfavorable market conditions in 2010 which adversely impacted our equity investment portfolio and resulted in a decrease in our net gains from financial instruments held for trading. However, benefiting from our net realized gains from available-for-sale investments from shares we purchased in previous participation in follow-on offerings, effective and flexible fixed income trading strategies and the successful launch of our stock index futures business, our segment revenue and other income only decreased by 3.1%, compared with a 12.5% decrease in the CSI 300 Index, during the same period.

The decrease in our segment revenue and other income was partially offset by a 10.7% decrease in our segment expenses. As a result, our segment margin remained relatively stable at 88.6% and 89.5% in 2009 and 2010, respectively.

Direct investment

Segment revenue and other income in our direct investment segment mainly includes gains or losses from the disposal of our private equity investments and interest income from our unutilized capital. Segment expenses mainly include salaries and performance-based commissions we pay to our professional staff.

2011 compared to 2010

Segment results decreased by 54.1% to RMB37.6 million in 2011 compared to RMB82.0 million in 2010, due primarily to (i) no exits from direct investments in 2011; and (ii) the decrease in our interest income due to a decline in our capital that resulted from our deployment of additional capital to private equity investments in 2011. However, this decrease was partially offset by a 27.1%, or RMB6.5 million, decrease in our segment expenses in 2011.

As a result, our segment margin decreased to 68.3% in 2011 compared to 77.4% in 2010.

FINANCIAL INFORMATION

2010 compared to 2009

Segment results increased significantly to RMB82.0 million in 2010 compared to RMB36.6 million in 2009 with segment margins increasing from 70.3% to 77.4%, due primarily to a 103.6%, or RMB53.9 million, increase in our segment revenue and other income that resulted from our first exit from a private equity investment in the second half of 2010.

As a result, our segment margin increased to 77.4% in 2010 compared to 70.3% in 2009.

Headquarters and others

Revenue and other income in our headquarters and others segment mainly includes interest income from our own bank deposits, deposits we hold on behalf of our customers and our treasury management activities, dividends and other investment gains as well as government grants. Please see “– Liquidity and Capital Resources” for details on the treasury management activities at our headquarters. Segment expenses mainly include administrative expenses related to the management function of our headquarters, including depreciation and amortization, rental expenses, staff costs and other expenses.

2011 compared to 2010

Segment results increased significantly to RMB997.1 million in 2011 compared to RMB72.1 million in 2010, due primarily to a 44.6%, or RMB817.4 million, increase in our segment revenue and other income, and a decrease in our costs and expenses. The increase in our segment revenue and other income was mainly attributable to (i) an increase in our interest income as a result of our effective treasury management measures and higher prevailing market interest rates in the PRC pursuant to increases in benchmark interest rates announced by the PBOC during the period; and (ii) an increase in net realized gains from available-for-sale investments as we timely responded to the changing market conditions and captured market opportunities.

As a result, our segment margin increased to 37.6% in 2011 compared to 3.9% in 2010.

2010 compared to 2009

Our segment results amounted to RMB72.1 million in 2010, representing segment margins of 3.9%, compared to a loss of RMB88.9 million in 2009 because the increase in our segment revenue and other income outweighed the increase in our segment expenses. Our segment revenue and other income increased by 10.7% to RMB1,834.0 million compared to RMB1,657.3 million in 2009, due primarily to an RMB173.5 million increase in our segment net investment gains from money market instruments that reflected our effective treasury management measures.

FINANCIAL INFORMATION

Overseas business

Segment revenue and other income in our overseas business mainly includes commission and fee income from our securities and futures brokerage business, interest income from margin financing and securities lending business, corporate finance and advisory fees and foreign exchange gains generated by Haitong International Holdings. Segment expenses mainly include commissions to account executives, staff costs and other expenses incurred by Haitong International Holdings.

2011 compared to 2010

Segment results decreased to RMB120.9 million in 2011 compared to RMB178.8 million in 2010, due primarily to (i) a 14.8%, or RMB107.4 million, increase in our segment expenses that reflected the impairment losses we recognized on our available-for-sale investments amid adverse market conditions in the second half of 2011; and (ii) the decrease in our securities brokerage commission and fee income as a result of adverse market conditions in the second half of 2011, partially offset by (i) the increase in interest income from our margin financing and securities lending business; (ii) an increase in our financial advisory and consultancy fee income; and (iii) an increase in our asset management fees.

As a result, our segment margin decreased to 12.7% in 2011 compared to 19.8% in 2010.

2010 compared to 2009

Segment results increased significantly to RMB178.8 million in 2010 compared to RMB109.6 million in 2009, due primarily to an RMB707.8 million increase in our segment revenue and other income, from RMB197.2 million to RMB905.0 million during the period. This is mainly attributable to our acquisition of a controlling interest in Taifook Securities in December 2009. We have consolidated the results of Haitong International Securities in our consolidated income statements since January 2010, which also contributed to a decrease in our segment margin to 19.8% in 2010 compared to 55.6% in 2009.

LIQUIDITY AND CAPITAL RESOURCES

We have in the past funded our working capital and other capital requirements primarily from cash flow from operations, equity financing, repurchase transactions and short-term borrowings. Historically, long-term borrowings have not been a major source of capital.

We have a comprehensive budgeting system that forecasts our cash flow and cash balance and estimates our liquidity needs for business expansion and other investments. We have also established stringent treasury management measures based on our Net Capital and other regulatory risk control indices, which require stress tests on overall liquidity and other financial indices before we make any capital investments.

FINANCIAL INFORMATION

To manage our liquidity while improving yields on surplus cash, in addition to bank deposits and inter-bank borrowings, we actively manage our liquid assets through money market and bond market operations by investing in liquid financial instruments with low risk, such as fixed income securities and financial assets held under resale agreements. We also seek to diversify our source and type of financing to meet various liquidity needs in our operations. Currently, we derive short-term financing for our PRC operations primarily from bond repurchase transactions in the interbank market or through stock exchanges.

As of December 31, 2011, we had aggregate cash and cash equivalents of RMB17,267.1 million, consisting primarily of bank balances and cash (excluding pledged bank deposits, fixed deposits, and restricted bank deposits), clearing settlement funds and time deposits on our own account that can be withdrawn on demand. In addition, as a securities firm, we hold a substantial amount of liquid financial instruments to manage our liquidity and capital, such as financial instruments held for trading and financial assets held under resale agreements. As of December 31, 2011, we had proceeds from repurchase transactions of RMB9,524.5 million. In addition, we had financial assets available for resale transactions of RMB605.9 million as of December 31, 2011, which we can quickly trade with counterparties to increase our working capital and meet other liquidity requirements from time to time. At the same time, we had total borrowings of RMB2,520.7 million, all of which are either repayable on demand or due within one year. Most of our borrowings are denominated in Hong Kong dollars, which Haitong International Securities incurred to primarily fund its margin financing and securities lending business.

Taking into account the financial resources available to us, including our existing cash and cash equivalents, net proceeds from this Global Offering, cash flow from operations and available facilities, our Directors believe that our Group has sufficient working capital for its present requirements for at least the next 12 months from the date of this prospectus.

The following discussion of liquidity and capital resources principally focuses on our consolidated statements of cash flows, assets and liabilities, indebtedness and our capital commitments.

FINANCIAL INFORMATION

Cash Flow

The following table sets forth a selected summary of our consolidated statements of cash flow for the periods indicated:

	For the year ended December 31,		
	2009	2010	2011
Net cash flows from operating activities	7,522.6	(10,500.6)	7,123.8
Net cash flows from investing activities	(3,297.1)	(1,536.6)	(3,861.5)
Net cash flows from financing activities	(578.1)	(1,106.9)	(1,711.0)
Net (decrease) increase of cash and cash equivalent	3,647.4	(13,144.1)	1,551.3
Cash and cash equivalent at the beginning of the year	25,290.5	28,931.9	15,777.1
Effect of foreign exchange rate changes	(6.0)	(10.7)	(61.3)
Cash and cash equivalent at the end of the year .	<u>28,931.9</u>	<u>15,777.1</u>	<u>17,267.1</u>

Net cash flows from operating activities

Our cash flows from operating activities consist primarily of cash generated or paid in relation to our commission-based securities business (such as brokerage, underwriting and financial advisory services), margin financing and securities lending business, trading of financial instruments held for trading, as well as resale and repurchase transactions. Net cash flows from operating activities reflect (i) profit before tax adjusted for non-cash and non-operating items, such as depreciation and amortization and impairment allowance; (ii) the effects of changes in working capital such as increase or decrease in accounts and other payables, cash held on behalf of clients, advances to customers, financial instruments held for trading, and financial assets held under resale agreements or sold under repurchase agreements; and (iii) other cash items such as income tax paid.

In 2011, we had net cash inflows from operating activities of RMB7,123.8 million which was mainly due to the positive effects of changes in our working capital and our profit before tax of RMB4,300.2 million. The positive effects of changes in working capital primarily reflected (i) a RMB9,524.5 million increase in our financial assets sold under repurchase agreements; and (ii) a RMB1,514.1 million decrease in financial assets held under resale agreements to manage our liquidity. These cash inflows were partially offset by a RMB5,587.0 million increase in our financial instruments held for trading that reflected our investment decisions.

FINANCIAL INFORMATION

In 2010, we had net cash outflows from operating activities of RMB10,500.6 million since the negative effects of changes in working capital exceeded our profit before tax of RMB4,989.7 million. The negative effects of changes in working capital primarily reflected the following:

- (i) an RMB5,821.5 million decrease in financial assets sold under repurchase agreements because we repurchased our financial assets pursuant to our repurchase agreements;
- (ii) an RMB3,906.1 million increase in advances to customers, due primarily to our launch of margin financing and securities lending business in the PRC and the growth of our margin financing business overseas after our acquisition of a controlling interest in Taifook Securities in December 2009;
- (iii) an RMB2,121.3 million increase in our financial instruments held for trading that reflected our investment decisions; and
- (iv) an RMB2,120.0 million increase in financial assets held under resale agreements, due primarily to our increased interbank lending activities for managing our liquidity.

In 2009, we had net cash inflows from operating activities of RMB7,522.6 million, which was mainly due to the positive effects of changes in our working capital and our profit before tax of RMB5,981.8 million. The positive effects of changes in working capital primarily reflected the proceeds of RMB5,211.5 million from our repurchase transactions, partially offset by an RMB3,084.5 million increase in our financial instruments held for trading that reflected our investment decisions.

We believe that we have strong ability to generate cash flows from operating activities during the Track Record Period and our operating cash flows before the changes in working capital amounted to RMB6,141.9 million, RMB4,883.2 million and RMB4,676.5 million, respectively, for the years ended December 31, 2009, 2010 and 2011. In addition, we had net current assets of RMB41,376.9 million, RMB40,696.3 million and RMB40,519.7 million as of December 31, 2009, 2010 and 2011, which proved to be sufficient to our working capital requirements during the Track Record Period.

Net cash flows from investing activities

Our cash outflows from investing activities consist primarily of our acquisition of interests in our associates and our purchase of property and equipment as well as financial assets. Our cash inflows from investing activities consist primarily of the dividends we receive from associates and the disposal of our property and equipment, interests in associates and financial assets.

FINANCIAL INFORMATION

In 2011, our net cash used in investing activities was RMB3,861.5 million, which was mainly attributable to (i) an RMB3,047.8 million increase in our available-for-sale investments that reflected our investment decisions; (ii) payments of RMB370.0 million for the equity interest in a newly formed associated company; and (iii) payments of RMB366.3 million for the purchases of property and equipment to support our business expansion in 2011.

In 2010, our net cash used in investing activities was RMB1,536.6 million, which was mainly attributable to (i) a RMB936.1 million increase in our available-for-sale investments that reflected our investment decisions; (ii) payments of RMB300.0 million for the equity interests in newly formed associated companies; and (iii) payments of RMB368.8 million for purchases of property and equipment to support our business expansion in 2010.

In 2009, our net cash used in investing activities was RMB3,297.1 million, which was mainly attributable to (i) an RMB3,314.2 million increase in available-for-sale investments that reflected our investment decisions; (ii) a payment of RMB1,238.5 million for the acquisition of Taifook Securities in 2009; and (iii) payments of RMB240.8 million for purchases of property and equipment to support our business expansion in 2009. These cash outflows were partially offset by cash inflows of RMB1,406.0 million from the proceeds from other investments such as the disposal of certain held-to-maturity financial assets in 2009.

Net cash flows from financing activities

Our cash outflows from financing activities consist primarily of the dividends we pay to our shareholders and the non-controlling shareholders of our subsidiaries, an increase in pledged bank deposits and repayment of borrowings. Our cash inflows from financing activities consist primarily of new borrowings we raise.

In 2011, our net cash used in financing activities was RMB1,711.0 million, which was mainly attributable to (i) dividends of RMB1,329.1 million we paid to our shareholders and the non-controlling shareholders of our subsidiaries; and (ii) an RMB417.9 million repayment of borrowings. These cash outflows were partially offset by the proceeds of RMB368.4 million from the issuance of shares of our subsidiaries.

In 2010, our net cash used in financing activities was RMB1,106.9 million, which was mainly attributable to (i) dividends of RMB1,736.6 million we paid to our shareholders and the non-controlling shareholders of our subsidiaries; and (ii) an RMB1,158.3 million increase in our pledged bank deposits for corporate finance purposes. These cash outflows were partially offset by the proceeds of RMB1,845.7 million from borrowings we raised (net of interest paid) in 2010.

In 2009, our net cash used in financing activities was RMB578.1 million, which was mainly attributable to dividends of RMB873.3 million we paid to our shareholders and the non-controlling shareholders of our subsidiaries, partially offset by the proceeds of RMB435.4 million from borrowings we raised (net of interest paid) in 2009.

FINANCIAL INFORMATION

Assets and Liabilities

To ensure appropriate cash liquidity management and capital allocation, we actively monitor the scale and composition of our balance sheet and seek to maintain a balance sheet with high liquidity. Given the highly liquid nature of our business, most of our balance sheet consists of current assets and liabilities.

Current assets and liabilities

The following table sets forth a summary of our current assets and liabilities as of the dates indicated:

	As of December 31,			As of
	2009	2010	2011	February 29, 2012
				(unaudited)
	(RMB in millions)			
Current assets				
Advances to customers	2,035.0	5,814.5	6,462.7	6,199.1
Accounts receivable	677.1	980.2	872.6	965.5
Other receivables and prepayments	358.5	447.5	740.3	1,125.1
Available-for-sale investments	5,778.4	5,060.8	6,826.6	8,479.9
Financial assets held under resale agreements	–	2,120.0	605.9	800.0
Financial assets at fair value through profit or loss	12,896.7	15,018.1	20,605.1	19,066.0
Deposits with exchanges	1,375.0	2,373.4	2,177.8	2,591.7
Clearing settlement funds	5,749.1	20,424.7	3,952.0	3,120.3
Bank balances and cash	88,246.9	58,057.3	50,571.0	56,323.3
Total current assets	117,116.7	110,296.5	92,814.0	98,670.9
Current Liabilities				
Borrowings	1,076.6	2,922.3	2,520.7	2,647.0
Deposit taken from other financial institutions	–	–	–	500.0
Accounts payable to brokerage clients	66,580.2	63,682.3	38,013.8	38,371.7
Other payables and accruals	1,870.9	2,523.4	1,819.1	1,518.2
Provisions	8.8	6.9	0.2	0.2
Tax liabilities	381.8	465.3	416.0	146.5
Financial liabilities at fair value through profit and loss	–	–	–	122.6
Financial assets sold under repurchase agreements	5,821.5	–	9,524.5	13,853.9
Total current liabilities	75,739.8	69,600.2	52,294.3	57,160.1
Net current assets	41,376.9	40,696.3	40,519.7	41,510.8

Our current assets mainly include bank balances and cash (including cash held on behalf of customers), clearing settlement funds, financial instruments held for trading, available-for-sale investments and advances to customers. Our current liabilities mainly include accounts payable to brokerage customers, which are primarily repayable at our customers' request, and financial assets sold under repurchase agreements. Customer deposits in our brokerage

FINANCIAL INFORMATION

business form a major component of our current assets and current liabilities. In current assets, our customer deposits are reflected in bank balances and cash and clearing settlement funds whereas in current liabilities, customer deposits are reflected under accounts payable to brokerage customers. Customer deposits held by us fluctuate based on our customers' trading activities, market conditions and other external factors beyond our control. As a result, customer deposits in our brokerage business are not a meaningful indicator of our financial condition or operating performance. Please see “– Liquidity and Capital Resources – Assets and Liabilities – Adjusted assets and liabilities” below for a summary of our assets and liabilities excluding customer deposits in our brokerage business.

Our net current assets, the difference between total current assets and current liabilities, remained positive during the Track Record Period.

As of February 29, 2012, our net current assets increased to RMB41,510.8 million compared to RMB40,519.7 million as of December 31, 2011. The increase in our current assets was due primarily to a RMB5,752.3 million increase in our bank balances and cash that resulted from our investment gains and increased treasury management activities in 2012. On the other hand, the increase in our current liabilities was due primarily to a RMB4,329.4 million increase in our financial assets sold under repurchase agreements and a RMB500.0 million increase in our deposit taken from other financial institutions, both of which reflected our treasury management activities to increase financial leverage through increased repurchase transactions.

As of December 31, 2011, our net current assets decreased slightly to RMB40,519.7 million compared to RMB40,696.3 million as of December 31, 2010, because the decrease in our total current assets was greater than the decrease in our total current liabilities. The decrease in our current assets was due primarily to (i) a RMB23,959.0 million decrease in bank balances and cash and clearing settlement funds that resulted from the decrease in our cash held on behalf of our customers; and (ii) a RMB1,514.1 million decrease in financial assets held under resale agreements. The decrease in current assets are partially offset by the increase in financial instruments held for trading, available-for-sale investments, other receivables and prepayments and advances to customers. On the other hand, the decrease in our current liabilities is due primarily to an RMB25,668.5 million decrease in our accounts payable to brokerage clients in 2011 as a result of the decrease in cash held on behalf of our customers. The decrease was partially offset by an RMB9,524.5 million increase in our financial assets sold under repurchase agreements.

As of December 31, 2010, our net current assets decreased slightly to RMB40,696.3 million compared to RMB41,376.9 million as of December 31, 2009, because the decrease in our total current assets was greater than the decrease in our total current liabilities. The decrease in current assets was due primarily to an RMB30,189.6 million decrease in bank balances and cash, as a result of an increase in our investments in the PRC securities markets and the growth of our margin financing and securities lending in 2010. However, the decrease in bank balances and cash was partially offset by the increase in clearing settlement funds, financial instruments held for trading, financial assets held under resale agreements and advances to customers. On the other hand, the decrease in our current liabilities was due primarily to our repurchase of financial assets we sold under repurchase agreements of RMB5,821.5 million in 2010, partially offset by an RMB1,845.7 million increase in borrowings as a result of our acquisition of a controlling interest in Taifook Securities in 2010 and our assumption of its debts.

FINANCIAL INFORMATION

We hold financial assets sold under repurchase agreements and financial assets held under resale agreements mainly to manage our liquidity and achieve higher yields on our financial assets through financial leverage. Because resale or repurchase transactions are important measures to manage our liquidity and we adjust the balance of our financial assets sold under repurchase agreements and financial assets held under resale agreements from time to time, the amount of such financial instruments we hold could fluctuate significantly during any given period. These financial instruments are short-term in nature and can be quickly liquidated in the near term to increase our working capital and meet other liquidity requirements from time to time. For a detailed discussion of our resale or repurchase transactions, please see “–Principal Components of Consolidated Income Statements – Revenue and other income.”

The significant fluctuations in our financial assets held under resale agreements were due primarily to the market conditions and our use of capital, which reflected our efforts to achieve higher yields on capital compared to the prevailing deposit interest rates.

The significant fluctuations in our financial assets sold under repurchase agreements were due primarily to our investment decisions to increase our trading of fixed income securities in light of rising market interest rates. For example, the fixed income securities we held for trading purpose increased from RMB6.3 billion as of December 31, 2009 to RMB9.0 billion as of December 31, 2010 and further to RMB14.8 billion as of December 31, 2011. When our capital position changes and short-term trading opportunities emerge, we can generate returns from the difference between short-term investment gains and interest expenses on proceeds from repurchase transactions by using our fixed income securities in repurchase transactions through the securities market or interbank market. In addition, our business activities may require a significant amount of short-term funds, such as when we subscribe for new shares in IPOs and underwrite debt securities, and we can generally increase our liquidity through repurchase transactions at a relatively low cost.

Adjusted current assets and liabilities

Client deposits held by us fluctuate based on our customers’ trading activities, market conditions and other external factors that are beyond our control. In the following table, we have adjusted our current assets and liabilities to exclude our assets held on behalf of clients and accounts payable to brokerage customers to provide more meaningful indicators of our financial condition.

	As of December 31,			As of
	2009	2010	2011	February 29, 2012
	(RMB in millions)			
Adjusted current assets ⁽¹⁾	50,536.5	46,614.2	54,800.2	60,299.2 ⁽³⁾
Adjusted current liabilities ⁽²⁾	9,159.6	5,917.9	14,280.5	18,788.4 ⁽³⁾

(1) Adjusted current assets equal total current assets less accounts payable to brokerage clients

(2) Adjusted current liabilities equal total current liabilities less accounts payable to brokerage clients

(3) Derived from unaudited financial figures

FINANCIAL INFORMATION

Non-current assets and liabilities

The following table sets forth a summary of our non-current assets and liabilities as of the periods indicated:

	As of December 31,		
	2009	2010	2011
	(RMB in millions)		
Non-current assets			
Property and equipment	1,136.2	1,201.2	1,177.1
Investment properties	104.1	100.6	93.5
Goodwill	697.1	673.9	642.3
Other intangible assets	263.8	289.7	308.0
Investments in associates.	215.7	543.3	926.1
Available-for-sale investments	870.1	1,877.5	1,933.6
Deferred tax assets	57.0	61.6	513.1
Restricted bank deposits	184.8	260.8	326.7
Other assets.	84.7	108.0	242.6
Total non-current assets	3,613.5	5,116.6	6,163.0
Total non-current liabilities	471.8	196.1	72.0

Our non-current assets mainly include investments in associates, property and equipment and available-for-sale investments. Our investments in associates and available-for-sale investments are primarily in the form of equity investments. Investments in associates are strategic principal investments of the Company. We classify equity investments that we do not expect to sell within one year due to transfer restrictions as available-for-sale investments under non-current assets. Our property and equipment mainly consist of properties used to carry out our business, including our branch network. Our non-current assets increased from RMB3,613.5 million as of December 31, 2009 to RMB5,116.6 million as of December 31, 2010 and further to RMB6,163.0 million as of December 31, 2011. The increase in our non-current assets from 2009 to 2010 mainly reflected the increases in our available-for-sale investments and our investments in associates. The increase in our non-current assets from 2010 to 2011 primarily reflected the increase in our investments in associates and our deferred tax assets.

Our non-current liabilities mainly include deferred tax liabilities, which reflect the temporary differences that will result in taxable expenses in future years. As of December 31, 2011, our non-current liabilities amounted to RMB72.0 million.

FINANCIAL INFORMATION

Borrowings

As of February 29, 2012, being the Latest Practicable date for the purpose of the indebtedness statement, we had total borrowings of RMB2,647.0 million. The following table sets forth the breakdown of our borrowings as of the dates indicated:

	As of December 31,			As of
	2009	2010	2011	February 29, 2012
				(unaudited)
	(RMB in millions)			
Secured borrowings				
Bank overdrafts	–	11.8	–	70.3
Bank loans	724.4	2,060.1	1,741.4	1,840.0
Unsecured borrowings				
Bank loans	132.1	765.3	779.3	736.7
Other loans	220.1	85.1	–	–
	1,076.6	2,922.3	2,520.7	2,647.0

We entered into a short-term bridge loan of approximately RMB437.4 million for the acquisition of Taifook Securities in 2009.

Since the acquisition of Taifook Securities, we have started to incur short-term bank borrowings in Hong Kong primarily to fund our overseas margin financing and securities lending business. A majority of our borrowings are secured and some of our bank overdrafts and bank loans were secured by:

- listed shares held by us as security for advances to customers of RMB485.5 million, RMB2,767.2 million and RMB1,705.7 million as of December 31, 2009, 2010 and 2011, respectively; and
- our short-term deposits placed by our Hong Kong subsidiaries at financial institutions.

As of February 29, 2012, our borrowings are either repayable on demand or due within one year and primarily denominated in Hong Kong dollars and incurred by our Hong Kong subsidiaries.

Except as disclosed above, and apart from intra-group liabilities, we did not have, as of February 29, 2012, any outstanding mortgages, charges, debentures, other debt capital (issued or agreed to be issued), liabilities under acceptance or other similar indebtedness, hire purchase and finance lease commitments, any guarantees or other material contingent liabilities.

FINANCIAL INFORMATION

CAPITAL EXPENDITURES

Our capital expenditures principally comprise expenditures for the purchase of property, plant, equipment and intangibles assets. The following table sets forth our capital expenditures for the periods indicated:

	Year ended December 31,		
	2009	2010	2011
	(RMB in millions)		
Purchase of property, equipment and intangible assets.	240.8	368.8	366.3

Our capital expenditures were RMB240.8 million, RMB368.8 million and RMB366.3 million for the years ended December 31, 2009, 2010 and 2011, respectively. During those periods, we incurred capital expenditures primarily for purchases of property and equipment to expand our branch network and in connection with business acquisitions. The substantial increase in our capital expenditures in 2010 was mainly attributable to the renovation of 22 brokerage branches and relocation of 14 brokerage branches in the PRC.

As of February 29, 2012, we estimated that our capital expenditures for the year ending December 31, 2012 will be approximately RMB414.2 million, which we will use to upgrade the trading facilities and client terminal in our server room, to purchase the properties for the business operation of our branches and to procure and develop IT system softwares.

COMMITMENTS AND CONTINGENT LIABILITIES

Capital commitments

The following table below sets forth our capital commitments for acquisition of property and equipment as of the dates indicated:

	As of December 31,			As of
	2009	2010	2011	February 29, 2012
	(RMB in millions)			(unaudited)
Contracted but not provided for: . . .	0.7	9.2	22.0	21.1

We have funded a substantial portion of our capital commitments by cash flow from our operating activities. Historically, our capital commitments were mainly attributable to the purchase of property and equipment for expanding our branch network and, as we grow, we expect to continue to incur capital commitments to support our business expansion.

As of February 29, 2012, our capital commitments of RMB21.1 million were primarily associated with the renovation of our brokerage branches in the PRC and the purchase and development of IT system softwares.

FINANCIAL INFORMATION

Operating lease commitments

We lease some of our office properties from third parties under non-cancelable operating leases. The following table sets forth our future minimum lease payments payable under non-cancelable operating leases as of the dates indicated:

	As of December 31,			As of
	2009	2010	2011	February 29, 2012
				(unaudited)
	(RMB in millions)			
Within one year	47.6	170.2	210.0	176.4
In the second to fifth year inclusive	224.0	275.3	344.5	333.5
Over five years.	41.1	101.6	59.6	45.6
	312.7	547.1	614.1	555.5

We also rent some of our properties to third parties under non-cancelable operating leases. The following table sets forth our future minimum lease payments receivable under non-cancelable operating leases as of the dates indicated:

	As of December 31,			As of
	2009	2010	2011	February 29, 2012
				(unaudited)
	(RMB in millions)			
Within one year	6.4	6.0	9.9	8.1
In the second to fifth year, inclusive	19.8	13.7	19.0	18.0
	26.2	19.7	28.9	26.1

Contingent liabilities

As of February 29, 2012, we were not involved in any material legal, arbitration or administrative proceedings that, if adversely determined, we expect would materially and adversely affect our financial position and results of operations, although there can be no assurance that this will be the case in the future.

As of February 29, 2012, we did not have any guarantees, mortgages, charges, or other material contingent liabilities.

OFF-BALANCE SHEET ARRANGEMENTS

As of the Latest Practicable Date, we did not have any outstanding, off-balance sheet guarantees or foreign currency forward contracts.

FINANCIAL INFORMATION

CAPITAL ADEQUACY AND RISK CONTROL INDICATOR

According to the Risk Control Indicator Measures, we have established a dynamic Net Capital monitoring mechanism to comply with statutory Net Capital requirements and other regulatory standards for capital adequacy. In addition, we also need to maintain a minimum amount of Net Capital to conduct our margin financing and securities lending, asset management and underwriting businesses. As of December 31, 2009, 2010 and 2011, we were in compliance with all of our capital adequacy and risk control indicator requirements. According to the SAC, as of December 31, 2011, our Net Capital amounted to RMB31.3 billion, the second highest among PRC securities companies⁽¹⁾.

The following table sets forth our Net Capital and key regulatory risk control indicators that we prepared in accordance with PRC GAAP and relevant PRC regulatory requirements as of the dates indicated. During the Track Record Period, our Net Capital and key risk control indicators have far exceeded or stayed well within the required levels, as applicable.

	As of December 31,			Warning level ⁽¹⁾	Minimum/Maximum level
	2009	2010	2011		
Net Capital ⁽²⁾ (RMB in millions)	34,390.9	32,459.5	31,342.6	>240.0	>200.0
Net assets/total risk capital reserves ⁽³⁾ (%)	779.2%	571.7%	527.7%	>120.0%	>100.0%
Net Capital/net assets (%)	79.8%	74.0%	70.1%	>48.0%	>40.0%
Net Capital/total liabilities ⁽⁴⁾ (%)	440.9%	1,232.5%	282.8%	>9.6%	>8.0%
Net asset/total liabilities (%)	552.3%	1,665.0%	403.2%	>24.0%	>20.0%
Value of equity securities and derivatives held/Net Capital (%)	25.3%	26.9%	38.1%	<80.0%	<100.0%
Value of fixed income securities held/Net Capital (%)	29.5%	36.3%	60.4%	<400.0%	<500.0%

- (1) The warning level is set by the CSRC according to the Risk Control Indicator Measures. If a risk control indicator is required to stay above a minimum level, the warning level is 120% of the minimum requirement, and if a risk control indicator is required to stay below a maximum level, the warning level is 80% of the maximum requirement.
- (2) Net Capital equals net assets minus risk adjustments of financial assets minus risk adjustments of other assets and contingent liabilities plus/minus other adjustments determined or authorized by the CSRC.
- (3) Risk capital reserve is a statutory reserve for PRC securities firms to cover any loss that securities firms may incur in their ordinary course of business and setting up of subsidiaries and branches. Such reserve is calculated based on a securities firm's Net Capital.
- (4) Total liabilities exclude the accounts payable to our brokerage clients.

(1) The 2011 data from the SAC was based on the preliminary results of PRC securities firms.

FINANCIAL INFORMATION

In addition to the risk control indicators mentioned above, the Risk Control Indicator Measures require us to comply with the following requirements when we engage in proprietary trading: (i) the cost of holding one kind of equity securities should not exceed 30% of our Net Capital; and (ii) the market value of one kind of equity securities we hold should not exceed 5% of its total market value, except for owing to underwriting activities or otherwise approved by the CSRC. Meanwhile, when conducting margin financing and securities lending activities, we need to comply with the following requirements: (i) the value of margin financing granted to a single customer should not exceed 5% of our Net Capital; (ii) the value of securities lent to a single customer should not exceed 5% of our Net Capital; and (iii) the market value of one kind of securities we hold should not exceed 20% of its total market value. We closely monitor all risk control indicators when conducting our proprietary trading and margin financing and securities lending businesses. During the Track Record Period, we did not have any non-compliances with these risk control indicators nor have we received any warnings or penalties from the CSRC.

QUANTITATIVE AND QUALITATIVE ANALYSIS OF MARKET RISK

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in economic environment. Market risk comprises five types of risks: credit risk, liquidity risk, price risk, interest rate risk and currency risk.

Credit risk

We are exposed to credit risk, which is the risk that a counterparty will be unable to pay amounts in full when due. The following table sets forth our maximum credit risk exposure, being the carrying amount of the respective recognized financial assets before the effect of mitigation through the use of collateral:

	As of December 31,		
	2009	2010	2011
	(RMB in millions)		
Advances to customers	2,035.0	5,814.5	6,462.7
Accounts receivable	677.1	980.2	872.6
Other receivables	358.5	447.5	692.0
Available-for-sale debt investments	110.9	278.5	507.7
Financial assets held under resale agreements	–	2,120.0	605.9
Financial assets at fair value through profit or loss	6,528.1	8,978.2	14,910.7
Deposits with exchanges	1,375.0	2,373.4	2,177.8
Clearing settlement funds	5,749.1	20,424.7	3,952.0
Bank balances and cash	88,246.9	58,057.3	50,571.0
Restricted bank deposits	184.8	260.8	326.7
Other assets	60.2	84.0	219.1
Maximum credit exposure	105,325.6	99,819.1	81,298.2

Credit exposures arise principally from investments in debt securities, advances to customers, accounts receivable, clearing settlement funds and bank balances which are included in our asset portfolios.

FINANCIAL INFORMATION

Credit exposure arising from investments in debt securities include downgrading of credit rating of the debt securities and/or of its underlying issuers and default of payments by the issuers. We have implemented a policy of not investing in any debt securities rated by reputable credit rating agency at a rating below A-3 and BBB for short-term tenor and for medium to long-term tenor, respectively. Our management also closely monitors the credit ratings of respective debt securities on a regular basis and the financial soundness of the underlying issuers.

We provide customers with margin financing for securities transactions and securities lending to customers, which are secured by customers' securities or deposits held as collateral. Our management has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. Each customer has a maximum credit limit based on the quality of collateral held and the financial background of the customer. In addition, we review the recoverable amount of each individual at the end of the reporting period to ensure that adequate impairment losses are made for irrecoverable amounts. Margin calls are made when the trades of margin customers exceed their respective limits. Any such excess is required to be made good within the next trading day. Failure to meet margin calls may result in the liquidation of the customer's positions.

We seek to maintain tight control over our outstanding accounts receivable in order to minimize credit risk. Overdue balances are regularly monitored by our management. Accounts receivable from cash customers which are neither past due nor impaired represent unsettled customer trades on various securities exchanges transacted on the last two business days prior to the respective reporting date. Such receivable balances are neither past due nor impaired as they are within the normal market convention.

Accounts receivable from cash customers which are past due but not impaired represent customer trades on various securities exchanges which are unsettled beyond the settlement date. When the cash customers fail to settle on settlement date, we have the right to force-sell the collateral underlying the securities transactions. The outstanding accounts receivable from cash customers as of December 31, 2009, 2010 and 2011 are considered not to be impaired after taking into consideration the recoverability from collateral. Collateral held against such receivables are publicly traded securities.

The credit risk on liquid funds is limited because the counterparties are banks with high credit ratings assigned by international credit-rating agencies.

Other than concentration of credit risk on liquid funds which are deposited with several banks with high credit ratings, our major credit exposures are with counterparties domiciled in the PRC as of December 31, 2009, 2010 and 2011.

Liquidity risk

Liquidity risk is the risk that we will encounter difficulty in meeting obligations associated with our financial liabilities. Prudent liquidity risk management includes maintaining sufficient cash, the availability of funding from the market in the capacity of a financial institution, and the ability to close out market positions. As part of the measures to safeguard liquidity, we have maintained substantial long-term and other stand-by banking facilities, diversifying the funding sources and spacing out the maturity dates.

FINANCIAL INFORMATION

As of February 29, 2012, we had RMB4,981.5 million of unutilized banking facilities.

Undiscounted cash flows by contractual maturities

The table below presents our cash flows payable under non-derivative financial liabilities held for managing liquidity risk by remaining contractual maturities at the reporting date. The amounts disclosed in the table are the contractual undiscounted cash flows. The table includes both interest and principal cash flows.

As of December 31, 2009

	On demand	Less than 3 months	3 months to 1 year	Total
	(RMB in millions)			
Borrowings	220.1	856.6	–	1,076.7
Accounts payable to brokerage clients	66,510.3	69.9	–	66,580.2
Other payables	759.5	–	14.7	774.2
Financial assets sold under repurchase agreements	–	5,822.6	–	5,822.6
	<u>67,489.9</u>	<u>6,749.1</u>	<u>14.7</u>	<u>74,253.7</u>

As of December 31, 2010

	On demand	Less than 3 months	3 months to 1 year	Total
	(RMB in millions)			
Borrowings	96.9	2,826.3	–	2,923.2
Accounts payable to brokerage clients	63,462.1	110.3	109.9	63,682.3
Other payables	1,307.6	–	17.9	1,325.5
	<u>64,866.6</u>	<u>2,936.6</u>	<u>127.8</u>	<u>67,931.0</u>

As of December 31, 2011

	On demand	Less than 3 months	3 months to 1 year	Total
	(RMB in millions)			
Borrowings	2,075.2	447.9	–	2,523.1
Accounts payable to brokerage clients	36,972.2	203.6	838.0	38,013.8
Other payables	674.5	–	11.9	686.4
Financial assets sold under repurchase agreements	–	9,532.0	–	9,532.0
	<u>39,721.9</u>	<u>10,183.5</u>	<u>849.9</u>	<u>50,755.3</u>

FINANCIAL INFORMATION

Price risk

Price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate as a result of changes in market prices (other than those arising from interest rate risk or foreign exchange risk), whether caused by factors specific to an individual investment, its issuer, or all factors affecting equity instruments traded in the market.

We are exposed to price risk arising from individual investments classified as financial assets held for trading and available-for-sale investments. Our directors manage the exposure by closely monitoring the portfolio of investments and may hedge exposure by entering into derivatives contracts. Price risk exposures are measured using value-at-risk (VaR) at company level.

There has been no change to our exposure to market risks or the manner in which we manage and measure the risk.

VaR analysis

The VaR risk measure estimates the potential loss over a given holding period for a specified confidence level. The VaR methodology is a statistically defined, probability-based approach that takes into account market volatilities as well as risk diversification by recognizing offsetting positions and correlations between products and markets. Risks can be measured consistently across all markets and products, and risk measures can be aggregated to arrive at a single risk number. The one-day 95% VaR number used by us reflects the 95% probability that the daily loss will not exceed the reported VaR.

FINANCIAL INFORMATION

We employ VaR methodologies to calculate month end risk numbers which include the historical approach.

Historical VaR (95%, one-day) by risk type	As of December 31,		
	2009	2010	2011
	(RMB in millions)		
Total VaR exposure	409.0	175.0	166.0
	409.0	175.0	166.0
	Average		
Historical VaR (95%, one-day) by risk type	Year ended December 31,		
	2009	2010	2011
	(RMB in millions)		
Total VaR exposure	231.0	223.0	154.0
	231.0	223.0	154.0
	Minimum		
Historical VaR (95%, one-day) by risk type	Year ended December 31,		
	2009	2010	2011
	(RMB in millions)		
Total VaR exposure	73.0	173.0	116.0
	73.0	173.0	116.0
	Maximum		
Historical VaR (95%, one-day) by risk type	Year ended December 31,		
	2009	2010	2011
	(RMB in millions)		
Total VaR exposure	438.0	278.0	185.0
	438.0	278.0	185.0

FINANCIAL INFORMATION

Assuming other factors remain unchanged, our subsidiaries have utilized the effect of security price variation on net profit and investment revaluation reserve within the period to manage and analyze the price risk, instead of VaR methodology. When reporting internally to the key management on our price risk, our management estimates that reasonable possible change in price is 10%. If the prices of the respective equity instruments had been 10% higher or lower, and held other variables constant, the impacts to our profit for the year and investment revaluation reserve are as follows:

	Year ended December 31,		
	2009	2010	2011
	(RMB in thousands)		
Profit for the year			
Increase by 10%	3,695	5,692	22,936
Decrease by 10%	(3,695)	(5,692)	(27,304)
Investment revaluation reserve			
Increase by 10%	2,704	14,357	23,932
Decrease by 10%	(2,704)	(14,357)	(19,564)

In the above analysis, we also consider the case of an available-for-sale equity investment that a reasonably possible downward fall in the equity price would lead the investment to be impaired, the effect of loss would be shown as affecting profit or loss and the cumulative gain/loss previously recognized in investment revaluation reserve would be reclassified to profit or loss, but an equivalent upward shift in the equity price would be shown as affecting investment revaluation reserve.

In the case that an available-for-sale equity investment that has already been impaired, a reasonably possible downward fall in the equity price may continue to be recognized in profit or loss but an equivalent upward shift in the equity price would be shown as affecting investment revaluation reserve.

In our management's opinion, the sensitivity analysis does not represent inherent price risk as the year end exposure does not reflect the exposure during the year.

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

Our exposure to interest rate risk relates primarily to our bank deposits, advances to customers, amount due from or to a subsidiary, clearing settlement funds, debt securities, accounts payable to brokerage clients and borrowings. Our management actively monitors our net interest rate exposure through setting limits on the level of mismatch of interest rate repricing and duration gap and aims to maintain an interest rate spread such that we are always in a net interest-bearing asset position and derive net interest income.

Fluctuations of the prevailing rate quoted by the PBOC and Hong Kong Inter-bank Offered Rate are the major sources of our cash flow interest rate risk.

FINANCIAL INFORMATION

Sensitivity analysis

The sensitivity analysis below has been determined based on the exposure to interest rates for variable rate financial assets and liabilities. The analysis is prepared assuming the financial instruments outstanding at the end of the reporting period were outstanding for the whole year. A 50 basis point increase or decrease is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates.

If interest rates had been 50 basis points higher/lower and all other variables were held constant, our:

- Profit for the years ended December 31, 2009, 2010 and 2011 would decrease/increase by RMB18.2 million, RMB42.5 million and RMB142.0 million, respectively. This is mainly attributable to our exposure to interest rates on our bank balances, accounts payable to brokerage clients and investments in debt securities; and
- Investment revaluation reserve for the years ended December 31, 2009, 2010 and 2011 would decrease/increase by RMB3.2 million, RMB5.5 million and RMB9.5 million, respectively, mainly as a result of the changes in the fair value of available-for-sale bond investments.

Currency risk

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate as a result of changes in foreign exchange rates.

Our currency risk arises principally from our leveraged foreign exchange business carried out through Haitong International Securities. We hedge a majority of our client trades in our leveraged foreign exchange business back-to-back with external counterparties, such that we are not exposed to significant foreign currency risk.

Our other amounts of financial assets and liabilities are substantially denominated in the functional currency of the respective entity within us, except that as of December 31, 2011, our Hong Kong subsidiaries, whose functional currency is HK dollars, have significant monetary assets denominated in Renminbi due to the additional capital we funded to our Hong Kong subsidiaries in connection with the expansion of our overseas business.

Sensitivity analysis

The sensitivity analysis below has been determined based on the exposure to foreign exchange rates for financial assets and liabilities denominated in Renminbi for our Hong Kong subsidiaries. The analysis is prepared assuming the financial instruments outstanding at December 31, 2011 were outstanding for the whole year. When reporting to the management on the currency risk, we will adopt a 50 basis points increase or decrease for sensitivity analysis, while considering the reasonably possible change in Renminbi/HK dollars.

FINANCIAL INFORMATION

If the Renminbi strengthened/weakened against the HK dollar by 5% with all other variables being held constant, our profit for the year ended December 31, 2011 would increase/decrease by RMB103.9 million.

DIVIDEND POLICY

After the completion of the Global Offering, we may distribute dividends in the form of cash or by other means that we consider appropriate. Any proposed distribution of dividends shall be formulated by our Board and will be subject to our Shareholders' approval. A decision to declare or to pay any dividends in the future, and the amount of any dividends, will depend on a number of factors, including our results of operations, cash flows, financial condition, capital adequacy ratio, payments by our subsidiaries of cash dividends to us, business prospects, statutory, regulatory and contractual restrictions on our declaration and payment of dividends and other factors that our Board may consider important.

According to the applicable PRC laws and our Articles of Association, we will pay dividends out of our profit after tax only after we have made the following allocations:

- recovery of accumulated losses, if any;
- allocations to the general risk reserve of not less than 10% of our profit after tax;
- allocations to the statutory reserve equivalent to 10% of our profit after tax, and, when the statutory reserve reaches and is maintained at or above 50% of our registered capital, no further allocations to this statutory reserve will be required;
- allocations to the transaction risk reserve of not less than 10% of our profit after tax; and
- allocations, if any, to a discretionary common reserve fund that are approved by our Shareholders in a Shareholders' meeting.

In accordance with our Articles of Association: (i) dividends may be paid only out of distributable profits as determined under PRC GAAP or IFRS, whichever is lower; (ii) any distributable profits that are not distributed in any given year will be retained and become available for distribution in subsequent years; and (iii) aggregate cash dividends distributed by us could not be less than 30% of our average annual distributable profits in any three consecutive fiscal years.

In 2009 and 2010, we declared cash dividends of RMB1,645.6 million and RMB1,234.2 million, respectively, representing a dividend of RMB0.20 and RMB0.15 per share, respectively. With respect to cash dividends for 2011, our Board has proposed, pending Shareholders' approval at the forthcoming annual general meeting, that a cash dividend of RMB0.15 per share, or a total of RMB1,234.2 million based on the number of our A Shares in issue as of December 31, 2011, be distributed to holders of our A Shares, but not to the holders of our H Shares. Any unpaid 2011 distributable profits shall be accrued as part of our distributable profits to be considered for the next distribution to our Shareholders.

FINANCIAL INFORMATION

UNAUDITED PRO FORMA ADJUSTED CONSOLIDATED NET TANGIBLE ASSETS

The following unaudited pro forma adjusted consolidated net tangible assets have been prepared to show the effect of the Global Offering on the audited consolidated net tangible assets as of December 31, 2011 as if the Global Offering had taken place on December 31, 2011.

	Audited consolidated net tangible assets attributable to equity holders of our Company as of December 31, 2011 ⁽¹⁾	Estimated net proceeds from the Global Offering ⁽²⁾	Unaudited pro forma adjusted consolidated net tangible assets attributable to equity holders of the Company ⁽³⁾	Unaudited pro forma adjusted consolidated net tangible assets per Share ⁽⁴⁾	
	(RMB in millions)			RMB	HK\$ ⁽⁵⁾
Based on offer price of HK\$10.48 for each Offer Share	44,129.3	10,030.8	54,160.1	5.73	7.06
Based on offer price of HK\$11.18 for each Offer Share	44,129.3	10,704.7	54,834.0	5.80	7.15

- (1) The audited consolidated net tangible assets attributable to equity holders of the Company as of December 31, 2011 is compiled based on the Accountants' Report set out in Appendix I to the prospectus, which is based on the audited consolidated net assets attributable to equity holders of the Company as of December 31, 2011 of approximately RMB45,042.4 million with an adjustment for goodwill and other intangible assets attributable to owners of the Company as of December 31, 2011.
- (2) The estimated net proceeds from the Global Offering are based on the offer price of HK\$10.48 per share and HK\$11.18 per share after deduction of the underwriting fees and other related expenses payable by the Company, and do not take into account any shares which may be issued upon the exercise of the over-allotment option for the Global Offering.
- (3) The unaudited pro forma adjusted consolidated net tangible assets of the Group attributable to the owners of the Company does not take into account the effect of the profit for the period from and including January 1, 2012 to the date immediately preceding the date of the Global Offering. In particular, the unaudited pro forma adjusted consolidated net tangible assets of the Group attributable to owners of the Company has not taken into account the dividend of RMB0.15 per share to our existing shareholders as at December 31, 2011, equivalent to approximately RMB1,234.2 million in aggregate, proposed by our directors on March 14, 2012. Had the effect been given to the distribution of such dividend, the unaudited pro forma adjusted consolidated net tangible assets attributable to the equity holders of the Company per share would have been HK\$6.90 or RMB5.60 based on the offer price of HK\$10.48 per share and HK\$6.99 or RMB5.67 based on the offer price of HK\$11.18 per share.
- (4) The unaudited pro forma adjusted consolidated net tangible assets of the Group per share is calculated after the adjustments referred to in note 2 above and on the basis that 9,457,221,180 shares are issued and outstanding following the completion of the Global Offering and assuming that the over-allotment option for the Global Offering is not exercised. If the over-allotment option for the Global Offering is exercised in full, these per share values would increase.
- (5) The translation of Renminbi into Hong Kong dollars has been made at the rate of RMB0.8115 to HK\$1.00, the PBOC rate prevailing on April 9, 2012. No representation is made that the Hong Kong dollar amounts have been, could have been or could be converted to Renminbi, or vice versa, at that rate or at any other rates or at all.

FINANCIAL INFORMATION

DISTRIBUTABLE RESERVES

As of December 31, 2011, we had reserves of RMB8,318.5 million available for distribution to the shareholders of our Company.

DISCLOSURE REQUIRED UNDER THE HONG KONG LISTING RULES

Our Directors have confirmed that they are not aware of any circumstances that would give rise to a disclosure requirement under Rules 13.13 to Rules 13.19 of the Hong Kong Listing Rules.

As a company listed on the Shanghai Stock Exchange, we are required to publish our quarterly (for the first and third quarters of each year), interim (for the first six months of each year) and annual reports with respect to our A Shares on the Shanghai Stock Exchange within one month, two months and four months, respectively, of the end of the relevant reporting period. We will disclose the same information in both English and Chinese in Hong Kong simultaneously under 13.09(2) of the Hong Kong Listing Rules. Our annual and interim financial statements for A Shares and H Shares will be prepared based on PRC GAAP and IFRS, respectively. Our quarterly financial statements will be prepared based on PRC GAAP for A Shares.

NO MATERIAL ADVERSE CHANGE

Our Directors have confirmed that, up to the date of this prospectus, there has been no material adverse change in our financial or trading position since December 31, 2011, being the date of our latest audited consolidated financial results.

FUTURE PLANS AND USE OF PROCEEDS

FUTURE PLANS

Please see “Business – Business Strategies” in this prospectus for a detailed discussion of our future plans.

USE OF PROCEEDS

Assuming an Offer Price of HK\$10.83 per H Share (being the mid-point of the stated range of the Offer Price of between HK\$10.48 and HK\$11.18 per H Share), we estimate that we will receive net proceeds of approximately HK\$12,776.1 million from the Global Offering after deducting the underwriting commissions and other estimated expenses if the Over-allotment Option is not exercised.

In line with our strategies, we intend to use the net proceeds from the Global Offering for the following purposes and in the amounts set out below:

- approximately 35.0%, or HK\$4,471.7 million, will be used for strategic acquisitions of overseas securities firms and/or further expansion of our overseas securities business. For overseas acquisitions, we seek potential targets with: (i) meaningful presence in local markets; (ii) complementary business and synergies with our business; (iii) a controlling interest available for acquisition; and (iv) complementary customer base, distribution network and professional expertise with us. As of the Latest Practicable Date, the Directors confirmed that we have not identified any overseas acquisition targets;
- approximately 20.0%, or HK\$2,555.2 million, will be used to expand our margin financing and securities lending business in order to capture future business opportunities arising from its rapid growth in the PRC and to strengthen our market leading position;
- approximately 20.0%, or HK\$2,555.2 million, will be used to develop our alternative financial products investment business and other new businesses as permitted by the PRC regulatory authorities;
- approximately 15.0%, or HK\$1,916.4 million, will be used for capital contributions to Haitong Capital Investment and the expansion of our direct investment and private equity funds management businesses; and
- approximately 10.0%, or HK\$1,277.6 million, will be used for working capital and general corporate purposes.

If the Over-allotment Option is exercised in full, we estimate that the additional net proceeds will be approximately HK\$1,927.1 million, after deducting the underwriting commissions and other estimated expenses, assuming an Offer Price of HK\$10.83 per H Share (being the mid-point of the stated range of the Offer Price of between HK\$10.48 and HK\$11.18 per H Share). We intend to use all the additional net proceeds proportionately as earmarked above.

FUTURE PLANS AND USE OF PROCEEDS

The allocation of the proceeds used for the above will be adjusted in the event that the Offer Price is fixed at a higher or lower level compared to the mid-point of the estimated Offer Price range. If the Offer Price is fixed at HK\$11.18 per H Share, being the high end of the stated Offer Share range, our net proceeds will be (i) increased by approximately HK\$415.2 million, assuming the Over-allotment Option is not exercised; and (ii) increased by approximately HK\$477.5 million, assuming the Over-allotment Option is exercised in full. In such circumstances, we presently intend to use such additional proceeds to increase the net proceeds applied for the same purposes as set out above on a *pro rata* basis. If the Offer Price is fixed at HK\$10.48 per H Share, being the low end of the stated Offer Share range, our net proceeds will be (i) decreased by approximately HK\$415.2 million, assuming the Over-allotment Option is not exercised; and (ii) decreased by approximately HK\$477.5 million, assuming the Over-allotment Option is exercised in full. In such circumstances, we presently intend to reduce the net proceeds applied for the same purposes as set out above on a *pro rata* basis.

To the extent that the net proceeds of the Global Offering are not immediately required for the above purposes, our Directors currently intend that such proceeds will be placed in short-term interest-bearing instruments such as bank deposits or money market funds with licensed banks or financial institutions.

UNDERWRITING

HONG KONG UNDERWRITERS

The Hong Kong Underwriters are:

Joint Lead Managers

Haitong International Securities Company Limited
J.P. Morgan Securities (Asia Pacific) Limited
Credit Suisse (Hong Kong) Limited
Deutsche Bank AG, Hong Kong Branch
Citigroup Global Markets Asia Limited
UBS AG, Hong Kong Branch
The Hongkong and Shanghai Banking Corporation Limited
Nomura International (Hong Kong) Limited
Standard Chartered Securities (Hong Kong) Limited
BOCOM International Securities Limited
BNP Paribas Capital (Asia Pacific) Limited
BOCI Asia Limited
CCB International Capital Limited
China Everbright Securities (HK) Limited
Samsung Securities (Asia) Limited

Co-Lead Managers

Shenyin Wanguo Capital (H.K.) Limited
Celestial Capital Limited
Oriental Patron Securities Limited
Sanfull Securities Limited
Sun Hung Kai International Limited

UNDERWRITING ARRANGEMENTS AND EXPENSES

Hong Kong Public Offering

Hong Kong Underwriting Agreement

The Hong Kong Underwriting Agreement was entered into on April 16, 2012. Pursuant to the Hong Kong Underwriting Agreement, we are offering the Hong Kong Offer Shares for subscription by the public in Hong Kong on the terms and subject to the conditions in this prospectus and the Application Forms at the Offer Price. Subject to the Listing Committee of the Hong Kong Stock Exchange granting listing of, and permission to deal in, the H Shares to be offered pursuant to the Global Offering as mentioned herein (including any additional H Shares which may be issued pursuant to the exercise of the Over-allotment Option), and to certain other conditions set out in the Hong Kong Underwriting Agreement, the Hong Kong Underwriters have agreed severally and not jointly to subscribe or procure subscribers for the

UNDERWRITING

Hong Kong Offer Shares which are being offered but are not taken up under the Hong Kong Public Offering on the terms and subject to the conditions in this prospectus, the Application Forms and the Hong Kong Underwriting Agreement.

The Hong Kong Underwriting Agreement is conditional upon and subject to the International Underwriting Agreement having been signed and becoming unconditional and not having been terminated in accordance with its terms.

Grounds for Termination

The obligations of the Hong Kong Underwriters to subscribe or procure subscribers for the Hong Kong Offer Shares under the Hong Kong Underwriting Agreement are subject to termination, if, at any time prior to 8:00 a.m. on the day that trading in the H Shares commences on the Hong Kong Stock Exchange:

- (i) there develops, occurs, exists or comes into force:
 - (a) any new law or regulation or any change in existing law or regulation, or any change in the interpretation or application thereof by any court or other competent authority in or affecting Hong Kong, China, the United States or United Kingdom or the European Union (or any member thereof) or Japan (each a “**Relevant Jurisdiction**”); or
 - (b) any change or development involving a prospective change or development, or any event or series of events likely to result in or representing a change or development, or prospective change or development, in local, national, regional or international financial, political, military, industrial, economic, currency market, fiscal or regulatory or market conditions (including, without limitation, conditions in stock and bond markets, money and foreign exchange markets and inter-bank markets, a change in the system under which the value of the Hong Kong currency is linked to that of the currency of the United States or a devaluation of the Hong Kong dollars or an appreciation of the Renminbi against any foreign currencies) in or affecting any Relevant Jurisdiction;
 - (c) any event or series of events in the nature of force majeure (including, without limitation, acts of government, strikes, lock-outs, fire, explosion, flooding, civil commotion, acts of war, acts of terrorism (whether or not responsibility has been claimed), acts of God) in or affecting any Relevant Jurisdiction; or

UNDERWRITING

- (d) any local, national, regional or international outbreak or escalation of hostilities (whether or not war is or has been declared) or other state of emergency or calamity or crisis in or affecting any Relevant Jurisdiction; or
- (e) (A) any suspension or limitation on trading in shares or securities generally on the Stock Exchange, the New York Stock Exchange, the NASDAQ Global Market, the London Stock Exchange, the Shanghai Stock Exchange or the Tokyo Stock Exchange or (B) a general moratorium on commercial banking activities in New York, London, Hong Kong, Japan, China declared by the relevant authorities, or a material disruption in commercial banking activities or foreign exchange trading or securities settlement or clearance services in or affecting any Relevant Jurisdiction; or
- (f) any (A) material change or prospective material change in exchange controls, currency exchange rates or foreign investment regulations, or (B) any change or prospective change in taxation in any Relevant Jurisdiction adversely affecting an investment in the H Shares; or
- (g) any material litigation or claim being threatened or instigated against or any material contravention of the Companies Ordinance, SFO, the PRC Company Law or any of the Listing Rules by any member of the Group; or
- (h) a governmental or regulatory prohibition on the Company for whatever reason from allotting or selling the H Shares (including the Over-allotment Option Shares) pursuant to the terms of the Global Offering,

and which, in any such case and in the sole and absolute opinion of the Joint Global Coordinators (for themselves and on behalf of the other Hong Kong Underwriters): (A) is or will be materially adverse to, or materially and prejudicially, affects, the assets, business, results of operations, financial or trading position, or prospects of the Company and its subsidiaries taken as a whole; or (B) has or will have a material adverse effect on the success of the Global Offering or make it impracticable, for any material part of the Hong Kong Underwriting Agreement, the Hong Kong Public Offering or the Global Offering to be performed or implemented as envisaged; or (C) makes or will make it impracticable to proceed with the Hong Kong Public Offering and/or the Global Offering or the delivery of the Offer Shares on the terms and in the manner contemplated by this prospectus, the Application Forms, and the formal notice; or

UNDERWRITING

- (ii) there has come to the notice of the Joint Global Coordinators or any of the Hong Kong Underwriters after the date of the Hong Kong Underwriting Agreement:
 - (a) that any statement contained in this prospectus, the Application Forms, the formal notice and any announcements in the agreed form issued by the Company in connection with the Hong Kong Public Offering (including any supplement or amendment thereto) was or has become untrue, incorrect or misleading in any material respect; or
 - (b) any matter has arisen or has been discovered which would, had it arisen immediately before the date of this prospectus, not having been disclosed in this prospectus, constitutes a material omission therefrom; or
 - (c) any of the representations and warranties given by the Company in the Hong Kong Underwriting Agreement as applicable, is (or would when repeated be) untrue, incorrect or misleading in any material respect; or
 - (d) any event, act or omission which gives or is likely to give rise to any liability of the Company pursuant to the indemnities given by the Company under the Hong Kong Underwriting Agreement which liability has a material adverse effect on the business or financial or trading position of the Company and its subsidiaries, taken as a whole; or
 - (e) any material breach of any of the obligations of the Company under the Hong Kong Underwriting Agreement; or
 - (f) any material adverse change or prospective material adverse change or development in the assets, business, results of operations, in the financial or trading position or prospects of the Company and its subsidiaries, taken as a whole,

then the Joint Global Coordinators may (for themselves and on behalf of the other Hong Kong Underwriters), in their sole and absolute discretion (and in the case of (i) above, after consultation with the Company, where practicable) and upon giving notice in writing to the Company, terminate the Hong Kong Underwriting Agreement with immediate effect.

Rule 10.08 of the Listing Rules

Pursuant to Rule 10.08 of the Listing Rules, the Company will not, at any time within six months from the Listing Date, issue any Shares or other securities convertible into equity securities of the Company or enter into any agreement or arrangement to issue such shares or securities (whether or not such issue of shares or securities will be completed within six months from the Listing Date), except pursuant to the Global Offering or for the circumstances prescribed by Rule 10.08 of the Listing Rules.

UNDERWRITING

Undertakings to the Hong Kong Underwriters

We have, pursuant to the Hong Kong Underwriting Agreement, undertaken to each of the Joint Global Coordinators, the Joint Bookrunners, the Joint Sponsors, the Joint Lead Managers and the Hong Kong Underwriters that except pursuant to the Global Offering (including the Over-allotment Option), at any time after the date of the Hong Kong Underwriting Agreement up to and including the date falling six months after the date on which dealings in the H Shares commence on the Hong Kong Stock Exchange, we will not, without the Joint Global Coordinators' prior written consent (subject to the requirements of the Listing Rules):

- (a) offer, accept subscription for, pledge, lend, assign, mortgage, charge, allot, issue, sell, contract to allot, issue or sell, sell any option or contract to purchase, purchase any option or contract to sell, grant or agree to grant any option, right or warrant to purchase or subscribe for, lend or otherwise transfer or dispose of, either directly or indirectly, or repurchase, any share capital of our Company or any securities convertible into or exercisable or exchangeable for or that represent the right to receive, or interests in, such share capital or any derivatives with the shares of our Company as underlying securities; or
- (b) enter into any swap or other arrangement that transfers to another, in whole or in part, any of the economic consequences of ownership of the share capital of our Company or securities or any interest therein; or
- (c) enter into any transaction with the same economic effect as any transaction described in (a) or (b) above,

whether any of the foregoing transactions described in (a) to (c) above is to be settled by delivery of share capital of our Company or such other securities, in cash or otherwise or publicly disclose that our Company will or may enter into any transaction described above. Our Company further agrees that, in the event of an issue or disposal of any H Shares or any interest therein after the date falling six months from the date on which dealings in the H Shares commence on the Hong Kong Stock Exchange, it will take all reasonable steps to ensure that such an issue or disposal will not, and no other act of our Company will, create a disorderly or false market for any Shares or other securities of our Company.

Indemnity

We have agreed to indemnify the Joint Global Coordinators, the Joint Bookrunners, the Joint Sponsors, the Joint Lead Managers and the Hong Kong Underwriters for certain losses which they may suffer, including, among other matters, losses arising from the performance of their obligations under the Hong Kong Underwriting Agreement.

UNDERWRITING

Commission and Expenses

According to the Hong Kong Underwriting Agreement, the Hong Kong Underwriters will receive an underwriting commission of 2.0% of the aggregate Offer Price payable for the Hong Kong Offer Shares initially offered under the Hong Kong Public Offering. For unsubscribed Hong Kong Offer Shares reallocated to the International Offering, we will pay an underwriting commission at the rate applicable to the International Offering and such commission will be paid to the International Underwriters (but not the Hong Kong Underwriters). We may also pay in our discretion an incentive fee of up to 1.5% of the aggregate Offer Price payable for the Hong Kong Offer Shares initially offered under the Hong Kong Public Offering to any Hong Kong Underwriters.

The aggregate commissions and the maximum incentive fee (if any), together with the listing fees, SFC transaction levy, the Hong Kong Stock Exchange fee and other expenses of us relating to the Global Offering are estimated to amount to HK\$538.3 million (assuming an Offer Price of HK\$10.83 per Offer Share, which is the mid-point of our indicative price range for the Global Offering, and the Over-allotment Option is not exercised) in total.

Hong Kong Underwriters' interests in our Company

Save for the obligations of the Hong Kong Underwriters under the Hong Kong Underwriting Agreement and as disclosed in this prospectus, none of the Hong Kong Underwriters has any shareholding interests in our Company or any other member of our Group or any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in our Company or any member of our Group.

Other Services to our Company

Certain of the Joint Global Coordinators, the Hong Kong Underwriters or their respective affiliates have, from time to time, provided and expect to provide in the future investment banking and other services to our Company and our respective affiliates, for which such Joint Global Coordinators, Hong Kong Underwriters or their respective affiliates have received or will receive customary fees and commissions.

The International Offering

In connection with the International Offering, it is expected that we will enter into the International Underwriting Agreement with, among others, the International Underwriters on or about April 20, 2012. Under the International Underwriting Agreement, the International Underwriters would, subject to certain conditions, severally and not jointly, agree to procure subscribers to subscribe for, or failing which to subscribe for themselves, their respective applicable proportions of the International Offering Shares being offered pursuant to the International Offering which are not taken up under the International Offering.

UNDERWRITING

We will grant to the International Underwriters the Over-allotment Option, exercisable by the Joint Global Coordinators on behalf of the International Underwriters during the 30-day period from the last day for the lodging of applications under the Hong Kong Public Offering, to require us to issue up to an aggregate of 184,410,000 additional H shares, representing 15% of the H shares initially available under the Global Offering, at the Offer Price, among others, to cover over-allocations in the International Offering, if any.

Over-allotment and Stabilization

Stabilization is a practice used by underwriters in some markets to facilitate the distribution of securities. To stabilize, the underwriters may bid for, or purchase, the securities in the secondary market, during a specified period of time, to retard and, if possible, prevent, any decline in the market price of the securities below the offer price. In Hong Kong and certain other jurisdictions, the price at which stabilization is effected is not permitted to exceed the offer price.

In connection with the Global Offering, the Stabilizing Manager or any person acting for them, on behalf of the Underwriters, may over-allocate or effect short sales or any other stabilizing transactions with a view to stabilizing or maintaining the market price of the H Shares at a level higher than that which might otherwise prevail in the open market. Short sales involve the sale by the Stabilizing Manager of a greater number of H Shares than the Underwriters are required to purchase in the Global Offering. “Covered” short sales are sales made in an amount not greater than the Over-allotment Option. The Stabilizing Manager may close out the covered short position by either exercising the Over-allotment Option to purchase additional H Shares or purchasing H Shares in the open market. In determining the source of the H Shares to close out the covered short position, the Stabilizing Manager will consider, among others, the price of H Shares in the open market as compared to the price at which they may purchase additional H Shares pursuant to the Over-allotment Option. Stabilizing transactions consist of certain bids or purchases made for the purpose of preventing or retarding a decline in the market price of the H Shares while the Global Offering is in progress. Any market purchases of the H Shares may be effected on any stock exchange, including the Hong Kong Stock Exchange, any over-the-counter market or otherwise, provided that they are made in compliance with all applicable laws and regulatory requirements. However, there is no obligation on the Stabilizing Manager or any person acting for it to conduct any such stabilizing activity, which if commenced, will be done at the absolute discretion of the Stabilizing Manager and may be discontinued at any time. Any such stabilizing activity is required to be brought to an end within 30 days of the last day for the lodging of applications under the Hong Kong Public Offering. The number of the H Shares that may be over-allocated will not exceed the number of the H Shares that may be sold under the Over-allotment Option, namely, 184,410,000 H Shares, which is 15% of the number of Offer Shares initially available under the Global Offering, in the event that the whole or part of the Over-allotment Option is exercised.

UNDERWRITING

In Hong Kong, stabilizing activities must be carried out in accordance with the Securities and Futures (Price Stabilizing) Rules. Stabilizing actions permitted pursuant to the Securities and Futures (Price Stabilizing) Rules include:

- (a) over-allocation for the purpose of preventing or minimizing any reduction in the market price;
- (b) selling or agreeing to sell the H Shares so as to establish a short position in them for the purpose of preventing or minimizing any deduction in the market price;
- (c) subscribing, or agreeing to subscribe, for the H Shares pursuant to the Over-allotment Option in order to close out any position established under (a) or (b) above;
- (d) purchasing, or agreeing to purchase, the H Shares for the sole purpose of preventing or minimizing any reduction in the market price;
- (e) selling the H Shares to liquidate a long position held as a result of those purchases; and
- (f) offering or attempting to do anything described in (b), (c), (d) and (e) above.

Stabilizing actions by the Stabilizing Manager, or any person acting for it, will be entered into in accordance with the laws, rules and regulations in place in Hong Kong on stabilization.

As a result of effecting transactions to stabilize or maintain the market price of the H Shares, the Stabilizing Manager, or any person acting for it, may maintain a long position in the H Shares. The size of the long position, and the period for which the Stabilizing Manager, or any person acting for it, will maintain the long position is at the discretion of the Stabilizing Manager and is uncertain. In the event that the Stabilizing Manager liquidates this long position by making sales in the open market, this may lead to a decline in the market price of the H Shares.

Stabilizing action by the Stabilizing Manager, or any person acting for it, is not permitted to support the price of the H Shares for longer than the stabilizing period, which begins on the day on which trading of the H Shares commences on the Hong Kong Stock Exchange and ends on the thirtieth day after the last day for the lodging of applications under the Hong Kong Public Offering. The stabilizing period is expected to end on May 20, 2012. As a result, demand for the H Shares, and their market price, may fall after the end of the stabilizing period. These activities by the Stabilizing Manager may stabilize, maintain or otherwise affect the market price of the H Shares. As a result, the price of the H Shares may be higher than the price that otherwise may exist in the open market. Any stabilizing action taken by the Stabilizing Manager, or any person acting for it, may not necessarily result in the market price of the H Shares staying at or above the Offer Price either during or after the stabilizing period. Bids for or market purchases of the H Shares by the Stabilizing Manager, or any person acting for it, may be made at a price at or below the Offer Price and therefore at or below the price paid for the H Shares by purchasers. A public announcement in compliance with the Securities and Futures (Price Stabilizing) Rules will be made within seven days of the expiration of the stabilizing period.

UNDERWRITING

Sponsors' Independence

Haitong International Capital Limited, being one of the Joint Sponsors, is one of our subsidiaries. It is not an independent sponsor according to the independence criteria applicable to sponsors set out in Rule 3.07 of the Listing Rules.

Apart from Haitong International Capital Limited, the other Joint Sponsor satisfies the independence criteria applicable to sponsors set out in Rule 3.07 of the Listing Rules.

STRUCTURE OF THE GLOBAL OFFERING

THE GLOBAL OFFERING

This prospectus is published in connection with the Hong Kong Public Offering as part of the Global Offering. The Global Offering consists of (subject to the Over-allotment Option):

- (a) the Hong Kong Public Offering of 61,470,000 H Shares (subject to adjustment as mentioned below) in Hong Kong as described below under “The Hong Kong Public Offering”; and
- (b) the International Offering of an aggregate of 1,167,930,000 H Shares (subject to adjustment and the Over-allotment Option as mentioned below) outside the United States (including to professional and institutional investors within Hong Kong) in offshore transactions in reliance on Regulation S, and in the United States to QIBs in reliance on Rule 144A.

Investors may apply for the H Shares under the Hong Kong Public Offering or indicate an interest, if qualified to do so, for the H Shares under the International Offering, but may not do both.

Our Company has obtained the requisite PRC governmental approvals, including the approval of the CSRC, in respect of the Global Offering.

The number of H Shares to be offered under the Hong Kong Public Offer and the International Offering respectively may be subject to reallocation as described in the subsection entitled “The Hong Kong Public Offering – Reallocation” below.

THE HONG KONG PUBLIC OFFERING

Number of H Shares initially offered

We are initially offering 61,470,000 H Shares at the Offer Price, representing approximately 5% of the H Shares initially available under the Global Offering, for subscription by the public in Hong Kong. Subject to the reallocation of Offer Shares between the International Offering and the Hong Kong Public Offering, the number of H Shares initially offered under the Hong Kong Public Offering will represent approximately 0.65% of our Company’s enlarged issued share capital immediately after completion of the Global Offering, assuming that the Over-allotment Option is not exercised.

The Hong Kong Public Offering is open to members of the public in Hong Kong as well as to institutional and professional investors. Professional investors generally include brokers, dealers, companies (including fund managers) whose ordinary business involves dealing in shares and other securities and corporate entities which regularly invest in shares and other securities.

Completion of the Hong Kong Public Offering is subject to the conditions as set out in the subsection below entitled “Conditions of the Global Offering.”

STRUCTURE OF THE GLOBAL OFFERING

Allocation

Allocation of H Shares to investors under the Hong Kong Public Offering will be based solely on the level of valid applications received under the Hong Kong Public Offering. The basis of allocation may vary, depending on the number of Hong Kong Offer Shares validly applied for by applicants. The allocation of Hong Kong Offer Shares could, where appropriate, consist of balloting, which would mean that some applicants may receive a higher allocation than others who have applied for the same number of Hong Kong Offer Shares, and those applicants who are not successful in the ballot may not receive any Hong Kong Offer Shares.

The total number of Hong Kong Offer Shares available under the Hong Kong Public Offering will initially be divided into two pools for allocation purposes as follows:

- Pool A: The Offer Shares in Pool A (being an aggregate of 30,735,200 shares) will be allocated on an equitable basis to applicants who have applied for Offer Shares with a total subscription amount (excluding brokerage, SFC transaction levy and the Hong Kong Stock Exchange trading fee) of HK\$5 million or less; and
- Pool B: The Offer Shares in Pool B (being an aggregate of 30,734,800 shares) will be allocated on an equitable basis to applicants who have applied for Offer Shares with a total subscription amount (excluding brokerage, SFC transaction levy and the Hong Kong Stock Exchange trading fee) of more than HK\$5 million and up to the value of Pool B.

Applicants should be aware that applications in Pool A and Pool B are likely to receive different allocation ratios. If Hong Kong Offer Shares in one pool (but not both pools) are under-subscribed, the surplus Hong Kong Offer Shares will be transferred to the other pool to satisfy demand in that other pool and be allocated accordingly.

Applicants can only receive an allocation of Hong Kong Offer Shares from either Pool A or Pool B but not from both pools. Multiple or suspected multiple applications and any application for more than 30,734,800 Offer Shares will be rejected.

Reallocation

Paragraph 4.2 of the Practice Note 18 of the Listing Rules requires a clawback mechanism to be put in place which would have the effect of increasing the number of Hong Kong Offer Shares to certain percentages of the total number of Offer Shares offered in the Global Offering if certain prescribed total demand levels are reached. An application has been made for, and the Hong Kong Stock Exchange has granted, a waiver from strict compliance with Paragraph 4.2 of Practice Note 18 of the Listing Rules such that:

- 61,470,000 Offer Shares, representing approximately 5% of the total number of the Offer Shares, are initially available in the Hong Kong Public Offering;

STRUCTURE OF THE GLOBAL OFFERING

- If the number of the Offer Shares validly applied for under the Hong Kong Public Offering represents 15 times or more but less than 50 times the number of the Offer Shares initially available for subscription under the Hong Kong Public Offering, then the number of Offer Shares to be reallocated to the Hong Kong Public Offering from the International Offering will be increased so that the total number of the Offer Shares available under the Hong Kong Public Offering will be 92,205,000 Offer Shares, representing approximately 7.5% of the Offer Shares initially available under the Global Offering;
- If the number of Offer Shares validly applied for under the Hong Kong Public Offering represents 50 times or more but less than 100 times the number of the Offer Shares initially available for subscription under the Hong Kong Public Offering, then the number of Offer Shares to be reallocated to the Hong Kong Public Offering from the International Offering will be increased so that the total number of the Offer Shares available under the Hong Kong Public Offering will be 122,940,000 Offer Shares, representing approximately 10% of the Offer Shares initially available under the Global Offering; and
- If the number of the Offer Shares validly applied for under the Hong Kong Public Offering represents 100 times or more the number of the Offer Shares initially available for subscription under the Hong Kong Public Offering, then the number of Offer Shares to be reallocated to the Hong Kong Public Offering from the International Offering will be increased, so that the total number of the Offer Shares available under the Hong Kong Public Offering will be 245,880,000 Offer Shares, representing approximately 20% of the Offer Shares initially available under the Global Offering.

The Offer Shares to be offered in the Hong Kong Public Offering and the International Offering may, in certain circumstances, be reallocated as between these offerings at the discretion of the Joint Global Coordinators. Subject to the foregoing paragraph, the Joint Global Coordinators may in their discretion reallocate H Shares from the International Offering to the Hong Kong Public Offering to satisfy valid applications under the Hong Kong Public Offering. In addition, if the Hong Kong Public Offering is not fully subscribed, the Joint Global Coordinators will have the discretion (but shall not be under any obligation) to reallocate to the International Offering all or any unsubscribed Hong Kong Offer Shares in such amounts as they deem appropriate.

References in this prospectus to applications, Application Forms, application monies or to the procedure for application relate solely to the Hong Kong Public Offering.

STRUCTURE OF THE GLOBAL OFFERING

THE INTERNATIONAL OFFERING

Number of H Shares initially offered

Subject to the reallocation as described above, the number of H Shares to be initially offered under the International Offering will be 1,167,930,000 H Shares, representing approximately 95% of the Offer Shares under the Global Offering. Subject to the reallocation of the Offer Shares between the International Offering and the Hong Kong Public Offering, the number of H Shares initially offered under the International Offering will represent approximately 12.35% of our Company's enlarged issued share capital immediately after completion of the Global Offering, assuming that the Over-allotment Option is not exercised.

Allocation

Pursuant to the International Offering, the International Offering Shares will be conditionally placed on behalf of our Company by the International Underwriters or through selling agents appointed by them. International Offering Shares will be selectively placed with certain professional and institutional investors and other investors anticipated to have a sizeable demand for such Offer Shares in Hong Kong, Europe and other jurisdictions outside the United States in offshore transactions in reliance on Regulation S and in the United States to QIBs as defined in Rule 144A. The International Offering is subject to the Hong Kong Public Offering being unconditional.

Allocation of Offer Shares pursuant to the International Offering will be effected in accordance with the "book-building" process described in the paragraph headed "Pricing and Allocation" below and based on a number of factors, including the level and timing of demand, total size of the relevant investor's invested assets or equity assets in the relevant sector and whether or not it is expected that the relevant investor is likely to buy further, and/or hold or sell, H Shares after the listing of the H Shares on the Hong Kong Stock Exchange. Such allocation is intended to result in a distribution of H Shares on a basis which would lead to the establishment of a solid shareholder base which would be to our benefit and to that of the shareholders as a whole.

The Joint Global Coordinators (on behalf of the Underwriters) may require any investor who has been offered Offer Shares under the International Offering, and who has made an application under the Hong Kong Public Offering, to provide sufficient information to the Joint Global Coordinators so as to allow them to identify the relevant applications under the Hong Kong Public Offering and to ensure that they are excluded from any application of Offer Shares under the Hong Kong Public Offering.

STRUCTURE OF THE GLOBAL OFFERING

PRICING AND ALLOCATION

Determining the Offer Price

The International Underwriters are soliciting from prospective investors indications of interest in acquiring the H Shares in the International Offering. Prospective investors will be required to specify the number of H Shares under the International Offering they would be prepared to acquire either at different prices or at a particular price. This process, known as “book-building,” is expected to continue up to, and to cease on or around, the last day for lodging applications under the Hong Kong Public Offering.

Pricing for the Offer Shares for the purpose of the various offerings under the Global Offering will be fixed on the Price Determination Date, which is expected to be on or around Friday, April 20, 2012 and in any event on or before Tuesday, April 24, 2012, by agreement between the Joint Global Coordinators, on behalf of the Underwriters, and our Company and the number of Offer Shares to be allocated under the various offerings will be determined shortly thereafter.

Offer price range

The Offer Price will be not more than HK\$11.18 per H Share and is expected to be not less than HK\$10.48 per H Share, unless otherwise announced not later than the morning of the last day for lodging applications under the Hong Kong Public Offering, as further explained below. Prospective investors should be aware that the Offer Price to be determined on the Price Determination Date may be, but is not expected to be, lower than the indicative Offer Price range stated in this prospectus.

Price payable on application

Applicants for Hong Kong Offer Shares under the Hong Kong Public Offering are required to pay, on application, the maximum Offer Price of HK\$11.18 for each Hong Kong Offer Share (plus 1% brokerage, 0.003% SFC transaction levy, and 0.005% Hong Kong Stock Exchange trading fee). If the Offer Price is less than HK\$11.18, appropriate refund payments (including the brokerage, SFC transaction levy and the Hong Kong Stock Exchange trading fee attributable to the surplus application monies, without any interest) will be made to successful applications.

If, for any reason, our Company and the Joint Global Coordinators (on behalf of the Underwriters) are unable to reach agreement on the Offer Price on or before Tuesday, April 24, 2012, the Global Offering will not proceed and will lapse.

Reduction in indicative offer price range and/or number of Offer Shares

The Joint Global Coordinators, on behalf of the Underwriters, may where considered appropriate, based on the level of interest expressed by prospective institutional, professional and other investors during the book-building process, reduce the indicative Offer Price range

STRUCTURE OF THE GLOBAL OFFERING

and/or the number of Offer Shares below those stated in this prospectus at any time on or prior to the morning of the last day for lodging applications under the Hong Kong Public Offering. In such a case, we will, as soon as practicable following the decision to make such reduction, and in any event not later than the morning of the last day for lodging applications under the Hong Kong Public Offering, cause to be published in the South China Morning Post (in English) and the Hong Kong Economic Times (in Chinese) and posted on the website of the Hong Kong Stock Exchange (www.hkexnews.hk) and on the website of our Company (www.htsec.com) notices of the reduction. Upon issue of such a notice, the revised indicative Offer Price range and/or number of Offer Shares will be final and conclusive and the Offer Price, if agreed upon by the Joint Global Coordinators, on behalf of the Underwriters, and our Company, will be fixed within such revised range. Such notice will also include confirmation or revision, as appropriate, of the working capital statement and the Global Offering statistics as currently set out in this prospectus, and any other financial information which may change materially as a result of such reduction.

Before submitting applications for Hong Kong Offer Shares, applicants should have regard to the possibility that any announcement of a reduction in the indicative offer price range and/or number of Offer Shares may not be made until the day which is the last day for lodging applications under the Hong Kong Public Offering. Applicants under the Hong Kong Public Offering should note that in no circumstances can applications be withdrawn once submitted, even if the indicative Offer Price range and/or number of Offer Shares is so reduced. In the absence of any such announcement so published, the number of Offer Shares will not be reduced and/or the Offer Price, if agreed upon by the Joint Global Coordinators, on behalf of the Underwriters, and our Company, will under no circumstances be set outside the Offer Price range as stated in this prospectus.

In the event of a reduction in the number of Offer Shares, the Joint Global Coordinators may, at their discretion, reallocate the number of Offer Shares to be offered in the Hong Kong Public Offering and the International Offering, provided that the number of Offer Shares comprised in the Hong Kong Public Offering shall not be less than 5% of the total number of Offer Shares available under the Global Offering (assuming the Over-allotment Option is not exercised). The Offer Shares to be offered in the Hong Kong Public Offering and the Offer Shares to be offered in the International Offering may, in certain circumstances, be reallocated between these offerings at the discretion of the Joint Global Coordinators.

Announcement of Offer Price and basis of allocations

The final Offer Price, the level of indications of interest in the Global Offering, the level of applications and the basis of allotment of the Hong Kong Offer Shares are expected to be announced on Thursday, April 26, 2012 in the South China Morning Post (in English) and the Hong Kong Economic Times (in Chinese) and to be posted on the website of the Hong Kong Stock Exchange (www.hkexnews.hk) and on the website of our Company (www.htsec.com).

STRUCTURE OF THE GLOBAL OFFERING

UNDERWRITING

The Hong Kong Public Offering is fully underwritten by the Hong Kong Underwriters under the terms of the Hong Kong Underwriting Agreement and is subject to our Company and the Joint Global Coordinators, on behalf of the Underwriters, agreeing on the Offer Price.

We expect to enter into the International Underwriting Agreement relating to the International Offering on the Price Determination Date.

These underwriting arrangements, and the Underwriting Agreements, are summarized in the section entitled “Underwriting” in this prospectus.

CONDITIONS OF THE GLOBAL OFFERING

Acceptance of all applications for the Offer Shares will be conditional on:

- the Listing Committee of the Hong Kong Stock Exchange granting listing of, and permission to deal in, the H Shares to be issued pursuant to the Global Offering (including the additional H Shares which may be made available pursuant to the exercise of the Over-allotment Option) (subject only to allotment);
- the Offer Price having been duly agreed between us and the Joint Global Coordinators (on behalf of the Underwriters);
- the execution and delivery of the International Underwriting Agreement on or around the Price Determination Date; and
- the obligations of the Hong Kong Underwriters under the Hong Kong Underwriting Agreement and the obligations of the International Underwriters under the International Underwriting Agreement becoming and remaining unconditional and not having been terminated in accordance with the terms of the respective agreements, in each case on or before the dates and times specified in the Hong Kong Underwriting Agreement or the International Underwriting Agreement (unless and to the extent such conditions are validly waived on or before such dates and times) and in any event not later than the date which is 30 days after the date of this prospectus.

If, for any reason, the Offer Price is not agreed between our Company and the Joint Global Coordinators (on behalf of the Underwriters) on or before Tuesday, April 24, 2012, the Global Offering will not proceed and will lapse.

The consummation of each of the Hong Kong Public Offering and the International Offering is conditional upon, among others, the other offering becoming unconditional and not having been terminated in accordance with their respective terms.

STRUCTURE OF THE GLOBAL OFFERING

If the above conditions are not fulfilled or waived prior to the dates and times specified, the Global Offering will lapse and the Hong Kong Stock Exchange will be notified immediately. Notice of the lapse of the Hong Kong Public Offering will be published by us in the South China Morning Post (in English) and the Hong Kong Economic Times (in Chinese) on the next day following such lapse. In such eventuality, all application monies will be returned, without interest, on the terms set out in the subsection entitled “How to Apply for the Hong Kong Offer Shares – Despatch/Collection of H Share Certificates and Refund Monies” in this prospectus. In the meantime, all application monies will be held in separate bank account(s) with the receiving bankers or other bank(s) in Hong Kong licensed under the Banking Ordinance (Chapter 155 of the Laws of Hong Kong) (as amended).

H Share certificates for the Offer Shares will only become valid certificates of title at 8:00 a.m. on Friday, April 27, 2012, provided that (a) the Global Offering has become unconditional in all respects and (b) the right of termination as described in the subsection entitled “Underwriting – Underwriting Arrangements and Expenses – Hong Kong Public Offering – Hong Kong Underwriting Agreement – Grounds for Termination” in this prospectus has not been exercised.

H SHARES WILL BE ELIGIBLE FOR CCASS

All necessary arrangements have been made enabling the H Shares to be admitted into the Central Clearing and Settlement System, or CCASS, established and operated by the Hong Kong Securities Clearing Company Limited, or HKSCC.

If the Hong Kong Stock Exchange grants the listing of, and permission to deal in, the H Shares and our Company complies with the stock admission requirements of HKSCC, the H Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the date of commencement of dealings in the H Shares on the Hong Kong Stock Exchange or any other date HKSCC chooses. Settlement of transactions between participants of the Hong Kong Stock Exchange is required to take place in CCASS on the second business day after any trading day.

All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time.

DEALING ARRANGEMENTS

Assuming that the Hong Kong Public Offering becomes unconditional at or before 8:00 a.m. in Hong Kong on Friday, April 27, 2012, it is expected that dealings in the H Shares on the Hong Kong Stock Exchange will commence at 9:00 a.m. on Friday, April 27, 2012.

The H Shares will be traded in board lots of 400 H Shares each.

HOW TO APPLY FOR THE HONG KONG OFFER SHARES

WHO CAN APPLY FOR THE HONG KONG OFFER SHARES

You can apply for Hong Kong Offer Shares if you or any person(s) for whose benefit you are applying, are an individual, and:

- 18 years of age or older and have a Hong Kong address.

If the applicant is a firm, the application must be in the names of the individual members, not the firm's name. If the applicant is a body corporate, the Application Form must be signed by a duly authorized officer, who must state his or her representative capacity.

If an application is made by a person duly authorized under a valid power of attorney, the Joint Global Coordinators (or their respective agents and nominees) may accept it at their discretion, and subject to any conditions they think fit, including production of evidence of the authority of the attorney.

The number of joint applicants may not exceed four.

If you wish to apply for Hong Kong Offer Shares online through the **White Form eIPO** service (www.eipo.com.hk), you must also:

- have a valid Hong Kong identity card number; and
- be willing to provide a valid e-mail address and a contact telephone number.

You may apply by means of the **White Form eIPO** service only if you are an individual applicant. Corporations or joint applicants may not apply by means of **White Form eIPO**.

We, the Joint Global Coordinators and the designated **White Form eIPO** Service Provider, in their capacity as our agents, have full discretion to reject or accept any application, in full or in part, without assigning any reason.

The Hong Kong Offer Shares are not available to existing beneficial owners of Shares, the Directors, Supervisors or chief executive or their representative(s), any of our other Connected Persons or persons who will become our connected persons immediately upon completion of the Global Offering, a United States person (as defined in Regulation S under the U.S. Securities Act), or a legal or natural person (except qualified domestic institutional investors) of the PRC (other than Hong Kong, Macau and Taiwan), a person inside the United States (as defined in Regulation S under the U.S. Securities Act) when completing and submitting the Application Form and not a person described in paragraph (h)(3) of Rule 902 of Regulation S under the Securities Act.

You may apply for Hong Kong Offer Shares under the Hong Kong Public Offering or indicate an interest for International Offer Shares under the International Offering, but may not do both.

HOW TO APPLY FOR THE HONG KONG OFFER SHARES

CHANNELS OF APPLYING FOR THE HONG KONG OFFER SHARES

There are four channels to make an application for the Hong Kong Offer Shares:

You may apply for the Hong Kong Offer Shares by using a **WHITE** Application Form. Use a **WHITE** Application Form if you want the H Shares to be issued in your own name;

Instead of using a **WHITE** Application Form, you may apply for the Hong Kong Offer Shares by means of **White Form eIPO** by submitting applications online through the designated website of the **White Form eIPO** Service Provider at www.eipo.com.hk. Use **White Form eIPO** if you want the H Shares to be issued in your own name;

You may apply for the Hong Kong Offer Shares by using a **YELLOW** Application Form. Use a **YELLOW** Application Form if you want the Hong Kong Offer Shares to be issued in the name of HKSCC Nominees and deposited directly into CCASS for credit to your CCASS Investor Participant stock account or your designated CCASS Participant's stock account; or

Instead of using a **YELLOW** Application Form, you may give **electronic application instructions** to HKSCC to cause HKSCC Nominees to apply for the Hong Kong Offer Shares on your behalf via CCASS.

Except where you are a nominee and provide the required information in your application, you or your joint applicant(s) or you and your joint applicant(s) may not make more than one application (whether individually or jointly) by applying on a **WHITE** or **YELLOW** Application Form or applying online through **White Form eIPO** service or by giving **electronic application instructions** to HKSCC.

WHERE TO COLLECT THE PROSPECTUS AND APPLICATION FORMS

You can collect a **WHITE** Application Form and a prospectus during normal business hours from 9:00 a.m. on Tuesday, April 17, 2012 till 12:00 noon on Friday, April 20, 2012 from:

Any of the following addresses of the Hong Kong Underwriters:

- | | |
|-----------------------------------|-----------------------------|
| (a) Haitong International | 25th Floor, New World Tower |
| Securities Company Limited | 16-18 Queen's Road Central |
| | Central |
| | Hong Kong |

HOW TO APPLY FOR THE HONG KONG OFFER SHARES

- | | |
|--|---|
| (b) J.P. Morgan Securities
(Asia Pacific) Limited | 28th Floor, Chater House
8 Connaught Road Central
Central
Hong Kong |
| (c) Credit Suisse (Hong Kong)
Limited | Level 88, International Commerce Centre
1 Austin Road West
Kowloon
Hong Kong |
| (d) Deutsche Bank AG, Hong Kong
Branch | Level 52, International Commerce Centre
1 Austin Road West
Kowloon
Hong Kong |
| (e) Citigroup Global Markets Asia
Limited | 50th Floor, Citibank Tower, Citibank Plaza
3 Garden Road
Central
Hong Kong |
| (f) UBS AG, Hong Kong Branch | 52/F Two International Finance Centre
8 Finance Street
Central
Hong Kong |
| (g) The Hongkong and Shanghai
Banking Corporation Limited | 1 Queen's Road Central
Hong Kong |
| (h) Nomura International (Hong
Kong) Limited | 30/F Two International Finance Centre
8 Finance Street
Central
Hong Kong |
| (i) Standard Chartered Securities
(Hong Kong) Limited | 15/F, Two International Finance Centre
8 Finance Street
Central
Hong Kong |
| (j) BOCOM International
Securities Limited | 9/F, Man Yee Building
68 Des Voeux Road Central
Hong Kong |

HOW TO APPLY FOR THE HONG KONG OFFER SHARES

- | | |
|---|--|
| (k) BNP Paribas Capital (Asia Pacific) Limited | Suite 6415, 64th Floor
Two International Finance Centre
8 Finance Street
Central
Hong Kong |
| (l) BOCI Asia Limited | 26th Floor, Bank of China Tower
1 Garden Road
Hong Kong |
| (m) CCB International Capital Limited | 34th Floor, Two Pacific Place
88 Queensway
Admiralty
Hong Kong |
| (n) China Everbright Securities (HK) Limited | 17/F, Far East Finance Centre
16 Harcourt Road
Hong Kong |
| (o) Samsung Securities (Asia) Limited | Suite 4511 Two International Finance Centre
8 Finance Street
Central
Hong Kong |
| (p) Shenyin Wanguo Capital (H.K.) Limited | 28/F., Citibank Tower
Citibank Plaza
3 Garden Road
Central, Hong Kong |
| (q) Celestial Capital Limited | 9/F, Low Block
Grand Millennium Plaza
181 Queen's Road Central
Hong Kong |
| (r) Oriental Patron Securities Limited | 27/F Two Exchange Square
8 Connaught Place
Central, Hong Kong |

HOW TO APPLY FOR THE HONG KONG OFFER SHARES

- (s) **Sanfull Securities Limited** Suite 2001-6, 20/F, Cosco Tower
183 Queen's Road Central
Hong Kong
- (t) **Sun Hung Kai International Limited** 42/F, The Lee Gardens
33 Hysan Avenue
Causeway Bay, Hong Kong

or any of the following branches of:

- (a) **The Hongkong and Shanghai Banking Corporation Limited**

	Branch Name	Address
Hong Kong	Hong Kong Office	Level 3, 1 Queen's Road Central
	North Point Branch	G/F, Winner House 306-316 King's Road, North Point
	Des Voeux Road Central Branch	China Insurance Group Bldg 141 Des Voeux Road Central
	Hopewell Centre Branch	Shops 2A, 2/F, Hopewell Centre 183 Queen's Road East, Wan Chai
Kowloon	Kwun Tong Branch	No. 1, Yue Man Square Kwun Tong
	Mong Kok Branch	Basement & U/G 673 Nathan Road, Mong Kok
	Tsim Sha Tsui Branch	Basement & 1/F 82-84 Nathan Road, Tsim Sha Tsui
New Territories	Shatin Plaza Branch	Shop 49, Level 1, Shatin Plaza 21-27 Sha Tin Centre Street Sha Tin

HOW TO APPLY FOR THE HONG KONG OFFER SHARES

(b) **Standard Chartered Bank (Hong Kong) Limited**

	Branch Name	Address
Kowloon	Telford Gardens Branch	Shop P9-12, Telford Centre Telford Gardens, Tai Yip Street Kwun Tong
New Territories	Tsuen Wan Branch	Shop C, G/F & 1/F, Jade Plaza 298 Sha Tsui Road, Tsuen Wan

(c) **Bank of China (Hong Kong) Limited**

	Branch Name	Address
Kowloon	Hoi Yuen Road Branch	55 Hoi Yuen Road, Kwun Tong
New Territories	Tuen Mun San Hui Branch	G13-G14 Eldo Court Heung Sze Wui Road, Tuen Mun

(d) **China Construction Bank (Asia) Corporation Limited**

	Branch Name	Address
Hong Kong	Causeway Bay Plaza Branch	G/F, Causeway Bay Plaza 1 Causeway Bay
New Territories	Shatin Plaza Branch	Shop 5, Level 1, Shatin Plaza, Shatin

(e) **Bank of Communications Co., Ltd. Hong Kong Branch**

	Branch Name	Address
Hong Kong	Hong Kong Branch	20 Pedder Street, Central
Kowloon	Cheung Sha Wan Plaza Sub-Branch	Unit G04, Cheung Sha Wan Plaza 833 Cheung Sha Wan Road

HOW TO APPLY FOR THE HONG KONG OFFER SHARES

(f) **The Bank of East Asia, Limited**

	Branch Name	Address
Hong Kong	Main Branch	10 Des Voeux Road Central, HK
	Wanchai Branch	Shop A-C, G/F, Easey Commercial Building, 253-261 Hennessy Road Wanchai
	Chai Wan Branch	345 Chai Wan Road

You can collect a **YELLOW** Application Form and a prospectus during normal business hours from 9:00 a.m. on Tuesday, April 17, 2012 until 12:00 noon on Friday, April 20, 2012 from the Depository Counter of HKSCC at 2nd Floor, Infinitus Plaza, 199 Des Voeux Road Central, Hong Kong.

Your stockbroker may also have Application Forms and this prospectus available.

HOW TO APPLY USING A WHITE OR YELLOW APPLICATION FORM

- (a) Obtain an Application Form as described in the subsection above entitled “Where to Collect the Prospectus and Application Forms.”
- (b) Complete the Application Form in English using blue or black ink, and sign it. There are detailed instructions on each Application Form. You should read these instructions carefully. If you do not follow the instructions, your application may be rejected and returned by ordinary post together with the accompanying check(s) or banker’s cashier order(s) to you (or the first-named applicant in the case of joint applicants) at your own risk at the address given on the Application Form.
- (c) Each Application Form must be accompanied by payment, in the form of either one check or one banker’s cashier order. You should read the detailed instructions set out on the Application Form carefully, as an application is liable to be rejected if the check or banker’s cashier order does not meet the requirements set out on the Application Form.
- (d) Lodge the Application Form in one of the special collection boxes by the time and at one of the locations as described in the subsection above entitled “Where to Collect the Prospectus and Application Forms.”
- (e) Check and banker’s cashier order should be crossed “Account Payee Only” and made payable to “HSBC Nominees (Hong Kong) Limited – Haitong Securities Public Offer.”

HOW TO APPLY FOR THE HONG KONG OFFER SHARES

You should note that by completing and submitting a **WHITE** or **YELLOW** Application Form, among others:

- (a) you agree with our Company and each of the Shareholders, and our Company agrees with each of the Shareholders, to observe and comply with PRC laws, the Companies Ordinance and the Articles of Association;
- (b) you confirm that you have only relied on the information and representations contained in this prospectus in making your application and will not rely on any other information or representations save as set out in any supplement to this prospectus;
- (c) you agree that none of our Company, the Joint Sponsors, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers, the Underwriters, their respective directors, officers, employees, partners, agents, advisors and any other parties involved in the Global Offering is or will be liable for any information and representations not contained in this prospectus (and any supplement thereto);
- (d) you undertake and confirm that you (if the application is made for your benefit) or the person(s) for whose benefit you have made the application have not applied for or taken up, or indicated an interest for, and will not apply for or take up, or indicate an interest for, any International Offering Share nor otherwise participated in the International Offering; and
- (e) you agree to disclose to our Company, and/or our H Share Registrar, receiving bankers, the Joint Sponsors, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers, the Underwriters and their respective advisors and agents any personal data which they require about you and the person(s) for whose benefit you have made the application.

In order for an application made on a **YELLOW** Application Form to be valid:

You, as the applicant(s), must complete the Application Form as indicated below and sign on the first page of the Application Form. Only written signatures will be accepted.

- (a) **If the application is made through a designated CCASS Participant (other than a CCASS Investor Participant):**
 - (i) the designated CCASS Participant must endorse the Application Form with its company chop (bearing its company name) and insert its participant I.D. in the appropriate box in the Application Form.

HOW TO APPLY FOR THE HONG KONG OFFER SHARES

(b) If the application is made by an individual CCASS Investor Participant:

- (i) the Application Form must contain the CCASS Investor Participant's full name and Hong Kong Identity Card number; and
- (ii) the CCASS Investor Participant must insert its participant I.D. in the appropriate box in the Application Form.

(c) If the application is made by a joint individual CCASS Investor Participant:

- (i) the Application Form must contain all joint CCASS Investor Participants' full names and the Hong Kong Identity Card numbers of all joint CCASS Investor Participants; and
- (ii) the participant I.D. must be inserted in the appropriate box in the Application Form.

(d) If the application is made by a corporate CCASS Investor Participant:

- (i) the Application Form must contain your company name and the Hong Kong business registration number; and
- (ii) the participant I.D. and company chop (bearing its company name) must be inserted in the appropriate box in the Application Form.

Incorrect or omission of details of the CCASS Participant or (including participant I.D. and/or company chop bearing the Company name) or other similar matters may render your application invalid.

If your application is made through a duly authorized attorney, we and the Joint Sponsors, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers, the Underwriters and their respective agents or nominees as our agents may accept it at our discretion, and subject to any conditions we think fit, including evidence of the authority of your attorney. We and the Joint Global Coordinators, in their capacity as our agents, will have full discretion to reject or accept any application, in full or in part, without assigning any reason.

APPLYING THROUGH WHITE FORM eIPO SERVICE

General

- (a) If you are an individual and meet the criteria set out above in the subsection entitled "Who can apply for the Hong Kong Offer Shares," you may apply through **White Form eIPO** service by submitting an application through designated website at www.eipo.com.hk. If you apply through **White Form eIPO** service, the H Shares will be issued in your own name.

HOW TO APPLY FOR THE HONG KONG OFFER SHARES

- (b) Detailed instructions for application through the **White Form eIPO** service are set out on the designated website at www.eipo.com.hk. You should read these instructions carefully. If you do not follow the instructions, your application may be rejected by the designated **White Form eIPO** Service Provider and may not be submitted to our Company.
- (c) In addition to the terms and conditions set out in this prospectus, the designated **White Form eIPO** Service Provider may impose additional terms and conditions upon you for the use of the **White Form eIPO** service. Such terms and conditions are set out on the designated website at www.eipo.com.hk. You will be required to read, understand and agree to such terms and conditions in full prior to making any application.
- (d) By submitting an application to the designated **White Form eIPO** Service Provider through the **White Form eIPO** service (www.eipo.com.hk), you are deemed to have authorized the designated **White Form eIPO** Service Provider to transfer the details of your application to our Company and our H Share Registrar.
- (e) You may submit an application through the **White Form eIPO** service in respect of a minimum of 400 Hong Kong Offer Shares. Each **electronic application instruction** in respect of more than 400 Hong Kong Offer Shares must be in one of the numbers set out in the table in the Application Forms, or as otherwise specified on the designated website at www.eipo.com.hk.
- (f) You may submit your application to the designated **White Form eIPO** Service Provider through the designated website at www.eipo.com.hk from 9:00 a.m. on Tuesday, April 17, 2012 until 11:30 a.m. on Friday, April 20, 2012 or such later time as described under the subsection entitled “Effect of Bad Weather on the Opening of the Application Lists” below (24 hours daily, except on the last application day). The latest time for completing full payment of application monies in respect of such applications will be 12:00 noon on Friday, April 20, 2012 the last application day, or, if the application lists are not open on that day, then by the time and date stated in the subsection entitled “Effect of Bad Weather on the Opening of the Application Lists” below.
- (g) You will not be permitted to submit your application to the designated **White Form eIPO** Service Provider through the designated website at www.eipo.com.hk after 11:30 a.m. on the last day for submitting applications. If you have already submitted your application and obtained an application reference number from the website prior to 11:30 a.m., you will be permitted to continue the application process (by completing payment of application monies) until 12:00 noon on the last day for submitting applications, when the application lists close. If you do not make complete payment of the application monies (including any related fees) on or before 12:00 noon on Friday, April 20, 2012, or such later time as described under the subsection entitled “Effect of Bad Weather on the Opening of the Application

HOW TO APPLY FOR THE HONG KONG OFFER SHARES

Lists” below, the designated **White Form eIPO** Service Provider will reject your application and your application monies will be returned to you in the manner described in the designated website at www.eipo.com.hk.

- (h) **Warning:** The application for Hong Kong Offer Shares through the **White Form eIPO** service (www.eipo.com.hk) is only a facility provided by the designated **White Form eIPO** Service Provider to public investors. Our Company, the Directors, the Joint Sponsors, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers, the Underwriters and the **White Form eIPO** Service Provider take no responsibility for such applications, and provide no assurance that applications through the **White Form eIPO** service (www.eipo.com.hk) will be submitted to our Company or that you will be allotted any Hong Kong Offer Shares.

Environmental Protection

The obvious advantage of **White Form eIPO** is to save the use of papers via the self-serviced and electronic application process. Computershare Hong Kong Investor Services Limited being the designated **White Form eIPO** Service Provider will contribute HK\$2.00 for each “HAITONG SECURITIES CO., LTD.” **White Form eIPO** application submitted via www.eipo.com.hk to support the funding of “Source of DongJiang – Hong Kong Forest” project initiated by Friends of the Earth (HK).

Please note that Internet services may have capacity limitations and/or be subject to service interruptions from time to time. To ensure that you can submit your applications through the **White Form eIPO** service (www.eipo.com.hk), you are advised not to wait until the last day for submitting applications in the Hong Kong Public Offering to submit your **electronic application instructions**. In the event that you have problems connecting to the designated website for the **White Form eIPO** service (www.eipo.com.hk), you should submit a **WHITE** Application Form. However, once you have submitted **electronic application instructions** and completed payment in full using the application reference number provided to you on the designated website, you will be deemed to have made an actual application and should not submit a **WHITE** Application Form. Please see “– How Many Applications May Be Made”.

Additional information

For the purposes of allocating Hong Kong Offer Shares, each applicant giving **electronic application instructions** through **White Form eIPO** service to the **White Form eIPO** Service Provider through the designated website at www.eipo.com.hk will be treated as an applicant.

If your payment of application monies is insufficient, or in excess of the required amount, having regard to the number of Hong Kong Offer Shares for which you have applied, or if your application is otherwise rejected by the designated **White Form eIPO** Service Provider, the designated **White Form eIPO** Service Provider may adopt alternative arrangements for the refund of monies to you. Please refer to the additional information provided by the designated **White Form eIPO** Service Provider on the designated website at www.eipo.com.hk.

HOW TO APPLY FOR THE HONG KONG OFFER SHARES

APPLYING BY GIVING ELECTRONIC APPLICATION INSTRUCTIONS TO HKSCC VIA CCASS

General

CCASS Participants may give **electronic application instructions** to HKSCC to apply for the Hong Kong Offer Shares and to arrange payment of the monies due on application and payment of refunds. This will be in accordance with their participant agreements with HKSCC and the General Rules of CCASS and the CCASS Operational Procedures.

If you are a CCASS Investor Participant, you may give **electronic application instructions** through the CCASS Phone System by calling +852 2979 7888 or through the CCASS Internet System (<https://ip.ccass.com>) (under the procedures contained in HKSCC's "An Operating Guide for Investor Participants" in effect from time to time). HKSCC can also input **electronic application instructions** for you if you go to:

Hong Kong Securities Clearing Company Limited
Customer Service Counter
2nd Floor, Infinitus Plaza
199 Des Voeux Road Central
Hong Kong

and complete an input request form. Prospectuses are available for collection from the above address.

If you are not a CCASS Investor Participant, you may instruct your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give **electronic application instructions** via CCASS terminals to apply for the Hong Kong Offer Shares on your behalf.

You are deemed to have authorized HKSCC and/or HKSCC Nominees to transfer the details of your application, whether submitted by you or through your broker or custodian, to our Company, the Joint Sponsors, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers, the Underwriters and the H Share Registrar.

Giving electronic application instructions to HKSCC to apply for Hong Kong Offer Shares by HKSCC Nominees on your behalf

Where a **WHITE** Application Form is signed by HKSCC Nominees on behalf of persons who have given **electronic application instructions** to apply for the Hong Kong Offer Shares:

- (i) HKSCC Nominees is only acting as a nominee for those persons and shall not be liable for any breach of the terms and conditions of the **WHITE** Application Form or this prospectus;
- (ii) HKSCC Nominees does the following things, among others, on behalf of each such person:

HOW TO APPLY FOR THE HONG KONG OFFER SHARES

- agrees that the Hong Kong Offer Shares to be allotted shall be issued in the name of HKSCC Nominees and deposited directly into CCASS for the credit of the stock account of the CCASS Participant who has inputted **electronic application instructions** on that person's behalf or that person's CCASS Investor Participant stock account;
- undertakes and agrees to accept the Hong Kong Offer Shares in respect of which that person has given **electronic application instructions** or any lesser number;
- undertakes and confirms that person has not indicated an interest for, applied for or taken up or indicated an interest for, any Offer Shares under the International Offering nor otherwise participated in the International Offering;
- (if the **electronic application instructions** are given for that person's own benefit) declares that only one set of **electronic application instructions** has been given for that person's benefit;
- (if that person is an agent for another person) declares that person has only given one set of **electronic application instructions** for the benefit of that other person and that person is duly authorized to give those instructions as that other person's agent;
- understands that the above declaration will be relied upon by our Company, the Directors, the Joint Sponsors, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers and the Underwriters in deciding whether or not to make any allotment of the Hong Kong Offer Shares in respect of the **electronic application instructions** given by that person and that person may be prosecuted if he makes a false declaration;
- authorizes our Company to place the name of HKSCC Nominees on our register of members as the holder of the Hong Kong Offer Shares allotted in respect of that person's **electronic application instructions** and to send share certificate(s) and/or refund monies in accordance with the arrangements separately agreed between us and HKSCC;
- confirms that person has read the terms and conditions and application procedures set out in this prospectus and agrees to be bound by them;
- confirms that person has only relied on the information and representations in this prospectus in giving that person's **electronic application instructions** or instructing that person's broker or custodian to give **electronic application instructions** on that person's behalf save as set out in any supplement to this prospectus;

HOW TO APPLY FOR THE HONG KONG OFFER SHARES

- agrees that our Company, the Joint Sponsors, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers, the Underwriters, their respective directors, officers, employees, partners, agents, advisors and any other parties involved in the Global Offering are liable only for the information and representations contained in this prospectus and any supplement thereto;
- agrees to disclose that person's personal data to our Company, the H Share Registrar, the receiving bankers, the Joint Sponsors, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers, the Underwriters and/or their respective agents and any information which they may require about that person;
- agrees (without prejudice to any other rights which that person may have) that once the application of HKSCC Nominees has been accepted, the application cannot be rescinded for innocent misrepresentation;
- agrees that any application made by HKSCC Nominees on behalf of that person pursuant to **electronic application instructions** given by that person cannot be revoked on or before the fifth day after the time of the opening of the application lists (excluding for this purpose any day which is not a business day), such agreement to take effect as a collateral contract with us and to become binding when that person gives the instructions and such collateral contract to be in consideration of our Company agreeing that we will not offer any Hong Kong Offer Shares to any person on or before the fifth day after the time of the opening of the application lists (excluding for this purpose any day which is not a business day), except by means of one of the procedures referred to in this prospectus. However, HKSCC Nominees may revoke the application on or before the fifth day after the time of the opening of the application lists (excluding for this purpose any day which is not a business day) if a person responsible for this prospectus under Section 40 of the Companies Ordinance gives a public notice under that section which excludes or limits the responsibility of that person for this prospectus;
- agrees that once the application of HKSCC Nominees is accepted, neither that application nor that person's **electronic application instructions** can be revoked, and that acceptance of that application will be evidenced by the announcement of the results of the Hong Kong Public Offering published by our Company;
- agrees to the arrangements, undertakings, warranties representations and declarations specified in the participant agreement between that person and HKSCC, read with the General Rules of CCASS and the CCASS Operational Procedures, in respect of the giving of **electronic application instructions** relating to Hong Kong Offer Shares;

HOW TO APPLY FOR THE HONG KONG OFFER SHARES

- agrees with our Company, for ourselves and for the benefit of each of the Shareholders (and so that we will be deemed by our acceptance in whole or in part of the application by HKSCC Nominees to have agreed, for ourselves and on behalf of each of the Shareholders, with each CCASS Participant giving **electronic application instructions**) to observe and comply with the Company Law, the Companies Ordinance and the Articles of Association;

- agrees with our Company, for itself and for the benefit of each shareholder of our Company and each director, supervisor, manager and other senior officer of our Company (and so that our Company will be deemed by its acceptance in whole or in part of this application to have agreed, for itself and on behalf of each shareholder of our Company and each director, supervisor, manager and other senior officer of our Company, with each CCASS Participant giving **electronic application instructions**):
 - (a) to refer all differences and claims arising from the Articles of Association of our Company or any rights or obligations conferred or imposed by the Company Law or other relevant laws and administrative regulations concerning the affairs of our Company to arbitration in accordance with the Articles of Association of our Company;

 - (b) that any award made in such arbitration shall be final and conclusive; and

 - (c) that the arbitration tribunal may conduct hearings in open sessions and publish its award;

- agrees with our Company (for ourselves and for the benefit of each shareholder of our Company) that H shares in our Company are freely transferable by their holders;

- authorizes our Company to enter into a contract on its behalf with each director and officer of our Company whereby each such director and officer undertakes to observe and comply with his obligations to shareholders stipulated in the Articles of Association of our Company; and

- agrees that that person's application, any acceptance of it and the resulting contract will be governed by and construed in accordance with the laws of Hong Kong.

HOW TO APPLY FOR THE HONG KONG OFFER SHARES

Effect of giving electronic application instructions to HKSCC via CCASS

By giving **electronic application instructions** to HKSCC or instructing your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give such instructions to HKSCC, you (and, if you are joint applicants, each of you jointly and severally) are deemed to have done the following things. Neither HKSCC nor HKSCC Nominees shall be liable to our Company or any other person in respect of the things mentioned below:

- instructed and authorized HKSCC to cause HKSCC Nominees (acting as nominee for the relevant CCASS Participants) to apply for the Hong Kong Offer Shares on your behalf;
- instructed and authorized HKSCC to arrange payment of the maximum offer price, brokerage, SFC transaction levy and Hong Kong Stock Exchange trading fee by debiting your designated bank account and, in the case of a wholly or partially unsuccessful application and/or if the Offer Price is less than the offer price per H Share initially paid on application, refund of the application monies, in each case including brokerage, SFC transaction levy and Hong Kong Stock Exchange trading fee, by crediting your designated bank account; and
- instructed and authorized HKSCC to cause HKSCC Nominees to do on your behalf all the things which it is stated in the **WHITE** Application Form.

Multiple Applications

If you are suspected of having made multiple applications or if more than one application is made for your benefit, the number of Hong Kong Offer Shares applied for by HKSCC Nominees will be automatically reduced by the number of Hong Kong Offer Shares in respect of which you have given such instructions and/or in respect of which such instructions have been given for your benefit. Any **electronic application instructions** to make an application for the Hong Kong Offer Shares given by you or for your benefit to HKSCC shall be deemed to be an actual application for the purposes of considering whether multiple applications have been made.

Minimum Subscription Amount and Permitted numbers

You may give or cause your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give **electronic application instructions** in respect of a minimum of 400 Hong Kong Offer Shares. Each **electronic application instruction** in respect of more than 400 Hong Kong Offer Shares must be in one of the numbers set out in the table in the **WHITE** and **YELLOW** Application Forms. No application for any other number of Hong Kong Offer Shares will be considered and any such application is liable to be rejected.

HOW TO APPLY FOR THE HONG KONG OFFER SHARES

Allocation of the Hong Kong Offer Shares

For the purposes of allocating the Hong Kong Offer Shares, HKSCC Nominees will not be treated as an applicant. Instead, each CCASS Participant who gives **electronic application instructions** or each person for whose benefit each such instructions is given will be treated as an applicant.

Timing for Inputting electronic application instructions to HKSCC via CCASS

CCASS Clearing/Custodian Participants can input **electronic application instructions** at the following times on the following dates:

Tuesday, April 17, 2012 – 9:00 a.m. to 8:30 p.m.⁽¹⁾
Wednesday, April 18, 2012 – 8:00 a.m. to 8:30 p.m.⁽¹⁾
Thursday, April 19, 2012 – 8:00 a.m. to 8:30 p.m.⁽¹⁾
Friday, April 20, 2012 – 8:00 a.m.⁽¹⁾ to 12:00 noon

⁽¹⁾ These times are subject to change as HKSCC may determine from time to time with prior notification to CCASS Clearing/Custodian Participants.

CCASS Investor Participants can input **electronic application instructions** from 9:00 a.m. on Tuesday, April 17, 2012 until 12:00 noon on Friday, April 20, 2012 (24 hours daily, except the last application day).

The latest time for inputting **electronic application instructions** will be 12:00 noon on Friday, April 20, 2012, the last application day, or if the application lists are not open on that day, by the time and date stated in the subsection entitled “Effect of Bad Weather Conditions on the Opening of the Application Lists” below.

Section 40 of the Companies Ordinance

For the avoidance of doubt, our Company and all other parties involved in the preparation of this prospectus acknowledge that each CCASS Participant who gives or causes to give **electronic application instructions** is a person who may be entitled to compensation under Section 40 of the Companies Ordinance (as applied by section 342E of the Companies Ordinance).

Personal Data

The section of the Application Form entitled “Personal Data” applies to any personal data held by us and our H Share Registrar about you in the same way as it applies to personal data about applicants other than HKSCC Nominees.

HOW TO APPLY FOR THE HONG KONG OFFER SHARES

Warning

The subscription for the Hong Kong Offer Shares by giving **electronic application instructions** to HKSCC is only a facility provided to CCASS Participants. Our Company, the Directors, the Joint Sponsors, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers, and the Underwriters take no responsibility for the application and provide no assurance that any CCASS Participant will be allotted any Hong Kong Offer Shares.

To ensure that CCASS Investor Participants can give their **electronic application instructions** to HKSCC through the CCASS Phone System or the CCASS Internet System, CCASS Investor Participants are advised not to wait until the last minute to input their **electronic application instructions**. In the event that CCASS Investor Participants have problems connecting to the CCASS Phone System or the CCASS Internet System to submit their **electronic application instructions**, they should either:

- (i) submit a **WHITE** or **YELLOW** Application Form; or
- (ii) go to HKSCC's Customer Service Centre to complete an input request form for **electronic application instructions** before 12:00 noon on Friday, April 20, 2012, or such later time as described under the subsection entitled "Effect of Bad Weather Conditions on the Opening of the Application Lists" below.

HOW MANY APPLICATIONS MAY BE MADE

You may make more than one application for the Hong Kong Offer Shares if and only if you are a nominee, in which case you may make an application as a nominee by (i) giving **electronic application instructions** to HKSCC (if you are a CCASS Participant) or; (ii) using a **WHITE** or **YELLOW** Application Form, and lodging more than one Application Form in your own name if each application is made on behalf of different beneficial owners. In the box on the Application Form marked "For nominees" you must include:

- an account number; or
- some other identification code,

for each beneficial owner or, in the case of joint beneficial owners, for each such beneficial owner. If you do not include this information, the application will be treated as being made for your benefit.

Otherwise, multiple applications are not allowed. It will be a term and condition of all applications that by completing and delivering an Application Form, you:

- (if the application is made for your own benefit) warrant that this is the only application which has been or will be made for your benefit on a **WHITE** or **YELLOW** Application Form or by giving **electronic application instructions** to

HOW TO APPLY FOR THE HONG KONG OFFER SHARES

HKSCC via CCASS if you are a CCASS Investor Participant or applying through a CCASS Clearing Participant or Custodian Participant or to the designated **White Form eIPO** Service Provider through **White Form eIPO** service (www.eipo.com.hk);

- (if you are an agent for another person) warrant that reasonable enquiries have been made of that other person that this is the only application which has been or will be made for the benefit of that other person on a **WHITE** or **YELLOW** Application Form or by giving **electronic application instructions** to HKSCC or to the designated **White Form eIPO** Service Provider through **White Form eIPO** service (www.eipo.com.hk) and that you are duly authorized to sign the Application Form as that other person's agent.

Except where you are a nominee and provide the information required to be provided in your application, all of your applications will be rejected as multiple applications if you, or you and your joint applicant(s) together:

- make more than one application (whether individually or jointly) on a **WHITE** or **YELLOW** Application Form or by giving **electronic application instructions** to HKSCC via CCASS if you are a CCASS Investor Participant or applying through a CCASS Clearing Participant or Custodian Participant or to the designated **White Form eIPO** Service Provider through **White Form eIPO** service (www.eipo.com.hk); or
- apply both (whether individually or jointly) on one **WHITE** Application Form and one **YELLOW** Application Form or on one **WHITE** or **YELLOW** Application Form and give **electronic application instructions** to HKSCC via CCASS if you are a CCASS Investor Participant or applying through a CCASS Clearing Participant or Custodian Participant or to the designated **White Form eIPO** Service Provider through **White Form eIPO** service (www.eipo.com.hk); or
- apply (whether individually or jointly) on one **WHITE** or **YELLOW** Application Form or by giving **electronic application instructions** to HKSCC via CCASS if you are a CCASS Investor Participant or applying through a CCASS Clearing Participant or Custodian Participant or to the designated **White Form eIPO** Service Provider through **White Form eIPO** service (www.eipo.com.hk) for more than 30,734,800 H Shares, being approximately 50.0% of the Offer Shares initially being offered for public subscription under the Hong Kong Public Offering, as more particularly described in the subsection entitled "Structure of the Global Offering – The Hong Kong Public Offering" in this prospectus; or
- have applied for or taken up, or indicated an interest for, or have been or will be placed or allocated (including conditionally and/or provisionally) Offer Shares under the International Offering.

HOW TO APPLY FOR THE HONG KONG OFFER SHARES

All of your applications will also be rejected as multiple applications if more than one application on a **WHITE** or **YELLOW** Application Form or by giving **electronic application instructions** to HKSCC or to the designated **White Form eIPO** Service Provider through **White Form eIPO** service is made for your benefit (including the part of the application made by HKSCC Nominees acting on **electronic application instructions**). If an application is made by an unlisted company and:

- the principal business of that company is dealing in securities; and
- you exercise statutory control over that company,

then the application will be treated as being for your benefit.

Unlisted company means a company with no equity securities listed on the Hong Kong Stock Exchange.

Statutory control in relation to a company means you:

- control the composition of the board of directors of the company; or
- control more than half of the voting power of the company; or
- hold more than half of the issued share capital of the company (not counting any part of it which carries no right to participate beyond a specified amount in a distribution of either profits or capital).

HOW MUCH ARE THE HONG KONG OFFER SHARES

The maximum Offer Price is HK\$11.18 per H Share. You must also pay a brokerage of 1%, SFC transaction levy of 0.003% and the Hong Kong Stock Exchange trading fee of 0.005%. This means that for one board lot of 400 H Shares you will pay HK\$4,517.07. The Application Forms have tables showing the exact amount payable for numbers of H Shares up to 30,734,800 H Shares.

You must pay the maximum Offer Price, brokerage, SFC transaction levy and the Hong Kong Stock Exchange trading fee in full upon application for the H Shares by a check or a banker's cashier order in accordance with the terms set out in the Application Forms (if you apply by an Application Form).

If your application is successful, brokerage is paid to participants of the Hong Kong Stock Exchange, the SFC transaction levy and the Hong Kong Stock Exchange trading fee are paid to the Hong Kong Stock Exchange (in the case of the SFC transaction levy, collected on behalf of the SFC).

HOW TO APPLY FOR THE HONG KONG OFFER SHARES

REFUND OF APPLICATION MONIES

If you do not receive any Hong Kong Offer Shares for any reason, we will refund your application monies, including brokerage of 1%, SFC transaction levy of 0.003% and Hong Kong Stock Exchange trading fee of 0.005%. No interest will be paid thereon. All interest accrued on such monies prior to the date of dispatch of e-Refund payment instructions/refund checks/share certificates will be retained for our benefit.

If your application is accepted only in part, we will refund the appropriate portion of your application monies, including the related brokerage of 1%, SFC transaction levy of 0.003% and Hong Kong Stock Exchange trading fee of 0.005%, without interest.

If the Offer Price as finally determined is less than HK\$11.18 per H Share, appropriate refund payments, including the brokerage of 1%, SFC transaction levy of 0.003% and Hong Kong Stock Exchange trading fee of 0.005% attributable to the surplus application monies will be made to successful applicants, without interest. Details of the procedure for refund are set out below in the subsection entitled “Dispatch/Collection of H Share Certificates and Refund Monies” below.

In a contingency situation involving a substantial over-subscription, at the discretion of our Company and the Joint Global Coordinators, checks for applications for certain small denominations of Hong Kong Offer Shares on Application Forms (apart from successful applications) may not be cleared.

Refund of your application monies (if any) will be made on Thursday, April 26, 2012 in accordance with the various arrangements as described in this section.

MEMBERS OF THE PUBLIC – TIME FOR APPLYING FOR HONG KONG OFFER SHARES

Completed **WHITE** or **YELLOW** Application Forms, together with payment attached, must be lodged by 12:00 noon on Friday, April 20, 2012, or, if the application lists are not open on that day, then by the time and date stated in the subsection entitled “Effect of Bad Weather on the Opening of the Application Lists” below.

Your completed Application Form, together with payment attached, should be deposited in the special collection boxes provided at any of the branches of the receiving banks listed under the section entitled “Where to Collect the Prospectus and Application Forms” above at the following times:

Tuesday, April 17, 2012 – 9:00 a.m. to 4:30 p.m.
Wednesday, April 18, 2012 – 9:00 a.m. to 4:30 p.m.
Thursday, April 19, 2012 – 9:00 a.m. to 4:30 p.m.
Friday, April 20, 2012 – 9:00 a.m. to 12:00 noon

The application lists will be open from 11:45 a.m. to 12:00 noon on Friday, April 20, 2012.

HOW TO APPLY FOR THE HONG KONG OFFER SHARES

No proceedings will be taken on applications for the Offer Shares and no allotment of any such Offer Shares will be made until the closing of the application lists. No allotment of any of the Offer Shares will be made earlier than Thursday, April 26, 2012.

EFFECT OF BAD WEATHER ON THE OPENING OF THE APPLICATION LISTS

The application lists will not open if there is:

- a tropical cyclone warning signal number 8 or above; or
- a “black” rainstorm warning

in force in Hong Kong at any time between 9:00 a.m. and 12:00 noon on Friday, April 20, 2012. Instead they will open between 11:45 a.m. and 12:00 noon on the next Business Day which does not have either of those warnings in Hong Kong in force at any time between 9:00 a.m. and 12:00 noon on such day.

Business Day means a day that is not a Saturday, Sunday or a public holiday in Hong Kong.

PUBLICATION OF RESULTS

We expect to announce the Offer Price, the indication of the level of interest in the International Offering, the basis of allotment of the Hong Kong Offer Shares and the indication of the level of applications under the Hong Kong Public Offering on Thursday, April 26, 2012 in the South China Morning Post (in English) and the Hong Kong Economic Times (in Chinese). The allotment results as published in the newspapers will also be posted on the website of the Hong Kong Stock Exchange (www.hkexnews.hk) and on the website of our Company (www.htsec.com) on Thursday, April 26, 2012.

In addition, we expect to announce the level of applications and the Hong Kong identity card/passport/Hong Kong business registration numbers of successful applicants under the Hong Kong Public Offering at the times and dates and in the manner specified below:

- (a) Results of allocations for the Hong Kong Public Offering will be available from our designated results of allocations websites at (www.iporesults.com.hk), (www.htsec.com) and (www.hkexnews.hk) on a 24-hour basis from 8:00 a.m. on Thursday, April 26, 2012 to 12:00 midnight on Wednesday, May 2, 2012. The user will be required to key in the Hong Kong identity card/passport/Hong Kong business registration number provided in his/her/its application to search for his/her/its own allocation result;
- (b) Results of allocations will be available from our Hong Kong Public Offering allocation results telephone enquiry line. Applicants may find out whether or not their applications have been successful and the number of Offer Shares allocated to them, if any, by calling 2862 8669 between 9:00 a.m. and 10:00 p.m. from Thursday, April 26, 2012 to Sunday, April 29, 2012; and

HOW TO APPLY FOR THE HONG KONG OFFER SHARES

- (c) Special allocation results booklets setting out the results of allocations will be available for inspection during opening hours of individual branches and sub-branches from Thursday, April 26, 2012 to Monday, April 30, 2012 at all the receiving bank branches and sub-branches at the addresses set out in the subsection entitled “Where to Collect the Prospectus and the Application Forms” above.

CIRCUMSTANCES IN WHICH YOU WILL NOT BE ALLOTTED HONG KONG OFFER SHARES

Full details of the circumstances in which you will not be allotted the Hong Kong Offer Shares are set out in the notes attached to the relevant Application Forms (whether you are making your application by an Application Form or electronically instructing HKSCC to cause HKSCC Nominees to apply on your behalf), and you should read them carefully. You should note in particular the following situations in which the Hong Kong Offer Shares will not be allotted to you:

- **If your application is revoked:**

By completing and submitting an Application Form or giving an **electronic application instruction**, you agree that your application or the application made by HKSCC Nominees or to the designated **White Form eIPO** Service Provider through **White Form eIPO** service (www.eipo.com.hk) on your behalf cannot be revoked on or before the fifth day after the time of the opening of the application lists (excluding for this purpose any day which is not a business day). This agreement will take effect as a collateral contract with our Company, and will become binding when you lodge your Application Form or give your **electronic application instruction** to HKSCC and an application has been made by HKSCC Nominees on your behalf accordingly. This collateral contract will be in consideration of our Company agreeing that we will not offer any Hong Kong Offer Shares to any person on or before the fifth day after the time of the opening of the application lists (excluding for this purpose any day which is not a business day) except by means of one of the procedures referred to in this prospectus.

Your application or the application made by HKSCC Nominees on your behalf may be revoked on or before the fifth day after the time of the opening of the application lists (excluding for this purpose any day which is not a business day) if a person responsible for this prospectus under section 40 of the Hong Kong Companies Ordinance gives a public notice under that section which excludes or limits the responsibility of that person for this prospectus.

If any supplement to this prospectus is issued, applicant(s) who have already submitted an application may or may not (depending on the information contained in the supplement) be notified that they can withdraw their applications. If applicant(s) have not been so notified, or if applicant(s) have been notified but have not withdrawn their applications in accordance with the procedure to be notified, all applications that have been submitted remain valid and may be accepted. Subject to the above, an application once made is irrevocable and applicants shall be deemed to have applied on the basis of this prospectus as supplemented.

HOW TO APPLY FOR THE HONG KONG OFFER SHARES

If your application or the application made by HKSCC Nominees or to the designated **White Form eIPO** Service Provider through **White Form eIPO** service (www.eipo.com.hk) on your behalf has been accepted, it cannot be revoked. For this purpose, acceptance of applications which are not rejected will be constituted by notification in the press of the results of allocation, and where such basis of allocation is subject to certain conditions or provides for allocation by ballot, such acceptance will be subject to the satisfaction of such conditions or results of the ballot respectively.

- **Full discretion of our Company or our agents to reject or accept your application:**

Our Company, the Joint Global Coordinators (as our agents) and the **White Form eIPO** Service Provider or the respective agents and nominees, have full discretion to reject or accept any application, or to accept only part of any application.

Our Company, the Joint Global Coordinators and the **White Form eIPO** Service Provider in their capacity as our agents, and the respective agents and nominees do not have to give any reason for any rejection or acceptance.

- **If the allotment of Hong Kong Offer Shares is void:**

The allotment of Hong Kong Offer Shares to you or to HKSCC Nominees (if you give **electronic application instructions** to HKSCC or apply by a **YELLOW** Application Form) will be void if the Listing Committee of the Hong Kong Stock Exchange does not grant permission to list the H Shares either:

- within three weeks from the closing of the application lists; or
 - within a longer period of up to six weeks if the Listing Committee of the Hong Kong Stock Exchange notifies our Company of that longer period within three weeks of the closing date of the application lists.
- **You will not receive any allotment if:**
 - you make multiple applications or suspected multiple applications;
 - you or the person for whose benefit you are applying have applied for or taken up, or indicated an interest for, or have been or will be placed or allocated (including conditionally and/or provisionally) Hong Kong Offer Shares and/or Offer Shares in the International Offering. By filling in any of the Application Forms or applying by giving **electronic application instructions** you agree not to apply for Hong Kong Offer Shares as well as the International Offering Shares in the International Offering. Reasonable steps will be taken to identify and reject applications in the Hong Kong Public Offering from investors who have received Offer Shares in the International Offering, and to identify and reject indications of interest in the International Offering from investors who have received Hong Kong Offer Shares in the Hong Kong Public Offering;

HOW TO APPLY FOR THE HONG KONG OFFER SHARES

- the number of shares you have applied for is not one of the numbers as set out in the payment tables in the Application Forms;
- your application is not completed in accordance with the instructions as stated in the Application Forms (if you apply by an Application Form) or on the **White Form eIPO** website;
- your payment is not made correctly or you pay by check or banker's cashier order and the check or banker's cashier order is dishonored upon its first presentation;
- the Underwriting Agreements do not become unconditional;
- the Underwriting Agreements are terminated in accordance with their respective terms;
- our Company or the Joint Global Coordinators believe that by accepting your application, they would violate the applicable securities or other laws, rules or regulations; or
- your application is for more than 50% of the Hong Kong Offer Shares initially offered for public subscription under the Hong Kong Public Offering.

DESPATCH/COLLECTION OF H SHARE CERTIFICATES AND REFUND MONIES

If an application is rejected, not accepted or accepted in part only, or if the Offer Price as finally determined is less than the Offer Price of HK\$11.18 per H Share (excluding brokerage, SFC transaction levy and Hong Kong Stock Exchange trading fee thereon) initially paid on application, or if the conditions of the Hong Kong Public Offering are not fulfilled in accordance with the subsection entitled "Structure of the Global Offering – Conditions of the Global Offering" in this prospectus or if any application is revoked or any allotment pursuant thereto has become void, the application monies, or the appropriate portion thereof, together with the related brokerage, SFC transaction levy and Hong Kong Stock Exchange trading fee, will be refunded, without interest. It is intended that special efforts will be made to avoid any undue delay in refunding application monies where appropriate.

You will receive one H Share certificate for all the Hong Kong Offer Shares issued to you under the Hong Kong Public Offering (except pursuant to applications made on **YELLOW** Application Forms or by **electronic application instructions** to HKSCC via CCASS where the H Share certificates will be deposited into CCASS as described below).

HOW TO APPLY FOR THE HONG KONG OFFER SHARES

No temporary document of title will be issued in respect of the H Shares. No receipt will be issued for sums paid on application but, subject to personal collection as mentioned below, in due course they will be sent to you (or, in the case of joint applicants, to the first-named applicant) by ordinary post, at your own risk, to the address specified on the application:

- (a) for applications on **WHITE** Application Forms or **White Form eIPO**:
 - (i) H Share certificate(s) for all the Hong Kong Offer Shares applied for, if the application is wholly successful; or
 - (ii) H Share certificate(s) for the number of Hong Kong Offer Shares successfully applied for, if the application is partially successful; and/or
- (b) for applications on **WHITE** or **YELLOW** Application Forms, refund check(s) will be crossed “Account Payee Only” in favor of the applicant (or, in the case of joint applicants, the first-named applicant) for (i) the surplus application monies for the Hong Kong Offer Shares unsuccessfully applied for, if the application is partially unsuccessful; or (ii) all the application monies, if the application is wholly unsuccessful; and/or (iii) the difference between the Offer Price and the maximum offer price per H Share paid on application in the event that the Offer Price is less than the offer price per H Share initially paid on application, in each case including brokerage of 1%, SFC transaction levy of 0.003% and Hong Kong Stock Exchange trading fee of 0.005%, attributable to such refund/surplus monies but without interest. Part of your Hong Kong identity card number/passport number, or, if you are joint applicants, part of the Hong Kong identity card number/passport number of the first-named applicant, provided by you may be printed on your refund check, if any. Such data would also be transferred to a third party for refund purpose. Your banker may require verification of your Hong Kong identity card number/passport number before encashment of your refund check. Inaccurate completion of your Hong Kong identity card number/passport number may lead to delay in encashment of, or may invalidate, your refund check.

Subject to personal collection as mentioned below, refund checks for surplus application monies (if any) in respect of wholly and partially unsuccessful applications and the difference between the Offer Price and the offer price per H Share initially paid on application (if any) under **WHITE** or **YELLOW** Application Forms; and H Share certificates for wholly and partially successful applicants under **WHITE** Application Forms and the **White Form eIPO** service are expected to be posted on or before Thursday, April 26, 2012. The right is reserved to retain any H Share certificate(s) and any surplus application monies pending clearance of check(s).

H Share certificates will only become valid certificates of title at 8:00 a.m. on Friday, April 27, 2012 provided that the Hong Kong Public Offering has become unconditional in all respects and the right of termination described in the subsection entitled “Underwriting – Underwriting Arrangements and Expenses – Hong Kong Public Offering – Hong Kong Underwriting Agreement – Grounds for Termination” in this prospectus has not been exercised.

HOW TO APPLY FOR THE HONG KONG OFFER SHARES

(a) If you apply using a WHITE Application Form:

If you apply for 1,000,000 or more Hong Kong Offer Shares and have indicated your intention in your **WHITE** Application Form respectively to collect your refund check(s) (where applicable) and/or H Share certificate(s) (where applicable) in person and have provided all information required by your Application Form, you may collect your refund check(s) (where applicable) and H Share certificate(s) (where applicable) from our H Share Registrar, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, from 9:00 a.m. to 1:00 p.m. on Thursday, April 26, 2012 or such other date as notified by us in the newspapers as the date of collection/dispatch of e-Refund payment instructions/refund checks/share certificates. If you are an individual who opts for personal collection, you must not authorize any other person to make collection on your behalf. If you are a corporate applicant which opts for personal collection, you must attend by your authorized representative bearing a letter of authorization from your corporation stamped with your corporation's chop. Both individuals and authorized representatives (if applicable) must produce, at the time of collection, evidence of identity acceptable to our H Share Registrar. If you do not collect your refund check(s) (where applicable) and/or H Share certificate(s) (where applicable) personally within the time specified for collection, they will be sent to the address as specified in your Application Form promptly thereafter by ordinary post and at your own risk.

If you apply for less than 1,000,000 Hong Kong Offer Shares or if you apply for 1,000,000 Hong Kong Offer Shares or more but have not indicated on your Application Form that you will collect your refund check(s) (where applicable) and/or H Share certificate(s) (where applicable) in person, your refund check(s) (where applicable) and/or H Share certificate(s) (where applicable) will be sent to the address on your Application Form on Thursday, April 26, 2012, by ordinary post and at your own risk.

(b) If you apply using a YELLOW Application Form:

If you apply for 1,000,000 Hong Kong Offer Shares or more and you have elected on your **YELLOW** Application Form to collect your refund check (where applicable) in person, please follow the same instructions as those for **WHITE** Application Form applicants as described above.

If you apply for Hong Kong Offer Shares using a **YELLOW** Application Form and your application is wholly or partially successful, your H Share certificate(s) will be issued in the name of HKSCC Nominees and deposited into CCASS for credit to your CCASS Investor Participant stock account or the stock account of your designated CCASS Participant as instructed by you in your Application Form on Thursday, April 26, 2012 or, under contingent situation, on any other date as shall be determined by HKSCC or HKSCC Nominees.

HOW TO APPLY FOR THE HONG KONG OFFER SHARES

If you are applying through a designated CCASS Participant (other than a CCASS Investor Participant):

- for Hong Kong Offer Shares credited to the stock account of your designated CCASS Participant (other than a CCASS Investor Participant), you can check the number of Hong Kong Offer Shares allocated to you with that CCASS Participant.

If you are applying as a CCASS Investor Participant:

- our Company expects to publish the results of CCASS Investor Participants' applications together with the results of the Hong Kong Public Offering in the manner described in the section headed "Publication of Results" above on Thursday, April 26, 2012. You should check the announcement published by our Company and report any discrepancies to HKSCC before 5:00 p.m. on Thursday, April 26, 2012 or such other date as shall be determined by HKSCC or HKSCC Nominees. Immediately after the credit of the Hong Kong Offer Shares to your stock account, you can check your new account balance via the CCASS Phone System and the CCASS Internet System (under the procedures contained in HKSCC's "An Operating Guide for Investor Participants" in effect from time to time). HKSCC will also make available to you an activity statement showing the number of Hong Kong Offer Shares credited to your stock account.

(c) If you apply through White Form eIPO service:

If you apply for 1,000,000 Hong Kong Offer Shares or more through the **White Form eIPO** service and your application is wholly or partially successful, you may collect your H Share certificate(s) in person from our H Share Registrar, Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, from 9:00 a.m. to 1:00 p.m. on Thursday, April 26, 2012, or such other date as notified by our Company in the newspapers as the date of dispatch of e-Refund payment instructions/refund check(s)/share certificate(s).

If you do not collect your H Share certificate(s) personally within the specified period for collection, they will be sent to the address specified in your instructions to the **White Form eIPO** Service Provider promptly thereafter by ordinary post and at your own risk.

If you apply for less than 1,000,000 Hong Kong Offer Shares, your H Share certificate(s) will be sent to the address specified in your application instructions to the designated **White Form eIPO** Service Provider through the designated website at www.eipo.com.hk on Thursday, April 26, 2012, by ordinary post and at your own risk.

If you apply through the **White Form eIPO** service (www.eipo.com.hk) by paying the application monies through a single bank account and your application is wholly or partially unsuccessful and/or the final Offer Price is different from the offer price initially paid on your application, e-refund payment instructions (if any) will be dispatched to the application payment account on Thursday, April 26, 2012.

HOW TO APPLY FOR THE HONG KONG OFFER SHARES

If you apply through the **White Form eIPO** service (www.eipo.com.hk) by paying the application monies through multiple bank accounts and your application is wholly or partially unsuccessful and/or the final Offer Price is different from the offer price initially paid on your application, refund check(s) will be sent to the address specified in your application instructions to the designated **White Form eIPO** Service Provider on Thursday, April 26, 2012, by ordinary post and at your own risk.

Please also note the additional information relating to refund of application monies overpaid, application money underpaid or applications rejected by the designated **White Form eIPO** Service Provider set out in the subsection entitled “Applying through **White Form eIPO** Service – Additional Information” above.

(d) If you apply by giving electronic application instructions to HKSCC:

Allocation of Hong Kong Offer Shares

For the purposes of allocating Hong Kong Offer Shares, HKSCC Nominees will not be treated as applicants. Instead, each CCASS Participant who gives **electronic application instructions** or each person for whose benefit each such instructions is given will be treated as an applicant.

Deposit of H Share Certificates into CCASS and Refund of application monies

- No temporary document of title will be issued. No receipt will be issued for application monies received.
- If your application is wholly or partially successful, your H Share certificate(s) will be issued in the name of HKSCC Nominees and deposited into CCASS for the credit of the stock account of the CCASS Participant which you have instructed to give **electronic application instructions** on your behalf or your CCASS Investor Participant stock account on Thursday, April 26, 2012, or, in the event of a contingency, on any other date as shall be determined by HKSCC or HKSCC Nominees.
- We expect to publish the application results of CCASS Participants (and where the CCASS Participant is a broker or custodian, we will include information relating to the relevant beneficial owner), your Hong Kong Identity Card/passport number or other identification code (Hong Kong business registration number for corporations) and the basis of allotment of the Hong Kong Public Offering in the manner described in the subsection entitled “Publication of Results” above on Thursday, April 26, 2012. You should check the announcement published by us and report any discrepancies to HKSCC before 5:00 p.m. on Thursday, April 26, 2012 or such other date as shall be determined by HKSCC or HKSCC Nominees.

HOW TO APPLY FOR THE HONG KONG OFFER SHARES

- If you have instructed your broker or custodian to give **electronic application instructions** on your behalf, you can also check the number of Hong Kong Offer Shares allotted to you and the amount of refund monies (if any) payable to you with that broker or custodian.
- If you have applied as a CCASS Investor Participant, you can also check the number of Hong Kong Offer Shares allotted to you and the amount of refund monies (if any) payable to you via the CCASS Phone System and the CCASS Internet System (under the procedures contained in HKSCC's "An Operating Guide for Investor Participants" in effect from time to time) on Thursday, April 26, 2012. Immediately after the credit of the Hong Kong Offer Shares to your CCASS Investor Participant stock account and the credit of refund monies to your designated bank account, HKSCC will also make available to you an activity statement showing the number of Hong Kong Offer Shares credited to your CCASS Investor Participant stock account and the amount of refund monies (if any) credited to your designated bank account.
- Refund of your application monies (if any) in respect of wholly and partially unsuccessful applications and/or difference between the Offer Price and the offer price per H Share initially paid on application, in each case including brokerage of 1%, SFC transaction levy of 0.003% and Hong Kong Stock Exchange trading fee of 0.005%, will be credited to your designated bank account or the designated bank account of your broker or custodian on Thursday, April 26, 2012. No interest will be paid thereon.

H SHARES WILL BE ELIGIBLE FOR ADMISSION INTO CCASS

If the Hong Kong Stock Exchange grants the listing of, and permission to deal in, the H Shares and we comply with the stock admission requirements of HKSCC, the H Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the date of commencement of dealings in the H Shares on the Hong Kong Stock Exchange or any other date HKSCC chooses. Settlement of transactions between participants of the Hong Kong Stock Exchange is required to take place in CCASS on the second Business Day after any trading day.

All activities under CCASS are subject to the General Rules of CCASS and Operational Procedures in effect from time to time.

Investors should seek the advice of their stockbroker or other professional advisor for details of the settlement arrangement as such arrangements may affect their rights and interests.

All necessary arrangements have been made enabling the H Shares to be admitted into CCASS.

FURTHER TERMS AND CONDITIONS OF THE HONG KONG PUBLIC OFFERING

GENERAL

- (a) If you apply for Hong Kong Offer Shares in the Hong Kong Public Offering, you will be agreeing with our Company and the Joint Global Coordinators (for itself and on behalf of the Hong Kong Underwriters) as set out below.
- (b) If you give **electronic application instructions** to HKSCC via CCASS to cause HKSCC Nominees to apply for Hong Kong Offer Shares on your behalf, you will have authorized HKSCC Nominees to apply on the terms and conditions set out below, as supplemented and amended by the terms and conditions applicable to the relevant application method.

If you give **electronic application instructions** through the designated website at www.eipo.com.hk, you will have authorized the designated **White Form eIPO** Service Provider to apply on the terms and conditions set out below, as supplemented and amended by the terms and conditions applicable to the **White Form eIPO** service.

- (c) In this section, references to “you,” “applicants,” “joint applicants” and other like references shall, if the context so permits, include references to making applications electronically by submitting an application to the designated **White Form eIPO** Service Provider through the designated website for the **White Form eIPO** service and both nominees and principals on whose behalf HKSCC Nominees are applying for Hong Kong Offer Shares, and references to the making of an application shall, if the context so permits, include references to making applications electronically by giving instructions to HKSCC.
- (d) Applicants should read this prospectus carefully, including the terms and conditions set out herein and in the Application Forms or imposed by HKSCC prior to making any application for Hong Kong Offer Shares.

OFFER TO PURCHASE THE HONG KONG OFFER SHARES

- (e) You offer to purchase from us at the Offer Price the number of the Hong Kong Offer Shares indicated in your Application Form (or any smaller number in respect of which your application is accepted) on the terms and conditions set out in this prospectus and the relevant Application Form.
- (f) For applicants using Application Forms, a refund check in respect of the surplus application monies (if any) representing the Hong Kong Offer Shares applied for but not allocated to you and representing the difference (if any) between the Final Offer Price and the maximum Offer Price (including the brokerage, SFC transaction levy and the Hong Kong Stock Exchange trading fee attributable thereto), is expected to be sent to you at your own risk to the address stated on your Application Form on or before Thursday, April 26, 2012. Details of the procedure for refunds relating to each of the Hong Kong Public Offering methods are contained below in the sections

FURTHER TERMS AND CONDITIONS OF THE HONG KONG PUBLIC OFFERING

headed “– If Your Application for Hong Kong Offer Shares is Successful (in Whole or in Part),” “– Refund of Application Monies” and “– Additional Information for Applicants Applying by Giving Electronic Application Instructions to HKSCC.”

- (g) Any application may be rejected in whole or in part.
- (h) Applicants under the Hong Kong Public Offering should note that in no circumstances (save for those provided under section 40 of the Hong Kong Companies Ordinance) can applications be withdrawn once submitted. For the avoidance of doubt, our Company and all other parties involved in the preparation of this prospectus acknowledge that each CCASS Participant who gives, or causes to give, **electronic application instructions** to HKSCC via CCASS is a person who may be entitled to compensation under section 40 of the Hong Kong Companies Ordinance.

The section of the application form headed “Personal Data” applies to any personal data held by the Company and the H Share Registrar about you in the same way as it applies to personal data about applicants other than HKSCC Nominees.

ACCEPTANCE OF YOUR OFFER

- (i) The Hong Kong Offer Shares will be allocated after the application lists close. We expect to announce the final number of Hong Kong Offer Shares, the level of applications under the Hong Kong Public Offering and the basis of allocations of the Hong Kong Offer Shares in the South China Morning Post (in English) and the Hong Kong Economic Times (in Chinese), and on the website of the Hong Kong Stock Exchange at www.hkexnews.hk and our website at www.htsec.com on Thursday, April 26, 2012.
- (j) The results of allocations of the Hong Kong Offer Shares under the Hong Kong Public Offering, including the Hong Kong identity card numbers, passport numbers or Hong Kong business registration numbers (where applicable) of successful applicants and the number of Hong Kong Offer Shares successfully applied for, will be made available on Thursday, April 26, 2012 in the manner described in the section headed “How to Apply for the Hong Kong Offer Shares – Publication of Results”.
- (k) We may accept your offer to purchase (if your application is received, valid, processed and not rejected) by announcing the basis of allocations and/or making available the results of allocations publicly.
- (l) If we accept your offer to purchase (in whole or in part), there will be a binding contract under which you will be required to purchase the Hong Kong Offer Shares in respect of which your offer has been accepted if the conditions of the Global Offering are satisfied or the Global Offering is not otherwise terminated. Further details are contained in the section headed “Structure of the Global Offering.”

FURTHER TERMS AND CONDITIONS OF THE HONG KONG PUBLIC OFFERING

- (m) You will not be entitled to exercise any remedy of rescission for innocent misrepresentation at any time after acceptance of your application. This does not affect any other right you may have.

EFFECT OF MAKING ANY APPLICATION

- (n) By completing and submitting any Application Form, you:
- instruct and authorize our Company and/or the Joint Global Coordinators (or its agents or nominees) to execute any transfer forms, contract notes or other documents on your behalf and to do on your behalf all other things necessary to effect the registration of any Hong Kong Offer Shares allocated to you in your name(s) or HKSCC Nominees, as the case may be, as required by our Articles of Association and otherwise to give effect to the arrangements described in this prospectus and the relevant Application Form;
 - undertake to sign all documents and to do all things necessary to enable you or HKSCC Nominees, as the case may be, to be registered as the holder of the Hong Kong Offer Shares allocated to you, and as required by our Articles of Association;
 - represent, warrant and undertake that you understand that the H Shares have not been and will not be registered under the U.S. Securities Act and you are outside the United States when completing the Application Form (as defined in Regulation S under the U.S. Securities Act);
 - confirm that you have received and/or read a copy of this prospectus and have only relied on the information and representations contained in this prospectus in making your application, and will not rely on any other information or representation save as set out in any supplement to this prospectus;
 - confirm that you understand entirely that our registered share capital comprises A Shares and H Shares and that holders of H Shares shall have the same right as holders of A Shares save as to certain rights to which holders of H Shares are entitled;
 - agree (without prejudice to any other rights which you may have) that once your application has been accepted, you may not rescind it because of an innocent misrepresentation;
 - (if the application is made for your own benefit) warrant that the application is the only application that will be made for your benefit on a **WHITE** or **YELLOW** Application Form or by giving **electronic application instructions** to HKSCC via CCASS or to the designated **White Form eIPO** Service Provider via **White Form eIPO** service (www.eipo.com.hk);

FURTHER TERMS AND CONDITIONS OF THE HONG KONG PUBLIC OFFERING

- (if the application is made by an agent on your behalf) warrant that you have validly and irrevocably conferred on your agent all necessary power and authority to make the application;
- (if you are an agent for another person) warrant that the application is the only application which will be made for the benefit of that other person on a **WHITE** or **YELLOW** Application Form or by giving **electronic application instructions** to HKSCC via CCASS or to the designated **White Form eIPO** Service Provider via **White Form eIPO** service (www.eipo.com.hk) and that you are duly authorized to sign the Application Form or to give **electronic application instruction** as that other person's agent;
- undertake and confirm that you (if the application is made for your benefit) or the person(s) for whose benefit you have made the application have not applied for or taken up or indicated an interest in or received or been placed or allocated (including conditionally and/or provisionally) and will not apply for or take up or indicate any interest in any Offer Shares in the International Offering, nor otherwise participate in the International Offering;
- warrant the truth and accuracy of the information contained in your application;
- agree that your application, any acceptance of it and the resulting contract will be governed by and construed in accordance with the laws of Hong Kong;
- undertake and agree to accept the H Shares applied for, or any lesser number allocated to you under the application;
- authorize our Company to place your name(s) or HKSCC Nominees, as the case may be, on our register of members as the holder(s) of any Hong Kong Offer Shares allocated to you, and our Company and/or our agents to send any H Share certificate(s) (where applicable) and/or any refund check (where applicable) to you or (in case of joint applicants) the first-named applicant in the Application Form by ordinary post at your own risk to the address stated on your Application Form (except if you have applied for 1,000,000 Hong Kong Offer Shares or more and have indicated in your Application Form your wish to collect your refund check and H Share certificates (where applicable) in person);
- understand that these declarations and representations will be relied upon by our Company and the Joint Sponsors, Joint Global Coordinators and the Joint Bookrunners, the Joint Lead Managers and the Underwriters in deciding whether or not to allocate any Hong Kong Offer Shares in response to your application;

FURTHER TERMS AND CONDITIONS OF THE HONG KONG PUBLIC OFFERING

- if the laws of any place outside Hong Kong are applicable to your application, you agree and warrant that you have complied with all such laws and none of our Company, the Joint Sponsors, the Global Coordinators, the Joint Bookrunners, the Joint Lead Managers and the Underwriters, and the other parties involved in the Global Offering nor any of their respective officers or advisors will infringe any laws outside Hong Kong as a result of the acceptance of your offer to purchase, or any actions arising from your rights and obligations under the terms and conditions contained in this prospectus;
- agree with the Company, for itself and for the benefit of each Shareholder of the Company, and so that the Company will be deemed by its acceptance in whole or in part of the application, including applications made by HKSCC Nominees, to have agreed for itself and on behalf of each Shareholder of the Company, to observe and comply with the Company Law, the Special Regulations, and the Articles of Association;
- agree with our Company, and each Shareholder, Director, Supervisor, manager and officer of our Company, and our Company acting for itself and for each director, supervisor, manager and officer agrees with each Shareholder of our Company to refer all differences and claims arising from our Articles of Association or any rights or obligations conferred or imposed by the Company Law or other relevant laws and administrative regulations concerning our affairs to arbitration in accordance with our Articles of Association, and any reference to arbitration shall be deemed to authorize the arbitration tribunal to conduct hearings in open session and to publish its award, which shall be final and conclusive;
- agree with our Company and each Shareholder that the H Shares in our Company are freely transferable by the holder thereof;
- confirm that you understand entirely that our registered share capital comprises A Shares and H Shares and that holders of H Shares shall have the same right as holders of A Shares save as to the differences due to the listing rules requirements of the stock exchange where the Shares are listed;
- authorize our Company to enter into a contract on your behalf with each of our directors, supervisors and officers whereby each such director, supervisor and officer undertakes to observe and comply with his obligations to Shareholders as stipulated in our Articles of Association;
- agree that our Company, the Joint Sponsors, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers, the Underwriters and any of their respective directors, officers, employees, agents or advisors and any other parties involved in the Global Offering are liable only for, and that you have only relied upon, the information and representations contained in this prospectus and any supplement to this prospectus; and

FURTHER TERMS AND CONDITIONS OF THE HONG KONG PUBLIC OFFERING

- agree to disclose to our Company, our H Share Registrar, the receiving bankers, the Joint Sponsors, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers, the Underwriters and their respective advisors and agents any personal data or other information that they require about you or the person(s) for whose benefit you have made the application.
- (o) If you apply for the Hong Kong Offer Shares using a **YELLOW** Application Form, in addition to the confirmations and agreements referred to in (a) above, you (and if you are joint applicants, each of you jointly and severally) agree that:
- any Hong Kong Offer Shares allocated to you shall be registered in the name of HKSCC Nominees and deposited directly into CCASS operated by HKSCC for credit to your CCASS Investor Participant stock account or the stock account of your designated CCASS Participant in accordance with your election on the Application Form;
 - each of HKSCC and HKSCC Nominees reserves the right (1) not to accept any or part of such allotted Hong Kong Offer Shares issued in the name of HKSCC Nominees or not to accept such allotted Hong Kong Offer Shares for deposit into CCASS; (2) to cause such allotted Hong Kong Offer Shares to be withdrawn from CCASS and transferred into your name (or, if you are a joint applicant, to the first-named applicant) at your own risk and costs; and (3) to cause such allotted Hong Kong Offer Shares to be issued in your name (or, if you are a joint applicant, to the first-named applicant) and in such a case, to post the H Share certificates for such allotted Hong Kong Offer Shares at your own risk to the address on your Application Form by ordinary post or to make available the same for your collection;
 - each of HKSCC and HKSCC Nominees may adjust the number of allotted Hong Kong Offer Shares issued in the name of HKSCC Nominees;
 - neither HKSCC nor HKSCC Nominees shall have any liability for the information and representations not so contained in this prospectus and the Application Form;
 - neither HKSCC nor HKSCC Nominees shall be liable to you in any way.
- (p) In addition, by giving **electronic application instructions** to HKSCC or instructing your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give such instructions to HKSCC, you (and if you are joint applicants, each of you jointly and severally) are deemed to have done the following things. Neither HKSCC nor HKSCC Nominees shall be liable to our Company or any other person in respect of the things mentioned below:
- instructed and authorized HKSCC to cause HKSCC Nominees (acting as nominee for the relevant CCASS Participants) to apply for the Hong Kong Offer Shares on your behalf;

FURTHER TERMS AND CONDITIONS OF THE HONG KONG PUBLIC OFFERING

- instructed and authorized HKSCC to arrange payment of the maximum offer price, brokerage, SFC transaction levy and the Hong Kong Stock Exchange trading fee by debiting your designated bank account and, in the case of a wholly or partially unsuccessful application and/or the offer price is less than the offer price per H Share initially paid on application, refund of the application monies, in each case including brokerage, SFC transaction levy and the Hong Kong Stock Exchange trading fee, by crediting your designated bank account;

- (where a **WHITE** Application Form is signed by HKSCC Nominees on behalf of persons who have given **electronic application instructions** to apply for the Hong Kong Offer Shares) (i) HKSCC Nominees is only acting as nominee for those persons and shall not be liable for any breach of the terms and conditions of the **WHITE** Application Form or this prospectus; (ii) in addition to the confirmations and agreements set out in paragraph (a) above, instructed and authorized HKSCC to cause HKSCC Nominees to do on your behalf all the things which it has stated to do on your behalf in the **WHITE** Application Form, and the following:
 - agree that the Hong Kong Offer Shares to be allocated shall be issued in the name of HKSCC Nominees and deposited directly into CCASS for the credit of the stock account of the CCASS Participant who has inputted **electronic application instructions** on your behalf or your CCASS Investor Participant stock account;

 - undertake and agree to accept the Hong Kong Offer Shares in respect of which you have given **electronic application instructions** or any lesser number;

 - (if the **electronic application instructions** are given for your own benefit) declare that only one set of **electronic application instructions** has been given for your benefit;

 - (if you are an agent for another person) declare that you have only given one set of **electronic application instructions** for the benefit of that other person and that you are duly authorized to give those instructions as that other person's agent;

 - understand that the above declaration will be relied upon by our Company, the directors and the Joint Global Coordinators in deciding whether or not to make any allotment of Hong Kong Offer Shares in respect of the **electronic application instructions** given by you and that you may be prosecuted if you make a false declaration;

FURTHER TERMS AND CONDITIONS OF THE HONG KONG PUBLIC OFFERING

- authorize our Company to place the name of HKSCC Nominees on the register of members of our Company as the holder of the Hong Kong Offer Shares allotted in respect of your **electronic application instructions** and to send H Share certificate(s) and/or refund monies in accordance with the arrangements separately agreed between our Company and HKSCC;
- confirm that you have read the terms and conditions and application procedures set out in this prospectus and agree to be bound by them;
- confirm that you have only relied on the information and representations in this prospectus in giving your **electronic application instructions** or instructing your broker or custodian to give **electronic application instructions** on your behalf; agree (without prejudice to any other rights which that person may have) that once the application of HKSCC Nominees has been accepted, the application cannot be rescinded for innocent misrepresentation;
- agree that any application made by HKSCC Nominees on behalf of you pursuant to the **electronic application instructions** given by you is irrevocable on or before the fifth day after the time of the opening of the application lists (excluding for this purpose any day which is not a business day), such agreement to take effect as a collateral contract with our Company and to become binding when you give the instructions and such collateral contract to be in consideration of our Company agreeing that we will not offer any Hong Kong Offer Shares to any person before the fifth day after the time of the opening of the application lists (excluding for this purpose any day which is not a business day), except by means of one of the procedures referred to in this prospectus. However, HKSCC Nominees may revoke the application on or before the fifth day after the time of the opening of the application lists (excluding for this purpose any day which is not a business day), if a person responsible for this prospectus under Section 40 of the Hong Kong Companies Ordinance gives a public notice under that section which excludes or limits the responsibility of that person for this prospectus;
- agree that once the application of HKSCC Nominees is accepted, neither that application nor your **electronic application instructions** can be revoked, and that acceptance of that application will be evidenced by the announcement of the results of the Hong Kong Public Offering published by our Company;
- agree to the arrangements, undertakings and warranties specified in the participant agreement between you and HKSCC, read with the General Rules of CCASS and the CCASS Operational Procedures, in respect of the giving of **electronic application instructions** relating to Hong Kong Offer Shares;

FURTHER TERMS AND CONDITIONS OF THE HONG KONG PUBLIC OFFERING

- agree with our Company, for itself and for the benefit of each of the Shareholders of our Company (and so that our Company will be deemed by its acceptance in whole or in part of the application by HKSCC Nominees to have agreed, for itself and on behalf of each of the Shareholders of our Company, with each CCASS Participant giving **electronic application instructions**) to observe and comply with the Company Law, the Special Regulations and our Articles of Association; and
- agree with our Company, for itself and for the benefit of each of the Shareholders of our Company and each director, supervisor, manager and other officer (and so that our Company will be deemed by its acceptance in whole or in part of this application to have agreed, for itself and on behalf of each of the Shareholders of our Company and each director, supervisor, manager and other officer, with each CCASS Participant giving **electronic application instructions**):
 - (i) to refer all differences and claims arising from our Articles of Association or any rights or obligations conferred or imposed by the Company Law or other relevant laws and administrative regulations concerning its affairs to arbitration in accordance with our Articles of Association; and
 - (ii) that any reference to arbitration shall be deemed to authorize the arbitration tribunal to conduct hearings in open session and to publish its award, which arbitration shall be final and conclusive.
- (q) Our Company, the Joint Sponsors, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers, the Underwriters and their respective directors and any other parties involved in the Global Offering are entitled to rely on any warranty(ies), representation(s) or declaration(s) made by you in your application.
- (r) All the warranties, representations, declarations and obligations expressed to be made, given or assumed by or imposed on the joint applicants shall be deemed to have been made, given or assumed by or imposed on the applicants jointly and severally.

MULTIPLE APPLICATIONS

- (s) It will be a term and condition of all applications that by completing and delivering an Application Form or giving **electronic application instructions**, you:
 - (if the application is made for your own benefit) warrant that this is the only application which will be made for your benefit on a **WHITE** or **YELLOW** Application Form or by giving **electronic application instructions** to HKSCC or to the designated **White Form eIPO** Service Provider via **White Form eIPO** service;

FURTHER TERMS AND CONDITIONS OF THE HONG KONG PUBLIC OFFERING

- (if you are an agent for another person) warrant that reasonable enquiries have been made of that other person that this is the only application which will be made for the benefit of that other person on a **WHITE** or **YELLOW** Application Form or by giving **electronic application instructions** to HKSCC or to the designated **White Form eIPO** Service Provider via **White Form eIPO** service, and that you are duly authorized to sign the Application Form as that other person's agent.
- (t) Except where you are a nominee and provide the information required to be provided in your application, all of your applications will be rejected as multiple applications if you, or you and your joint applicant(s) together:
- make more than one application (whether individually or jointly) on a **WHITE** or **YELLOW** Application Form or by giving **electronic application instructions** to HKSCC or to the designated **White Form eIPO** Service Provider via **White Form eIPO** service;
 - both apply (whether individually or jointly) on one **WHITE** Application Form and one **YELLOW** Application Form or on one **WHITE** or **YELLOW** Application Form and give **electronic application instructions** to HKSCC or to the designated **White Form eIPO** Service Provider via **White Form eIPO** service;
 - apply on one **WHITE** or **YELLOW** Application Form (whether individually or jointly) or by giving **electronic application instructions** to HKSCC or to the designated **White Form eIPO** Service Provider via **White Form eIPO** service for more than 30,734,800 H Shares initially being offered for public subscription under the Hong Kong Public Offering, as more particularly described in the section entitled "Structure of the Global Offering – The Hong Kong Public Offering"; or
 - have applied for or taken up, or indicated an interest for, or have been or will be placed (including conditionally and/or provisionally) Offer Shares under the International Offering.
- (u) All of your applications will also be rejected as multiple applications if more than one application is made for your benefit (including the part of the application made by HKSCC Nominees acting on **electronic application instructions**). If an application is made by an unlisted company and
- the principal business of that company is dealing in securities; and
 - you exercise statutory control over that company, then the application will be treated as being for your benefit.

Unlisted company means a company with no equity securities listed on the Hong Kong Stock Exchange.

FURTHER TERMS AND CONDITIONS OF THE HONG KONG PUBLIC OFFERING

Statutory control means you:

- control the composition of the board of directors of the company; or
- control more than half of the voting power of the company; or
- hold more than half of the issued share capital of the company (not counting any part of it which carries no right to participate beyond a specified amount in a distribution of either profits or capital).

CIRCUMSTANCES IN WHICH YOU WILL NOT BE ALLOTTED HONG KONG OFFER SHARES

You should note the following situations in which Hong Kong Offer Shares will not be allotted to you or your application is liable to be rejected:

(v) If your application is revoked:

By completing and submitting an Application Form or **electronic application instructions** to HKSCC or to the designated **White Form eIPO** Service Provider via **White Form eIPO** service you agree that your application or the application made by HKSCC Nominees on your behalf cannot be revoked on or before the fifth day after the time of the opening of the application lists (excluding for this purpose any day which is not a business day). This agreement will take effect as a collateral contract with our Company, and will become binding when you lodge your Application Form or submit your **electronic application instructions** to HKSCC and an application has been made by HKSCC Nominees on your behalf accordingly or to the designated **White Form eIPO** Service Provider via **White Form eIPO** service. This collateral contract will be in consideration of our Company agreeing that we will not offer any Hong Kong Offer Shares to any person on or before the fifth day after the time of the opening of the application lists (excluding for this purpose any day which is not a business day) except by means of one of the procedures referred to in this prospectus.

Your application or the application made by HKSCC Nominees on your behalf may be revoked on or before the fifth day after the time of the opening of the application lists (excluding for this purpose any day which is not a business day), if a person responsible for this prospectus under section 40 of the Hong Kong Companies Ordinance gives a public notice under that section which excludes or limits the responsibility of that person for this prospectus.

If any supplement to this prospectus is issued, applicant(s) who have already submitted an application may or may not (depending on the information contained in the supplement) be notified that they can withdraw their applications. If applicant(s) have not been so notified, or if applicant(s) have been notified but have not withdrawn their applications in accordance with the procedure to be notified, all applications that have been submitted remain valid and may be accepted. Subject to the above, an application once made is irrevocable and applicants shall be deemed to have applied on the basis of this prospectus as supplemented.

FURTHER TERMS AND CONDITIONS OF THE HONG KONG PUBLIC OFFERING

If your application or the application made by HKSCC Nominees on your behalf has been accepted, it cannot be revoked. For this purpose, acceptance of applications which are not rejected will be constituted by notification in the South China Morning Post (in English) and the Hong Kong Economic Times (in Chinese), and on the website of the Hong Kong Stock Exchange at www.hkexnews.hk and our website at www.htsec.com of the results of allocation, and where such basis of allocation is subject to certain conditions or provides for allocation by ballot, such acceptance will be subject to the satisfaction of such conditions or results of the ballot respectively.

(w) If our Company, the Joint Global Coordinators (where applicable) or their respective agents exercise their discretion to reject your application:

We and the Joint Global Coordinators (as agent for our Company) or the designated **White Form eIPO** Service Provider, or their respective agents and nominees, have full discretion to reject or accept any application, or to accept only part of any application, without having to give any reasons for any rejection or acceptance.

(x) If the allotment of Hong Kong Offer Shares is void:

The allotment of Hong Kong Offer Shares to you or to HKSCC Nominees (if you give **electronic application instructions** to HKSCC or apply by a **YELLOW** Application Form) will be void if the Listing Committee of the Hong Kong Stock Exchange does not grant permission to list the H Shares either:

- within three weeks from the closing of the application lists; or
- within a longer period of up to six weeks if the Listing Committee of the Hong Kong Stock Exchange notifies our Company of that longer period within three weeks of the closing date of the application lists.

(y) In the following circumstances:

- you make multiple applications or suspected multiple applications;
- you or the person for whose benefit you apply have applied for or taken up, or indicated an interest for, or have been or will be placed or allocated (including conditionally and/or provisionally) Offer Shares in the International Offering. By filling in any of the Application Forms or giving electronic instructions to HKSCC or to the designated **White Form eIPO** Service Provider via **White Form eIPO** service, you agree not to apply for Offer Shares in the International Offering. Reasonable steps will be taken to identify and reject applications in the Hong Kong Public Offering from investors who have received Offer shares in the International Offering, and to identify and reject indications of interest in the International Offering from investors who have received Hong Kong Offer Shares in the Hong Kong Public Offering;
- you apply for more than 30,734,800 Hong Kong Offer Shares initially being offered under the Hong Kong Public Offering;

FURTHER TERMS AND CONDITIONS OF THE HONG KONG PUBLIC OFFERING

- your payment is not made correctly or you pay by check or banker's cashier order and the check or banker's cashier order is dishonored upon its first presentation;
- your Application Form is not completed correctly and in accordance with the instructions;
- your **electronic application instructions** through the **White Form eIPO** service are not completed in accordance with the instructions, terms and conditions set out in the designated website at www.eipo.com.hk;

IF YOUR APPLICATION FOR HONG KONG OFFER SHARES IS SUCCESSFUL (IN WHOLE OR IN PART)

No temporary document of title will be issued in respect of the H Shares.

No receipt will be issued for sums paid on application.

You will receive one H share certificate for all of the Hong Kong Offer Shares issued to you under the Hong Kong Public Offering (except pursuant to applications made on yellow Application Forms or by **electronic application instructions** to HKSCC via CCASS, in which case H share certificates will be deposited in CCASS). H Share certificates will only become valid certificates of title at 8:00 a.m. on Friday, April 27, 2012 provided that the Hong Kong Public Offering has become unconditional in all respects and the right of termination described in the section entitled "Underwriting – Underwriting Arrangements and Expenses – Hong Kong Public Offering – Hong Kong Underwriting Agreement – Grounds for Termination" has not been exercised.

(z) **If you apply using a White Application Form:**

If you apply for 1,000,000 Hong Kong Offer Shares or more on a **WHITE** Application Form and have indicated your intention in your Application Form to collect your H Share certificate(s) and/or refund check (where applicable) from Computershare Hong Kong Investor Services Limited and have provided all information required by your Application Form, you may collect it/them in person from Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17/F, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong from 9:00 a.m. to 1:00 p.m. on Thursday, April 26, 2012 or such other date as notified by our Company in the South China Morning Post (in English) and the Hong Kong Economic Times (in Chinese), and on the website of the Hong Kong Stock Exchange at www.hkexnews.hk and our website at www.htsec.com as the date of despatch/collection of H Share certificates/e-Refund payment instructions/refund checks.

If you are an individual who opts for personal collection, you must not authorize any other person to make collection on your behalf. If you are a corporate applicant which opts for personal collection, you must attend by your authorized representative bearing a letter of authorization from your corporation stamped with your corporation's chop. Both individuals and authorized representatives (if applicable) must produce, at the time of collection, evidence of identity acceptable to Computershare Hong Kong Investor Services Limited.

FURTHER TERMS AND CONDITIONS OF THE HONG KONG PUBLIC OFFERING

If you do not collect your refund check(s) and/or H Share certificate(s) personally within the time specified for collection, they will be sent to the address as specified in your Application Form promptly thereafter by ordinary post and at your own risk. If you apply for less than 1,000,000 Hong Kong Offer Shares or if you apply for 1,000,000 Hong Kong Offer Shares or more but have not indicated on your Application Form that you will collect your refund check(s) and/or H Share certificate(s) (where applicable) in person, your refund check(s) and/or H Share certificate(s) (where applicable) will be sent to the address on your Application Form on Thursday, April 26, 2012, by ordinary post and at your own risk.

(aa) If you apply using a Yellow Application Form:

If you apply for Hong Kong Offer Shares using a **YELLOW** Application Form and your application is wholly or partially successful, your H Share certificate(s) will be issued in the name of HKSCC Nominees and deposited into CCASS for credit to your CCASS Investor Participant stock account or the stock account of your designated CCASS Participant as instructed by you in your Application Form on Thursday, April 26, 2012, or in the event of a contingency, on any other date as shall be determined by HKSCC Nominees.

If you are applying through a designated CCASS Participant (other than a CCASS Investor Participant) on a **YELLOW** Application Form for Hong Kong Offer Shares credited to the stock account of your designated CCASS Participant (other than a CCASS Investor Participant), you can check the number of Hong Kong Offer Shares allocated to you with that CCASS Participant.

If you are applying as a CCASS Investor Participant, our Company expects to publish the results of CCASS Investor Participants' applications together with the results of the Hong Kong Public Offering on Thursday, April 26, 2012 in the manner described in "How to Apply for the Hong Kong Offer Shares – Publication of Results". You should check the announcement to be published by our Company and report any discrepancies to HKSCC before 5:00 p.m. on Thursday, April 26, 2012 or such other date as shall be determined by HKSCC or HKSCC Nominees. Immediately after the credit of the Hong Kong Offer Shares to your stock account, you can check your new account balance via the CCASS Phone System and the CCASS Internet System (under the procedures contained in HKSCC's "An Operating Guide for Investor Participants" in effect from time to time). HKSCC will also make available to you an activity statement showing the number of Hong Kong Offer Shares credited to your stock account.

If you apply for 1,000,000 Hong Kong Offer Shares or more and you have elected on your **YELLOW** Application Form to collect your refund check (where applicable) in person, please follow the same procedure, as those for **WHITE** Application Form applicants as described above. If you have applied for 1,000,000 Hong Kong Offer Shares or above and have not indicated on your Application Form that you will collect your refund check (if any) in person, or if you have applied for less than 1,000,000 Hong Kong Offer Shares, your refund check (if any) will be sent to the address on your Application Form on the date of despatch, which is expected to be on Thursday, April 26, 2012, by ordinary post and at your own risk.

FURTHER TERMS AND CONDITIONS OF THE HONG KONG PUBLIC OFFERING

(bb) If you apply through White Form eIPO:

If you apply for 1,000,000 Hong Kong Offer Shares or more through the **White Form eIPO** service by submitting an electronic application to the designated **White Form eIPO** Service Provider through the designated website at www.eipo.com.hk and your application is wholly or partially successful, you may collect your H Share certificate(s) in person from Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, from 9:00 a.m. to 1:00 p.m. on Thursday, April 26, 2012, or such other date as notified by our company in the South China Morning Post (in English) and the Hong Kong Economic Times (in Chinese), and on the website of the Hong Kong Stock Exchange at www.hkexnews.hk and our website at www.htsec.com as the date of dispatch/collection of Share certificates/e-Refund payment instructions/refund checks.

If you do not collect your H Share certificate(s) personally within the time specified for collection, they will be sent to the address specified in your application instructions to the designated **White Form eIPO** Service Provider promptly thereafter by ordinary post and at your own risk.

If you apply for less than 1,000,000 Hong Kong Offer Shares, your H Share certificate(s) will be sent to the address specified in your application instructions to the designated **White Form eIPO** Service Provider through the designated website at www.eipo.com.hk on Thursday, April 26, 2012, by ordinary post and at your own risk.

If you paid the application monies from a single bank account, e-Refund payment instructions (if any) will be despatched to the application payment account on Thursday, April 26, 2012. If you used multi-bank accounts to pay the application monies, refund check (if any) will be despatched to you on Thursday, April 26, 2012.

Please also note the additional information relating to refund of application monies overpaid, application money underpaid or applications rejected by the designated **White Form eIPO** Service Provider set out in the section headed "How to Apply for the Hong Kong Offer Shares – Applying through **White Form eIPO** Service – Additional Information."

FURTHER TERMS AND CONDITIONS OF THE HONG KONG PUBLIC OFFERING

REFUND OF APPLICATION MONIES

Your application monies, or the appropriate portion thereof, together with the related brokerage of 1%, SFC transaction levy of 0.003% and the Hong Kong Stock Exchange trading fee of 0.005%, will be refunded if:

- your application is rejected, not accepted or accepted in part only or if you do not receive any Hong Kong Offer Shares for any of the reasons set out above in the section headed “Further Terms and Conditions of the Hong Kong Public Offering – Circumstances in Which You Will Not be Allotted Hong Kong Offer Shares”;
- the Offer Price as finally determined is less than the Offer Price of HK\$11.18 per H Share (excluding brokerage, SFC transaction levy and the Hong Kong Stock Exchange trading fee thereon) initially paid on application;
- the conditions of the Hong Kong Public Offering are not fulfilled in accordance with the section headed “Structure of the Global Offering – Conditions of the Global Offering”;
- any application is revoked or any allotment pursuant thereto has become void.

No interest will be paid thereon. All interest accrued on such monies prior to the date of refund will be retained for our benefit.

In a contingency situation involving a substantial over-subscription, at the discretion of our Company and the Joint Global Coordinators, checks for applications for certain small denominations of Hong Kong Offer Shares (apart from successful and reserved applications) may not be cleared.

Refund of your application monies (if any) will be made on Thursday, April 26, 2012 in accordance with the various arrangements as described above. Refund checks will be crossed “Account Payee Only” made out to you, or if you are joint applicants, to the first-named applicant. Part of your Hong Kong identity card number or passport number, or, if you are joint applicants, part of the Hong Kong identity card number or passport number of the first-named applicant, provided by you may be printed on your refund check, if any. Such data would also be transferred to a third party for refund purposes. Your banker may require verification of your Hong Kong identity card number or passport number before encashment of your refund check. Inaccurate completion of your Hong Kong identity card number or passport number may lead to delay in encashment of or may invalidate your refund check. It is intended that special efforts will be made to avoid any undue delay in refunding application monies where appropriate.

**ADDITIONAL INFORMATION FOR APPLICANTS APPLYING BY GIVING
ELECTRONIC APPLICATION INSTRUCTIONS TO HKSCC**

(cc) Allocation of Hong Kong Offer Shares

For the purposes of allocating Hong Kong Offer Shares, HKSCC Nominees will not be treated as an applicant. Instead, each CCASS Participant who gives **electronic application instructions** or each person for whose benefit each such instructions is given will be treated as an applicant.

**(dd) Deposit of H Share Certificates into CCASS and Refund of Application
Monies**

- No temporary document of title will be issued. No receipt will be issued for sums on paid application.
- If your application is wholly or partially successful, your H share certificate(s) will be issued in the name of HKSCC Nominees and deposited into CCASS for the credit of the stock account of the CCASS Participant which you have instructed to give **electronic application instructions** on your behalf or your CCASS Investor Participant stock account on Thursday, April 26, 2012, or, in the event of a contingency, on any other date as shall be determined by HKSCC or HKSCC Nominees Limited.
- Our Company expects to publish the application results of CCASS Participants (and where the CCASS Participant is a broker or custodian, our Company will include information relating to the relevant beneficial owner), your Hong Kong identity card/passport number or other identification code (Hong Kong business registration number for corporations) and the basis of allotment of the Hong Kong Public Offering on Thursday, April 26, 2012 in the manner described in “How to Apply for the Hong Kong Offer Shares – Publication of Results”. You should check the announcement published by our Company and report any discrepancies to HKSCC before 5:00 p.m. on Thursday, April 26, 2012 or such other date as shall be determined by HKSCC or HKSCC Nominees.
- If you have instructed your broker or custodian to give **electronic application instructions** on your behalf, you can also check the number of Hong Kong Offer Shares allotted to you and the amount of refund monies (if any) payable to you with that broker or custodian.

FURTHER TERMS AND CONDITIONS OF THE HONG KONG PUBLIC OFFERING

- If you have applied as a CCASS Investor Participant, you can also check the number of Hong Kong Offer Shares allotted to you and the amount of refund monies (if any) payable to you via the CCASS Phone System and the CCASS Internet System (under the procedures contained in HKSCC's "An Operating Guide for Investor Participants" in effect from time to time) on Thursday, April 26, 2012. Immediately following the credit of the public offer shares to your stock account and the credit of the refund monies to your bank account, HKSCC will also make available to you an activity statement showing the number of Hong Kong Offer Shares credited to your CCASS Investor Participant stock account and the amount of refund monies (if any) credited to your designated bank account.
- Refund of your application monies (if any) in respect of wholly and partially unsuccessful applications and/or difference between the Offer Price and the offer price per H Share initially paid on application, in each case including brokerage of 1%, SFC transaction levy of 0.003% and the Hong Kong Stock Exchange trading fee of 0.005%, will be credited to your designated bank account or the designated bank account of your broker or custodian on Thursday, April 26, 2012. No interest will be paid thereon.

Shares will be eligible for CCASS

Subject to the granting of listing of, and permission to deal in, the H shares on the Hong Kong Stock Exchange as well as the compliance with the stock admission requirements of HKSCC, the H shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the date of commencement of dealings in the H shares on the Hong Kong Stock Exchange or on any other date HKSCC chooses. Settlement of transactions between participants of the Hong Kong Stock Exchange is required to take place in CCASS on the second business day after any trading day.

All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time.

All necessary arrangements have been made for the H shares to be admitted into CCASS.

Commencement of dealings in the Shares

- Dealings in the H Shares on the Hong Kong Stock Exchange are expected to commence on Friday, April 27, 2012.
- The H Shares will be traded in board lots of 400 Shares.

FURTHER TERMS AND CONDITIONS OF THE HONG KONG PUBLIC OFFERING

PERSONAL DATA

The main provisions of the Personal Data (Privacy) Ordinance (Chapter 486 of the Laws of Hong Kong) (the “Ordinance”) came into effect in Hong Kong on December 20, 1996. This Personal Information Collection Statement informs the applicant for and holder of our H Shares of the policies and practices of our Company and our H Share Registrar in relation to personal data and the Ordinance.

(ee) Reasons for the collection of your personal data

From time to time it is necessary for applicants for securities or registered holders of securities to supply their latest correct personal data to our Company and our H Share Registrar when applying for securities or transferring securities into or out of their names or in procuring the services of the H Share Registrar.

Failure to supply the requested data may result in your application for securities being rejected or in delay or inability of our Company or the H Share Registrar to effect transfers or otherwise render their services. It may also prevent or delay registration or transfer of the Hong Kong Offer Shares which you have successfully applied for and/or the despatch of H Share Certificate(s), and/or the despatch of e-Refund payment instructions, and/or the despatch of refund check(s) to which you are entitled.

It is important that holders of securities inform us and our H Share Registrar immediately of any inaccuracies in the personal data supplied.

(ff) Purposes

The personal data of the applicants and the holders of securities may be used, held and/or stored (by whatever means) for the following purposes:

- processing of your application and e-Refund payment instructions/refund check, where applicable, and verification of compliance with the terms and application procedures set out in the Application Forms and this prospectus and announcing results of allocations of the Hong Kong Offer Shares;
- enabling compliance with all applicable laws and regulations in Hong Kong and elsewhere;
- registering new issues or transfers into or out of the name of holders of securities including, where applicable, in the name of HKSCC Nominees;
- maintaining or updating the register of holders of securities of our Company;

FURTHER TERMS AND CONDITIONS OF THE HONG KONG PUBLIC OFFERING

- conducting or assisting in the conduct of signature verifications, any other verification or exchange of information;
- establishing benefit entitlements of holders of securities of our Company, such as dividends, rights issues and bonus issues;
- distributing communications from our Company and our subsidiaries;
- compiling statistical information and Shareholder profiles;
- making disclosures as required by laws, rules or regulations;
- disclosing relevant information to facilitate claims on entitlements; and
- any other incidental or associated purposes relating to the above and/or to enable our Company and our H Share Registrar to discharge our obligations to holders of securities and/or regulators and/or other purpose to which the holders of securities may from time to time agree.

(gg) Transfer of personal data

Personal data held by our Company and our H Share Registrar relating to the applicants and the holders of securities will be kept confidential but our Company and our H Share Registrar, to the extent necessary for achieving the above purposes or any of them, may make such enquiries as they consider necessary to confirm the accuracy of the personal data and in particular, they may disclose, obtain, transfer (whether within or outside Hong Kong) the personal data of the applicants and the holders of securities to, from or with any and all of the following persons and entities:

- our Company or our respective appointed agents such as financial advisors and receiving bankers;
- HKSCC and HKSCC Nominees, who will use the personal data for the purposes of operating CCASS (in cases where the applicants have requested for the Hong Kong Offer Shares to be deposited into CCASS);
- any agents, contractors or third party service providers who offer administrative, telecommunications, computer, payment or other services to our Company and/or our H Share Registrar in connection with the operation of their business;
- the Hong Kong Stock Exchange, the SFC and any other statutory, regulatory or governmental bodies; and
- any other persons or institutions with which the holders of securities have or propose to have dealings, such as their bankers, solicitors, accountants or stockbrokers.

FURTHER TERMS AND CONDITIONS OF THE HONG KONG PUBLIC OFFERING

By signing an Application Form or by giving **electronic application instructions** to HKSCC or to the designated **White Form eIPO** Service Provider via **White Form eIPO** service, you agree to all of the above.

(hh) Access to and correction of personal data

The Ordinance provides the holders of securities with rights to ascertain whether our Company or our H Share Registrar holds their personal data, to obtain a copy of that data, and to correct any data that is inaccurate.

In accordance with the Ordinance, our Company and our H Share Registrar have the right to charge a reasonable fee for the processing of any data access request. All requests for access to data or correction of data or for information regarding policies and practices and kinds of data held should be addressed to us, at our registered address disclosed in the “Corporate Information” section in this prospectus or as notified from time to time in accordance with applicable law, for the attention of the company secretary, or our H Share Registrar for the attention of the privacy compliance officer.



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香港金鐘道88號
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Deloitte Touche Tohmatsu
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88 Queensway
Hong Kong

17 April 2012

The Directors
Haitong Securities Co., Ltd.
Haitong International Capital Limited
J.P. Morgan Securities (Asia Pacific) Limited

Dear Sirs,

We set out below our report on the financial information (“Financial Information”) regarding Haitong Securities Co., Ltd. (海通證券股份有限公司) (the “Company”) and its subsidiaries (hereinafter collectively referred to as the “Group”) for each of the three years ended 31 December 2009, 2010 and 2011 (the “Relevant Periods”) for inclusion in the prospectus of the Company dated 17 April 2012 (the “Prospectus”) in connection with the initial listing of the shares of the Company on the Main Board of The Stock Exchange of Hong Kong Limited (the “Hong Kong Stock Exchange”).

The Company was transformed from Shanghai Haitong Securities Company (上海海通證券公司), which was established in 1988, to a limited liability company upon the authorisation by the People’s Bank of China in September 1994 and had changed its name to 海通證券有限公司. In December 2001, the Company was further transformed to a joint-stock company upon the approval from China Securities Regulatory Commission (“CSRC”). In January 2002, the Company changed its name from 海通證券有限公司 to Haitong Securities Co., Ltd. (海通證券股份有限公司). In June 2007, the Company’s merger with former Shanghai Urban Agro-Business Co., Ltd. (上海市都市農商社股份有限公司) was approved by the CSRC, and was listed on the Shanghai Stock Exchange in July in the same year, with its listing reference name changed to “Haitong Securities”.

All subsidiaries have adopted 31 December as their financial year end dates. As at the date of this report, the Company has interest in the subsidiaries as set out in note 21 to section G of this report.

The consolidated financial statements of the Group prepared in accordance with the relevant accounting rules and financial regulations applicable to enterprises in the People’s Republic of China (the “PRC”) for each of the years ended 31 December 2009 and 2010 (the “PRC Financial Statements”) were audited by Shu Lun Pan Certified Public Accountants Co., Ltd. (立信會計事務所有限公司), certified public accountants registered in the PRC, in accordance with the China Standards on Auditing. The statutory financial statements of the subsidiaries of the Company, directly or indirectly controlled by the Company, were audited by independent auditors as set out in note 21 to section G of this report.

For the purpose of this report, the directors of the Company have prepared consolidated financial statements of the Group for the year ended 31 December 2011, in accordance with the International Financial Reporting Standards (“IFRSs”) issued by International Accounting Standards Board, which were audited by us in accordance with International Standards on Auditing issued by International Auditing and Assurance Standards Board (“IAASB”). The consolidated financial statements of the Group for the year ended 31 December 2011 together with the PRC Financial Statements are referred to as the “Underlying Financial Statements”.

The Financial Information of the Group for the Relevant Periods set out in this report has been prepared in accordance with the Underlying Financial Statements, after making such adjustments as appropriate. For the purpose of this report, we have examined the Underlying Financial Statements and carried out such additional procedures as necessary in accordance with International Standards on Auditing issued by IAASB, and the Auditing Guideline 3.340 “Prospectuses and the Reporting Accountant” issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”).

The directors of the Company are responsible for the preparation of the Underlying Financial Statements and the contents of the Prospectus in which this report is included. It is our responsibility to compile the Financial Information set out in this report from the Underlying Financial Statements, to form an independent opinion on the Financial Information, and to report our opinion to you.

In our opinion, the Financial Information, together with the notes thereon, for the purpose of this report, gives a true and fair view of the state of affairs of the Group and of the Company as at 31 December 2009, 2010 and 2011 and of the consolidated results and consolidated cash flows of the Group for each of the three years ended 31 December 2009, 2010 and 2011.

A. CONSOLIDATED INCOME STATEMENTS

	<i>Notes</i>	Year ended 31 December		
		2009	2010	2011
		<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Revenue				
Commission and fee income	5	8,753,360	8,384,060	6,566,781
Interest income	6	1,407,042	1,647,007	2,553,171
Net investment gains	7	888,053	1,077,790	1,506,926
Total revenue		11,048,455	11,108,857	10,626,878
Other income and gains	8	267,391	196,078	233,496
Total revenue and other income		11,315,846	11,304,935	10,860,374
Depreciation and amortisation	9	(236,915)	(288,472)	(300,037)
Staff costs	10	(2,224,989)	(2,619,668)	(2,319,953)
Commission to account executives		(51,050)	(278,620)	(297,519)
Brokerage transaction fees and other services expenses	11	(947,122)	(897,203)	(746,724)
Interest expenses	12	(245,080)	(281,489)	(459,796)
Other expenses		(1,694,825)	(2,027,913)	(2,509,093)
Total expenses		(5,399,981)	(6,393,365)	(6,633,122)
Share of results of associates	22	65,962	78,120	72,912
Profit before income tax	13	5,981,827	4,989,690	4,300,164
Income tax expense	14	(1,320,086)	(1,121,532)	(1,018,167)
Profit for the year		4,661,741	3,868,158	3,281,997
Attributable to:				
Owners of the Company		4,548,226	3,686,264	3,103,034
Non-controlling interests		113,515	181,894	178,963
		4,661,741	3,868,158	3,281,997
Earnings per share (Expressed in RMB per share)				
– Basic	15	0.55	0.45	0.38
– Diluted	15	0.55	0.45	0.38

B. CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Year ended 31 December		
	2009	2010	2011
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Profit for the year	4,661,741	3,868,158	3,281,997
Other comprehensive income (expense):			
Available-for-sale investments			
Net fair value changes during the year	2,036,789	(691,854)	(1,367,472)
Reclassification adjustment to profit or loss on disposal/impairment	(182,601)	(498,880)	(43,453)
Income tax relating to components of other comprehensive income	(458,004)	303,759	333,258
Share of revaluation surplus (deficit) of associates	2,076	1,450	(8,084)
	1,398,260	(885,525)	(1,085,751)
Exchange differences arising on translation	(4,265)	(100,765)	(196,436)
Other comprehensive income (expense) for the year (net of tax)	1,393,995	(986,290)	(1,282,187)
Total comprehensive income for the year	<u>6,055,736</u>	<u>2,881,868</u>	<u>1,999,810</u>
Attributable to:			
Owners of the Company	5,933,369	2,723,561	1,867,682
Non-controlling interests	122,367	158,307	132,128
	<u>6,055,736</u>	<u>2,881,868</u>	<u>1,999,810</u>

C. CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	<i>Notes</i>	As at 31 December		
		2009	2010	2011
		<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Non-current assets				
Property and equipment	16	1,136,204	1,201,183	1,177,137
Investment properties	17	104,102	100,644	93,472
Goodwill	18	697,056	673,860	642,280
Other intangible assets	19	263,779	289,729	308,027
Investments in associates	22	215,747	543,281	926,114
Available-for-sale investments	23	870,102	1,877,469	1,933,565
Deferred tax assets	44	56,974	61,592	513,100
Restricted bank deposits	33	184,844	260,801	326,719
Other assets	24	84,695	108,017	242,547
		<u>3,613,503</u>	<u>5,116,576</u>	<u>6,162,961</u>
Total non-current assets				
Current assets				
Advances to customers	25	2,034,977	5,814,456	6,462,677
Accounts receivable	26	677,077	980,221	872,552
Other receivables and prepayments	27	358,507	447,497	740,182
Available-for-sale investments	23	5,778,403	5,060,788	6,826,646
Financial assets held under resale agreements	29	–	2,120,000	605,900
Financial assets at fair value through profit or loss	30	12,896,752	15,018,084	20,605,107
Deposits with exchanges	31	1,374,951	2,373,425	2,177,814
Clearing settlement funds	32	5,749,123	20,424,736	3,952,038
Bank balances and cash	33	88,246,912	58,057,315	50,571,034
		<u>117,116,702</u>	<u>110,296,522</u>	<u>92,813,950</u>
Total current assets				
Total assets				
		<u>120,730,205</u>	<u>115,413,098</u>	<u>98,976,911</u>

	<i>Notes</i>	As at 31 December		
		2009	2010	2011
		<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Current liabilities				
Borrowings	35	1,076,594	2,922,320	2,520,730
Accounts payable to brokerage clients	36	66,580,170	63,682,354	38,013,807
Other payables and accruals	37	1,870,895	2,523,395	1,818,960
Provisions	38	8,815	6,853	248
Tax liabilities		381,808	465,293	415,972
Financial assets sold under repurchase agreements	39	5,821,500	–	9,524,534
Total current liabilities		<u>75,739,782</u>	<u>69,600,215</u>	<u>52,294,251</u>
Net current assets		<u>41,376,920</u>	<u>40,696,307</u>	<u>40,519,699</u>
Total assets less current liabilities		<u>44,990,423</u>	<u>45,812,883</u>	<u>46,682,660</u>
Equity				
Share capital	40	8,227,821	8,227,821	8,227,821
Capital reserve		22,576,527	22,551,933	22,493,436
Investment revaluation reserve		1,413,394	528,344	(545,232)
Translation reserve		(11,380)	(89,033)	(250,809)
General reserves	42	3,989,218	5,014,289	5,929,525
Retained profits		7,218,380	8,234,009	9,187,634
Equity attributable to owners of the Company		<u>43,413,960</u>	<u>44,467,363</u>	<u>45,042,375</u>
Non-controlling interests		<u>1,104,635</u>	<u>1,149,384</u>	<u>1,568,267</u>
Total equity		<u>44,518,595</u>	<u>45,616,747</u>	<u>46,610,642</u>
Non-current liabilities				
Deferred tax liabilities	44	471,828	196,136	72,018
Total equity and non-current liabilities		<u>44,990,423</u>	<u>45,812,883</u>	<u>46,682,660</u>

D. STATEMENTS OF FINANCIAL POSITION

	<i>Notes</i>	As at 31 December		
		2009	2010	2011
		<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Non-current assets				
Property and equipment	16	1,065,147	1,136,586	1,097,079
Investment properties	17	100,128	96,800	93,472
Other intangible assets	19	158,770	154,492	159,153
Investments in subsidiaries	21	5,333,310	7,054,730	8,283,130
Investments in associates	22	92,907	92,907	92,907
Available-for-sale investments	23	290,345	319,995	353,184
Deferred tax assets	44	43,769	42,333	463,405
Other assets	24	64,918	69,916	73,413
Total non-current assets		7,149,294	8,967,759	10,615,743
Current assets				
Advances to customers	25	–	2,091,136	3,675,252
Other receivables and prepayments	27	223,941	295,705	531,719
Amount due from a subsidiary	28	–	637,300	874,062
Available-for-sale investments	23	5,717,123	4,913,712	6,318,692
Financial assets held under resale agreements	29	–	2,120,000	32,000
Financial assets at fair value through profit or loss	30	12,845,060	14,913,359	20,299,297
Deposits with exchanges	31	672,582	790,909	1,031,890
Clearing settlement funds	32	5,511,975	19,652,583	2,792,636
Bank balances and cash	33	78,115,546	46,185,659	38,662,681
Total current assets		103,086,227	91,600,363	74,218,229
Total assets		110,235,521	100,568,122	84,833,972

	<i>Notes</i>	As at 31 December		
		2009	2010	2011
		<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Current liabilities				
Accounts payable to brokerage clients	36	59,473,774	54,211,820	29,127,160
Other payables and accruals	37	1,210,340	2,102,123	1,321,319
Amount due to a subsidiary	28	–	20,000	53
Provisions	38	8,815	6,853	248
Tax liabilities		305,896	378,167	311,608
Financial assets sold under repurchase agreements	39	5,821,500	–	9,524,534
Total current liabilities		<u>66,820,325</u>	<u>56,718,963</u>	<u>40,284,922</u>
Net current assets		<u>36,265,902</u>	<u>34,881,400</u>	<u>33,933,307</u>
Total assets less current liabilities		<u>43,415,196</u>	<u>43,849,159</u>	<u>44,549,050</u>
Equity				
Share capital	40	8,227,821	8,227,821	8,227,821
Capital reserve		22,635,141	22,635,141	22,635,141
Investment revaluation reserve	41	1,381,572	386,646	(587,071)
General reserves	42	3,989,218	5,014,289	5,929,525
Retained profits	43	6,728,364	7,438,661	8,318,500
Total equity		<u>42,962,116</u>	<u>43,702,558</u>	<u>44,523,916</u>
Non-current liabilities				
Deferred tax liabilities	44	453,080	146,601	25,134
Total equity and non-current liabilities		<u>43,415,196</u>	<u>43,849,159</u>	<u>44,549,050</u>

E. CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Attributable to owners of the Company						Non-controlling interests				
	Share capital	Capital reserve	Investment revaluation reserve	Translation reserve	General reserves	Retained profits	Total	Share of net assets of subsidiaries	Share option reserve of a subsidiary	Total	Total equity
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
	<i>(Note a)</i>										
At 1 January 2009	8,227,821	22,635,141	23,986	(7,115)	2,693,817	4,788,338	38,361,988	275,006	-	275,006	38,636,994
Profit for the year	-	-	-	-	-	4,548,226	4,548,226	113,515	-	113,515	4,661,741
Other comprehensive income (expense) for the year	-	-	1,389,408	(4,265)	-	-	1,385,143	8,852	-	8,852	1,393,995
Total comprehensive income (expense) for the year	-	-	1,389,408	(4,265)	-	4,548,226	5,933,369	122,367	-	122,367	6,055,736
Acquisition of a subsidiary	-	-	-	-	-	-	-	839,385	-	839,385	839,385
Changes of equity interests in subsidiaries	-	(58,614)	-	-	-	-	(58,614)	(81,621)	-	(81,621)	(140,235)
Appropriation to general reserves	-	-	-	-	1,295,401	(1,295,401)	-	-	-	-	-
Cash dividend recognised as distribution	-	-	-	-	-	(822,783)	(822,783)	(50,502)	-	(50,502)	(873,285)
At 31 December 2009	8,227,821	22,576,527	1,413,394	(11,380)	3,989,218	7,218,380	43,413,960	1,104,635	-	1,104,635	44,518,595
Profit for the year	-	-	-	-	-	3,686,264	3,686,264	181,894	-	181,894	3,868,158
Other comprehensive expense for the year	-	-	(885,050)	(77,653)	-	-	(962,703)	(23,587)	-	(23,587)	(986,290)
Total comprehensive (expense) income for the year	-	-	(885,050)	(77,653)	-	3,686,264	2,723,561	158,307	-	158,307	2,881,868
Changes of equity interests in subsidiaries	-	(44,167)	-	-	-	-	(44,167)	(61,129)	-	(61,129)	(105,296)
Issuance of shares by a subsidiary	-	12,937	-	-	-	-	12,937	35,140	-	35,140	48,077
Appropriation to general reserves	-	-	-	-	1,025,071	(1,025,071)	-	-	-	-	-
Cash dividend recognised as distribution	-	-	-	-	-	(1,645,564)	(1,645,564)	(91,923)	-	(91,923)	(1,737,487)
Others	-	6,636	-	-	-	-	6,636	4,354	-	4,354	10,990
At 31 December 2010	8,227,821	22,551,933	528,344	(89,033)	5,014,289	8,234,009	44,467,363	1,149,384	-	1,149,384	45,616,747

	Attributable to owners of the Company						Non-controlling interests				
	Share capital	Capital reserve	Investment revaluation reserve	Translation reserve	General reserves	Retained profits	Total	Share of net assets of subsidiaries	Share option reserve of a subsidiary	Total	Total equity
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
	<i>(Note a)</i>										
At 1 January 2011	8,227,821	22,551,933	528,344	(89,033)	5,014,289	8,234,009	44,467,363	1,149,384	-	1,149,384	45,616,747
Profit for the year	-	-	-	-	-	3,103,034	3,103,034	178,963	-	178,963	3,281,997
Other comprehensive expense for the year	-	-	(1,073,576)	(161,776)	-	-	(1,235,352)	(46,835)	-	(46,835)	(1,282,187)
Total comprehensive (expense) income for the year	-	-	(1,073,576)	(161,776)	-	3,103,034	1,867,682	132,128	-	132,128	1,999,810
Changes of equity interests in subsidiaries <i>(Note b)</i>	-	(59,246)	-	-	-	-	(59,246)	37,694	-	37,694	(21,552)
Capital injection by non-controlling shareholders of subsidiaries <i>(Note c)</i>	-	749	-	-	-	-	749	367,606	-	367,606	368,355
Appropriation to general reserves	-	-	-	-	915,236	(915,236)	-	-	-	-	-
Cash dividend recognised as distribution	-	-	-	-	-	(1,234,173)	(1,234,173)	(123,947)	-	(123,947)	(1,358,120)
Others	-	-	-	-	-	-	-	-	5,402	5,402	5,402
At 31 December 2011	8,227,821	22,493,436	(545,232)	(250,809)	5,929,525	9,187,634	45,042,375	1,562,865	5,402	1,568,267	46,610,642

Notes:

- (a) Capital reserve of the Group represents primarily (i) the share premium arisen from the issuance of the Company's shares, and (ii) the difference between the considerations paid or received over the proportionate share of net assets attributable to the changes of the Group's equity interest in subsidiaries without loss of control.
- (b) The changes of equity interests in subsidiaries includes the effect arising from the Group's subscription of a total of 200,000,000 new shares issued by Haitong International Securities Group Limited, a Hong Kong listed subsidiary, by way of capitalisation of loan of HKD850,000,000, equivalent to approximately RMB689,000,000, in the third quarter of 2011.
- (c) The capital injection by non-controlling shareholders of subsidiaries mainly includes capital injections by the non-controlling interests of Haitong Futures Co., Ltd ("Haitong Futures") and Haitong Chuangxin Capital Management Company Limited ("Haitong Chuangxin") of RMB342,600,000 and RMB24,500,000, to Haitong Futures and Haitong Chuangxin, respectively.

F. CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year ended 31 December			
	Notes	2009 RMB'000	2010 RMB'000	2011 RMB'000
OPERATING ACTIVITIES				
Profit before income tax		5,981,827	4,989,690	4,300,164
Adjustments for				
Interest expenses		245,080	281,489	459,796
Share-based payment expenses		–	10,990	5,402
Share of results of associates		(65,962)	(78,120)	(72,912)
Depreciation and amortisation		236,915	288,472	300,037
Reversal of impairment loss in respect of other receivables		(1,560)	(3,773)	(32,773)
Loss (gain) on disposal of property and equipment and other intangible assets		809	544	(693)
Gain on disposal of an associate		–	(4,121)	–
Gain on disposal of bond investments and held-to-maturity financial assets		(46,759)	–	–
Foreign exchange gains, net		(1,722)	(5,814)	(68,869)
Net realised gains arising from available-for-sale investments		(211,391)	(596,163)	(754,030)
Impairment loss in respect of available-for-sale investments		4,659	–	540,409

	Year ended 31 December			
	Notes	2009 RMB'000	2010 RMB'000	2011 RMB'000
Operating cash flows before movements in working capital		6,141,896	4,883,194	4,676,531
(Increase)/decrease in deposits and reserve funds and deposits with exchanges		(874,677)	(1,021,796)	216,685
(Increase)/decrease in advances to customers		(79,186)	(3,906,056)	(648,221)
(Increase)/decrease in accounts and other receivables and prepayments		(233,128)	(388,864)	(104,306)
(Increase)/decrease in financial assets held under resale agreements		–	(2,120,000)	1,514,100
(Increase)/decrease in financial assets at fair value through profit or loss		(3,084,476)	(2,121,332)	(5,587,023)
(Increase)/decrease in restricted bank deposits		907,609	(75,957)	(65,918)
(Increase)/decrease in cash held on behalf of clients		(27,386,133)	3,404,597	25,748,006
Increase/(decrease) in accounts payable to brokerage clients and other payables and accruals		28,594,396	(2,034,887)	(26,402,021)
Increase/(decrease) in financial assets sold under repurchase agreements		5,211,500	(5,821,500)	9,524,534
Increase/(decrease) in provisions		(101,761)	(1,962)	(6,605)
Cash from (used in) operations		9,096,040	(9,204,563)	8,865,762
Income taxes paid, net		(1,330,320)	(1,014,598)	(1,310,236)
Interest paid		(243,117)	(281,489)	(431,687)
NET CASH FROM (USED IN) OPERATING ACTIVITIES		7,522,603	(10,500,650)	7,123,839

	<i>Notes</i>	Year ended 31 December		
		2009	2010	2011
		<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
INVESTING ACTIVITIES				
Dividends received from associates and other investments		55,550	42,496	51,995
Purchases of property and equipment and other intangible assets		(240,798)	(368,844)	(366,307)
Proceeds on disposal of property and equipment		36,055	12,075	28,298
Capital injection to associates		(1,300)	(300,000)	(370,000)
Proceeds on disposal of an associate		–	13,806	–
Acquisition of subsidiaries	51	(1,238,451)	–	–
Increase in available-for-sale investments		(3,314,193)	(936,144)	(3,047,813)
Proceeds from (payment for) other investment activities		<u>1,406,046</u>	<u>–</u>	<u>(157,683)</u>
NET CASH USED IN INVESTING ACTIVITIES		<u>(3,297,091)</u>	<u>(1,536,611)</u>	<u>(3,861,510)</u>
FINANCING ACTIVITIES				
Dividends paid		(873,284)	(1,736,589)	(1,329,080)
Purchase of subsidiaries' shares from non-controlling interests		(140,235)	(105,296)	(18,454)
Proceeds from issue of subsidiaries' shares		–	47,558	368,355
Borrowings raised (repaid) net of interest paid		435,402	1,845,727	(417,877)
Payment for other financing activities		<u>–</u>	<u>(1,158,272)</u>	<u>(313,925)</u>
NET CASH USED IN FINANCING ACTIVITIES		<u>(578,117)</u>	<u>(1,106,872)</u>	<u>(1,710,981)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		3,647,395	(13,144,133)	1,551,348
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR		25,290,541	28,931,881	15,777,118
Effect of foreign exchange rate changes		<u>(6,055)</u>	<u>(10,630)</u>	<u>(61,327)</u>
CASH AND CASH EQUIVALENTS AT END OF THE YEAR	34	<u><u>28,931,881</u></u>	<u><u>15,777,118</u></u>	<u><u>17,267,139</u></u>

G. NOTES TO THE FINANCIAL INFORMATION

1. GENERAL INFORMATION OF THE GROUP

The Company was transformed from Shanghai Haitong Securities Company (上海海通證券公司), which was established in 1988, to a limited liability company upon the authorisation by the People's Bank of China in September 1994 and had changed its name to 海通證券有限公司. In December 2001, the Company was further transformed to a joint-stock company upon the approval from China Securities Regulatory Commission ("CSRC"). In January 2002, the Company changed its name from 海通證券有限公司 to Haitong Securities Co., Ltd. (海通證券股份有限公司). In June 2007, the Company's merger with former Shanghai Urban Agro-Business Co., Ltd. (上海市都市農商社股份有限公司) was approved by the CSRC, and was listed on the Shanghai Stock Exchange in July in the same year, with its listing reference name changed to "Haitong Securities".

The address of the Company's registered office is 98 Central Huaihai Road, Shanghai, the PRC. The principal place of business of the Company is Haitong Securities Building, No. 689 Guangdong Road, Shanghai, the PRC.

The Company and its subsidiaries are principally engaged in securities and futures contracts dealing and broking, proprietary trading, margin and other financing, underwriting, assets management and provision of investment advisory and consultancy services.

The Financial Information is presented in Renminbi ("RMB"), which is also the functional currency of the Company.

2. APPLICATION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS

For the purpose of preparing and presenting the Financial Information, the Group has consistently applied International Accounting Standards ("IASs"), International Financial Reporting Standards ("IFRSs"), amendments and the related Interpretations ("IFRICs") (herein collectively referred to as the "IFRSs") issued by the International Accounting Standards Board ("IASB") which are effective for the accounting period beginning on 1 January 2011 throughout the Relevant Periods, except for IFRS 3 (Revised) which has been applied prospectively for business combinations for which the acquisition date is on or after 1 January 2010.

The revision to IFRS 3 has no impact on the Group as the Group did not have any business combination after 1 January 2010.

The Group has not early applied the following new and revised Standards, Amendments and Interpretation that have been issued but are not yet effective.

IFRS 7 (Amendments)	Disclosures – Transfers of Financial Assets ¹
IFRS 7 (Amendments)	Disclosures – Offsetting Financial Assets and Financial Liabilities ²
IFRS 9	Financial Instruments ⁵
IFRS 9 and IFRS 7 (Amendments)	Mandatory Effective Date of IFRS 9 and Transition Disclosures ⁵
IFRS 10	Consolidated Financial Statements ²
IFRS 11	Joint Arrangements ²
IFRS 12	Disclosure of Interests in Other Entities ²
IFRS 13	Fair Value Measurement ²
IAS 1 (Amendments)	Presentation of Items of Other Comprehensive Income ⁴
IAS 12 (Amendments)	Deferred Tax: Recovery of Underlying Assets ³
IAS 19 (Revised 2011)	Employee Benefits ²
IAS 27 (Revised 2011)	Separate Financial Statements ²
IAS 28 (Revised 2011)	Investments in Associates and Joint Ventures ²
IAS 32 (Amendments)	Offsetting Financial Assets and Financial Liabilities ⁶
IFRIC 20	Stripping Costs in the Production Phase of a Surface Mine ²

- 1 Effective for annual periods beginning on or after 1 July 2011.
- 2 Effective for annual periods beginning on or after 1 January 2013.
- 3 Effective for annual periods beginning on or after 1 January 2012.
- 4 Effective for annual periods beginning on or after 1 July 2012.
- 5 Effective for annual periods beginning on or after 1 January 2015.
- 6 Effective for annual periods beginning on or after 1 January 2014.

The amendments to IFRS 7 increase the disclosure requirements for transactions involving transfers of financial assets. These amendments are intended to provide greater transparency around risk exposures when a financial asset is transferred but the transferor retains some level of continuing exposure in the asset. The amendments also require disclosures where transfers of financial assets are not evenly distributed throughout the period.

The directors anticipate that the application of the amendments to IFRS 7 will affect the Group's disclosures regarding transfers of financial assets in the future.

The amendments to IAS 32 clarify existing application issues relating to the offsetting requirements. Specifically, the amendments clarify the meaning of "currently has a legally enforceable right of set-off" and "simultaneous realisation and settlement".

The amendments to IFRS 7 require entities to disclose information about rights of offset and related arrangements (such as collateral posting requirements) for financial instruments under an enforceable master netting agreement or similar arrangement.

The amended offsetting disclosures are required for annual periods beginning on or after 1 January 2013 and interim periods within those annual periods. The disclosures should also be provided retrospectively for all comparative periods. However, the amendments to IAS 32 are not effective until annual periods beginning on or after 1 January 2014, with retrospective application required.

IFRS 9 *Financial Instruments* (as issued in November 2009) introduces new requirements for the classification and measurement of financial assets. IFRS 9 *Financial instruments* (as revised in October 2010) adds the new requirements for the financial liabilities and for derecognition.

Under IFRS 9, all recognised financial assets that are within the scope of IAS 39 *Financial instruments: Recognition and measurement* are subsequently measured at either amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. All other debt investments and equity investments are measured at their fair value at the end of subsequent accounting periods.

In relation to financial liabilities, the significant change relates to financial liabilities that are designated as at fair value through profit or loss. Specifically, under IFRS 9, for financial liabilities that are designated as at fair value through profit or loss, the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the presentation of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Currently, under IAS 39, the entire amount of the change in the fair value of the financial liability designated as at fair value through profit or loss is recognised in profit or loss.

IFRS 9 is effective for annual periods beginning on or after 1 January 2015, with earlier application permitted. The directors anticipate that IFRS 9 that will be adopted in the Group's consolidated financial statements for the financial year ending 31 December 2015 and that the application of IFRS 9 will affect the classification and measurement of the Group's available-for-sale investments and may have impact on the Group's other financial assets and the Group's financial liabilities. The directors of the Company have not yet completed the assessment of financial impact to the Group but considered that the application of IFRS 9 may have significant impact on the Group.

IFRS 10 replaces the parts of IAS 27 *Consolidated and Separate Financial Statements* that deal with consolidated financial statements and SIC 12 *Consolidation – Special Purpose Entities*. Under IFRS 10, there is only one basis for consolidation, that is control. In addition, IFRS 10 includes a new definition of control that contains three elements: (a) power over an investee, (b) exposure, or rights, to variable returns from its involvement with the investee, and (c) ability to use its power over the investee to affect the amount of the investor's returns. Extensive guidance has been added in IFRS 10 to deal with complex scenarios. Overall, the application of IFRS 10 requires a lot of judgement. It is not practicable to provide a reasonable estimate of that effect until a detailed review has been completed.

IFRS 12 requires the disclosure of information that enables users of financial statements to evaluate the nature of, and risks associated with, its interests in other entities and the effects of those interests on its financial position, financial performance and cash flows. IFRS 12 is required to be applied by an entity that has an interest in subsidiaries, joint arrangements (joint operations or joint ventures), associates and unconsolidated structured entities.

The IFRS 10 and IFRS 12 are effective for annual periods beginning on or after 1 January 2013. The directors anticipate that the IFRS 10 and IFRS 12 will be adopted in the Group's consolidated financial statements for the annual period beginning 1 January 2013. The directors have not yet performed a detailed analysis of the impact of the application of these standards to the Group but considered that application of these standards would have no significant impact on the Group.

IFRS 13 establishes a single source of guidance for fair value measurements and disclosures about fair value measurements. The standard defines fair value, establishes a framework for measuring fair value, and requires disclosures about fair value measurements. The scope of IFRS 13 is broad; it applies to both financial instrument items and non-financial instrument items for which other IFRSs require or permit fair value measurements and disclosures about fair value measurements, except in specified circumstances. In general, the disclosure requirements in IFRS 13 are more extensive than those in the current standards. For example, quantitative and qualitative disclosures based on the three-level fair value hierarchy currently required for financial instruments only under IFRS 7 *Financial Instruments: Disclosures* will be extended by IFRS 13 to cover all assets and liabilities within its scope.

IFRS 13 is effective for annual periods beginning on or after 1 January 2013, with earlier application permitted. The directors anticipate that IFRS 13 will be adopted in the Group's consolidated financial statements for the annual period beginning 1 January 2013 and that the application of the standard may affect the amounts reported in the consolidated financial statements and result in more extensive disclosures in the consolidated financial statements.

The directors of the Company anticipate that the application of other new and revised Standards, Amendments and Interpretation will have no material impact on the financial statements of the Group.

3. SIGNIFICANT ACCOUNTING POLICIES

The Financial Information has been prepared in accordance with IFRSs and included applicable disclosures required by the Rules Governing the Listing of Securities on the Hong Kong Stock Exchange and the Hong Kong Companies Ordinance. The Financial Information has been prepared on the historical cost basis except for certain financial instruments which are measured at fair values, as explained in the accounting policies set out below. Historical cost is generally based on the fair value of the consideration given in exchange for goods.

The preparation of Financial Information in conformity with IFRSs requires the use of certain critical accounting estimates. It also requires the management to exercise its judgement in the process of applying the Group's accounting policies. Areas where assumptions and estimates are significant to the Financial Information are disclosed in note 4.

Basis of consolidation

The Financial Information incorporates the financial statements of the Company and entities controlled by the Company (its subsidiaries). Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group.

All intra-group transactions, balances, income and expenses are eliminated in full on consolidation.

Non-controlling interests in subsidiaries are presented separately from the Group's equity therein.

Allocation of total comprehensive income to non-controlling interests

Total comprehensive income and expense of a subsidiary is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

Changes in the Group's ownership interests in existing subsidiaries

Changes in the Group's ownership interests in subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the Company.

When the Group loses control of a subsidiary, it (i) derecognises the assets (including any goodwill) and liabilities of the subsidiary at their carrying amounts at the date when control is lost, (ii) derecognises the carrying amount of any non-controlling interests in the former subsidiary at the date when control is lost (including any components of other comprehensive income attributable to them), and (iii) recognises the aggregate of the fair value of the consideration received and the fair value of any retained interest, with any resulting difference being recognised as a gain or loss in profit or loss attributable to the Group. When assets of the subsidiary are carried at revalued amounts or fair values and the related cumulative gain or loss has been recognised in other comprehensive income and accumulated in equity, the amounts previously recognised in other comprehensive income and accumulated in equity are accounted for as if the Group had directly disposed of the related assets (i.e. reclassified to profit or loss or transferred directly to retained earnings as specified by applicable IFRSs). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under IAS 39 *Financial Instruments: Recognition and Measurement* or, when applicable, the cost on initial recognition of an investment in an associate or a jointly controlled entity.

Investments in subsidiaries

Investments in subsidiaries are stated at cost less accumulated impairment losses, if any.

Business combinations

Acquisition of businesses that took place prior to 1 January 2010 was accounted for using the purchase method. The cost of the acquisition was measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree, plus any costs directly attributable to the business combination. The acquiree's identifiable assets, liabilities and contingent liabilities that met the relevant conditions for recognition were generally recognised at their fair value at the acquisition date.

Goodwill arising on acquisition was recognised as an asset and initially measured at cost, being the excess of the cost of the acquisition over the Group's interest in the recognised amounts of the identifiable assets, liabilities and contingent liabilities recognised. If, after assessment, the Group's interest in the recognised amounts of the acquiree's identifiable assets, liabilities and contingent liabilities exceeded the cost of the acquisition, the excess was recognised immediately in profit or loss.

The minority interest in the acquiree was initially measured at the minority interest's proportionate share of the recognised amounts of the assets, liabilities and contingent liabilities of the acquiree.

Goodwill

Goodwill arising on an acquisition of a business is carried at cost less any accumulated impairment losses, if any, and is presented separately in the consolidated statement of financial position.

For the purposes of impairment testing, goodwill is allocated to each of the cash-generating units (or groups of cash-generating units) that is expected to benefit from the synergies of the combination.

A cash-generating unit to which goodwill has been allocated is tested for impairment annually, or more frequently whenever there is indication that the unit may be impaired. For goodwill arising on an acquisition in a reporting period, the cash-generating unit to which goodwill has been allocated is tested for impairment before the end of that reporting period. If the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro rata on the basis of the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognised directly in profit or loss in the consolidated income statement. An impairment loss recognised for goodwill is not reversed in subsequent periods.

On disposal of the relevant cash-generating unit, the attributable amount of goodwill is included in the determination of the amount of profit or loss on disposal.

Investments in associates

An associate is an entity over which the investor has significant influence and that is neither a subsidiary nor an interest in a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

The results and assets and liabilities of associates are incorporated in this Financial Information using the equity method of accounting. Under the equity method, investments in associates are initially recognised in the consolidated statement of financial position at cost and adjusted thereafter to recognise the Group's share of the profit or loss and other comprehensive income of the associates. When the Group's share of losses of an associate equals or exceeds its interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate), the Group discontinues recognising its share of further losses. Additional losses are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of that associate.

Any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of an associate recognised at the date of acquisition is recognised as goodwill, which is included within the carrying amount of the investment.

The requirements of IAS 39 are applied to determine whether it is necessary to recognise any impairment loss with respect to the Group's investment in an associate. When necessary, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with IAS 36 *Impairment of assets* as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs to sell) with its carrying amount, any impairment loss recognised forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognised in accordance with IAS 36 to the extent that the recoverable amount of the investment subsequently increases.

When a group entity transacts with its associate of the Group, profits and losses resulting from the transactions with the associate are recognised in the Financial Information only to the extent of interests in the associate that are not related to the Group.

In the Company's statement of financial position, investments in associates are stated at cost less accumulated impairment losses, if any.

Property and equipment

Property and equipment including leasehold land (classified as finance lease) and building held for use in the supply of services, or for administrative purpose (other than construction in progress as described below), are stated in the Group and the Company's statements of financial position at cost less subsequent accumulated depreciation and accumulated impairment losses, if any.

Depreciation is recognised so as to write off the cost of items of property and equipment, other than construction in progress, less their residual values over their estimated useful lives, using straight line method.

Construction in progress for production, supply or administrative purposes are carried at cost, less any recognised impairment loss. Costs include professional fees and, for qualifying assets, borrowing costs capitalised in accordance with the Group's accounting policy. Such properties are classified to the appropriate categories of property and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

An item of property and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

The estimated residual value rates and useful lives of each class of property and equipment are as follows:

Classes	Estimated residual value rates	Useful lives
Leasehold land and buildings	3-5%	Over the shorter of the lease term and estimated useful life of buildings of 30-40 years
Furniture, fixtures and equipment	3-10%	5-11 years
Motor vehicles	3-10%	5-8 years
Electronic equipment	3-10%	3-5 years
Leasehold improvements	0%	Over the lease term ranging from 1 month to 35 years

Investment properties

Investment properties are properties held to earn rentals and/or for capital appreciation.

Investment properties are initially measured at cost, including any directly attributable expenditure. Subsequent to initial recognition, investment properties are stated at cost less subsequent accumulated depreciation and any accumulated impairment losses.

Depreciation is recognised so as to write off the cost of investment properties over their estimated useful lives and after taking into account their estimated residual value, using the straight-line method.

An investment property is derecognised upon disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from its disposals. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the profit or loss in the period in which the item is derecognised.

Intangible assets

Intangible assets acquired separately

Intangible assets acquired separately and with finite useful lives are carried at costs less accumulated amortisation and any accumulated impairment losses. Amortisation for intangible assets with finite useful lives is provided on a straight-line basis over their estimated useful lives. The estimated useful life and amortisation method are reviewed at the end of each reporting period, with the effective of any changes in estimate being accounted for on a prospective basis. Intangible assets with indefinite useful lives that are acquired separately are carried at cost less any subsequent accumulated impairment losses.

Gains or losses arising from derecognition of an intangible asset are measured at the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in profit or loss in the period when the asset is derecognised.

The estimated useful lives of each class of intangible assets are as follows:

Computer software	3-10 years
Others (car park right, house use right and club membership)	5-50 years

Intangible assets acquired in a business combination

Intangible assets acquired in a business combination are recognised separately from goodwill and are initially recognised at their fair value at the acquisition date (which is regarded as their cost).

Subsequent to initial recognition, intangible assets with finite useful lives are carried at costs less accumulated amortisation and any accumulated impairment losses. Amortisation for intangible assets with finite useful lives is provided on a straight-line basis over their estimated useful lives. Alternatively, intangible assets with indefinite useful lives are carried at cost less any subsequent accumulated impairment losses.

Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Group as lessor

Rental income from operating leases is recognised in profit or loss on a straight-line basis over the term of the relevant lease.

The Group as lessee

Operating lease payments are recognised as an expense on a straight-line basis over the term of the relevant lease.

Leasehold land and building

When a lease includes both land and building elements, the Group assesses the classification of each element as a finance or an operating lease separately based on the assessment as to whether substantially all the risks and rewards incidental to ownership of each element have been transferred to the Group, unless it is clear that both elements are operating leases in which case the entire lease is classified as an operating lease. Specifically, the minimum lease payments (including any lump-sum upfront payments) are allocated between the land and the building elements in proportion to the relative fair values of the leasehold interests in the land element and building element of the lease at the inception of the lease.

To the extent the allocation of the lease payments can be made reliably, interest in leasehold land that is accounted for as an operating lease is presented as “prepaid lease payments” and included in “other assets” in the Group and the Company’s statements of financial position and is amortised over the lease term on a straight-line basis. When the lease payments cannot be allocated reliably between the land and building elements, the entire lease is generally classified as finance lease and accounted for as property and equipment or investment properties, where applicable, unless it is clear that both elements are operating leases, in which case the entire lease is classified as an operating lease.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets until such time as the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in the respective functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchanges prevailing on the dates of the transactions. At the end of the reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are recognised in profit or loss in the period in which they arise, except for exchange differences arising on a monetary item that forms part of the Company’s net investment in a foreign operation, in which case, such exchange differences are recognised in other comprehensive income and accumulated in equity and will be reclassified from equity to profit or loss on disposal of the foreign operation. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in profit or loss for the period, except

for exchange differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognised directly in other comprehensive income, in which cases, the exchange differences are also recognised directly in other comprehensive income.

For the purposes of presenting the Financial Information, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Group at the rate of exchange prevailing at the end of the reporting period, and their income and expenses are translated at the average exchange rates for the year. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity (the translation reserve).

Goodwill and fair value adjustments on identifiable assets acquired arising on an acquisition of a foreign operation on or after 1 January 2005 are treated as assets and liabilities of that foreign operation and retranslated at the rate of exchange prevailing at the end of the reporting period. Exchange differences arising are recognised in the translation reserve.

Government grants

Government grants are not recognised until there is reasonable assurance that the Group will comply with the conditions attaching to them and that the grants will be received.

Government grants are recognised in profit or loss on a systematic basis over the periods in which the Group recognises as expenses the related costs for which the grants are intended to compensate. Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognised in profit or loss in the period in which they become receivable.

Social welfare

Social welfare expenditure refers to payments for employees' social welfare system established by the Government of the People's Republic of China, including social insurance, housing funds and other social welfare contributions. The Group contributes on a monthly basis to these funds based on certain percentage of the salaries of the employees and the contributions are recognised in profit or loss for the period when employees have rendered service entitling them to the contribution. The Group's liabilities in respect of these funds are limited to the contribution payable in the reporting period.

Contributions to pension schemes and annuity plans

Payments to defined contribution retirement benefits plan are charged as expenses when employees have rendered service entitling them to the contributions.

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the consolidated income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the Financial Information and the corresponding tax base used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary difference to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries and associates, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of the reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset is realised, based on tax rate (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Current and deferred tax is recognised in profit or loss, except when it relates to items that are recognised in other comprehensive income or directly in equity, in which case, the deferred tax are also recognised in other comprehensive income or directly in equity respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

Financial instruments

Financial assets and financial liabilities are recognised in the consolidated statement of financial position when a group entity becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets or financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

Financial assets

Financial assets can be classified as financial assets at fair value through profit or loss ("FVTPL"), loans and receivable, held-to-maturity investments and available-for-sale investments. The Group's financial assets are classified into one of the three categories, including FVTPL, loans and receivables and available-for-sale investments. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

Financial assets at fair value through profit or loss

Financial assets at FVTPL represents financial assets held for trading.

A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of selling in the near future;
- it is a part of an identified portfolio of financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

Financial assets at FVTPL are measured at fair value, with changes in fair value arising from re-measurement recognised directly in profit or loss in the period in which they arise. The net gain or loss recognised in profit or loss includes any dividend or interest earned on the financial assets.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables (including advances to customers, accounts receivable, amount due from a subsidiary, bond investments, financial assets held under resale agreements, clearing settlement funds, bank balances and cash, pledged bank deposits, restricted bank deposits, deposits and other receivables), are carried at amortised cost using the effective interest method, less any identified impairment losses (see accounting policy on impairment loss on financial assets below).

Available-for-sale investments

Available-for-sale investments are non-derivatives that are either designated or not classified as financial assets at FVTPL, loans and receivables or held-to-maturity financial assets.

Available-for-sale investments are measured at fair value at the end of the reporting period. Changes in fair value are recognised in other comprehensive income and accumulated in the investment revaluation reserve, until the financial asset is disposed of or is determined to be impaired, at which time, the cumulative gain or loss previously accumulated in the investment revaluation reserve is reclassified to profit or loss (see accounting policy on impairment loss on financial assets below).

For available-for-sale equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity instruments, they are measured at cost less any identified impairment losses at the end of the reporting period (see accounting policy on impairment loss on financial assets below).

Impairment of financial assets

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at the end of the reporting period. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial assets have been affected.

For an available-for-sale equity investment, a significant or prolonged decline in the fair value of that investment below its cost is considered to be objective evidence of impairment.

For all other financial assets, objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty;
- breach of contract, such as default or delinquency in interest and principal payments;
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation; or
- the disappearance of an active market for that financial asset because of financial difficulties.

For certain categories of financial assets, such as advances to customers and accounts receivable, assets that are assessed not to be impaired individually are subsequently assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments and observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortised cost, the amount of the impairment loss recognised is the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the financial asset's original effective interest rate.

For financial assets carried at cost, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss will not be reversed in subsequent periods.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of advances to customers, accounts receivable and other receivables, where the carrying amount is reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss. When an advance to customers, an account receivable or a receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss.

When an available-for-sale financial asset is considered to be impaired, cumulative gains or losses previously recognised in other comprehensive income are reclassified to profit or loss in the period in which the impairment takes place.

For financial assets measured at amortised cost, if, in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment losses were recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Impairment losses on available-for-sale equity investments will not be reversed through profit or loss in subsequent periods. Any increase in fair value subsequent to impairment loss is recognised directly in other comprehensive income and accumulated in the investment revaluation reserve. For available-for-sale debt investments, impairment losses are subsequently reversed through profit or loss if an increase in the fair value of the investment can be objectively related to an event occurring after the recognition of the impairment loss.

Financial liabilities and equity instruments

Financial liabilities and equity instruments issued by a group entity are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument.

An equity instrument is any contract that evidences a residual interest in the assets of the group after deducting all of its liabilities. The Group's financial liabilities are generally classified into other financial liabilities.

Other financial liabilities

Other financial liabilities including borrowings, accounts payable to brokerage clients, financial assets sold under repurchase agreements, other payables and amount due to a subsidiary are subsequently measured at amortised cost, using the effective interest method.

Equity instruments

Equity instruments issued by the Group are recorded at the proceeds received, net of direct issue costs.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial asset or liability and of allocating interest income or expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) or payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset or liability, or, where appropriate, a shorter period to the net carrying amount of the financial asset or liability on initial recognition. When the difference between the effective interest rate and the contract rate is insignificant, interest income or expense will be calculated using the contract interest rate.

Interest income is recognised on an effective interest basis for debt instruments other than those financial assets classified as at FVTPL, of which interest income is included in net gains or losses. Interest expense is recognised on an effective interest basis.

Derivative financial instruments

Derivatives are initially recognised at fair value at the date a derivative contract is entered into and are subsequently remeasured to their fair value at the end of the reporting period. The resulting gain or loss is recognised in profit or loss immediately unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in profit or loss depends on the nature of the hedge relationship.

Financial assets sold under repurchase agreements and financial assets held under resale agreements

Financial assets sold under repurchase agreements continue to be recognised, which do not result in derecognition of the financial assets, and are recorded as “available-for-sale investments” or “financial assets held for trading”. The corresponding liability is included in “financial assets sold under repurchase agreements”. Financial assets held under agreements to resell are recorded as “financial assets held under resale agreements” as appropriate. Financial assets sold under repurchase agreements and financial assets held under resale agreements are initially measured at fair value and are subsequently measured at amortised cost using the effective interest method.

Securities lending

The Group lends investment securities to clients and the cash collaterals balance required under the securities lending agreements and the interest arisen from these are classified as “accounts payable to brokerage clients”. For those securities held by the Group lent to client that do not result in the derecognition of financial assets, they are included in “available-for-sale investments”.

Derecognition

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group continues to recognise the asset to the extent of its continuing involvement and recognises an associated liability. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

On derecognition of a financial asset in its entirety, the difference between the asset’s carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised in other comprehensive income and accumulated in equity is recognised in profit or loss.

On derecognition of a financial asset other than in its entirety (e.g. when the Group retains an option to repurchase part of a transferred asset or retains a residual interest that does not result in the retention of substantially all the risks and rewards of ownership and the Group retains control), the Group allocates the previous carrying amount of the financial asset between the part it continues to recognise under continuing involvement, and the part it no longer recognises on the basis of the relative fair values of those parts on the date of the transfer. The difference between the carrying amount allocated to the part that is no longer recognised and the sum of the consideration received for the part no longer recognised and any cumulative gain or loss allocated to it that had been recognised in other comprehensive income is recognised in profit or loss. A cumulative gain or loss that had been recognised in other comprehensive income is allocated between the part that continues to be recognised and the part that is no longer recognised on the basis of the relative fair values of those parts.

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expires. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for services provided in the normal course of business. Revenue is recognised when it is probable that the economic benefits will flow to the Group and when revenue can be measured reliably, on the following basis:

- (i) Commission income for broking business is recorded as income on a trade date basis, and handling fee income arising from broking business is recognised when services are rendered;

- (ii) Underwriting and sponsors fees are recognised as income in accordance with the terms of the underwriting agreement or deal mandate when the relevant significant acts have been completed;
- (iii) Interest income from a financial asset is accrued on a time basis using the effective interest method, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition;
- (iv) Financial advisory and consultancy fee income are recognised when the relevant transactions have been arranged or the relevant services have been rendered; and
- (v) Asset management fee income is recognised when management services are provided in accordance with the management contracts.

Provision

Provisions are recognised when the Group has a present obligation as a result of a past event, and it is probable that the Group will be required to settle that obligation, and a reliable estimate can be made of the amount of the obligation. Provisions are measured at the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (where the effect is material).

Share-based payment transactions

Share options granted to employees

The fair value of services received determined by reference to the fair value of share options granted at the grant date is expensed on a straight-line basis over the vesting period, with a corresponding increase in equity (share option reserve).

At each reporting date, for share options, which are conditional upon satisfying specified non-market performance vesting conditions, the Group revises its estimates of the number of options that are expected to vest ultimately. The impact of the revision of the original estimates during the vesting period, if any, is recognised in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to the share option reserve.

At the time when the share options are exercised, the amount previously recognised in the share option reserve will be transferred to share premium. When share options are forfeited after the vesting date or are still not exercised at the expiry date, the amount previously recognised in the share option reserve will be remained in the reserve.

Impairment losses on tangible and intangible assets as well as investments in subsidiaries other than goodwill and financial assets (see the accounting policy in respect of goodwill and financial assets above)

At the end of the reporting period, the Group reviews the carrying amounts of its tangible and intangible assets as well as investment in subsidiaries to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. When it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment at least annually, and whenever there is an indication that they may be impaired.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or a cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or a cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount under another standard.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or a cash-generating unit) in prior years. A reversal of an impairment loss is recognised as income immediately.

4. KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in note 3, the directors of the Company are required to make estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Impairment of advances to customers

The Group reviews its advances to customers to assess impairment on a periodic basis. In determining whether an impairment loss should be recognised in profit or loss, the Group makes judgments as to whether there is any observable data indicating that there is an objective evidence of impairment will have a measurable decrease in the estimated future cash flows from a portfolio of advances. Moreover, the Group also reviews the value of the securities collateral received from the customers in determining the impairment. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

Impairment of goodwill

Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating units to which goodwill has been allocated. The value in use calculation requires the Group to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate the present value. Where the actual future cash flows are less than expected, a material impairment loss may arise. Details of the recoverable amount calculation are disclosed in note 20.

Impairment of available-for-sale investments

The determination of whether an available-for-sale investment is impaired requires significant judgement. For listed available-for-sale equity investments, a significant or prolonged decline in fair value below cost is considered to be objective evidence of impairment. Judgement is required when determining whether a decline in fair value has been significant or prolonged. In making this judgement, the Group evaluates the duration and extent to which the fair value of an investment is less than its cost. In assessing whether it is prolonged, the decline is evaluated against the period in which the fair value of the asset has been below its original cost at initial recognition. In assessing whether it is significant, the decline in fair value is evaluated against the original cost of the asset at initial recognition. The Group also takes into account other factors, such as the historical data on market volatility and the price of the specific investment, significant changes in technology, markets, economics or the law, as well as industry and sector performance and the financial information regarding the investee that provides evidence that the cost of the equity securities may not be recovered. Judgement is also required to determine whether historical performance remains representative of current and future economic conditions.

Fair value of available-for-sale investments with restriction on disposal

For available-for-sale investments which are subject to legally enforceable restriction that prevents the holders from disposing them within the specified period, the fair value of these securities are made based on quoted market rates adjusted for specific features of the instrument. The estimation of fair value of these instruments includes some assumptions not supported by observable market prices or rates.

Income taxes

There are certain transactions and activities for which the ultimate tax determination is uncertain during the ordinary course of business. Where the final tax outcome of these matters is different from the amounts that were initially estimated, such differences will impact the current income tax and deferred income tax in the period during which such a determination is made.

No deferred tax asset has been recognised on the tax losses arising from the Group's subsidiaries in Hong Kong due to the unpredictability of future profit streams. The reliability of the deferred tax asset mainly depends on whether sufficient future profits or taxable temporary differences will be available in the future. In cases where the actual profits generated are more than expected, a material deferred tax assets would be recognised in profit or loss for the period. Details of the tax losses for the Relevant Periods are disclosed in note 14.

5. COMMISSION AND FEE INCOME

	Year ended 31 December		
	2009	2010	2011
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Commission on securities dealing and broking and handling fee income	7,264,369	5,938,693	3,933,956
Commission on futures and options contracts dealing and broking and handling fee income	144,818	392,719	393,150
Financial advisory and consultancy fee income	151,122	274,844	283,067
Underwriting and sponsors fees	449,392	1,039,162	960,006
Asset management fee income	743,659	714,793	985,783
Commission on bullion contracts dealing	–	7,621	7,966
Others	–	16,228	2,853
	<u>8,753,360</u>	<u>8,384,060</u>	<u>6,566,781</u>

6. INTEREST INCOME

	Year ended 31 December		
	2009	2010	2011
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Bank interest income	1,359,585	1,399,582	1,944,013
Interest income from advances to customers	8,648	219,039	522,773
Interest income from financial assets held under resale agreements	844	27,845	83,692
Interest income from held-to-maturity financial assets	4,392	–	–
Interest income from other bond investments	33,568	–	–
Other interest income	5	541	2,693
	<u>1,407,042</u>	<u>1,647,007</u>	<u>2,553,171</u>

7. NET INVESTMENT GAINS

	Year ended 31 December		
	2009	2010	2011
	RMB'000	RMB'000	RMB'000
Net realised gains arising from available-for-sale investments	211,391	596,163	754,030
Net gains arising from financial assets/financial liabilities held for trading and derivatives	950,838	378,038	1,226,764
Fair value change of financial instruments at fair value through profit or loss			
– financial assets/financial liabilities held for trading	(274,178)	101,052	(578,849)
– derivatives	2	2,537	104,981
	<u>888,053</u>	<u>1,077,790</u>	<u>1,506,926</u>

8. OTHER INCOME AND GAINS

	Year ended 31 December		
	2009	2010	2011
	RMB'000	RMB'000	RMB'000
Gain on disposal/redemption of held-to-maturity financial assets	3,780	–	–
Gain on disposal of other bond investments	42,979	–	–
Non-recurring government grants (<i>Note</i>)	162,811	155,345	107,703
Rental income from investment properties	13,405	14,558	13,016
Others	44,416	26,175	112,777
	<u>267,391</u>	<u>196,078</u>	<u>233,496</u>

Note: The non-recurring government grants were received unconditionally by the Company and its subsidiaries from their local government where they reside. The main purpose is to subsidise the operation of these entities.

9. DEPRECIATION AND AMORTISATION

	Year ended 31 December		
	2009	2010	2011
	RMB'000	RMB'000	RMB'000
Depreciation for property and equipment	210,219	245,762	247,492
Depreciation for investment properties	3,459	3,458	3,404
Amortisation of other intangible assets	22,734	38,749	48,638
Amortisation of prepaid lease payments	503	503	503
	<u>236,915</u>	<u>288,472</u>	<u>300,037</u>

10. STAFF COSTS

	Year ended 31 December		
	2009	2010	2011
	RMB'000	RMB'000	RMB'000
Staff costs (including directors' remuneration (Note 48)):			
Salaries, bonus and allowances	1,806,042	2,170,795	1,926,463
Contributions to annuity plans	22,813	78,197	77,567
Social welfare	396,134	370,676	315,923
	<u>2,224,989</u>	<u>2,619,668</u>	<u>2,319,953</u>

The domestic employees of the Group in the PRC participate in a state-managed retirement benefit schemes operated by the respective local government in the PRC. The Group also operates a Mandatory Provident Fund Scheme for all qualifying employees in Hong Kong under the Mandatory Provident Fund Schemes Ordinance. The Group is required to contribute a specified percentage of payroll cost to these pension schemes and annuity plans to fund the benefits. The only obligation of the Group with respect to these schemes and annuity plans is to make the specified contributions.

11. BROKERAGE TRANSACTION FEES AND OTHER SERVICES EXPENSES

	Year ended 31 December		
	2009	2010	2011
	RMB'000	RMB'000	RMB'000
Securities and futures dealing and broking expenses	909,625	807,279	645,569
Services expenses for underwriting, sponsorship, and financial advisory, etc.	37,497	89,924	101,155
	<u>947,122</u>	<u>897,203</u>	<u>746,724</u>

12. INTEREST EXPENSES

	Year ended 31 December		
	2009	2010	2011
	RMB'000	RMB'000	RMB'000
Interest on borrowings wholly repayable within five years:			
– bank loans and overdrafts	6,514	22,759	25,308
– deposit taken from other financial institution	–	–	13,367
– financial assets sold under repurchase agreements	54,988	54,025	209,225
– accounts payable to brokerage clients	183,578	198,757	208,991
– others	–	5,948	2,905
	<u>245,080</u>	<u>281,489</u>	<u>459,796</u>

13. PROFIT BEFORE INCOME TAX

	Year ended 31 December		
	2009	2010	2011
	RMB'000	RMB'000	RMB'000
The Group's profit before income tax is arrived at after charging (crediting):			
Auditors' remuneration	9,483	9,033	9,593
Impairment loss in respect of available-for-sale investments included in other expenses	4,659	–	540,409
Reversal of impairment loss in respect of other receivables	(1,560)	(3,773)	(32,773)
Loss (gain) on disposal of property and equipment and other intangible assets	809	544	(693)
Gain on disposal of an associate	–	(4,121)	–
Foreign exchange gains, net included in other income and gains	(1,722)	(5,814)	(68,869)
Operating lease rentals in respect of rented premises	124,977	194,421	234,584
	<u>124,977</u>	<u>194,421</u>	<u>234,584</u>

14. INCOME TAX EXPENSE

	Year ended 31 December		
	2009	2010	2011
	RMB'000	RMB'000	RMB'000
Current tax:			
PRC Enterprise Income Tax and other jurisdictions	1,545,433	1,122,723	1,218,733
Hong Kong Profits Tax	6,938	17,307	21,395
	<u>1,552,371</u>	<u>1,140,030</u>	<u>1,240,128</u>
Adjustments in respect of current income tax in relation to prior years:			
PRC Enterprise Income Tax and other jurisdictions	(114,450)	(39,441)	19,198
Hong Kong Profits Tax	–	(2,506)	1,209
	<u>(114,450)</u>	<u>(41,947)</u>	<u>20,407</u>
Deferred tax:			
Current year	(117,835)	23,449	(242,368)
	<u>1,320,086</u>	<u>1,121,532</u>	<u>1,018,167</u>

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 is 25% from 1 January 2008 onwards. According to "Notification of the State Council on Carrying out the Transitional Preferential Policies Concerning Enterprise Income Tax" (Guo Fa [2007] No. 39), branches set up in Shenzhen and Haikou in the PRC are subject to tax rates of 20%, 22% and 24%, respectively, for each of the years ended 31 December 2009, 2010 and 2011.

Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profit for the Relevant Periods. Taxation arising in other jurisdictions is calculated at the rates prevailing in the relevant jurisdictions.

A reconciliation of the tax expense applicable to profit before income tax using the applicable rate to the tax expense at the effective tax rate is as follows:

	Year ended 31 December		
	2009	2010	2011
	RMB'000	RMB'000	RMB'000
Profit before income tax	5,981,827	4,989,690	4,300,164
Tax at the statutory tax rate of 25%	1,495,457	1,247,423	1,075,041
Effect of share of results of associates	(16,491)	(19,530)	(18,229)
Tax effect of expenses not deductible for tax purpose	10,694	60,947	84,600
Tax effect of income not taxable for tax purpose	(63,976)	(129,001)	(119,637)
Adjustments in respect of current income tax in relation to prior years	(114,450)	(41,947)	18,508
Effect of different tax rates of subsidiaries operating in other jurisdictions	(7,497)	(13,415)	(17,054)
Others	16,349	17,055	(5,062)
Tax charge	1,320,086	1,121,532	1,018,167

The Group has tax losses arising from its subsidiaries in Hong Kong of approximately RMB170 million, RMB155 million and RMB123 million as at 31 December 2009, 2010 and 2011, respectively, that can be carried forward indefinitely for offsetting against future taxable profits of the respective companies in which the losses arose. Additional tax loss of approximately RMB142 million arose from the Group's acquisition of subsidiaries during the year ended 31 December 2009. Deferred tax assets have not been recognised in respect of these tax losses as it is not probable that sufficient future taxable profits will be available in the subsidiaries in which the losses arose against which the unused tax losses can be utilised in the near future.

15. EARNINGS PER SHARE

The calculation of basic and diluted earnings per share attributable to owners of the Company is as follows:

	Year ended 31 December		
	2009	2010	2011
	RMB'000	RMB'000	RMB'000
Earnings for the purpose of basic earnings per share:			
Profit for the year attributable to owners of the Company	4,548,226	3,686,264	3,103,034
Effect of dilutive potential ordinary shares:			
Adjustment to the share of profit of a listed subsidiary based on dilution of its earnings per share	–	(414)	(281)
Earnings for the purpose of diluted earnings per share	4,548,226	3,685,850	3,102,753
Number of shares:			
Number of shares in issue ('000)	8,227,821	8,227,821	8,227,821

For the year ended 31 December 2009, there was no effect of dilutive potential ordinary shares since the Group acquired the listed subsidiary in December 2009 and did not share any profit or loss of the listed subsidiary for that year due to insignificance.

16. PROPERTY AND EQUIPMENT

Group

	Leasehold land and buildings <i>RMB'000</i>	Leasehold improvements <i>RMB'000</i>	Electronic equipment <i>RMB'000</i>	Motor vehicles <i>RMB'000</i>	Furniture, fixtures and equipment <i>RMB'000</i>	Construction in progress <i>RMB'000</i>	Total <i>RMB'000</i>
COST							
As at 1 January 2009	821,329	291,958	578,006	103,414	109,551	26,638	1,930,896
Additions during the year	16,084	51,590	117,619	27,495	28,761	35,245	276,794
Acquired on acquisition of subsidiaries	1,857	6,420	8,598	–	7,264	–	24,139
Disposals during the year	–	–	(81,543)	(19,721)	(14,355)	–	(115,619)
Transfer during the year	–	45,686	–	–	–	(45,686)	–
As at 31 December 2009	839,270	395,654	622,680	111,188	131,221	16,197	2,116,210
ACCUMULATED DEPRECIATION							
As at 1 January 2009	162,509	193,173	337,831	58,287	67,537	–	819,337
Provided for the year	24,452	53,036	113,862	10,605	8,264	–	210,219
Eliminated on disposals	–	–	(58,260)	(12,376)	(9,296)	–	(79,932)
As at 31 December 2009	186,961	246,209	393,433	56,516	66,505	–	949,624
ALLOWANCE FOR IMPAIRMENT LOSSES							
As at 1 January 2009	30,382	–	–	–	–	–	30,382
Recognised in profit or loss	–	–	–	–	–	–	–
As at 31 December 2009	30,382	–	–	–	–	–	30,382
CARRYING VALUES							
As at 31 December 2009	621,927	149,445	229,247	54,672	64,716	16,197	1,136,204

	Leasehold land and buildings RMB'000	Leasehold improvements RMB'000	Electronic equipment RMB'000	Motor vehicles RMB'000	Furniture, fixtures and equipment RMB'000	Construction in progress RMB'000	Total RMB'000
COST							
As at 1 January 2010	839,270	395,654	622,680	111,188	131,221	16,197	2,116,210
Additions during the year	1,947	71,979	132,763	30,815	25,011	59,387	321,902
Disposals during the year	(62)	–	(51,049)	(12,935)	(12,913)	–	(76,959)
Transfer during the year	–	63,648	8,197	–	(8,197)	(63,648)	–
As at 31 December 2010	841,155	531,281	712,591	129,068	135,122	11,936	2,361,153
ACCUMULATED DEPRECIATION							
As at 1 January 2010	186,961	246,209	393,433	56,516	66,505	–	949,624
Provided for the year	25,072	65,727	121,386	17,836	15,741	–	245,762
Eliminated on disposals	(29)	–	(42,778)	(10,171)	(12,820)	–	(65,798)
As at 31 December 2010	212,004	311,936	472,041	64,181	69,426	–	1,129,588
ALLOWANCE FOR IMPAIRMENT LOSSES							
As at 1 January 2010	30,382	–	–	–	–	–	30,382
Recognised in profit or loss	–	–	–	–	–	–	–
As at 31 December 2010	30,382	–	–	–	–	–	30,382
CARRYING VALUES							
As at 31 December 2010	598,769	219,345	240,550	64,887	65,696	11,936	1,201,183

	Leasehold land and buildings <i>RMB'000</i>	Leasehold improvements <i>RMB'000</i>	Electronic equipment <i>RMB'000</i>	Motor vehicles <i>RMB'000</i>	Furniture, fixtures and equipment <i>RMB'000</i>	Construction in progress <i>RMB'000</i>	Total <i>RMB'000</i>
COST							
As at 1 January 2011	841,155	531,281	712,591	129,068	135,122	11,936	2,361,153
Additions during the year	11,679	27,091	99,996	22,245	16,134	62,708	239,853
Disposals during the year	(26,357)	(81,304)	(62,302)	(6,794)	(9,787)	–	(186,544)
Transfer during the year	3,768	60,307	1,779	–	956	(63,042)	3,768
As at 31 December 2011	830,245	537,375	752,064	144,519	142,425	11,602	2,418,230
ACCUMULATED DEPRECIATION							
As at 1 January 2011	212,004	311,936	472,041	64,181	69,426	–	1,129,588
Provided for the year	24,691	78,977	109,495	17,312	17,017	–	247,492
Eliminated on disposals	(12,597)	(81,304)	(58,637)	(5,753)	(8,078)	–	(166,369)
As at 31 December 2011	224,098	309,609	522,899	75,740	78,365	–	1,210,711
ALLOWANCE FOR IMPAIRMENT LOSSES							
As at 1 January 2011	30,382	–	–	–	–	–	30,382
Recognised in profit or loss	–	–	–	–	–	–	–
As at 31 December 2011	30,382	–	–	–	–	–	30,382
CARRYING VALUES							
As at 31 December 2011	575,765	227,766	229,165	68,779	64,060	11,602	1,177,137

The carrying values of the Group's leasehold land and buildings are situated on land with the following lease terms:

	As at 31 December		
	2009 <i>RMB'000</i>	2010 <i>RMB'000</i>	2011 <i>RMB'000</i>
Held in Hong Kong Medium-term lease (10 – 50 years)	1,857	1,728	1,584
Held in PRC Long-term lease (over 50 years)	620,070	597,041	574,181
	621,927	598,769	575,765

Company

	Leasehold land and buildings RMB'000	Leasehold improvements RMB'000	Electronic equipment RMB'000	Motor vehicles RMB'000	Furniture, fixtures and equipment RMB'000	Construction in progress RMB'000	Total RMB'000
COST							
As at 1 January 2009	821,329	245,219	559,734	97,011	92,311	26,373	1,841,977
Additions during the year	16,084	30,693	114,573	25,957	23,759	30,464	241,530
Disposals during the year	-	-	(80,744)	(17,931)	(13,266)	-	(111,941)
Transfer during the year	-	40,640	-	-	-	(40,640)	-
As at 31 December 2009	837,413	316,552	593,563	105,037	102,804	16,197	1,971,566
ACCUMULATED DEPRECIATION							
As at 1 January 2009	162,509	154,477	328,216	55,782	60,862	-	761,846
Provided for the year	24,452	40,708	107,768	9,364	8,190	-	190,482
Eliminated on disposals	-	-	(57,177)	(10,765)	(8,349)	-	(76,291)
As at 31 December 2009	186,961	195,185	378,807	54,381	60,703	-	876,037
ALLOWANCE FOR IMPAIRMENT LOSSES							
As at 1 January 2009	30,382	-	-	-	-	-	30,382
Recognised in profit or loss	-	-	-	-	-	-	-
As at 31 December 2009	30,382	-	-	-	-	-	30,382
CARRYING VALUES							
As at 31 December 2009	620,070	121,367	214,756	50,656	42,101	16,197	1,065,147

	Leasehold land and buildings RMB'000	Leasehold improvements RMB'000	Electronic equipment RMB'000	Motor vehicles RMB'000	Furniture, fixtures and equipment RMB'000	Construction in progress RMB'000	Total RMB'000
COST							
As at 1 January 2010	837,413	316,552	593,563	105,037	102,804	16,197	1,971,566
Additions during the year	1,947	65,687	121,706	26,825	22,645	59,387	298,197
Disposals during the year	–	–	(50,036)	(12,935)	(12,543)	–	(75,514)
Transfer during the year	–	63,648	–	–	–	(63,648)	–
As at 31 December 2010	839,360	445,887	665,233	118,927	112,906	11,936	2,194,249
ACCUMULATED DEPRECIATION							
As at 1 January 2010	186,961	195,185	378,807	54,381	60,703	–	876,037
Provided for the year	24,976	53,411	111,095	16,493	10,837	–	216,812
Eliminated on disposals	–	–	(42,678)	(10,170)	(12,720)	–	(65,568)
As at 31 December 2010	211,937	248,596	447,224	60,704	58,820	–	1,027,281
ALLOWANCE FOR IMPAIRMENT LOSSES							
As at 1 January 2010	30,382	–	–	–	–	–	30,382
Recognised in profit or loss	–	–	–	–	–	–	–
As at 31 December 2010	30,382	–	–	–	–	–	30,382
CARRYING VALUES							
As at 31 December 2010	597,041	197,291	218,009	58,223	54,086	11,936	1,136,586

	Leasehold land and buildings RMB'000	Leasehold improvements RMB'000	Electronic equipment RMB'000	Motor vehicles RMB'000	Furniture, fixtures and equipment RMB'000	Construction in progress RMB'000	Total RMB'000
COST							
As at 1 January 2011	839,360	445,887	665,233	118,927	112,906	11,936	2,194,249
Additions during the year	11,679	13,987	77,582	16,426	13,957	61,723	195,354
Disposals during the year	(26,272)	(81,304)	(56,229)	(6,303)	(8,265)	–	(178,373)
Transfer during the year	–	59,322	1,779	–	956	(62,057)	–
As at 31 December 2011	824,767	437,892	688,365	129,050	119,554	11,602	2,211,230
ACCUMULATED DEPRECIATION							
As at 1 January 2011	211,937	248,596	447,224	60,704	58,820	–	1,027,281
Provided for the year	24,575	67,173	97,590	14,758	13,371	–	217,467
Eliminated on disposals	(12,594)	(81,304)	(54,278)	(5,373)	(7,430)	–	(160,979)
As at 31 December 2011	223,918	234,465	490,536	70,089	64,761	–	1,083,769
ALLOWANCE FOR IMPAIRMENT LOSSES							
As at 1 January 2011	30,382	–	–	–	–	–	30,382
Recognised in profit or loss	–	–	–	–	–	–	–
As at 31 December 2011	30,382	–	–	–	–	–	30,382
CARRYING VALUES							
As at 31 December 2011	570,467	203,427	197,829	58,961	54,793	11,602	1,097,079

The Company's leasehold land and buildings are situated on land in the PRC with long-term lease.

As the lease payments included in the Group and the Company's leasehold land and buildings cannot be allocated reliably between the land and buildings, the entire leases are classified as finance leases and accounted for as property and equipment.

17. INVESTMENT PROPERTIES

Group

	As at 31 December		
	2009 RMB'000	2010 RMB'000	2011 RMB'000
COST			
At beginning of the year	125,585	125,585	125,585
Transfer to property and equipment	–	–	(5,491)
At end of the year	125,585	125,585	120,094
ACCUMULATED DEPRECIATION			
At beginning of the year	18,024	21,483	24,941
Provided for the year	3,459	3,458	3,404
Eliminated on transfer to property and equipment	–	–	(1,723)
At end of the year	21,483	24,941	26,622
CARRYING VALUES			
At end of the year	104,102	100,644	93,472

The fair values of the Group's investment properties at 31 December 2009, 2010 and 2011, were RMB258,487,000, RMB240,834,000 and RMB256,305,000, respectively. The fair values have been determined by the directors of the Company by reference to recent market prices for similar properties in the same or similar locations and conditions.

Company

	As at 31 December		
	2009 RMB'000	2010 RMB'000	2011 RMB'000
COST			
At beginning and end of the year	120,094	120,094	120,094
ACCUMULATED DEPRECIATION			
At beginning of the year	16,637	19,966	23,294
Provided for the year	3,329	3,328	3,328
At end of the year	19,966	23,294	26,622
CARRYING VALUES			
At end of the year	100,128	96,800	93,472

The fair values of the Company's investment properties at 31 December 2009, 2010 and 2011, were RMB233,053,000, RMB213,773,000 and RMB256,305,000, respectively. The fair values have been determined by the directors of the Company by reference to recent market prices for similar properties in the same or similar locations and conditions.

The above investment properties are depreciated over their estimated useful lives of 35 years and after taking into account their estimated residual value of 3%, using the straight-line method.

All investment properties held by the Group and the Company are situated on land in the PRC with long-term lease.

18. GOODWILL

Group

Cost and carrying value

	As at 31 December		
	2009 RMB'000	2010 RMB'000	2011 RMB'000
At beginning of the year	5,896	697,056	673,860
Arising on acquisition of subsidiaries	691,160	–	–
Exchange adjustments	–	(23,196)	(31,580)
	<u> </u>	<u> </u>	<u> </u>
At end of the year	<u>697,056</u>	<u>673,860</u>	<u>642,280</u>

Particulars regarding impairment testing on goodwill are disclosed in note 20.

19. OTHER INTANGIBLE ASSETS

Group

	Trading rights RMB'000	Computer software RMB'000	Others RMB'000	Construction in progress RMB'000	Total RMB'000
COST					
As at 1 January 2009	219,100	114,512	49,329	1,456	384,397
Additions during the year	2,162	14,925	–	8,744	25,831
Acquired on acquisition of subsidiaries	4,059	80,526	–	–	84,585
Disposals during the year	(4,050)	(16,671)	–	–	(20,721)
Transfer during the year	–	3,558	–	(3,558)	–
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
As at 31 December 2009	<u>221,271</u>	<u>196,850</u>	<u>49,329</u>	<u>6,642</u>	<u>474,092</u>
ACCUMULATED AMORTISATION					
As at 1 January 2009	121,854	66,760	15,854	–	204,468
Provided for the year	–	18,993	3,741	–	22,734
Eliminated on disposals	(2,524)	(14,365)	–	–	(16,889)
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
As at 31 December 2009	<u>119,330</u>	<u>71,388</u>	<u>19,595</u>	<u>–</u>	<u>210,313</u>
ALLOWANCE FOR IMPAIRMENT LOSSES					
As at 1 January 2009	1,526	–	–	–	1,526
Eliminated on disposals	(1,526)	–	–	–	(1,526)
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
As at 31 December 2009	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>
CARRYING VALUES					
As at 31 December 2009	<u>101,941</u>	<u>125,462</u>	<u>29,734</u>	<u>6,642</u>	<u>263,779</u>

	Trading rights <i>RMB'000</i>	Computer software <i>RMB'000</i>	Others <i>RMB'000</i>	Construction in progress <i>RMB'000</i>	Total <i>RMB'000</i>
COST					
As at 1 January 2010	221,271	196,850	49,329	6,642	474,092
Additions during the year	1,568	59,714	161	4,715	66,158
Disposals during the year	(531)	(2,513)	–	–	(3,044)
Transfer during the year	–	4,882	–	(4,882)	–
As at 31 December 2010	<u>222,308</u>	<u>258,933</u>	<u>49,490</u>	<u>6,475</u>	<u>537,206</u>
ACCUMULATED AMORTISATION					
As at 1 January 2010	119,330	71,388	19,595	–	210,313
Provided for the year	–	35,397	3,352	–	38,749
Eliminated on disposals	(500)	(1,085)	–	–	(1,585)
As at 31 December 2010	<u>118,830</u>	<u>105,700</u>	<u>22,947</u>	<u>–</u>	<u>247,477</u>
CARRYING VALUES					
As at 31 December 2010	<u><u>103,478</u></u>	<u><u>153,233</u></u>	<u><u>26,543</u></u>	<u><u>6,475</u></u>	<u><u>289,729</u></u>
COST					
As at 1 January 2011	222,308	258,933	49,490	6,475	537,206
Additions during the year	170	67,017	48	7,429	74,664
Disposals during the year	(1,100)	(12,408)	(308)	–	(13,816)
Transfer during the year	–	8,274	–	(8,274)	–
As at 31 December 2011	<u>221,378</u>	<u>321,816</u>	<u>49,230</u>	<u>5,630</u>	<u>598,054</u>
ACCUMULATED AMORTISATION					
As at 1 January 2011	118,830	105,700	22,947	–	247,477
Provided for the year	170	44,708	3,760	–	48,638
Eliminated on disposals	–	(6,019)	(69)	–	(6,088)
As at 31 December 2011	<u>119,000</u>	<u>144,389</u>	<u>26,638</u>	<u>–</u>	<u>290,027</u>
CARRYING VALUES					
As at 31 December 2011	<u><u>102,378</u></u>	<u><u>177,427</u></u>	<u><u>22,592</u></u>	<u><u>5,630</u></u>	<u><u>308,027</u></u>

Company	Trading rights <i>RMB'000</i>	Computer software <i>RMB'000</i>	Others <i>RMB'000</i>	Construction in progress <i>RMB'000</i>	Total <i>RMB'000</i>
COST					
As at 1 January 2009	219,100	88,677	47,529	1,456	356,762
Additions during the year	1,300	6,737	–	8,744	16,781
Disposals during the year	(4,050)	(15,406)	–	–	(19,456)
Transfer during the year	–	3,558	–	(3,558)	–
	<u>216,350</u>	<u>83,566</u>	<u>47,529</u>	<u>6,642</u>	<u>354,087</u>
As at 31 December 2009					
ACCUMULATED AMORTISATION					
As at 1 January 2009	121,854	56,286	15,404	–	193,544
Provided for the year	–	14,747	3,560	–	18,307
Eliminated on disposals	(2,524)	(14,010)	–	–	(16,534)
	<u>119,330</u>	<u>57,023</u>	<u>18,964</u>	<u>–</u>	<u>195,317</u>
As at 31 December 2009					
ALLOWANCE FOR IMPAIRMENT LOSSES					
As at 1 January 2009	1,526	–	–	–	1,526
Eliminated on disposals	(1,526)	–	–	–	(1,526)
	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>
As at 31 December 2009					
CARRYING VALUES					
As at 31 December 2009	<u>97,020</u>	<u>26,543</u>	<u>28,565</u>	<u>6,642</u>	<u>158,770</u>

	Trading rights <i>RMB'000</i>	Computer software <i>RMB'000</i>	Others <i>RMB'000</i>	Construction in progress <i>RMB'000</i>	Total <i>RMB'000</i>
COST					
As at 1 January 2010	216,350	83,566	47,529	6,642	354,087
Additions during the year	–	11,158	–	4,715	15,873
Disposals during the year	(500)	(562)	–	–	(1,062)
Transfer during the year	–	4,882	–	(4,882)	–
As at 31 December 2010	<u>215,850</u>	<u>99,044</u>	<u>47,529</u>	<u>6,475</u>	<u>368,898</u>
ACCUMULATED AMORTISATION					
As at 1 January 2010	119,330	57,023	18,964	–	195,317
Provided for the year	–	16,958	3,173	–	20,131
Eliminated on disposals	(500)	(542)	–	–	(1,042)
As at 31 December 2010	<u>118,830</u>	<u>73,439</u>	<u>22,137</u>	<u>–</u>	<u>214,406</u>
CARRYING VALUES					
As at 31 December 2010	<u><u>97,020</u></u>	<u><u>25,605</u></u>	<u><u>25,392</u></u>	<u><u>6,475</u></u>	<u><u>154,492</u></u>
COST					
As at 1 January 2011	215,850	99,044	47,529	6,475	368,898
Additions during the year	170	18,054	–	7,429	25,653
Disposals during the year	–	(1,255)	(300)	–	(1,555)
Transfer during the year	–	8,274	–	(8,274)	–
As at 31 December 2011	<u>216,020</u>	<u>124,117</u>	<u>47,229</u>	<u>5,630</u>	<u>392,996</u>
ACCUMULATED AMORTISATION					
As at 1 January 2011	118,830	73,439	22,137	–	214,406
Provided for the year	170	16,989	3,556	–	20,715
Eliminated on disposals	–	(1,209)	(69)	–	(1,278)
As at 31 December 2011	<u>119,000</u>	<u>89,219</u>	<u>25,624</u>	<u>–</u>	<u>233,843</u>
CARRYING VALUES					
As at 31 December 2011	<u><u>97,020</u></u>	<u><u>34,898</u></u>	<u><u>21,605</u></u>	<u><u>5,630</u></u>	<u><u>159,153</u></u>

Trading rights mainly comprise the trading rights in the Shanghai Stock Exchange, the Shenzhen Stock Exchange, the Hong Kong Stock Exchange and the Hong Kong Futures Exchange Limited which allow the Group to trade securities and futures contracts on or through these exchanges.

20. IMPAIRMENT TESTING ON GOODWILL AND TRADING RIGHTS WITH INDEFINITE USEFUL LIVES

Impairment testing on goodwill

For the purpose of impairment testing, goodwill set out in Note 18 has been allocated to two individual cash generating units (CGUs), including one subsidiary in Shanghai ("Unit A") and one subsidiary in Hong Kong ("Unit B"). The carrying amounts of goodwill as at 31 December 2009, 31 December 2010, and 31 December 2011 allocated to these units are as follows:

	As at 31 December		
	2009	2010	2011
	RMB'000	RMB'000	RMB'000
Unit A – Haitong Futures Co., Ltd.	5,896	5,896	5,896
Unit B – Haitong International Securities Group Limited	691,160	667,964	636,384
	<u>697,056</u>	<u>673,860</u>	<u>642,280</u>

During the years ended 31 December 2009, 2010 and 2011, management of the Group determines that there are no impairments of any of its CGUs containing goodwill as the recoverable amounts of Unit A and Unit B exceed their respective carrying amounts.

The basis of the recoverable amounts of the above CGUs and their major underlying assumptions are summarised below:

The recoverable amounts of Unit A and Unit B have been determined on the basis of value in use calculation. That calculation uses cash flow projections based on financial budgets approved by management covering a 5-year period, and at a discount rate of 8%, 8%, 8% and 7%, 7%, 5.6%, for Unit A and Unit B, respectively, as at 31 December 2009, 2010 and 2011. The discount rates used reflect specific risks relating to the relevant CGUs.

Other key assumptions for the value in use calculations relate to the estimation of cash inflows/outflows which include budgeted income and gross margin, such estimation is based on the units' past performance and management's expectations for the market development.

Management believes that any reasonably possible change in any of these assumptions would not cause the aggregate carrying amount of Unit A or Unit B to exceed their respective aggregate recoverable amount.

Impairment testing on trading rights with indefinite useful lives

The trading rights held by the Group are considered by the directors of the Company as having indefinite useful lives because they are expected to contribute net cash inflows indefinitely. The trading rights will not be amortised until their useful life is determined to be finite. Instead, they will be tested for impairment annually and whenever there is an indication that they may be impaired. The respective recoverable amounts of the two cash generating units relating to brokerage business whereby these trading rights are allocated to, using a value in use calculation, exceed the carrying amounts. Accordingly, there is no impairment of the trading rights as at 31 December 2009, 2010 and 2011.

21. INVESTMENTS IN SUBSIDIARIES

Company

	As at 31 December		
	2009	2010	2011
	RMB'000	RMB'000	RMB'000
Unlisted shares, at cost	5,333,310	7,054,730	8,283,130
Less: Allowance for impairment losses	—	—	—
	<u>5,333,310</u>	<u>7,054,730</u>	<u>8,283,130</u>

As of each of the reporting period ends and at the date of this report, the Company has the following subsidiaries comprising the Group:

Name of subsidiary	Place of incorporation/ establishment	Equity interest held by the Group				Share capital/ registered and paid-up capital	Principal activities	Statutory auditor [#]
		As at 31 December		As at date of this report				
		2009	2010	2011				
海富通基金管理有限公司 HFT Investment Management Co., Ltd.* ^B	PRC	51%	51%	51%	51%	RMB150,000,000	Provision of fund trading, distribution and management services	KPMG Huazhen
海富通資產管理(香港)有限公司 HFT Investment Management (HK) Limited ^T	Hong Kong	—	100%	100%	100%	HKD60,000,000	Provision of asset management services	KPMG HK
海富產業投資基金管理 有限公司 Haitong-Fortis Private Equity Fund Management Co., Ltd.* ^B	PRC	67%	67%	67%	67%	RMB20,000,000	Provision of advisory services and fund management services	Deloitte PRC
海通開元投資有限公司 Haitong Capital Investment Co., Ltd.* ^B	PRC	100%	100%	100%	100%	RMB4,000,000,000	Provision of advisory services and proprietary trading	Shu Lun Pan
海通吉禾股權投資基金管理 有限責任公司 Haitong Jihe Private Equity Investment Fund Management Company Limited*	PRC	—	51%	51%	51%	RMB50,000,000	Provision of advisory services and investment management	Shu Lun Pan
海通國際控股有限公司 (原名海通(香港)金融控股 有限公司) Haitong International Holdings Limited ^B (Formerly known as Hai Tong (HK) Financial Holdings Limited)	Hong Kong	100%	100%	100%	100%	HKD4,000,000,000	Investment holding	BDO
海通證券(香港)經紀有限公司 Hai Tong Securities (HK) Brokerage Limited	Hong Kong	100%	100%	100%	100%	HKD300,000,000	Inactive	BDO
海通資產管理(香港)有限公司 Hai Tong Asset Management (HK) Limited ^o (Formerly known as Hai Tong Assets Management (HK) Limited)	Hong Kong	100%	100%	100%	100%	HKD20,000,000	Provision of fund management services	Note 1

Name of subsidiary	Place of incorporation/ establishment	Equity interest held by the Group				As at date of this report	Share capital/ registered and paid-up capital	Principal activities	Statutory auditor [#]
		As at 31 December 2009	2010	2011					
海通融資(香港)有限公司 Hai Tong Capital (HK) Limited ^{oo}	Hong Kong	100%	100%	100%	100%	HKD10,000,000	Provision of corporate advisory services	Note 1	
海通證券(香港)有限公司 Hai Tong Securities (HK) Limited ⁺	Hong Kong	100%	100%	100%	-	HKD1	Inactive	Note 2	
海通期貨(香港)有限公司 Hai Tong Futures (HK) Limited ⁺	Hong Kong	100%	100%	100%	-	HKD1	Inactive	Note 2	
海通研究(香港)有限公司 Hai Tong Research (HK) Limited ⁺	Hong Kong	100%	100%	100%	-	HKD1	Inactive	Note 2	
海通國際金融控股有限公司 Haitong International Financial Holdings Company Limited ⁺	Hong Kong	-	100%	100%	-	HKD1	Inactive	Note 2	
上海海通開兆投資諮詢有限公司 Shanghai Haitong Open Trillion Investment Consulting Company Limited [*]	PRC	100%	100%	100%	100%	RMB10,000,000	Provision of advisory services	滬江誠信會計師事務所有限公司, certified public accountants registered in the PRC	
深圳海通開兆投資諮詢有限公司 Shenzhen Haitong Open Trillion Investment Consulting Company Limited [*]	PRC	-	100%	100%	100%	RMB10,000,000	Provision of advisory services	深圳巨源至合會計師事務所, certified public accountants registered in the PRC	
Haitong PE Investment Management Ltd. ^o (Formerly known as Haitong Drilex Investment Management Ltd.)	Cayman Islands	100%	100%	100%	100%	USD10	Investment management	Note 3	
易寰環球服務有限公司 Epro Global Services Limited ^o	Hong Kong	-	60%	60%	60%	HKD5,000,000	Provision of call centre and system maintenance services	Counselors CPA Limited, certified public accountants registered in Hong Kong	
海通國際移民顧問有限公司 (原名大福歷斯頓移民顧問有限公司) Haitong International Immigration Consultants Limited ^o (Formerly known as Taifook Lexton Immigration Consultants Limited)	Hong Kong	-	60%	60%	60%	HKD100,000	Provision of immigration consultancy services	Leslie Cheng & Co., certified public accountants registered in Hong Kong	
海通期貨有限公司 Haitong Futures Co., Ltd. ^{*B}	PRC	93.334%	93.334%	66.667%	66.667%	RMB1,000,000,000 ⁵	Physical commodities and futures contracts broking and dealing	Zhonghua Certified Public Accountants, certified public accountants registered in the PRC	
海通國際證券集團有限公司 (原名大福證券集團有限公司) Haitong International Securities Group Limited ^o (Formerly known as Taifook Securities Group Limited)	Bermuda	57.3%	60.59%	69.74%	69.74%	HKD91,534,271	Investment holding	PWC	
創富會有限公司 E-wealth Club Limited ^{ou}	Hong Kong	100%	100%	100%	-	HKD1,000,000	Inactive	PWC	
Grand Fortune Company Limited ^o	Cayman Islands	-	100%	100%	100%	HKD1	Investment	Note 3	

Name of subsidiary	Place of incorporation/ establishment	Equity interest held by the Group				As at date of this report	Share capital/ registered and paid-up capital	Principal activities	Statutory auditor [#]
		As at 31 December 2009	2010	2011					
海通國際資產管理有限公司 (原名大福資產管理有限公司) Haitong International Asset Management Limited ^Ω (Formerly known as Taifook Asset Management Limited)	Hong Kong	100%	100%	100%	100%	HKD13,000,000	Investment holding and asset management	PWC	
海通國際資產管理代理人有限公司 (原名大福資產管理代理人有限公司) Haitong International Asset Management Nominees Limited ^Ω (Formerly known as Taifook Asset Management Nominees Limited)	Hong Kong	100%	100%	100%	100%	HKD6,000,000	Proprietary trading	PWC	
海通國際金業有限公司 (原名大福金業有限公司) Haitong International Bullion Limited ^Ω (Formerly known as Taifook Bullion Limited)	Hong Kong	100%	100%	100%	100%	HKD7,000,000	Bullion contracts dealing and trading	PWC	
Haitong International (BVI) Limited ^Ω (Formerly Taifook (BVI) Limited)	British Virgin Islands	100%	100%	100%	100%	HKD11,576	Investment holding	PWC	
海通國際資本有限公司 (原名大福融資有限公司) Haitong International Capital Limited ^Ω (Formerly known as Taifook Capital Limited)	Hong Kong	100%	100%	100%	100%	HKD20,000,000	Provision of corporate advisory services	PWC	
Haitong International Capital Management Limited ^Ω (原名 Taifook Capital Management Limited and 大福基金經理有限公司) (Formerly known as Taifook Capital Management Limited and Tai Fook Fund Managers Limited)	British Virgin Islands	100%	100%	100%	100%	USD1	Investment holding	Note 3	
海通國際顧問有限公司 (原名大福歷斯頓顧問有限公司) Haitong International Consultants Limited ^Ω (Formerly known as Taifook Lexton Consultants Limited)	Hong Kong	60%	60%	60%	60%	HKD5,000,000	Provision of financial advisory services	Leslie Cheng & Co., certified public accountants registered in Hong Kong	
Haitong International E-wealth Club Inc. ^Ω (Formerly known as Taifook E-wealth Club Inc.)	British Virgin Islands	100%	100%	100%	100%	USD1	Investment holding	Note 3	
海通國際財務有限公司 (原名大福財務有限公司) Haitong International Finance Company Limited ^Ω (Formerly known as Taifook Finance Company Limited)	Hong Kong	100%	100%	100%	100%	HKD300,000,002 (Non-voting deferred ^Δ) HKD100,700,001)	Investment holding, money lending and securities trading	PWC	
海通國際創富理財顧問(澳門)有限公司 (原名大福歷斯頓創富理財顧問(澳門)有限公司) Haitong International Financial Management Consultancy (Macau) Limited ^Ω (Formerly known as Taifook Lexton Wealth Management Consultants (Macau) Limited)	Macau	45%	59%	59%	59%	MOP500,000	Provision of support services	Leong Kam Chun & Co., certified public accountants registered in Macau	

Name of subsidiary	Place of incorporation/ establishment	Equity interest held by the Group				As at date of this report	Share capital/ registered and paid-up capital	Principal activities	Statutory auditor [#]
		As at 31 December							
		2009	2010	2011					
海通國際期貨有限公司 (原名大福期貨有限公司) Haitong International Futures Limited ⁴¹ (Formerly known as Taifook Futures Limited)	Hong Kong	100%	100%	100%	100%	HKD100,000,000	Futures and options broking and trading	PWC	
Haitong International Information Systems Inc. ⁴² (Formerly known as Taifook Information Systems Inc.)	British Virgin Islands	100%	100%	100%	100%	USD1	Investment holding	Note 3	
海通國際資訊系統有限公司 (原名大福資訊系統有限公司) Haitong International Information Systems Limited ⁴³ (Formerly known as Taifook Information Systems Limited)	Hong Kong	100%	100%	100%	100%	HKD11,000,000	Provision of information technology solutions	PWC	
Haitong International Information Technology Inc. ⁴⁴ (Formerly known as Taifook Information Technology Inc.)	British Virgin Islands	100%	100%	100%	100%	USD1	Investment holding	Note 3	
Haitong International Investment Management Inc. ⁴⁵ (Formerly known as Taifook Investment Management Inc.)	British Virgin Islands	100%	100%	100%	100%	USD1	Investment holding	Note 3	
海通國際投資經理有限公司 (原名大福投資經理有限公司) Haitong International Investment Managers Limited ⁴⁶ (Formerly known as Taifook Investment Managers Limited)	Hong Kong	100%	100%	100%	100%	HKD47,000,000	Provision of asset and fund management services	PWC	
海通國際投資服務有限公司 (原名大福投資服務有限公司) Haitong International Investment Services Limited ⁴⁷ (Formerly known as Taifook Investment Services Limited)	Hong Kong	100%	100%	100%	100%	HKD42,500,000	Securities broking and dealing	PWC	
海通國際企業管理顧問有限公司 (原名大福企業管理顧問有限公司) Haitong International Management Consultancy Limited ⁴⁸ (Formerly known as Taifook Management Consultancy Limited)	Hong Kong	100%	100%	100%	–	HKD2	Inactive	PWC	
海通國際管理服務有限公司 (原名大福管理服務有限公司) Haitong International Management Services Company Limited ⁴⁹ (Formerly known as Taifook Management Services Company Limited)	Hong Kong	100%	100%	100%	100%	HKD2	Provision of management services	PWC	
Haitong International Net Inc. ⁵⁰ (Formerly known as Taifook Net Inc.)	British Virgin Islands	100%	100%	100%	100%	USD1	Investment holding	Note 3	
海通國際網有限公司 (原名大福網有限公司) Haitong International Net Limited ⁵¹ (Formerly known as Taifook Net Limited)	Hong Kong	100%	100%	100%	100%	HKD1,000,000	Inactive	PWC	

Name of subsidiary	Place of incorporation/ establishment	Equity interest held by the Group				As at date of this report	Share capital/ registered and paid-up capital	Principal activities	Statutory auditor [#]
		As at 31 December 2009	2010	2011					
海通國際代理人有限公司 (原名大福代理人有限公司) Haitong International Nominees Company Limited ^Ω (Formerly known as Taifook Nominees Company Limited)	Hong Kong	100%	100%	100%	100%	HKD50,000,000	Securities trading	PWC	
海通國際電子網上服務有限公司 (原名大福電子網上服務有限公司) Haitong International On-line Services Limited ^Ω (Formerly known as Taifook On-line Services Limited)	British Virgin Islands	100%	100%	100%	100%	USD1	Investment holding	Note 3	
海通國際電子網上服務有限公司 (原名大福電子網上服務有限公司) Haitong International On-line Services Limited ^Ω (Formerly known as Taifook On-line Services Limited)	Hong Kong	100%	100%	100%	100%	HKD6,000,000	Provision of electronic financial services	PWC	
海通國際研究有限公司 (原名海通國際資料研究有限公司及大福資料研究有限公司) Haitong International Research Limited ^Ω (Formerly known as Taifook Research Limited)	Hong Kong	100%	100%	100%	100%	HKD1,000,000	Provision of research services	PWC	
海通國際證券有限公司 (原名大福證券有限公司) Haitong International Securities Company Limited ^Ω (Formerly known as Taifook Securities Company Limited)	Hong Kong	100%	100%	100%	100%	HKD1,500,000,000	Securities broking and dealing and leverage foreign exchange trading	PWC	
海通國際證券代理人有限公司 (原名大福證券代理人有限公司) Haitong International Securities Nominees Limited ^Ω (Formerly known as Taifook Securities Nominees Limited)	Hong Kong	100%	100%	100%	100%	HKD2	Provision of nominee and custodian services	PWC	
海通國際創富理財集團有限公司 (原名大福創富理財集團有限公司) Haitong International Wealth Management Group Limited ^{Ω0} (Formerly known as Taifook Wealth Management Group Limited)	Hong Kong	100%	100%	100%	100%	HKD3,500,000	Inactive	PWC	
海通大福投資諮詢(深圳)有限公司 Haitong Taifook Investment Consultancy (Shenzhen) Company Limited ^Ω	PRC	-	-	100%	100%	HKD2,000,000	Provision of investment consultancy services	深圳永信瑞和會計師事務所, certified public accountants registered in the PRC	
海通大福投資諮詢(上海)有限公司 Haitong Taifook Investment Consultancy (Shanghai) Company Limited ^Ω	PRC	-	-	-	100%	HKD2,000,000	Provision of investment consultancy services	Note 5	
海通國際創富理財有限公司 (原名大福歷斯頓創富理財有限公司) Haitong International Wealth Management Limited ^Ω (Formerly known as Taifook Lexton Wealth Management Limited)	Hong Kong	60%	60%	60%	60%	HKD1,240,000	Provision of financial planning services and financial and insurance products brokerage	Leslie Cheng & Co., certified public accountants registered in Hong Kong	

Name of subsidiary	Place of incorporation/ establishment	Equity interest held by the Group				Share capital/ registered and paid-up capital	Principal activities	Statutory auditor [#]
		As at 31 December 2009	2010	2011	As at date of this report			
IB Capital Management Limited ^Ω	Cayman Islands	-	100%	100%	-	USD50,000	Inactive	Note 3
演天資訊科技有限公司 iT Technology Company Limited ^Ω	Hong Kong	100%	100%	100%	100%	HKD2	Investment holding	PWC
iT Technology Holdings Inc. ^Ω	British Virgin Islands	100%	100%	100%	100%	USD1	Investment holding	Note 3
演天資訊科技(深圳)有限公司 iT Technology (Shenzhen) Company Limited ^Ω	PRC	100%	100%	100%	100%	HKD10,000,000	Provision of software development services	深圳永信瑞和會計師事務所, certified public accountants registered in the PRC
Ocean Pilot Investments Limited ^Ω	British Virgin Islands	100%	100%	100%	100%	USD1	Investment holding	Note 3
意盛有限公司 Prosper Ideal Limited ^Ω	Hong Kong	100%	100%	100%	100%	HKD2	Investment holding	PWC
大福投資諮詢顧問(廣州)有限公司 Taifook Investment Consultancy (Guangzhou) Company Limited ^{*Ω}	PRC	100%	100%	100%	100%	HKD2,000,000	Provision of investment consultancy services	廣州正粵會計師事務所, certified public accountants registered in the PRC
大福投資諮詢顧問(上海)有限公司 Taifook Investment Consultancy (Shanghai) Company Limited ^{*Ω}	PRC	100%	100%	100%	100%	USD700,000	Provision of investment consultancy services	上海立達聯合會計師事務所, certified public accountants registered in the PRC
海通創新資本管理有限公司 Haitong Chuangxin Capital Management Company Limited [*]	PRC	-	-	51%	51%	RMB50,000,000	Provision of investment and asset management and investment consultancy services	Shu Lun Pan
Haitong International Asset Management (Cayman) Limited ^Ω	Cayman Islands	-	100%	100%	100%	JPY10,000	Provision of investment management services	Note 3
易普電子商務(深圳)有限公司 Epro Electronic Commerce (Shenzhen) Company Limited ^{*Ω}	PRC	-	60%	60%	60%	RMB3,000,000	Provision of call centre and system maintenance services	Note 4
大福資產管理有限公司 Taifook Asset Management Limited ^Ω	Hong Kong	-	100%	-	-	HKD1	Inactive	PWC
大福金業有限公司 Taifook Bullion Limited ^Ω	Hong Kong	-	100%	-	-	HKD1	Inactive	Note 2
大福融資有限公司 Taifook Capital Limited ^Ω	Hong Kong	-	100%	-	-	HKD1	Inactive	Note 2
大福歷斯頓顧問有限公司 Taifook Lexton Consultants Limited ^Ω	Hong Kong	-	100%	-	-	HKD1	Inactive	Note 2
大福期貨有限公司 Taifook Futures Limited ^Ω	Hong Kong	-	100%	-	-	HKD1	Inactive	Note 2

Name of subsidiary	Place of incorporation/ establishment	Equity interest held by the Group				Share capital/ registered and paid-up capital	Principal activities	Statutory auditor [#]
		As at 31 December		As at date of this report				
		2009	2010	2011				
大福投資經理有限公司 Taifook Investment Managers Limited ^{Ω§}	Hong Kong	-	100%	-	-	HKD1	Inactive	Note 2
大福投資服務有限公司 Taifook Investment Services Limited ^{Ω§}	Hong Kong	-	100%	-	-	HKD1	Inactive	Note 2
大福資料研究有限公司 Taifook Research Limited ^{Ω§}	Hong Kong	-	100%	-	-	HKD1	Inactive	Note 2
大福證券有限公司 Taifook Securities Company Limited ^{Ω§}	Hong Kong	-	100%	-	-	HKD1	Inactive	Note 2
大福證券集團有限公司 Taifook Securities Group Limited ^{Ω§}	Hong Kong	-	100%	-	-	HKD1	Inactive	PWC
大福歷斯頓創富理財有限公司 Taifook Lexton Wealth Management Limited ^{Ω§}	Hong Kong	-	100%	-	-	HKD1	Inactive	Note 2

* English translated name is for identification only.

β The subsidiary is directly held by the Company.

α The subsidiary's shares are listed on the Main Board of the Hong Kong Stock Exchange. On 16 August 2011, the subsidiary has issued new shares at HKD4.25 per share by way of capitalisation of HKD850,000,000 out of total outstanding amount of intercompany loans due to its immediate holding company, Haitong International Holdings Limited.

π The equity interest in the subsidiary represents the equity interest held directly by HFT Investment Management Company Limited.

∞ The equity interest in the subsidiary was held directly or indirectly by Haitong International Holdings Limited as at 31 December 2009 and is subsequently held indirectly by Haitong International Securities Group Limited as at 31 December 2010, 31 December 2011 and at the date of this report.

Ω The equity interest in the subsidiary represents the effective equity interest held directly or indirectly by Haitong International Securities Group Limited.

ζ The paid-up capital of the subsidiary has increased from RMB500,000,000 to RMB1,000,000,000 during the year ended 31 December 2011. The Company and the non-controlling interest of the subsidiary paid RMB228,400,000 and RMB342,600,000, respectively, to subscribe for the additional interests. The interests in the subsidiary held by the Group has decreased from 93.334% to 66.67%.

σ During the year ended 31 December 2011, all members of the subsidiary resolved to deregister and dissolve the subsidiary. As at date of this report, deregistration procedures have been completed and the subsidiary has been dissolved on 30 March 2012.

+ Subsequent to 31 December 2011, the subsidiary was deregistered on 20 January 2012.

μ During the year ended 31 December 2011, all members of the respective subsidiaries resolved to deregister and dissolve the subsidiaries, which subject to the issue of the notice of no objection by the Inland Revenue Department and publication of a notice of the proposed deregistration in the Government Gazette pursuant to the section 291AA of the Hong Kong Companies Ordinance. As at date of this report, deregistration procedures have been completed.

§ The Group has disposed of the interests in these subsidiaries during the year ended 31 December 2011.

Δ The non-voting deferred shares carry no rights to dividends, attend or vote at general meetings and receive any surplus in a return of capital, winding-up or otherwise in respect of the first HKD100,000 billion thereof.

- 0 During the year ended 31 December 2011, all members of the respective subsidiaries resolved to deregister and dissolve the subsidiaries, which subject to the issue of the notice of the proposed deregistration in the Government Gazette pursuant to the section 291AA of the Hong Kong Companies Ordinance. As at date of this report, deregistration procedures have not been completed.
- # Statutory auditor of respective subsidiary of the Group are as follows:
- BDO represents BDO Limited, certified public accountants registered in Hong Kong;
 - Deloitte PRC represents Deloitte Touche Tohmatsu CPA Ltd. (德勤華永會計師事務所有限公司), certified public accountants registered in the PRC;
 - KPMG HK represents KPMG in Hong Kong, certified public accountants registered in Hong Kong;
 - KPMG Huazhen represents KPMG Huazhen, certified public accountants registered in the PRC;
 - PWC represents PricewaterhouseCoopers, certified public accountants registered in Hong Kong; and
 - Shu Lun Pan represents Shu Lun Pan Certified Public Accountants Co., Ltd. (立信會計事務有限公司), certified public accountants registered in the PRC.

Note 1 The subsidiary was audited by BDO for the year ended 31 December 2009 and was audited by PWC for the year ended 31 December 2010 and 2011.

Note 2 No audited financial statements were issued during the Relevant Periods for the subsidiary since the subsidiary was inactive since its incorporation.

Note 3 There was no statutory audit requirement for the subsidiary and accordingly no audited financial statements were issued during the Relevant Periods.

Note 4 The subsidiary was newly incorporated during the Relevant Periods and no statutory audit has been performed since its establishment and up to the date of the report.

Note 5 The subsidiary was newly incorporated subsequent to 31 December 2011.

22. INVESTMENTS IN ASSOCIATES

Group

	As at 31 December		
	2009	2010	2011
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Cost of unlisted investments in associates	103,749	394,207	764,207
Share of post-acquisition profits and other comprehensive income, net of dividends received	111,998	149,074	161,907
	<u>215,747</u>	<u>543,281</u>	<u>926,114</u>

Company

	As at 31 December		
	2009	2010	2011
	RMB'000	RMB'000	RMB'000
Cost of unlisted investments in associates	92,907	92,907	92,907

As of each of the reporting period ends, the Group has the following associates:

Name of associates	Place of incorporation/ establishment	Equity interest held by the Group As at 31 December			Principal activities
		2009	2010	2011	
富國基金管理有限公司 Fullgoal Fund Management Co. Ltd.*	PRC	27.78%	27.78%	27.78%	Provision of fund trading distribution services
海富金匯(天津)資本管理企業(有限合夥) HFT Jinhui (Tianjin) Capital Management Enterprise (Limited Partnership) [^]	PRC	65.00%	65.00%	65.00%	Investing in securities
吉林省現代農業和新興產業投資 基金有限公司 Jilin Modern Agricultural and Emerging Markets Investment Fund Limited [@]	PRC	-	37.50%	37.50%	Investing in securities
西安航天新能源產業投資有限公司 Xi'an Aerospace and New Energy Industry Fund ^β	PRC	-	-	37.00%	Investing in securities
招商大福資產管理有限公司 CMTF Asset Management Limited [#]	Hong Kong	49.00%	-	-	Asset management

* English translated name is for identification only.

[^] Pursuant to the partnership agreement, the Group is a limited partner of the partnership and therefore the Group does not control HFT Jinhui (Tianjin) Capital Management Enterprise (Limited Partnership) (海富金匯(天津)資本管理企業(有限合夥)). The directors of the Company consider that the Group does exercise significant influence over HFT Jinhui (Tianjin) Capital Management Enterprise (Limited Partnership) (海富金匯(天津)資本管理企業(有限合夥)) through the Group's participation in its operating and financing activities and it is therefore classified as an associate of the Group.

[@] The associate was established in 2010 and the Group made capital injection of RMB300,000,000 on its establishment.

^β The associate was established in 2011 and the Group made capital injection of RMB370,000,000 on its establishment.

[#] The associate was acquired through the acquisition of Haitong International Securities Group Limited in December 2009 and was disposed of at a cash consideration of HKD15,680,000 (equivalent to RMB13,806,000) in January 2010. The gain arising from the disposal of HKD4,843,000 (equivalent to RMB4,121,000) was recognised as other income during the year ended 31 December 2010 accordingly.

The summarised financial information in respect of the Group's associates is set out below:

Group

	As at 31 December		
	2009 <i>RMB'000</i>	2010 <i>RMB'000</i>	2011 <i>RMB'000</i>
Total assets	868,760	1,833,714	2,882,151
Total liabilities	<u>(158,031)</u>	<u>(197,434)</u>	<u>(207,531)</u>
Net assets	<u>710,729</u>	<u>1,636,280</u>	<u>2,674,620</u>
Group's share of net assets of associates	<u><u>202,215</u></u>	<u><u>532,755</u></u>	<u><u>911,602</u></u>
	Year ended 31 December		
	2009 <i>RMB'000</i>	2010 <i>RMB'000</i>	2011 <i>RMB'000</i>
Income for the year	<u>796,279</u>	<u>877,477</u>	<u>900,139</u>
Total profit for the year	<u>251,644</u>	<u>292,802</u>	<u>273,547</u>
Other comprehensive income (expense) for the year	<u>7,475</u>	<u>5,223</u>	<u>(48,007)</u>
Group's share of profits and other comprehensive income of associates for the year	<u><u>68,038</u></u>	<u><u>79,570</u></u>	<u><u>64,828</u></u>

23. AVAILABLE-FOR-SALE INVESTMENTS

Group

	As at 31 December		
	2009 RMB'000	2010 RMB'000	2011 RMB'000
Debt securities	110,938	278,522	507,743
Equity securities	6,049,354	5,735,718	7,644,569
Funds	488,213	924,017	607,899
	<u>6,648,505</u>	<u>6,938,257</u>	<u>8,760,211</u>
Analysed as:			
Listed in Hong Kong	21,992	16,501	58,253
Listed outside Hong Kong (primarily in the PRC)	5,670,210	4,912,892	6,211,410
Unlisted	956,303	2,008,864	2,490,548
	<u>6,648,505</u>	<u>6,938,257</u>	<u>8,760,211</u>
Analysed as:			
Listed equity securities	5,642,236	4,845,408	6,071,117
Unlisted equity securities	407,118	890,310	1,573,452
	<u>6,049,354</u>	<u>5,735,718</u>	<u>7,644,569</u>
Analysed for reporting purpose as:			
Current assets	5,778,403	5,060,788	6,826,646
Non-current assets	870,102	1,877,469	1,933,565
	<u>6,648,505</u>	<u>6,938,257</u>	<u>8,760,211</u>

Company	As at 31 December		
	2009	2010	2011
	RMB'000	RMB'000	RMB'000
Debt securities	110,938	270,472	507,743
Equity securities	5,704,696	4,741,075	5,903,543
Funds	191,834	222,160	260,590
	<u>6,007,468</u>	<u>5,233,707</u>	<u>6,671,876</u>
Analysed as:			
Listed outside Hong Kong (primarily in the PRC)	5,659,675	4,726,950	5,961,083
Unlisted	347,793	506,757	710,793
	<u>6,007,468</u>	<u>5,233,707</u>	<u>6,671,876</u>
Analysed as:			
Listed equity securities	5,606,185	4,642,964	5,808,364
Unlisted equity securities	98,511	98,111	95,179
	<u>5,704,696</u>	<u>4,741,075</u>	<u>5,903,543</u>
Analysed for reporting purpose as:			
Current assets	5,717,123	4,913,712	6,318,692
Non-current assets	290,345	319,995	353,184
	<u>6,007,468</u>	<u>5,233,707</u>	<u>6,671,876</u>

The equity interest in unlisted securities held by the Group and the Company are issued by private companies (including companies in (among others) banking, manufacturing, property development and utilities sectors). As the reasonable range of fair value estimation is so significant that the directors of the Company are of the opinion that the fair value cannot be measured reliably, the value of the securities is measured at cost less impairment at the reporting date.

Included in the Group's listed equity securities of approximately RMB4,155,143,000, RMB1,270,717,000 and RMB1,423,849,000 as at 31 December 2009, 2010 and 2011, respectively, are restricted shares listed in the PRC with a legally enforceable restriction on these securities that prevents the Group to dispose of within the specified period. The fair values of these securities have taken into account the relevant features including the restrictions.

Included in the Company's listed equity securities of approximately RMB4,141,084,000, RMB1,096,002,000 and RMB1,245,921,000 as at 31 December 2009, 2010 and 2011, respectively, are restricted shares listed in the PRC with a legally enforceable restriction on these securities that prevents the Company to dispose of within the specified period. The fair values of these securities have taken into account the relevant features including the restrictions.

In the opinion of the directors of the Company, non-current available-for sale investments are expected to be realised or restricted for sale beyond one year from the end of the respective reporting periods.

The fair value of the Group and the Company's investments in unlisted funds, which mainly invest in publicly traded equities listed in Hong Kong and the PRC, are valued based on the net asset values of the funds calculated by the respective fund managers by reference to their underlying assets and liabilities' fair values.

The fair value of the Group and the Company's investments in equity securities without restriction, exchange-traded funds and debt securities are determined with reference to their quoted prices as at reporting date.

As at 31 December 2010 and 2011, the Company has entered into securities lending arrangement with clients that resulted in the transfer of available-for-sale investments with total fair value of RMB275,000 and RMB254,128,000 to external clients, respectively, which did not result in derecognition of the financial assets. RMB109,915,000 and RMB837,988,000 cash collateral was received from clients for securities lending arrangement and margin financing activities carried out in the PRC, and reported under accounts payable to brokerage clients (note 36). There was no such arrangement as at 31 December 2009.

24. OTHER ASSETS

Group

	As at 31 December		
	2009	2010	2011
	RMB'000	RMB'000	RMB'000
Foreclosed assets	6,500	6,500	6,500
Deposits with the Hong Kong Stock Exchange	1,277	1,489	1,216
Contributions to reserve funds of			
– HKFE Clearing Corporation Limited	5,668	13,999	1,216
– The SEHK Options Clearing House Limited	10,840	21,037	7,396
Deposits for trading rights	40,396	45,897	51,520
Other bond investments	–	–	157,683
Prepaid lease payments	18,022	17,519	17,016
Others	1,992	1,576	–
	<u>84,695</u>	<u>108,017</u>	<u>242,547</u>

Note: The other bond investments carried coupon interest ranging from 1.25% per annum to 9.00% per annum with maturity dates between 2 September 2013 to 22 July 2014.

Company

	As at 31 December		
	2009	2010	2011
	RMB'000	RMB'000	RMB'000
Foreclosed assets	6,500	6,500	6,500
Deposits for trading rights	40,396	45,897	49,897
Prepaid lease payments	18,022	17,519	17,016
	<u>64,918</u>	<u>69,916</u>	<u>73,413</u>

25. ADVANCES TO CUSTOMERS

Group

	As at 31 December		
	2009	2010	2011
	RMB'000	RMB'000	RMB'000
Loans to margin clients	2,034,977	5,814,456	6,462,677
Less: Allowance for doubtful debts	–	–	–
	<u>2,034,977</u>	<u>5,814,456</u>	<u>6,462,677</u>

Company

	As at 31 December		
	2009	2010	2011
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Loans to margin clients	–	2,091,136	3,675,252
Less: Allowance for doubtful debts	–	–	–
	<u>–</u>	<u>–</u>	<u>–</u>
	<u>–</u>	<u>2,091,136</u>	<u>3,675,252</u>

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

The majority of the loans to margin clients which are secured by the underlying pledged securities are 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 of the shortfall.

Advances to customers as at 31 December 2009, 2010 and 2011 were secured by the customers' securities to the Group as collateral with undiscounted market value of approximately RMB14,630,936,000, RMB24,775,053,000 and RMB22,610,397,000, respectively.

Advances to customers as at 31 December 2010 and 2011 were secured by the customers' securities to the Company as collateral with undiscounted market value of approximately RMB6,914,883,000 and RMB9,661,086,000, respectively.

No ageing analysis is disclosed as in the opinion of the directors, the ageing analysis does not give additional value in view of the nature of business of securities margin financing.

The Group determines the allowance for impaired debts based on the evaluation of collectability and ageing analysis of accounts and on management's judgement including the assessment of change in credit quality, collateral and the past collection history of each client. There is no impaired debt for the years ended 31 December 2009, 2010 and 2011. The concentration of credit risk is limited due to the customer base being large and unrelated.

26. ACCOUNTS RECEIVABLE**Group**

	As at 31 December		
	2009	2010	2011
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Accounts receivable from:			
– Cash clients	52,281	44,118	42,757
– Brokers, dealers and clearing house	494,479	742,431	684,661
– Advisory and financial planning	4,012	4,344	3,980
– Asset and fund management	102,108	160,359	125,391
– Others	24,197	28,969	15,763
	<u>677,077</u>	<u>980,221</u>	<u>872,552</u>

There are no impaired accounts receivable for the years ended 31 December 2009, 2010 and 2011. Ageing analysis of accounts receivable from the trade date is as follows:

	As at 31 December		
	2009	2010	2011
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Between 0 and 3 months	557,491	823,320	859,783
Between 4 and 6 months	111,656	115,153	5,558
Between 7 and 12 months	2,485	1,214	3,816
Over 1 year	5,445	40,534	3,395
	<u>677,077</u>	<u>980,221</u>	<u>872,552</u>

The normal settlement terms of accounts receivable from clients and brokers, dealers and clearing houses are within two days after trade date. Trading limits are set for clients. The Group seeks to maintain tight control over its outstanding accounts receivable in order to minimise credit risk. Overdue balances are regularly monitored by management.

27. OTHER RECEIVABLES AND PREPAYMENTS

Group

	As at 31 December		
	2009	2010	2011
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Interest receivable	145,661	217,241	448,730
Dividend receivable	11	4,532	274
Expenses for underwriting business to be settled by clients	13,361	221	420
Other receivables and prepayments	760,764	788,115	827,065
	<u>919,797</u>	<u>1,010,109</u>	<u>1,276,489</u>
Less: allowance for doubtful debts on other receivables	<u>(561,290)</u>	<u>(562,612)</u>	<u>(536,307)</u>
	<u>358,507</u>	<u>447,497</u>	<u>740,182</u>

Company

	As at 31 December		
	2009	2010	2011
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Interest receivable	141,167	187,104	415,526
Dividend receivable	–	–	274
Expenses for underwriting business to be settled by clients	13,361	221	420
Other receivables and prepayments	630,703	670,992	651,806
	<u>785,231</u>	<u>858,317</u>	<u>1,068,026</u>
Less: allowance for doubtful debts on other receivables	<u>(561,290)</u>	<u>(562,612)</u>	<u>(536,307)</u>
	<u>223,941</u>	<u>295,705</u>	<u>531,719</u>

Movements in the allowance for doubtful debts are as follows:

Group and Company

	As at 31 December		
	2009 RMB'000	2010 RMB'000	2011 RMB'000
At beginning of the year	556,366	561,290	562,612
Reversal of impairment allowance	(1,560)	(3,773)	(32,773)
Recoveries of other receivables previously written off	6,591	5,095	6,468
Amounts written off during the year	(107)	–	–
At end of the year	<u>561,290</u>	<u>562,612</u>	<u>536,307</u>

Included in the allowance for doubtful debts of the Group and Company mainly represents a receivable of RMB550,000,000 from an independent third party. In the opinion of the directors of the Company, the recoverability of the receivable is remote and a full provision was made in previous year. In 2011, an amount of RMB27,752,000 was recovered.

The remaining other receivables and prepayments mainly represent short-term rental deposits placed with landlords under operating leases and other prepaid expenses for daily operation.

28. AMOUNT DUE FROM/TO A SUBSIDIARY

Amount due from/to a subsidiary is unsecured, repayable on demand, and bear interest at prevailing market interest rates. The Company is expected to recover the amount due from a subsidiary within 1 year from the end of the reporting period.

29. FINANCIAL ASSETS HELD UNDER RESALE AGREEMENTS

Group

	As at 31 December		
	2009 RMB'000	2010 RMB'000	2011 RMB'000
Analysed as collateral type:			
Bonds	–	2,120,000	573,900
Stock	–	–	32,000
	<u>–</u>	<u>2,120,000</u>	<u>605,900</u>
Analysed by market:			
Shanghai Stock Exchange	–	–	605,900
Inter-bank market	–	2,120,000	–
	<u>–</u>	<u>2,120,000</u>	<u>605,900</u>

Company

	As at 31 December		
	2009 RMB'000	2010 RMB'000	2011 RMB'000
Analysed as collateral type:			
Bonds	–	2,120,000	–
Stock	–	–	32,000
	<u>–</u>	<u>2,120,000</u>	<u>32,000</u>
Analysed by market:			
Shanghai Stock Exchange	–	–	32,000
Inter-bank market	–	2,120,000	–
	<u>–</u>	<u>2,120,000</u>	<u>32,000</u>

30. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

Group

	As at 31 December		
	2009	2010	2011
	RMB'000	RMB'000	RMB'000
Held for trading:			
Debt securities	6,297,506	8,978,165	14,803,400
Equity securities	2,087,886	3,248,364	1,508,502
Funds	4,280,728	2,791,555	4,185,923
Derivatives	230,632	–	107,282
	<u>12,896,752</u>	<u>15,018,084</u>	<u>20,605,107</u>
Analysed as:			
Listed in Hong Kong	49,117	75,891	5,585
Listed outside Hong Kong (primarily in the PRC)	3,243,849	5,151,119	10,085,516
Unlisted	9,603,786	9,791,074	10,514,006
	<u>12,896,752</u>	<u>15,018,084</u>	<u>20,605,107</u>

Company

	As at 31 December		
	2009	2010	2011
	RMB'000	RMB'000	RMB'000
Held for trading:			
Debt securities	6,297,506	8,951,939	14,611,999
Equity securities	2,038,616	3,172,474	1,502,917
Funds	4,278,306	2,788,946	4,083,847
Derivatives	230,632	–	100,534
	<u>12,845,060</u>	<u>14,913,359</u>	<u>20,299,297</u>
Analysed as:			
Listed outside Hong Kong (primarily in the PRC)	3,243,849	5,151,119	10,085,516
Unlisted	9,601,211	9,762,240	10,213,781
	<u>12,845,060</u>	<u>14,913,359</u>	<u>20,299,297</u>

The investments held within the above unlisted fund investments, which were classified as held for trading financial assets, mainly consist of publicly traded equities listed mainly in Hong Kong and the PRC. The fair value of the Group and the Company's investments in funds are valued based on the net asset values of the funds calculated by the respective fund managers by reference to their underlying assets and liabilities' fair values.

The fair value of the Group and the Company's listed equity securities, exchange-traded funds and unlisted debt securities are determined by reference to their quoted prices as at the reporting date.

The Group and the Company's derivatives mainly comprise of index futures contracts and swap contract.

31. DEPOSITS WITH EXCHANGES

Group

	As at 31 December		
	2009 RMB'000	2010 RMB'000	2011 RMB'000
Deposits with stock exchanges			
– Shanghai Stock Exchange	21,774	19,747	20,158
– Shenzhen Stock Exchange	655,012	708,735	536,414
	<u>676,786</u>	<u>728,482</u>	<u>556,572</u>
Deposits with futures and commodity exchanges			
– Shanghai Futures Exchange	505,146	726,498	638,247
– Dalian Commodity Exchange	126,967	187,732	98,619
– Zhengzhou Commodity Exchange	66,052	348,286	145,162
– China Financial Futures Exchange	–	373,315	695,825
	<u>698,165</u>	<u>1,635,831</u>	<u>1,577,853</u>
Guarantee fund paid to Shenzhen Stock Exchange	–	9,112	43,389
	<u>1,374,951</u>	<u>2,373,425</u>	<u>2,177,814</u>

Company

	As at 31 December		
	2009 RMB'000	2010 RMB'000	2011 RMB'000
Deposits with stock exchanges			
– Shanghai Stock Exchange	19,484	16,718	16,695
– Shenzhen Stock Exchange	653,098	706,380	533,620
	<u>672,582</u>	<u>723,098</u>	<u>550,315</u>
Deposits with China Financial Futures Exchange	–	58,699	438,186
Guarantee fund paid to Shenzhen Stock Exchange	–	9,112	43,389
	<u>672,582</u>	<u>790,909</u>	<u>1,031,890</u>

32. CLEARING SETTLEMENT FUNDS

Group

	As at 31 December		
	2009	2010	2011
	RMB'000	RMB'000	RMB'000
Clearing settlement funds held with clearing houses for:			
House	210,415	442,829	1,537,006
Clients	5,338,708	19,981,907	2,415,032
	<u>5,749,123</u>	<u>20,424,736</u>	<u>3,952,038</u>

Company

	As at 31 December		
	2009	2010	2011
	RMB'000	RMB'000	RMB'000
Clearing settlement funds held with clearing houses for:			
House	210,415	442,829	662,944
Clients	5,301,560	19,209,754	2,129,692
	<u>5,511,975</u>	<u>19,652,583</u>	<u>2,792,636</u>

These clearing settlement funds are held by the clearing houses for the Group and the Company and can be withdrawn freely by the Group and the Company. These balances carry interest at prevailing market interest rates.

33. BANK BALANCES AND CASH

Group

	As at 31 December		
	2009	2010	2011
	RMB'000	RMB'000	RMB'000
House accounts (<i>note i</i>)	28,906,310	16,765,183	17,525,952
Cash held on behalf of clients (<i>note ii</i>)	59,525,446	41,552,933	33,371,801
	88,431,756	58,318,116	50,897,753
Less: non-current restricted bank deposits (<i>note iii</i>)	(184,844)	(260,801)	(326,719)
	<u>88,246,912</u>	<u>58,057,315</u>	<u>50,571,034</u>

Company

	As at 31 December		
	2009	2010	2011
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
House accounts	24,434,879	11,832,759	11,957,875
Cash held on behalf of clients (<i>note ii</i>)	53,680,667	34,352,900	26,704,806
	<u>78,115,546</u>	<u>46,185,659</u>	<u>38,662,681</u>

Bank balances and cash comprise cash on hand and demand deposits which bear interest at the prevailing market rates.

Notes:

- (i) Included in the house accounts as at 31 December 2010 and 31 December 2011 are pledged bank deposits of approximately RMB1,158,272,000 and RMB1,469,100,000, respectively, used as a security of borrowings (*note 35*), carry interest ranging from 0.71% to 2.80% per annum and 0.52% to 4.00% per annum, respectively, and have a maturity of seven days to three months.
- (ii) The Group and the Company maintain bank accounts with banks to hold clients' deposits arising from normal business transactions. The Group and the Company have recognised the corresponding amount in accounts payable to brokerage clients (*note 36*).
- (iii) The non-current restricted bank deposits are restricted for fund management risk reserve purpose.

34. CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprises of the following:

Group

	As at 31 December		
	2009	2010	2011
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Bank balances and cash – house	28,906,310	16,765,183	17,525,952
Less: Pledged bank deposits and fixed deposits	–	(1,158,272)	(1,469,100)
Restricted bank deposits	(184,844)	(260,801)	(326,719)
Clearing settlement funds – house	210,415	442,829	1,537,006
Bank overdrafts	–	(11,821)	–
	<u>28,931,881</u>	<u>15,777,118</u>	<u>17,267,139</u>

35. BORROWINGS

Group

	As at 31 December		
	2009	2010	2011
	RMB'000	RMB'000	RMB'000
Secured short-term borrowings:			
Bank overdrafts (<i>notes (i), (ii), (vi)</i>)	–	11,821	–
Bank loans (<i>notes (ii), (iii), (iv), (vi)</i>)	724,402	2,060,101	1,741,384
Unsecured short-term borrowings:			
Bank loans (<i>notes (iv), (vi)</i>)	132,072	765,305	779,346
Other loans (<i>notes (iv), (v)</i>)	220,120	85,093	–
	<u>1,076,594</u>	<u>2,922,320</u>	<u>2,520,730</u>

Notes:

- i. These are secured overdrafts and are repayable on demand.
- ii. Bank overdrafts and bank loans, borrowed by the subsidiaries in Hong Kong, of approximately RMB287,037,000, RMB1,220,992,000 and RMB525,334,000 as at 31 December 2009, 31 December 2010 and 31 December 2011, respectively, are secured by the listed shares pledged to the Group as a security for advances to customers (with customers' consent) of approximately RMB485,523,000, RMB2,767,224,000 and RMB1,705,713,000 as at 31 December 2009, 31 December 2010 and 31 December 2011, respectively.

As at 31 December 2009, secured bank loans of RMB437,365,000 are secured by the shares held by the Group in Haitong International Securities Group Limited (formerly known as Taifook Securities Group Limited).

- iii. As at 31 December 2010 and 31 December 2011, secured bank loans of RMB850,930,000 and RMB1,216,050,000, respectively, are secured by the Group's short-term time deposits placed at financial institutions.
- iv. Bank loans and other loans are repayable on demand or within 1 year.
- v. Other loans of approximately RMB85,093,000 at 31 December 2010 were obtained from an independent third party and were interest bearing at a fixed rate of 4% per annum. The loans were repaid during the year ended 31 December 2011.

At 31 December 2009, other loans of RMB132,072,000 were obtained from a related company of the former controlling shareholder of Haitong International Securities Group Limited and with interest bearing at a fixed rate of 0.9% per annum whilst the remaining other loan of RMB88,048,000 was obtained from an independent third party and with interest bearing at a fixed rate of 4% per annum. All other loans were repayable on demand or within 1 year.

- vi. All the Group's bank borrowings bear interest (which are also equal to the effective interest rate) at Hong Kong Interbank Offered Rate plus 0.55% to 0.7% per annum, 0.50% to 1.24% per annum and 0.41% to 1.75% per annum as at 31 December 2009, 31 December 2010 and 31 December 2011, respectively.

36. ACCOUNTS PAYABLE TO BROKERAGE CLIENTS

The majority of the accounts payable balances is repayable on demand except where certain accounts payable to brokerage 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 ageing analysis is disclosed as in the opinion of the directors of the Company, the ageing analysis does not give additional value in view of the nature of these businesses.

Accounts payable mainly include money held on behalf of clients at the banks and at the clearing houses by the Group and the Company.

As at 31 December 2010 and 31 December 2011, included in the Group and the Company's accounts payable to brokerage clients were approximately RMB109,915,000 and RMB837,988,000 cash collateral received from clients for securities lending and margin financing arrangement.

Accounts payable to brokerage clients is interest bearing at the prevailing interest rate.

37. OTHER PAYABLES AND ACCRUALS**Group**

	As at 31 December		
	2009	2010	2011
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Accrued staff cost	860,961	905,143	911,275
Business tax and other tax payable	235,773	292,812	221,267
Funds payable to securities issuers	–	700,000	–
Others	774,161	625,440	686,418
	<u>1,870,895</u>	<u>2,523,395</u>	<u>1,818,960</u>

Company

	As at 31 December		
	2009	2010	2011
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Accrued staff cost	688,787	680,840	665,203
Business tax and other tax payable	200,537	268,696	188,871
Funds payable to securities issuers	–	700,000	–
Others	321,016	452,587	467,245
	<u>1,210,340</u>	<u>2,102,123</u>	<u>1,321,319</u>

Others represent primarily accrued operating expenses which are non-interest bearing and are repayable within one year.

38. PROVISIONS

Group and Company

	As at 31 December		
	2009	2010	2011
	RMB'000	RMB'000	RMB'000
At beginning of the year	110,576	8,815	6,853
Addition for the year	–	–	248
Reversal for the year	(51,734)	(1,912)	(6,853)
Settlement in the year	(50,027)	(50)	–
	<u>8,815</u>	<u>6,853</u>	<u>248</u>
Provision	<u>8,815</u>	<u>6,853</u>	<u>248</u>

As at 31 December 2009, 2010 and 2011, the Group has several outstanding litigations with potential claims with maximum total amount of approximately RMB9,900,000, RMB10,100,000 and RMB404,000, respectively, of which RMB8,800,000, RMB6,900,000 and RMB248,000, respectively were accounted for and provided based on directors' best estimate of the amounts required to settle the claims.

39. FINANCIAL ASSETS SOLD UNDER REPURCHASE AGREEMENTS

Group and Company

	As at 31 December		
	2009	2010	2011
	RMB'000	RMB'000	RMB'000
Analysed as collateral type:			
Bonds	<u>5,821,500</u>	<u>–</u>	<u>9,524,534</u>
Analysed by market:			
Shanghai Stock Exchange	1,806,500	–	6,460,234
Inter-bank market	<u>4,015,000</u>	<u>–</u>	<u>3,064,300</u>
	<u>5,821,500</u>	<u>–</u>	<u>9,524,534</u>

40. SHARE CAPITAL

	Non-trade restricted A shares		Listed A shares		Total	
	Number of share	Amount	Number of share	Amount	Number of share	Amount
	'000	RMB'000	'000	RMB'000	'000	RMB'000
Registered, issued and fully paid at RMB1.0 per share:						
At 1 January 2009	4,475,248	4,475,248	3,752,573	3,752,573	8,227,821	8,227,821
Transfer	(249,852)	(249,852)	249,852	249,852	–	–
At 31 December 2009	4,225,396	4,225,396	4,002,425	4,002,425	8,227,821	8,227,821
Transfer	(4,225,396)	(4,225,396)	4,225,396	4,225,396	–	–
At 31 December 2010 and 31 December 2011	–	–	8,227,821	8,227,821	8,227,821	8,227,821

Note: Non-trade restricted A shares are issued to shareholders when the Company became listed in 2007 and through private placements, which were restricted to be disposed of by the shareholders within a period of 12 months to 3 years. Other than the restrictions on disposal, the rights attached to non-trade restricted A shares are same as Listed A shares. Upon the maturity of the restrictions on disposal period of these non-trade restricted A shares, the Company did not have any non-trade restricted A shares.

41. INVESTMENT REVALUATION RESERVE

The movements of the investment revaluation reserve of the Company are set out below:

	As at 31 December		
	2009 RMB'000	2010 RMB'000	2011 RMB'000
At beginning of the year	30,550	1,381,572	386,646
Available-for-sale investments			
Net fair value changes during the year	1,958,070	(871,389)	(1,162,892)
Reclassification adjustments to profit or loss on disposal/impairment	(156,706)	(455,270)	(135,398)
Income tax relating to components of other comprehensive income	(450,342)	331,733	324,573
At end of the year	1,381,572	386,646	(587,071)

42. GENERAL RESERVES

The general reserves comprise statutory reserve, general reserve and transaction risk reserve.

Pursuant to the Company Law of The People's Republic of China, 10% of the net profit of the Company, as determined under the PRC accounting regulations and before distribution to shareholders, is required to be transferred to a statutory reserve until such time when this reserve represents 50% of the share capital of the Company. The reserve appropriated can be used for loss-covering, expansion of production scale and capitalisation, in accordance with the Company's articles of association or approved by the shareholders in a shareholders' general meeting.

In accordance with the Financial Rules for Financial Enterprises, the Company is required to appropriate 10% of net profit derived in accordance with the relevant accounting rules in the PRC before distribution to shareholders as general reserve from retained profits for loss-covering purpose.

Pursuant to the Securities Law of The People's Republic of China, the Company is required to appropriate 10% of the net profit derived in accordance with the relevant accounting rules in the PRC before distribution to shareholders as transaction risk reserve from retained profits for covering trading losses and shall not be converted into dividends or increasing capital.

For each of the year ended 31 December 2009, 2010 and 2011, the Company transferred approximately RMB431,800,000, RMB341,690,000 and RMB305,079,000, respectively, the same amount to each of the statutory reserve, general reserve and transaction risk reserve pursuant to the above regulatory requirements in the PRC.

Each of the statutory reserve, general reserve and transaction risk reserve amounted to approximately RMB1,329,739,000, RMB1,671,430,000 and RMB1,976,508,000 as at 31 December 2009, 2010 and 2011, respectively.

The Company's PRC subsidiaries are also subject to the statutory requirements to appropriate their earnings to reserves. The total amount of reserves appropriated as at 31 December 2011 is RMB70,689,000.

43. RETAINED PROFITS

The movements of retained profits of the Company are set out below:

	As at 31 December		
	2009	2010	2011
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
At beginning of the year	4,539,073	6,728,364	7,438,661
Profit for the year	4,307,475	3,380,932	3,029,248
Appropriation to general reserves	(1,295,401)	(1,025,071)	(915,236)
Dividends recognised as distribution (<i>Note 47</i>)	(822,783)	(1,645,564)	(1,234,173)
	<u> </u>	<u> </u>	<u> </u>
At end of the year	<u>6,728,364</u>	<u>7,438,661</u>	<u>8,318,500</u>

44. DEFERRED TAXATION

For the purpose of presentation in the Group and the Company's statements of financial position, certain deferred tax assets and liabilities have been offset. The following is the analysis of the deferred tax balances for financial reporting purposes:

Group

	As at 31 December		
	2009 <i>RMB'000</i>	2010 <i>RMB'000</i>	2011 <i>RMB'000</i>
Deferred tax assets	56,974	61,592	513,100
Deferred tax liabilities	(471,828)	(196,136)	(72,018)
	<u>(414,854)</u>	<u>(134,544)</u>	<u>441,082</u>

Company

	As at 31 December		
	2009 <i>RMB'000</i>	2010 <i>RMB'000</i>	2011 <i>RMB'000</i>
Deferred tax assets	43,769	42,333	463,405
Deferred tax liabilities	(453,080)	(146,601)	(25,134)
	<u>(409,311)</u>	<u>(104,268)</u>	<u>438,271</u>

The following are the major deferred tax assets (liabilities) recognised and movements thereon in the Relevant Periods:

Group

	Financial assets held for trading <i>RMB'000</i>	Accelerated depreciation <i>RMB'000</i>	Derivative assets <i>RMB'000</i>	Accrued but not paid expenses <i>RMB'000</i>	Available- for-sale investments <i>RMB'000</i>	Derivative liabilities <i>RMB'000</i>	Others <i>RMB'000</i>	Total <i>RMB'000</i>
At 1 January 2009	(64,708)	(753)	1	951	(3,216)	-	-	(67,725)
Credit (charge) to profit or loss	68,546	(217)	(1)	49,507	-	-	-	117,835
Charge to other comprehensive income	-	-	-	-	(458,004)	-	-	(458,004)
Acquired on acquisition of subsidiaries	-	(13,476)	-	-	-	-	6,516	(6,960)
At 31 December 2009	3,838	(14,446)	-	50,458	(461,220)	-	6,516	(414,854)
(Charge) credit to profit or loss	(26,365)	(2,813)	-	9,139	-	1,112	(4,522)	(23,449)
Credit to other comprehensive income	-	-	-	-	303,759	-	-	303,759
At 31 December 2010	(22,527)	(17,259)	-	59,597	(157,461)	1,112	1,994	(134,544)
Credit (charge) to profit or loss	142,186	(2,857)	(25,134)	25,425	103,644	(1,112)	216	242,368
Credit to other comprehensive income	-	-	-	-	333,258	-	-	333,258
At 31 December 2011	119,659	(20,116)	(25,134)	85,022	279,441	-	2,210	441,082

Company

	Financial assets held for trading <i>RMB'000</i>	Derivative assets <i>RMB'000</i>	Accrued but not paid expenses <i>RMB'000</i>	Available- for-sale investments <i>RMB'000</i>	Derivative liabilities <i>RMB'000</i>	Others <i>RMB'000</i>	Total <i>RMB'000</i>
At 1 January 2009	(64,708)	1	-	(6,576)	-	-	(71,283)
Credit (charge) to profit or loss	68,546	(1)	43,769	-	-	-	112,314
Charge to other comprehensive income	-	-	-	(450,342)	-	-	(450,342)
At 31 December 2009	3,838	-	43,769	(456,918)	-	-	(409,311)
(Charge) credit to profit or loss	(26,365)	-	(1,436)	-	1,112	(1)	(26,690)
Credit to other comprehensive income	-	-	-	331,733	-	-	331,733
At 31 December 2010	(22,527)	-	42,333	(125,185)	1,112	(1)	(104,268)
Credit (charge) to profit or loss	142,197	(25,134)	(2,010)	104,024	(1,112)	1	217,966
Credit to other comprehensive income	-	-	-	324,573	-	-	324,573
At 31 December 2011	119,670	(25,134)	40,323	303,412	-	-	438,271

45. OPERATING LEASE ARRANGEMENTS

The Group as lessee

Leases for the properties are negotiated for an average term of three years and rentals are fixed for an average term of three years.

At 31 December 2009, 2010 and 2011, the Group had total future minimum lease payments under non-cancellable operating leases in respect of rented premises falling due as follows:

	As at 31 December		
	2009	2010	2011
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Within one year	47,554	170,246	210,016
In the second to fifth year, inclusive	224,048	275,306	344,461
Over five years	41,063	101,582	59,586
	<u>312,665</u>	<u>547,134</u>	<u>614,063</u>

The Company as lessee

Leases for the properties are negotiated for an average term of three years and rentals are fixed for an average term of three years.

At 31 December 2009, 2010 and 2011, the Company had total future minimum lease payments under non-cancellable operating leases in respect of rented premises falling due as follows:

	As at 31 December		
	2009	2010	2011
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Within one year	7,822	97,060	99,541
In the second to fifth year, inclusive	199,267	188,761	284,408
Over five years	41,003	101,582	59,309
	<u>248,092</u>	<u>387,403</u>	<u>443,258</u>

The Group as lessor

The lease terms are negotiated for an average term of two years and rental are fixed for an average term of two years.

At the end of the reporting period, the Group had contracted with tenants for the following future minimum lease payments:

	As at 31 December		
	2009	2010	2011
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Within one year	6,426	6,051	9,947
In the second to fifth year, inclusive	19,733	13,682	18,966
	<u>26,159</u>	<u>19,733</u>	<u>28,913</u>

The Company as lessor

The lease terms are negotiated for an average term of two years and rental are fixed for an average term of two years.

At the end of the reporting period, the Company had contracted with tenants for the following future minimum lease payments:

	As at 31 December		
	2009	2010	2011
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Within one year	5,864	5,863	9,947
In the second to fifth year, inclusive	19,546	13,682	18,966
	<u>25,410</u>	<u>19,545</u>	<u>28,913</u>

46. CAPITAL COMMITMENT**Group**

	As at 31 December		
	2009	2010	2011
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Capital expenditure in respect of acquisition of property and equipment:			
– Contracted but not provided for	726	9,159	21,960
	<u>726</u>	<u>9,159</u>	<u>21,960</u>

47. DIVIDENDS

	Year ended 31 December		
	2009	2010	2011
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
	<i>(Note a)</i>	<i>(Note b)</i>	<i>(Note c)</i>
Dividends recognised as distribution	822,783	1,645,564	1,234,173
	<u>822,783</u>	<u>1,645,564</u>	<u>1,234,173</u>

Notes:

- (a) Pursuant to the resolution of annual general meeting 2008, the Company declared 2008 final dividend of RMB0.10 per share, satisfied by cash.
- (b) Pursuant to the resolution of annual general meeting 2009, the Company declared 2009 final dividend of RMB0.20 per share, satisfied by cash.
- (c) Pursuant to the resolution of annual general meeting 2010, the Company declared 2010 final dividend of RMB0.15 per share, satisfied by cash.

48. DIRECTORS', SENIOR MANAGEMENT'S AND SUPERVISORS' EMOLUMENTS

The emoluments of the Directors, Senior Management and Supervisors of the Company paid/payable by the Group for each of the year ended 31 December 2009, 2010 and 2011 are set out below:

For the year ended 31 December 2009

Name	Director fee RMB'000	Salary and commission RMB'000	Employer's contribution to pension schemes/ annuity plans RMB'000	Bonuses* RMB'000	Total RMB'000
<i>Executive Directors and Senior Management:</i>					
Wang Kaiguo	–	872	43	1,231	2,146
Li Mingshan	–	872	43	1,231	2,146
Shen Degao	–	643	43	812	1,498
Ji Yuguang	–	643	43	813	1,499
Ren Peng	–	641	43	812	1,496
Ma Yong	–	573	43	811	1,427
Jin Xiaobin	–	473	43	477	993
Li Chuqian	–	473	43	477	993
Wang Jianye	–	473	43	477	993
Wu Bin	–	439	43	474	956
<i>Independent Non-executive Directors and Supervisors:</i>					
Xia Bin	120	–	–	–	120
Li Guangrong	120	–	–	–	120
Gu Gongyun	120	–	–	–	120
Chen Qiwei	120	–	–	–	120
Wu Xiaoqiu	120	–	–	–	120
Zhang Huiquan	120	–	–	–	120
Zhang Ming	120	–	–	–	120
Ke Yongzhen	–	872	43	1,231	2,146
Yang Qingzhong	–	587	43	810	1,440
Qiu Xiaping	–	318	43	314	675
Nai Xuegang	–	223	43	169	435
	840	8,102	602	10,139	19,683
	840	8,102	602	10,139	19,683

For the year ended 31 December 2010

Name	Director fee RMB'000	Salary and commission RMB'000	Employer's contribution to pension schemes/ annuity plans RMB'000	Bonuses* RMB'000	Total^ RMB'000
<i>Executive Directors and Senior Management:</i>					
Wang Kaiguo	–	873	47	1,313	2,233
Li Mingshan	–	873	47	1,313	2,233
Shen Degao	–	643	47	973	1,663
Ji Yuguang	–	644	47	973	1,664
Ren Peng	–	642	47	973	1,662
Ma Yong	–	608	47	973	1,628
Jin Xiaobin	–	473	47	676	1,196
Li Chuqian	–	474	47	676	1,197
Wang Jianye	–	473	47	676	1,196
Wu Bin	–	443	47	676	1,166
<i>Independent Non-executive Directors and Supervisors:</i>					
Xia Bin	120	–	–	–	120
Li Guangrong	120	–	–	–	120
Gu Gongyun	120	–	–	–	120
Chen Qiwei	120	–	–	–	120
Wu Xiaoqiu	120	–	–	–	120
Zhang Huiquan	120	–	–	–	120
Zhang Ming	120	–	–	–	120
Wang Yimin	–	756	47	993	1,796
Yang Qingzhong	–	611	47	973	1,631
Qiu Xiaping	–	330	47	463	840
Nai Xuegang	–	230	47	273	550
	840	8,073	658	11,924	21,495
	840	8,073	658	11,924	21,495

For the year ended 31 December 2011

Name	Director fee RMB'000	Salary and commission RMB'000	Employer's contribution to pension schemes/ annuity plans RMB'000	Bonuses* RMB'000	Total#^ RMB'000
<i>Executive Directors and Senior Management:</i>					
Wang Kaiguo	–	1,184	140	1,012	2,336
Li Mingshan	–	1,184	140	1,012	2,336
Shen Degao	–	839	140	735	1,714
Ji Yuguang	–	840	140	735	1,715
Ren Peng	–	838	140	735	1,713
Ma Yong [∞]	–	592	105	419	1,116
Jin Xiaobin	–	737	140	626	1,503
Li Chuqian	–	736	140	626	1,502
Wang Jianye	–	738	140	626	1,504
Wu Bin	–	728	140	623	1,491
<i>Independent Non-executive Directors and Supervisors:</i>					
Xia Bin	120	–	–	–	120
Li Guangrong [§]	120	–	–	–	120
Gu Gongyun [§]	60	–	–	–	60
Chen Qiwei	120	–	–	–	120
Wu Xiaoqiu [§]	60	–	–	–	60
Zhang Huiquan	120	–	–	–	120
Dai Genyou	80	–	–	–	80
Liu Zhimin	20	–	–	–	20
Zhang Ming	120	–	–	–	120
Wang Yimin	–	1,166	134	1,011	2,311
Yang Qingzhong	–	836	140	735	1,711
Qiu Xiaping	–	483	140	376	999
Du Hongbo	–	465	129	374	968
Nai Xuegang ^μ	–	287	130	191	608
	820	11,653	2,038	9,836	24,347

* The bonuses are discretionary and are determined by reference to the Group's and the individuals' performance.

The total compensation packages for these directors, senior management and supervisors for the year ended 31 December 2011 have not yet been finalised. The amount of the compensation not provided for is not expected to have significant impact on the Group's financial statements. The final compensation will be disclosed in a separate announcement when determined.

^ The Company did not operate any share option scheme during the reporting periods. However, there was share-based payment expenses arising from the share options granted to the directors, senior management and supervisors by a subsidiary of the Company amounting to approximately RMB937,000 and RMB156,000 for the years ended 31 December 2010 and 31 December 2011, respectively, which were not included in the above total emolument. Details of the subsidiary's share option scheme are disclosed in note 50.

§ Li Guangrong, Gu Gongyun and Wu Xiaoqiu resigned as independent non-executive directors during the year ended 31 December 2011.

∞ Ma Yong resigned as senior management during the year ended 31 December 2011.

μ Nai Xuegang resigned as supervisor during the year ended 31 December 2011.

During the Relevant Periods, no directors, supervisors or senior management of the Company waived any emoluments and no emoluments were paid by the Company to any of the directors, supervisors or senior management as an inducement to join or upon joining the Group or as compensation for loss of office.

49. HIGHEST PAID INDIVIDUALS

As disclosed above in note 48, the bonus of the directors, senior management or supervisors for the year ended 31 December 2011 have not yet been approved by the related government department up to the date of this report and as a result, the bonus payable to them has not been considered in the determination of the top five highest paid individual of the Group for the year ended 31 December 2011. Taking this into account, of the five individuals with the highest emoluments, none of them are directors, supervisors or senior management. Details of the remuneration of the five highest paid employees during the relevant years are as follows:

	Year ended 31 December		
	2009	2010	2011
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Salary and commission	4,060	10,571	5,814
Bonuses	36,290	14,025	29,963
Employer's contribution to pension schemes/annuity plans	213	233	522
	<u>40,563</u>	<u>24,829</u>	<u>36,299</u>

Bonuses are discretionary and are determined by reference to the Group's and the individuals' performance. No emoluments have been paid to or receivable by these individuals as an inducement to join or upon joining the Group or as compensation for loss of office during the Relevant Periods.

The emoluments of the highest-paid individuals of the Group fall within the following bands:

Emolument bands	Year ended 31 December		
	2009	2010	2011
	<i>No. of employees</i>	<i>No. of employees</i>	<i>No. of employees</i>
– HKD4,500,001 to HKD5,000,000	–	1	–
– HKD5,000,001 to HKD5,500,000	–	1	–
– HKD5,500,001 to HKD6,000,000	1	–	–
– HKD6,000,001 to HKD6,500,000	1	3	–
– HKD7,000,001 to HKD7,500,000	–	–	1
– HKD8,000,001 to HKD8,500,000	–	–	3
– HKD11,500,001 to HKD12,000,000	3	–	–
– HKD12,000,001 to HKD12,500,000	–	–	1
	<u>5</u>	<u>5</u>	<u>5</u>

50. SHARE OPTION SCHEME OF A SUBSIDIARY

One of the Company's subsidiaries, Haitong International Securities Group Limited ("HISGL"), a Hong Kong listed company, operates a share option scheme mainly for its directors and employees. HISGL was acquired by the Group on 21 December 2009.

The shareholders of HISGL approved the adoption of a share option scheme (the "2002 Share Option Scheme") on 23 August 2002.

A summary of the principal terms of the 2002 Share Option Scheme is set out as follows:

The 2002 Share Option Scheme was adopted for the purpose of attracting, retaining and motivating talented employees to strive towards long-term performance targets set by HISGL and its subsidiaries and at the same time allowing the participants to enjoy the results of HISGL attained through their effort and contribution. Under the 2002 Share Option Scheme, options may be granted to any full time employees, executive and non-executive directors of HISGL or any of its subsidiaries or associates.

The maximum number of shares which may be issued upon exercise of all options to be granted under the 2002 Share Option Scheme and any other share option schemes of HISGL shall not in aggregate exceed 10% of the total number of shares in issue as at the date of adoption of the 2002 Share Option Scheme (the "Scheme Mandate Limit") but HISGL may seek approval of its shareholders at general meetings to refresh the Scheme Mandate Limit, save that the maximum number of shares in respect of which options may be granted by directors of HISGL under the 2002 Share Option Scheme and any other share option schemes of HISGL shall not exceed 10% of the issued share capital of HISGL as at the date of approval by the shareholders of HISGL at general meetings where such limit is refreshed. Options previously granted under the 2002 Share Option Scheme and any other share option schemes of HISGL (including those outstanding, cancelled, lapsed or exercised options) will not be counted for the purpose of calculating such 10% limit as refreshed. Notwithstanding the aforesaid in this paragraph, the maximum number of shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the 2002 Share Option Scheme and any other share option schemes of HISGL shall not exceed 30% (or such higher percentage as may be allowed under the Listing Rules) of the total number of shares in issue from time to time.

The maximum number of shares issued and to be issued upon exercise of the options granted to each participant under the 2002 Share Option Scheme and any other share option schemes of HISGL (including both exercised and outstanding options) in any period shall not exceed 1% of the total number of HISGL's shares in issue. Any further grant of share options in excess of this limit is subject to approval by the shareholders of HISGL at a general meeting.

Share options granted to a director, chief executive or substantial shareholders of HISGL, or to any of their associates, are subject to approval in advance by the independent non-executive directors. In addition, any share options granted to a substantial shareholder or an independent non-executive director of HISGL, or to any of their associates, in excess of 0.1% of the total number of shares of HISGL in issue at the date on which such grant is proposed by the directors of HISGL or with an aggregate value (based on the closing price of HISGL's shares at the date on which such grant is proposed by the directors of HISGL) in excess of HKD5 million, within any period, are subject to shareholders' approval in advance at a general meeting of HISGL.

The offer of a grant of share options may be accepted within 30 days from the date of the offer upon payment of a consideration of HKD1 by the grantee. The exercise period of the share options granted is determinable by the directors of HISGL, and such period shall commence not earlier than six months from the date of grant of the options and expire not later than ten years after the date of grant of the options. The vesting period of the share options is from the date of the grant until the commencement of the exercise period. All share options under the 2002 Share Option Scheme are subject to a six-month vesting period.

The exercise price of the share options is determinable by the directors of HISGL, and shall be at least the highest of (i) the closing price of HISGL's shares as stated in the Hong Kong Stock Exchange's daily quotations sheet on the offer date; (ii) the average closing price of HISGL's shares as stated in the Hong Kong Stock Exchange's daily quotations sheets for the five trading days immediately preceding the offer date; and (iii) the nominal value of HISGL's shares.

Share options do not confer rights on the holders to dividends or to vote at shareholders' meetings of HISGL.

The 2002 Share Option Scheme shall be valid and effective for a period of ten years commencing from the date on which it is conditionally adopted by resolution of HISGL at a general meeting and will expire on 22 August 2012.

The following table discloses movements of share options granted to directors and employees of the Group under HISGL's 2002 Share Option Scheme during each year:

	2009		Year ended 31 December 2010		2011	
	Weighted average exercise price	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price	Number of options
	<i>HKD per share</i>	<i>'000</i>	<i>HKD per share</i>	<i>'000</i>	<i>HKD per share</i>	<i>'000</i>
At beginning of the year	–	–	5.88	24,050	5.26	54,807
Granted during the year	–	–	4.85	32,880	–	–
Adjusted during the year	–	–	5.24	(46)	–	–
Exercised during the year	–	–	5.87	(1,740)	4.85	(310)
Forfeited during the year	–	–	5.80	(337)	5.34	(11,281)
Acquisition of HISGL	5.88	24,050	–	–	–	–
At end of the year	<u>5.88</u>	<u>24,050</u>	<u>5.26</u>	<u>54,807</u>	<u>5.25</u>	<u>43,216</u>
Exercisable at end of the year		<u>24,050</u>		<u>21,956</u>		<u>43,216</u>

The weighted average share price at the date of exercise for the share options exercised during the years ended 31 December 2010 and 31 December 2011 was HKD6.93 and HKD5.05, respectively.

The exercise prices and exercise periods of the share options outstanding as at respective reporting dates are as follows:

Number of options <i>'000</i>	Exercise price ¹ <i>HKD per share</i>	Exercise period
31 December 2011		
16,570	5.88	1 June 2008 to 31 May 2016
26,646	4.85	3 March 2011 to 2 March 2019
<u>43,216</u>		
31 December 2010		
21,956	5.88	1 June 2008 to 31 May 2016
32,851	4.85	3 March 2011 to 2 March 2019
<u>54,807</u>		
31 December 2009		
<u>24,050</u>	5.88	1 June 2008 to 31 May 2016

¹ The exercise price of the share option is subject to adjustment in case of rights, scrip dividend or bonus issues, or other similar changes in HISGL's share capital.

New share option granted in September 2010

On 3 September 2010, HISGL granted 33,480,000 share options (of which 32,880,000 shares options were accepted) to its employees (including directors) under the 2002 Share Option Scheme pursuant to a board of directors resolution of HISGL with a six-month vesting period from 3 September 2010 to 2 March 2011 and exercisable from 3 March 2011 to 2 March 2019.

The fair value of the equity settled share options granted above is estimated at the date of grant using the Binomial model. The fair value of the share options granted above was HKD30,726,712 (HKD0.92 each) of which the Group recognised a share option expense of HKD12,791,000 and HKD6,396,000 (equivalent to approximately RMB10,990,000 and RMB5,402,000, respectively) for the years ended 31 December 2010 and 31 December 2011, respectively.

The following table lists the key inputs to the model used:

Share price at the date of grant	HKD4.85
Contractual option life	8.5 years
Exercise price	HKD4.85
Expected volatility	52.6%
Expected dividend yield (%)	5.61%
Risk-free interest rate (%) (based on Hong Kong Exchange Fund Notes)	1.7456%

The expected volatility is based on the historical volatility, and calculated based on the contractual life of the share options. Expected dividend yield is based on historical dividends. The Binomial model has been used to estimate the fair value of the options. The variables and assumptions used in computing the fair value of the share options are based on the directors' best estimate. The value of an option varies with different variables of certain subjective assumptions.

51. ACQUISITION OF SUBSIDIARIES

On 21 December 2009, the Group acquired 52.86% of issued share capital of HISGL from an independent third party for consideration of HKD1,822,361,000 (equivalent to RMB1,604,553,000). The transaction has been accounted for using the purchase method. As the completion date of this acquisition was close to 31 December 2009, the consolidated statement of comprehensive income of HISGL and its subsidiaries had not been consolidated in the Group's statement of comprehensive income for the year ended 31 December 2009 as it has no significant financial impact to the Group. The amount of goodwill arising as a result of the acquisition was HKD784,980,000 (RMB691,160,000). HISGL is engaged in the securities, futures and options contracts, broking and trading services. HISGL was acquired so as to continue the expansion of the Group's securities broking and trading services.

Consideration transferred

	<i>RMB'000</i>
Cash	1,604,553
Direct costs relating to the acquisition	23,086
	<hr/>
Total	1,627,639
	<hr/> <hr/>

Assets acquired and liabilities recognised at the date of acquisition

	Acquiree's carrying amount and fair value <i>RMB'000</i>
Cash and cash equivalents	367,753
Property and equipment	24,139
Other intangible assets	84,585
Other assets	151,818
Investment in an associate	9,542
Available-for-sale investments	34,868
Deferred tax assets	6,516
Advances to customers	1,926,057
Accounts receivables	460,258
Financial assets at fair value through profit or loss	51,539
Cash held on behalf of clients	4,102,238
Accounts payables	(4,628,162)
Tax payable	(35,677)
Other payables and accruals	(126,905)
Borrowings	(639,229)
Deferred tax liabilities	(13,476)
	<hr/>
Net assets acquired	<u>1,775,864</u>

Goodwill arising on acquisition

	<i>RMB'000</i>
Consideration transferred	1,627,639
Plus: non-controlling interests (47.14% in HISGL)	839,385
Less: fair value of net assets acquired	<u>(1,775,864)</u>
	<hr/>
Goodwill arising on acquisition	<u>691,160</u>

Goodwill arose in the acquisition of HISGL because the cost of the combination included a control premium. In addition, the consideration paid for the combination effectively included amounts in relation to the benefit of expected synergies, revenue growth, future market development and the assembled workforce of HISGL. These benefits are not recognised separately from goodwill because they do not meet the recognition criteria for identifiable intangible assets.

Net cash outflow on acquisition of HISGL

	<i>RMB'000</i>
Cash consideration paid	1,604,553
Payment of direct costs relating to the acquisition	1,651
Less: cash and cash equivalent balances acquired	<u>(367,753)</u>
	<hr/>
Cash outflow on acquisition	<u>1,238,451</u>

From 21 December 2009 to 31 December 2009, the Group acquired additional 4.44% interest in HISGL from the market with total consideration amounting to approximately RMB135 million. During each of the year ended 31 December 2010 and 31 December 2011, the Group further acquired 3.29% and 8.81% of HISGL from the market with a total consideration amounting to approximately RMB93 million and RMB707 million, respectively. The excess of RMB56 million, RMB39 million and RMB74 million, representing the consideration paid over the carrying amount of the non-controlling interest in 2009, 2010 and 2011, respectively, has been recognised in equity.

52. RELATED PARTY TRANSACTIONS

In addition to the transactions and balances set out in note 48 above, the Group had the following material transactions with an associate during the Relevant Periods:

	Year ended 31 December		
	2009	2010	2011
	RMB'000	RMB'000	RMB'000
Administration fee income			
– Fullgoal Fund Management Co. Ltd.	1,610	1,072	988
Interest expense			
– Fullgoal Fund Management Co. Ltd.	(9)	(37)	(32)

The followings are the material transactions between the Group's subsidiary, HFT Investment Management Company Limited and BNP Paribas Investment Partners BE Holding SA (formerly known as Fortis Investment Management S.A.), its non-controlling shareholder and BNP Paribas Investment Partners Japan Ltd, BNP's subsidiary:

	Year ended 31 December		
	2009	2010	2011
	RMB'000	RMB'000	RMB'000
Consultancy and financial advisory fee income received and receivable from:			
– BNP Paribas Investment Partners BE Holding SA	61,213	93,319	83,073
Other expenses paid and payable to:			
– BNP Paribas Investment Partners BE Holding SA	(1,044)	(921)	(87)
– BNP Paribas Investment Partners Japan Ltd	–	(2,278)	(1,004)

	As at 31 December		
	2009	2010	2011
	RMB'000	RMB'000	RMB'000
Accounts receivable from:			
– BNP Paribas Investment Partners BE Holding SA	19,333	23,913	831
– BNP Paribas Investment Partners Japan Ltd	–	–	11,232
Other payables and accrued expenses to:			
– BNP Paribas Investment Partners BE Holding SA	(1,263)	(2,184)	(87)
– BNP Paribas Investment Partners Japan Ltd	–	(433)	(397)

The followings are the material transactions between the Group's subsidiary, Haitong Capital Investment Co., Ltd., and the Group's associates, Jilin Modern Agricultural and Emerging Markets Investment Fund Limited (“Jilin”) and Xi'an Aerospace and New Energy Industry Fund (“Xi'an Aerospace”):

	As at 31 December		
	2009	2010	2011
	RMB'000	RMB'000	RMB'000
Financial advisory and consultancy fee income:			
– Jilin	–	–	20,000
– Xi'an Aerospace	–	–	16,820

The remuneration of the key management personnel of the Group was as follows:

	Year ended 31 December		
	2009 RMB'000	2010 RMB'000	2011 RMB'000
Short-term benefits:			
– Fees, salaries, commission and bonuses	19,081	20,837	22,309
Post-employment benefits:			
– Employer's contribution to pension schemes/ annuity plans	602	658	2,038
Share-based payment	–	937	156
	19,683	22,432	24,503

53. SEGMENT REPORTING

Information reported to the chief operating decision maker (the “CODM”), being the board of directors of the Company, for the purposes of resource allocation and assessment of segment performance focuses on the nature of products sold and services provided by the Group, which is also consistent with the Group's basis of organisation, whereby the businesses are organised and managed separately as individual strategic business unit that offers different products and serves different markets. Segment information is measured in accordance with the accounting policies and measurement criteria adopted by each segment when reporting to management, which are consistent with the accounting and measurement criteria in the preparation of the Financial Information.

During 2011, the CODM commenced to allocate resources and assess the segment performance based on the revised grouping of operating segments. Accordingly, the Relevant Periods' segment reporting presentation has been presented in accordance with the new approach adopted by the CODM in the Financial Information.

Specifically, the Group's reportable and operating segments are as follows:

- (a) the brokerage segment engages in the trading of equities, bonds, funds, and warrants, as well as futures on behalf of the customers, and also providing margin financing and securities lending services (the “Securities and futures brokerage” segment);
- (b) the assets management segment offers traditional asset management products and services through the Company and HFT Investment Management Co., Ltd. (海富通基金管理有限公司), one of the Group's subsidiaries. The Group operates the private equity asset management business through its subsidiaries, Haitong-Fortis Private Equity Fund Management Co., Ltd. (海富產業投資基金管理有限公司), Haitong Jihe Private Equity Investment Fund Management Company Limited (海通吉禾股權投資基金管理有限責任公司) and Haitong Chuangxin Capital Management Company Limited (海通創新資本管理有限公司) (the “Asset management” segment);
- (c) the proprietary trading segment engages in trading of equities, bonds, funds, derivative and other financial products for the Group (the “Proprietary trading” segment);
- (d) the investment banking segment provides corporate finance services, including equity underwriting, debt underwriting and financial advisory services to institutional clients (the “Investment banking” segment);
- (e) the direct investment segment make direct equity investments in private companies and earn capital gains by exiting from these private equity investments through IPOs or share sales, or receive dividends from these portfolio companies. In addition, the Group invests in private equity funds (the “Direct investment” segment);
- (f) the headquarters and others segment mainly represents head office operations, investment holding as well as interest income and interest expense incurred for general working capital purpose (the “Headquarters and others” segment); and
- (g) the overseas operations segment mainly represents the business operation of Haitong International Securities Group Limited, a listed subsidiary of the Company, which mainly engages in broking, margin financing, corporate advisory, placing and underwriting, trading and investment and financial planning and advisory services (the “Overseas operations” segment).

Inter-segment transactions, if any, are conducted with reference to the prices charged to third parties and there was no change in the basis during the Relevant Periods.

Segment profit/loss represents the profit earned by/loss measured by each segment without allocation of share of result of associates and income tax expenses. This is the measure reported to CODM for the purposes of resource allocation and performance assessment.

Segment assets/liabilities are allocated to each segment, excluding investments in associates, deferred tax assets/liabilities. Inter-segment balances eliminations mainly include amount due from/to another segment arising from investing activities' carried out by a segment for another segment.

The segment information provided to the CODM for the operating and reportable segments for the years ended 31 December 2009, 2010 and 2011 is as follows:

Operating and Reportable Segment

For the year ended 31 December 2009

	Securities and futures brokerage RMB'000	Asset management RMB'000	Proprietary trading RMB'000	Investment banking RMB'000	Direct investment RMB'000	Headquarters and others RMB'000	Overseas operations RMB'000	Segment total RMB'000	Eliminations RMB'000	Consolidated total RMB'000
Segment revenue and results										
Revenue										
– External	7,266,210	866,237	804,362	496,763	37,068	1,427,218	150,597	11,048,455	–	11,048,455
– Inter-segment	613,070	428	–	836	–	55,252	–	669,586	(669,586)	–
Other income and gains	17,802	12,656	450	–	15,012	174,810	46,661	267,391	–	267,391
Segment revenue	7,897,082	879,321	804,812	497,599	52,080	1,657,280	197,258	11,985,432	(669,586)	11,315,846
Segment expenses	(3,337,293)	(514,055)	(92,093)	(224,233)	(15,471)	(1,746,223)	(87,635)	(6,017,003)	617,022	(5,399,981)
Segment result	4,559,789	365,266	712,719	273,366	36,609	(88,943)	109,623	5,968,429	(52,564)	5,915,865
Share of results of associates	–	(118)	–	–	–	66,080	–	65,962	–	65,962
Profit before income tax	4,559,789	365,148	712,719	273,366	36,609	(22,863)	109,623	6,034,391	(52,564)	5,981,827
Segment assets and liabilities										
Segment assets	68,187,585	956,496	22,625,591	323,046	3,047,388	110,373,175	9,143,117	214,656,398	(94,198,914)	120,457,484
Investments in associates										215,747
Deferred tax assets										56,974
Group's total assets										120,730,205
Segment liabilities	63,395,308	259,358	21,135,151	49,704	13,320	73,165,993	6,584,139	164,602,973	(88,863,191)	75,739,782
Deferred tax liabilities										471,828
Group's total liabilities										76,211,610
Other segment information										
<i>Amounts included in the measure of segment profit or loss:</i>										
Depreciation and amortisation	118,319	11,702	792	3,064	604	99,267	3,167	236,915	–	236,915
Impairment loss in respect of available-for-sale investments	–	–	200	–	–	–	4,459	4,659	–	4,659
Reversal of impairment loss in respect of other receivables	–	–	–	–	–	1,560	–	1,560	–	1,560
Interest income	17,871	8,195	–	182	36,299	1,300,259	44,236	1,407,042	–	1,407,042
Interest expenses	183,151	84	34,469	–	–	–	27,376	245,080	–	245,080

Operating and Reportable Segment

For the year ended 31 December 2010

	Securities and futures brokerage RMB'000	Asset management RMB'000	Proprietary trading RMB'000	Investment banking RMB'000	Direct investment RMB'000	Headquarters and others RMB'000	Overseas operations RMB'000	Segment total RMB'000	Eliminations RMB'000	Consolidated total RMB'000
Segment revenue and results										
Revenue										
– External	5,759,169	868,475	779,766	1,091,718	106,018	1,616,636	887,075	11,108,857	–	11,108,857
– Inter-segment	679,432	409	–	1,602	–	54,838	–	736,281	(736,281)	–
Other income and gains	15,602	30	–	–	–	162,481	17,965	196,078	–	196,078
Segment revenue	6,454,203	868,914	779,766	1,093,320	106,018	1,833,955	905,040	12,041,216	(736,281)	11,304,935
Segment expenses	(3,438,600)	(530,224)	(82,232)	(511,701)	(23,974)	(1,761,873)	(726,204)	(7,074,808)	681,443	(6,393,365)
Segment results	3,015,603	338,690	697,534	581,619	82,044	72,082	178,836	4,966,408	(54,838)	4,911,570
Share of profits of associates	–	(346)	–	–	–	78,466	–	78,120	–	78,120
Profit before income tax	3,015,603	338,344	697,534	581,619	82,044	150,548	178,836	5,044,528	(54,838)	4,989,690
Segment assets and liabilities										
Segment assets	72,680,321	1,112,302	19,686,020	1,494,945	2,981,507	110,964,233	12,508,847	221,428,175	(106,619,950)	114,808,225
Investments in associates										543,281
Deferred tax assets										61,592
Group's total assets										115,413,098
Segment liabilities	69,402,259	260,711	19,003,657	914,457	26,383	71,224,676	8,242,153	169,074,296	(99,474,081)	69,600,215
Deferred tax liabilities										196,136
Group's total liabilities										69,796,351
Other segment information										
<i>Amounts included in the measure of segment profit or loss:</i>										
Depreciation and amortisation	148,396	13,113	778	3,661	919	89,878	31,727	288,472	–	288,472
Reversal of impairment loss in respect of other receivables	–	–	–	–	–	3,773	–	3,773	–	3,773
Interest income	87,063	11,236	4	500	59,278	1,282,640	206,286	1,647,007	–	1,647,007
Interest expenses	198,981	79	35,980	–	–	18,401	28,048	281,489	–	281,489

Operating and Reportable Segment

For the year ended 31 December 2011

	Securities and futures brokerage RMB'000	Asset management RMB'000	Proprietary trading RMB'000	Investment banking RMB'000	Direct investment RMB'000	Headquarters and others RMB'000	Overseas operations RMB'000	Segment total RMB'000	Eliminations RMB'000	Consolidated total RMB'000
Segment revenue and results										
Revenue										
– External	4,143,204	1,094,573	1,144,784	1,068,459	54,961	2,249,115	871,782	10,626,878	–	10,626,878
– Inter-segment	653,049	332	–	893	140	269,039	–	923,453	(923,453)	–
Other income and gains	19,883	(2,474)	–	124	–	133,227	82,736	233,496	–	233,496
Segment revenue	4,816,136	1,092,431	1,144,784	1,069,476	55,101	2,651,381	954,518	11,783,827	(923,453)	10,860,374
Segment expenses	(2,943,670)	(662,840)	(655,496)	(520,139)	(17,460)	(1,654,279)	(833,652)	(7,287,536)	654,414	(6,633,122)
Segment results	1,872,466	429,591	489,288	549,337	37,641	997,102	120,866	4,496,291	(269,039)	4,227,252
Share of profits of associates	–	310	–	–	(930)	73,532	–	72,912	–	72,912
Profit before income tax	1,872,466	429,901	489,288	549,337	36,711	1,070,634	120,866	4,569,203	(269,039)	4,300,164
Segment assets and liabilities										
Segment assets	48,167,107	1,311,585	25,996,744	959,543	3,529,474	88,294,868	11,487,414	179,746,735	(82,209,038)	97,537,697
Investments in associates										926,114
Deferred tax assets										513,100
Group's total assets										98,976,911
Segment liabilities	45,463,691	369,868	26,639,694	410,206	42,346	45,730,963	7,518,288	126,175,056	(73,880,805)	52,294,251
Deferred tax liabilities										72,018
Group's total liabilities										52,366,269
Other segment information										
<i>Amounts included in the measure of segment profit or loss:</i>										
Depreciation and amortisation	164,652	15,575	1,273	4,869	1,452	78,578	33,638	300,037	–	300,037
Reversal of impairment loss in respect of other receivables	–	–	–	(9)	–	(32,764)	–	(32,773)	–	(32,773)
Impairment loss in respect of available-for-sale investments	–	–	416,258	–	–	–	124,151	540,409	–	540,409
Interest income	369,533	20,402	128	1,170	45,114	1,799,053	317,771	2,553,171	–	2,553,171
Interest expenses	203,497	44	143,549	2	–	84,596	28,108	459,796	–	459,796

The Group operates in two principal geographical areas, the People's Republic of China (excluding Hong Kong) and Hong Kong, representing the location of majority of the income from external customers and non-current assets of the Group. Segment revenue and non-current assets in respect of Overseas operations segment are substantially attributable to Hong Kong. The remaining segment revenue and non-current assets are attributable to the PRC. No single customers contribute more than 10% of income to the Group's income for the Relevant Periods.

54. MATURITY PROFILE OF ASSETS AND LIABILITIES

An analysis of the maturity profile of certain assets and liabilities of the Group based on the remaining contractual maturity as at 31 December 2009, 2010 and 2011 is as follows:

	Repayable on demand <i>RMB'000</i>	Less than 1 year <i>RMB'000</i>	More than 1 year but less than 5 years <i>RMB'000</i>	More than 5 years <i>RMB'000</i>	Total <i>RMB'000</i>
As at 31 December 2009					
Assets					
Advances to customers	2,034,977	–	–	–	2,034,977
Bank balances and cash (including restricted bank deposits)	88,246,912	–	184,844	–	88,431,756
Clearing settlement funds (client money)	5,538,708	–	–	–	5,538,708
Debt securities classified as:					
Financial assets held for trading	–	110,012	2,646,878	3,540,616	6,297,506
Available-for-sale investments	–	–	40,748	70,190	110,938
	<u>95,820,597</u>	<u>110,012</u>	<u>2,872,470</u>	<u>3,610,806</u>	<u>102,413,885</u>
Liabilities					
Borrowings from banks	–	856,474	–	–	856,474
Accounts payable to brokerage clients (money held on behalf of clients only)	65,064,154	–	–	–	65,064,154
	<u>65,064,154</u>	<u>856,474</u>	<u>–</u>	<u>–</u>	<u>65,920,628</u>

	Repayable on demand <i>RMB'000</i>	Less than 1 year <i>RMB'000</i>	More than 1 year but less than 5 years <i>RMB'000</i>	More than 5 years <i>RMB'000</i>	Total <i>RMB'000</i>
As at 31 December 2010					
Assets					
Advances to customers	5,814,456	–	–	–	5,814,456
Bank balances and cash (including restricted bank deposits)	56,899,043	1,158,272	260,801	–	58,318,116
Clearing settlement funds (client money)	19,981,907	–	–	–	19,981,907
Debt securities classified as:					
Financial assets held for trading	–	635,798	4,687,264	3,655,103	8,978,165
Available-for-sale investments	–	39,905	108,558	130,059	278,522
	<u>82,695,406</u>	<u>1,833,975</u>	<u>5,056,623</u>	<u>3,785,162</u>	<u>93,371,166</u>
Liabilities					
Borrowings from banks	–	2,825,406	–	–	2,825,406
Bank overdrafts	11,821	–	–	–	11,821
Accounts payable to brokerage clients (money held on behalf of clients only)	61,534,840	–	–	–	61,534,840
	<u>61,546,661</u>	<u>2,825,406</u>	<u>–</u>	<u>–</u>	<u>64,372,067</u>

	Repayable on demand	Less than 1 year	More than 1 year but less than 5 years	More than 5 years	Total
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
As at 31 December 2011					
Assets					
Advances to customers	6,462,677	–	–	–	6,462,677
Bank balances and cash (including restricted bank deposits)	43,349,176	7,221,858	326,719	–	50,897,753
Clearing settlement funds (client money)	2,415,032	–	–	–	2,415,032
Debt securities classified as:					
Financial assets held for trading	–	–	5,696,683	9,106,717	14,803,400
Available-for-sale investments	–	–	30,000	477,743	507,743
Bond investments included in other assets	–	–	157,683	–	157,683
	<u>52,226,885</u>	<u>7,221,858</u>	<u>6,211,085</u>	<u>9,584,460</u>	<u>75,244,288</u>
Liabilities					
Borrowings from banks	2,073,224	447,506	–	–	2,520,730
Accounts payable to brokerage clients (money held on behalf of clients only)	35,786,833	–	–	–	35,786,833
	<u>37,860,057</u>	<u>447,506</u>	<u>–</u>	<u>–</u>	<u>38,307,563</u>

55. FINANCIAL INSTRUMENTS

Categories of financial instruments

Group

	As at 31 December		
	2009	2010	2011
	RMB'000	RMB'000	RMB'000
Financial assets			
Loans and receivable	98,686,564	90,562,449	65,879,726
Available-for-sale investments	6,648,505	6,938,257	8,760,211
Fair value through profit or loss			
– Held for trading	12,896,752	15,018,084	20,605,107
	<u>12,896,752</u>	<u>15,018,084</u>	<u>20,605,107</u>
Financial liabilities			
Amortised cost	74,252,425	67,930,114	50,745,489
	<u>74,252,425</u>	<u>67,930,114</u>	<u>50,745,489</u>

Company

	As at 31 December		
	2009	2010	2011
	RMB'000	RMB'000	RMB'000
Financial assets			
Loans and receivable	84,564,440	71,819,189	47,601,916
Available-for-sale investments	6,007,468	5,233,707	6,671,876
Fair value through profit or loss			
– Held for trading	12,845,060	14,913,359	20,299,297
	<u>12,845,060</u>	<u>14,913,359</u>	<u>20,299,297</u>
Financial liabilities			
Amortised cost	65,616,290	55,384,407	39,118,993
	<u>65,616,290</u>	<u>55,384,407</u>	<u>39,118,993</u>

56. FINANCIAL RISK MANAGEMENT

The Group and the Company's major financial instruments include equity and debt investments, advances to customers, accounts receivable, other receivables, amount due from / to a subsidiary, financial assets held under resale agreements, clearing settlement funds, bank balances and cash, pledged bank deposits, borrowings, financial assets sold under repurchase agreements, accounts payable to brokerage clients and other payables. Details of the financial instruments are disclosed in respective notes. The risks associated with these financial instruments include market risk (price risk, currency risk and interest rate risk), credit risk and liquidity risk. The policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in economic environment. Market risk comprises three types of risks: price risk, currency risk and interest rate risk.

The Group and the Company's exposures to market risk include price risk, currency risk and interest rate risk.

Price risk

Price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate as a result of changes in market prices (other than those arising from interest rate risk or foreign exchange risk), whether caused by factors specific to an individual investment, its issuer, or all factors affecting equity instruments traded in the market.

The Group and the Company are exposed to price risk arising from individual investment classified as financial assets held for trading and available-for-sale investments. The directors of the Company manage the exposure by closely monitoring the portfolio of investments. The Group started hedging exposure by entering into derivatives contracts in 2010 to hedge against the exposure arising from the securities lending activities.

Price risk exposures are measured using value-at-risk (VaR) at the Company level.

There has been no change to the Company's exposure to market risks or the manner in which it manages and measures the risk.

Value at Risk (VaR) analysis

The VaR risk measure estimates the potential loss over a given holding period for a specified confidence level. The VaR methodology is a statistically defined, probability-based approach that takes into account market volatilities as well as risk diversification by recognising offsetting positions and correlations between products and markets. Risks can be measured consistently across all markets and products, and risk measures can be aggregated to arrive at a single risk number. The one-day 95% VaR number used by the Group reflects the 95% probability that the daily loss will not exceed the reported VaR.

VaR methodologies employed to calculate the month end risk numbers include the historical approach.

Historical VaR (95%, one-day) by risk type	As at 31 December		
	2009	2010	2011
	RMB'000	RMB'000	RMB'000
Total VaR exposure	409,000	175,000	166,000

Average

Historical VaR (95%, one-day) by risk type	Year ended 31 December		
	2009	2010	2011
	RMB'000	RMB'000	RMB'000
Total VaR exposure	231,000	223,000	154,000

Minimum

Historical VaR (95%, one-day) by risk type	Year ended 31 December		
	2009	2010	2011
	RMB'000	RMB'000	RMB'000
Total VaR exposure	73,000	173,000	116,000

Maximum

Historical VaR (95%, one-day) by risk type	Year ended 31 December		
	2009	2010	2011
	RMB'000	RMB'000	RMB'000
Total VaR exposure	438,000	278,000	185,000

The subsidiaries of the Company have utilised the effect of security price variation on net profit and revaluation reserve within the period, rather than VaR methodology, to manage and analyse the price risk. When reporting internally to the key management on risk, the management estimates that reasonably possible change in price is 10%. If the prices of the respective equity instruments had been 10% higher/lower, and held other variables constant, the impacts to the profit for the year and investment revaluation reserve are as follows:

	Year ended 31 December		
	2009	2010	2011
	RMB'000	RMB'000	RMB'000
Profit for the year			
Increase by 10%	3,695	5,692	22,936
Decrease by 10%	(3,695)	(5,692)	(27,304)
Investment revaluation reserve			
Increase by 10%	2,704	14,357	23,932
Decrease by 10%	(2,704)	(14,357)	(19,564)

In the above analysis, management also considers the case of an available-for-sale equity investment that a reasonably possible downward fall in the equity price would lead the investment to be impaired, the effect of loss would be shown as affecting profit or loss and the cumulative loss previously recognised in investment revaluation reserve would be reclassified to profit or loss, but an equivalent upward shift in the equity price would be shown as affecting investment revaluation reserve.

In the case that an available-for-sale equity investment that has already been impaired, a reasonably possible downward fall in the equity price may continue to be recognised in profit or loss but an equivalent upward shift in the equity price would be shown as affecting investment revaluation reserve.

In management's opinion, the sensitivity analysis is unrepresentative of inherent price risk as the year end exposure does not reflect the exposure during the year.

Currency risk

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate as a result of changes in foreign exchange rates.

The Group's currency risk arises principally from its leveraged foreign exchange business carried out through HISGL. The Group hedges majority of its client trades in its leveraged foreign exchange business back-to-back with external counterparties, such that the Group is not exposed to significant foreign currency risk.

The other amounts of financial assets and liabilities of the Group are substantially denominated in the functional currency of the respective entity within the Group except that as at 31 December 2011, the Group's Hong Kong subsidiaries', whose functional currency is Hong Kong dollar ("HKD"), have significant monetary assets denominated in the RMB.

Sensitivity analysis

The sensitivity analysis below has been determined based on the exposure to foreign exchange rates for financial assets and liabilities denominated in RMB for the Group's Hong Kong subsidiaries. The analysis is prepared assuming the financial instruments outstanding at 31 December 2011 were outstanding for the whole year. When reporting to the management on the currency risk, the Company will adopt a 50 basis points increase or decrease for sensitivity analysis, while considering the reasonably possible change in RMB/HKD.

Group

If RMB strengthened/weakened against HKD by 5% with all other variables were held constant, the Group's profit for the year ended 31 December 2011 would increase/decrease by RMB103,925,000.

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The Group and the Company's exposure to interest rate risk relates primarily to the Group and the Company's bank deposits, advances to customers, amount due from/to a subsidiary, clearing settlement funds, debt securities, accounts payable to brokerage clients and borrowings. Management actively monitors the Group and the Company's net interest rate exposure through setting limits on the level of mismatch of interest rate repricing and duration gap and aims at maintaining an interest rate spread, such that the Group and the Company are always in a net interest-bearing asset position and derive net interest income.

Fluctuations of prevailing rate quoted by the People's Bank of China and Hong Kong Inter-bank Offered Rate are the major sources of the Group and the Company's cash flow interest rate risk.

The Group and the Company's exposures to interest rates on financial liabilities are detailed in the liquidity risk management section of this note.

Sensitivity analysis

The sensitivity analysis below has been determined based on the exposure to interest rates for variable rate financial assets and liabilities. The analysis is prepared assuming the financial instruments outstanding at the end of the reporting period were outstanding for the whole year. When reporting to the management on the interest rate risk, the Company will adopt a 50 basis points increase or decrease for sensitivity analysis, while considering the reasonably possible change in interest rates.

Group

If interest rates had been 50 basis points higher/lower and all other variables were held constant, the Group's:

- Profit for the years ended 31 December 2009, 31 December 2010 and 31 December 2011 would decrease/increase by RMB18,188,000, RMB42,460,000 and RMB141,996,000, respectively. This is mainly attributable to the Group's exposure to interest rates on its bank balances, accounts payable to brokerage clients and held for trading debt securities; and
- Investment revaluation reserve for the years ended 31 December 2009, 2010 and 2011 would decrease/increase by RMB3,200,000, RMB5,515,000 and RMB9,521,000, respectively, mainly as a result of the changes in the fair value of available-for-sale debt investments.

Company

If interest rates had been 50 basis points higher/lower and all other variables were held constant, the Company's:

- Profit for the years ended 31 December 2009, 2010 and 2011 would decrease/increase by RMB34,706,000, RMB60,368,000 and RMB155,397,000, respectively. This is mainly attributable to the Company's exposure to interest rates on its bank balances, held for trading debt securities and accounts payable to brokerage clients; and
- Investment revaluation reserve for the years ended 31 December 2009, 2010 and 2011 would decrease/increase by RMB3,200,000, RMB5,515,000 and RMB9,521,000, respectively, mainly as a result of the changes in the fair value of available-for-sale debt investments.

Credit risk

The Group and the Company take on exposure to credit risk, which is the risk that a counterparty will be unable to pay amounts in full when due. The tables below show the maximum credit risk exposure of the Group and the Company, being the carrying amount of the respective recognised financial assets before the effect of mitigation through the use of collateral.

Group

	As at 31 December		
	2009	2010	2011
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Advances to customers	2,034,977	5,814,456	6,462,677
Accounts receivable	677,077	980,221	872,552
Other receivables	358,507	447,497	691,961
Available-for-sale debt investments	110,938	278,522	507,743
Financial assets held under resale agreements	–	2,120,000	605,900
Financial assets at fair value through profit or loss	6,528,138	8,978,165	14,910,682
Deposits with exchanges	1,374,951	2,373,425	2,177,814
Clearing settlement funds	5,749,123	20,424,736	3,952,038
Bank balances and cash	88,246,912	58,057,315	50,571,034
Restricted bank deposits	184,844	260,801	326,719
Other assets	60,173	83,998	219,031
	<u>105,325,640</u>	<u>99,819,136</u>	<u>81,298,151</u>
Maximum credit exposure	<u>105,325,640</u>	<u>99,819,136</u>	<u>81,298,151</u>

Company

	As at 31 December		
	2009	2010	2011
	RMB'000	RMB'000	RMB'000
Advances to customers	–	2,091,136	3,675,252
Other receivables	223,941	295,705	483,498
Amount due from a subsidiary	–	637,300	874,062
Available-for-sale debt investments	110,938	270,472	507,743
Financial assets held under resale agreements	–	2,120,000	32,000
Financial assets at fair value through profit or loss	6,528,138	8,951,939	14,712,533
Deposits with exchanges	672,582	790,909	1,031,890
Clearing settlement funds	5,511,975	19,652,583	2,792,636
Bank balances and cash	78,115,546	46,185,659	38,662,681
Other assets	40,396	45,897	49,897
	<u>91,203,516</u>	<u>81,041,600</u>	<u>62,822,192</u>
Maximum credit exposure			

Credit exposures arise principally from investments in debt securities, advances to customers, accounts receivable, clearing settlement funds and bank balances which are included in the Group and the Company's asset portfolios.

Credit exposure arising from investments in debt securities include downgrading of credit rating of the debt securities and/or of its underlying issuers and default of payments by the issuers. The Group and the Company have implemented a policy of not investing in any debt securities rated by reputable credit rating agency at a rating below A-3 and BBB for short-term tenor and for medium to long-term tenor, respectively. Management also closely monitors the credit ratings of respective debt securities on a regular basis and the financial soundness of the underlying issuers.

The Group and the Company provide clients with margin financing for securities transactions and securities lending to clients, which are secured by clients' securities or deposits held as collateral. Management has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. Each client has a maximum credit limit based on the quality of collateral held and the financial background of the client. In addition, the Group and the Company review the recoverable amount of each individual at the end of the reporting period to ensure that adequate impairment losses are made for irrecoverable amounts. Margin calls are made when the trades of margin clients exceed their respective limits. Any such excess is required to be made good within the next trading day. Failure to meet margin calls may result in the liquidation of the client's positions. The Group and the Company seek to maintain strict control over its outstanding receivables.

The Group seeks to maintain tight control over its outstanding accounts receivable in order to minimise credit risk. Overdue balances are regularly monitored by management. Accounts receivable from cash clients which are neither past due nor impaired represent unsettled client trades on various securities exchanges transacted on the last two business days prior to the respective reporting date. Such receivable balances are neither past due nor impaired as they are within the normal market convention.

Accounts receivable from cash clients which are past due but not impaired represent client trades on various securities exchanges which are unsettled beyond the settlement date. When the cash clients failed to settle on settlement date, the Group and the Company has a right to force-sell the collateral underlying the securities transactions. The outstanding accounts receivable from cash clients as at 31 December 2009, 2010 and 2011 are considered not to be impaired after taking into consideration the recoverability from collateral. Collateral held against such receivables are publicly traded securities.

The credit risk on liquid funds is limited because the counterparties are banks with high credit ratings assigned by international credit-rating agencies.

Other than concentration of credit risk on liquid funds which are deposited with several banks with high credit ratings, the Group and the Company's major credit exposures are with counterparties domiciled in the PRC as of 31 December 2009, 2010 and 2011.

Liquidity risk

Liquidity risk is the risk that the Group and the Company will encounter difficulty in meeting obligations associated with its financial liabilities. Prudent liquidity risk management includes maintaining sufficient cash, the availability of funding from the market in the capacity of a financial institution, and the ability to close out market positions. As part of the measures to safeguard liquidity, the Group has maintained substantial long-term and other stand-by banking facilities, diversifying the funding sources and spacing out the maturity dates.

Undiscounted cash flows by contractual maturities

The table below presents the cash flows payable by the Group under non-derivative financial liabilities held for managing liquidity risk by remaining contractual maturities at the reporting date. The amounts disclosed in the table are the contractual undiscounted cash flows. The table includes both interest and principal cash flows.

Group

As at 31 December 2009

	On demand <i>RMB'000</i>	Less than 3 months <i>RMB'000</i>	3 months to 1 year <i>RMB'000</i>	Total <i>RMB'000</i>
Borrowings	220,120	856,564	–	1,076,684
Accounts payable to brokerage clients	66,510,310	69,860	–	66,580,170
Other payables	759,466	–	14,695	774,161
Financial assets sold under repurchase agreements	–	5,822,629	–	5,822,629
	<u>67,489,896</u>	<u>6,749,053</u>	<u>14,695</u>	<u>74,253,644</u>

As at 31 December 2010

	On demand <i>RMB'000</i>	Less than 3 months <i>RMB'000</i>	3 months to 1 year <i>RMB'000</i>	Total <i>RMB'000</i>
Borrowings	96,913	2,826,305	–	2,923,218
Accounts payable to brokerage clients	63,462,147	110,292	109,915	63,682,354
Other payables	1,307,591	–	17,849	1,325,440
	<u>64,866,651</u>	<u>2,936,597</u>	<u>127,764</u>	<u>67,931,012</u>

As at 31 December 2011

	On demand <i>RMB'000</i>	Less than 3 months <i>RMB'000</i>	3 months to 1 year <i>RMB'000</i>	Total <i>RMB'000</i>
Borrowings	2,075,209	447,934	–	2,523,143
Accounts payable to brokerage clients	36,972,208	203,611	837,988	38,013,807
Other payables	674,537	–	11,881	686,418
Financial assets sold under repurchase agreements	–	9,532,001	–	9,532,001
	<u>39,721,954</u>	<u>10,183,546</u>	<u>849,869</u>	<u>50,755,369</u>

Company*As at 31 December 2009*

	On demand <i>RMB'000</i>	Less than 3 months <i>RMB'000</i>	3 months to 1 year <i>RMB'000</i>	Total <i>RMB'000</i>
Accounts payable to brokerage clients	59,473,774	–	–	59,473,774
Other payables	306,321	–	14,695	321,016
Financial assets sold under repurchase agreements	–	5,822,629	–	5,822,629
	<u>59,780,095</u>	<u>5,822,629</u>	<u>14,695</u>	<u>65,617,419</u>

As at 31 December 2010

	On demand <i>RMB'000</i>	Less than 3 months <i>RMB'000</i>	3 months to 1 year <i>RMB'000</i>	Total <i>RMB'000</i>
Accounts payable to brokerage clients	54,101,905	–	109,915	54,211,820
Other payables	1,134,738	–	17,849	1,152,587
Amount due to a subsidiary	20,000	–	–	20,000
	<u>55,256,643</u>	<u>–</u>	<u>127,764</u>	<u>55,384,407</u>

As at 31 December 2011

	On demand <i>RMB'000</i>	Less than 3 months <i>RMB'000</i>	3 months to 1 year <i>RMB'000</i>	Total <i>RMB'000</i>
Accounts payable to brokerage clients	28,289,172	–	837,988	29,127,160
Other payables	455,365	–	11,881	467,246
Amount due to a subsidiary	53	–	–	53
Financial assets sold under repurchase agreements	–	9,532,001	–	9,532,001
	<u>28,744,590</u>	<u>9,532,001</u>	<u>849,869</u>	<u>39,126,460</u>

Fair value of financial assets and liabilities

The fair value of financial assets and financial liabilities are determined as follows:

- the fair value of financial assets with standard terms and conditions and traded in active liquid markets are determined with reference to quoted market bid prices;
- the fair value of derivative instruments is calculated using quoted prices. Where such prices are not available, use is made of discounted cash flow analysis using the applicable yield curve for the duration of the instruments for non-optional derivatives, and option pricing models for optional derivatives; and
- the fair value of other financial assets and financial liabilities (excluding those described above) is determined in accordance with generally accepted pricing models based on discounted cash flow analysis.

The directors of the Company consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the Group and the Company's statements of financial position approximate their fair values.

Financial instruments measured at fair value

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable.

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active market for identical assets or liabilities.
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

Group*As at 31 December 2009*

	Level 1 <i>RMB'000</i>	Level 2 <i>RMB'000</i>	Level 3 <i>RMB'000</i>	Total <i>RMB'000</i>
Available-for-sale investments	1,562,629	545,661	4,133,097	6,241,387
Financial assets at fair value through profit or loss	3,662,334	9,234,418	–	12,896,752
	<u>5,224,963</u>	<u>9,780,079</u>	<u>4,133,097</u>	<u>19,138,139</u>

As at 31 December 2010

	Level 1 <i>RMB'000</i>	Level 2 <i>RMB'000</i>	Level 3 <i>RMB'000</i>	Total <i>RMB'000</i>
Available-for-sale investments	3,740,349	1,104,354	1,188,769	6,033,472
Financial assets at fair value through profit or loss	5,253,236	9,764,848	–	15,018,084
	<u>8,993,585</u>	<u>10,869,202</u>	<u>1,188,769</u>	<u>21,051,556</u>

As at 31 December 2011

	Level 1 <i>RMB'000</i>	Level 2 <i>RMB'000</i>	Level 3 <i>RMB'000</i>	Total <i>RMB'000</i>
Available-for-sale investments	5,393,570	961,228	836,056	7,190,854
Financial assets at fair value through profit or loss	10,091,102	10,514,005	–	20,605,107
	<u>15,484,672</u>	<u>11,475,233</u>	<u>836,056</u>	<u>27,795,961</u>

Company*As at 31 December 2009*

	Level 1 <i>RMB'000</i>	Level 2 <i>RMB'000</i>	Level 3 <i>RMB'000</i>	Total <i>RMB'000</i>
Available-for-sale investments	1,540,637	249,282	4,119,038	5,908,957
Financial assets at fair value through profit or loss	3,613,065	9,231,995	–	12,845,060
	<u>5,153,702</u>	<u>9,481,277</u>	<u>4,119,038</u>	<u>18,754,017</u>

As at 31 December 2010

	Level 1 <i>RMB'000</i>	Level 2 <i>RMB'000</i>	Level 3 <i>RMB'000</i>	Total <i>RMB'000</i>
Available-for-sale investments	3,713,104	402,221	1,013,846	5,129,171
Financial assets at fair value through profit or loss	5,151,119	9,762,240	–	14,913,359
	<u>8,864,223</u>	<u>10,164,461</u>	<u>1,013,846</u>	<u>20,042,530</u>

As at 31 December 2011

	Level 1 <i>RMB'000</i>	Level 2 <i>RMB'000</i>	Level 3 <i>RMB'000</i>	Total <i>RMB'000</i>
Available-for-sale investments	5,308,746	603,399	658,127	6,570,272
Financial assets at fair value through profit or loss	10,085,517	10,213,781	–	20,299,298
	<u>15,394,263</u>	<u>10,817,180</u>	<u>658,127</u>	<u>26,869,570</u>

There were no transfers between instruments in Level 1 and Level 2 during the years ended 31 December 2009, 2010 and 2011.

The following table represents the changes in Level 3 available-for-sale investments for the years ended 31 December 2009, 2010 and 2011.

Group

	Year ended 31 December		
	2009 <i>RMB'000</i>	2010 <i>RMB'000</i>	2011 <i>RMB'000</i>
At beginning of the year	93,100	4,133,097	1,188,769
Recognised in other comprehensive income	815,960	33,272	(193,854)
Purchases	3,291,100	917,560	762,470
Transfer into Level 3*	200,310	55,000	–
Transfer out of Level 3 to Level 1	(267,373)	(3,950,160)	(921,329)
At end of the year	<u>4,133,097</u>	<u>1,188,769</u>	<u>836,056</u>

* Investment was originally stated at cost and was subsequently measured at fair value.

Company

	Year ended 31 December		
	2009	2010	2011
	RMB'000	RMB'000	RMB'000
At beginning of the year	93,100	4,119,038	1,013,846
Recognised in other comprehensive income	809,401	(120,727)	(161,928)
Purchases	3,291,100	917,560	723,769
Transfer into Level 3*	192,810	–	–
Transfer out of Level 3 to Level 1	(267,373)	(3,902,025)	(917,560)
	<u>4,119,038</u>	<u>1,013,846</u>	<u>658,127</u>
At end of the year	<u>4,119,038</u>	<u>1,013,846</u>	<u>658,127</u>

* Investment was originally stated at cost and was subsequently measured at fair value.

Capital management

The Group's objectives when managing capital are:

- To safeguard the Group's ability to continue as a going concern so that it can continue to provide returns for shareholders and benefits for other stakeholders;
- To support the Group's stability and growth;
- To maintain a strong capital base to support the development of its business; and
- To comply with the capital requirements under the PRC and Hong Kong regulations.

In accordance with Administrative Measures for Risk Control Indicators of Securities Companies (Revision 2008) (the "Administrative Measures") issued by the China Securities Regulatory Commission (CSRC), the Company is required to meet the following standards for risk control indicators on a continual basis:

1. The ratio between its net capital and the sum of its various risk capital provisions shall be no less than 100% ("Ratio 1");
2. The ratio between its net capital and its net assets shall be no less than 40% ("Ratio 2");
3. The ratio between its net capital and its liabilities shall be no less than 8% ("Ratio 3");
4. The ratio between its net assets and its liabilities shall be no less than 20% ("Ratio 4");
5. The ratio between the value of equity securities, derivatives held and its net capital shall not exceed 100% ("Ratio 5"); and
6. The ratio between the value of fixed income securities held and net capital shall not exceed 500% ("Ratio 6").

Net capital refers to net assets minimises risk adjustments on certain types of assets as defined in the Administrative Measures.

As at 31 December 2009, 2010 and 2011, the Company has maintained the above ratios as follows:

	As at 31 December		
	2009	2010	2011
Net capital (RMB'000)	34,390,881	32,459,539	31,342,596
Ratio 1	779.24%	571.67%	527.66%
Ratio 2	79.84%	74.02%	70.14%
Ratio 3	440.93%	1232.45%	282.82%
Ratio 4	552.26%	1665.01%	403.23%
Ratio 5	25.28%	26.87%	38.09%
Ratio 6	29.53%	36.31%	60.35%

The above ratios are calculated based on the underlying financial information prepared in accordance with the relevant accounting rules and financial regulations applicable to enterprises in the People's Republic of China.

Certain subsidiaries of the Group are also subject to capital requirements under the PRC and Hong Kong regulations, imposed by the CSRS and the Hong Kong Securities and Futures Commission, respectively.

The capital of the Group mainly comprises its total equity.

57. LITIGATIONS

As at 31 December 2009, 2010 and 2011, the Group has several outstanding litigations with potential claims with maximum total amount of approximately RMB9,900,000, RMB10,100,000 and RMB404,000, respectively, of which RMB8,800,000, RMB6,900,000 and RMB248,000, respectively were accounted for and provided in the Financial Information based on directors' best estimate of the amount required to settle the claims. Certain outstanding litigations as at respective reporting date were settled subsequently. For details, please refer to note 38.

In previous year, the branch of the Company has involved in a few interrelated legal proceedings arising from one case that related to stock trading dispute. Pursuant to the final judgment of the Higher People's Court of Hubei made in 2009, the relevant case had been closed, and the Company was ordered to pay a compensation of approximately RMB26.3 million (excluding interests ordered in the final judgment). The Company had performed the obligated compensation, and a provision had been reflected in the financial statements in the year which it occurred. In November 2011, the Company has received a summons from the Supreme People's Court, stating that the PRC Supreme People's Procuratorate had filed a formal protest for the above case to the PRC Supreme People's Court, and the PRC Supreme People's Court had decided to start the retrial process. Pursuant to the written protest, the maximum possible claim faced by the Company in this case will be an additional amount of RMB26.8 million (excluding the interest ordered to be incurred by the Company pursuant to the judgment of the retrial). Based on the advice of the legal counsel, the Company considered that the final judgment of Higher People's Court of Hubei conformed to the principles of fairness and shall be maintained. Based on this expectation, no outflow of economic benefits should be made to settle the obligation and accordingly, no provision for any potential liabilities has been made in this respect.

H. SUBSEQUENT EVENT

On 14 March 2012, the board of directors of the Company has proposed a cash dividend of RMB0.15 per share, or a total of RMB1,234.2 million based on the number of shares in issue as at 31 December 2011. The cash dividend is subject to the shareholders' approval at the forthcoming annual general meeting.

Other than disclosed above, the Group had no material events for disclosure subsequent to 31 December 2011 and up to the date of this report.

I. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements of the Group, the Company or any of the companies now comprising the Group have been prepared in respect of any period subsequent to 31 December 2011 and up to the date of this report.

Yours faithfully,

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong

The information set forth in this appendix does not form part of the accountants' report on the financial information of the Group for the three years ended 31 December 2011 prepared by Deloitte Touche Tohmatsu, Certified Public Accountants, Hong Kong, the reporting accountants of the Company, as set forth in Appendix I to this prospectus. For the purpose of this Appendix II, Haitong Securities Co., Ltd. is referred to as the "Company" and, together with its subsidiaries, the "Group".

The following unaudited pro forma financial information prepared in accordance with paragraph 29 of Chapter 4 of the Listing Rules is for illustrative purposes only, and is set out here to provide investors with further information about how the proposed Global Offering might have affected the consolidated net tangible assets of the Group attributable to the owners of the Company after completion of the Global Offering. Although reasonable care has been exercised in preparing the said information, prospective investors who read the information should bear in mind that these figures are inherently subject to adjustments and may not give a true picture of the Group's financial position following the Global Offering or at any future dates.

(A) UNAUDITED PRO FORMA ADJUSTED CONSOLIDATED NET TANGIBLE ASSETS OF THE GROUP ATTRIBUTABLE TO THE OWNERS OF THE COMPANY

The following unaudited pro forma adjusted consolidated net tangible assets of the Group attributable to the owners of the Company have been prepared based on the audited consolidated net tangible assets of the Group attributable to the owners of the Company as at 31 December 2011 as extracted from the Accountants' Report, the text of which is set out in Appendix I to this prospectus, and is adjusted as described below.

The unaudited pro forma adjusted consolidated net tangible assets of the Group attributable to the owners of the Company have been prepared for illustrative purposes only and, because of their nature, they may not give a true picture of the Group's financial position as at 31 December 2011 or any future dates.

APPENDIX II UNAUDITED PRO FORMA FINANCIAL INFORMATION

The following unaudited pro forma adjusted consolidated net tangible assets of the Group attributable to the owners of the Company have been prepared to show the effect of the Global Offering on the audited consolidated net tangible assets of the Group attributable to the owners of the Company as at 31 December 2011 as if it had occurred on 31 December 2011.

	Audited consolidated net tangible assets attributable to the owners of the Company as at 31 December 2011	Estimated net proceeds from the Global Offering	Unaudited pro forma adjusted consolidated net tangible assets attributable to the owners of the Company	Unaudited pro forma adjusted consolidated net tangible assets of the Group attributable to the owners of the Company per share	
	<i>RMB' million (Note 1)</i>	<i>RMB' million (Note 2)</i>	<i>RMB' million (Note 3)</i>	<i>RMB</i>	<i>HK\$ (Note 4) (Note 5)</i>
Based on offer price of HK\$10.48 for each Offer Share	44,129.3	10,030.8	54,160.1	5.73	7.06
Based on offer price of HK\$11.18 for each Offer Share	44,129.3	10,704.7	54,834.0	5.80	7.15

Notes:

- (1) The audited consolidated net tangible assets attributable to the owners of the Company as at 31 December 2011 is compiled based on the Accountants' Report set out in Appendix I to the prospectus, which is based on the audited consolidated net assets attributable to the owners of the Company at 31 December 2011 of approximately RMB45,042.4 million with an adjustment for goodwill and other intangible assets attributable to the owners of the Company at 31 December 2011.
- (2) The estimated net proceeds from the Global Offering are based on the offer price of HK\$10.48 per share and HK\$11.18 per share after deduction of the underwriting fees and other related expenses payable by the Company, and do not take into account any shares which may be issued upon the exercise of the Over-allotment Option for the Global Offering.
- (3) The unaudited pro forma adjusted consolidated net tangible assets of the Group attributable to the owners of the Company does not take into account the effect of the profit for the period from and including 1 January 2012 to the date immediately preceding the date of the Global Offering. In particular, the unaudited pro forma adjusted consolidated net tangible assets of the Group attributable to the owners of the Company has not taken into account the dividend of RMB0.15 per share to the existing shareholders of the Company as at 31 December 2011, equivalent to approximately RMB1,234.2 million in aggregate, proposed by the directors of the Company on 14 March 2012. Had the effect been given to the distribution of such dividend, the unaudited pro forma adjusted consolidated net tangible assets of the Group attributable to the owners of the Company per share would have been HK\$6.90 or RMB5.60 based on the offer price of HK\$10.48 per share and HK\$6.99 or RMB5.67 based on the offer price of HK\$11.18 per share.
- (4) The unaudited pro forma adjusted consolidated net tangible assets of the Group attributable to the owners of the Company per share is calculated after the adjustments referred to in note (2) above and on the basis that 9,457,221,180 shares are issued and outstanding following the completion of the Global Offering and assuming that the Over-allotment Option for the Global Offering is not exercised.
- (5) The translation of Renminbi into Hong Kong dollars has been made at the rate of RMB0.8115 to HK\$1.00, PBOC rate prevailing on 9 April 2012. No representation is made that the Hong Kong dollar amounts have been, could have been or could be converted to Renminbi, or vice versa, at that rate or at any other rates or at all.

(B) REPORT FROM THE REPORTING ACCOUNTANTS ON THE UNAUDITED PROFORMA FINANCIAL INFORMATION

The following is the text of an accountants' report, prepared for the purpose of incorporation in this prospectus, received from the reporting accountants, Deloitte Touche Tohmatsu, Certified Public Accountants, Hong Kong, in respect of the Group's unaudited pro forma financial information.

**ACCOUNTANTS' REPORT ON UNAUDITED PRO FORMA FINANCIAL INFORMATION TO THE DIRECTORS OF HAITONG SECURITIES CO., LTD.**

We report on the unaudited pro forma financial information of Haitong Securities Co., Ltd. (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group") (the "Unaudited Pro Forma Financial Information") set out in Part (A) of Appendix II to the Prospectus dated 17 April 2012 (the "Prospectus") in connection with the Global Offering, which has been prepared by the directors of the Company (the "Directors") for illustrative purposes only, to provide information about how the Global Offering might have affected the financial information of the Group presented, for inclusion in Appendix II to the Prospectus. The basis of preparation of the Unaudited Pro Forma Financial Information is set out in Part (A) of Appendix II to the Prospectus.

Respective responsibilities of the Directors and reporting accountants

It is the responsibility solely of the Directors to prepare the Unaudited Pro Forma Financial Information in accordance with paragraph 29 of Chapter 4 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and with reference to Accounting Guideline 7 "Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars" issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA").

It is our responsibility to form an opinion, as required by paragraph 29(7) of Chapter 4 of the Listing Rules, on the Unaudited Pro Forma Financial Information and to report our opinion solely to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the Unaudited Pro Forma Financial Information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

Basis of opinion

We conducted our engagement in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 300 “Accountants’ Reports on Pro Forma Financial Information in Investment Circulars” issued by the HKICPA. Our work consisted primarily of comparing the unadjusted financial information with the source documents, considering the evidence supporting the adjustments, and discussing the Unaudited Pro Forma Financial Information with the Directors. This engagement did not involve independent examination of any of the underlying financial information.

We planned and performed our work so as to obtain the information and explanations we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the Unaudited Pro Forma Financial Information has been properly compiled by the Directors on the basis stated, that such basis is consistent with the accounting policies of the Group and that the adjustments are appropriate for the purpose of the Unaudited Pro Forma Financial Information as disclosed pursuant to paragraph 29(1) of Chapter 4 of the Listing Rules.

Our work has not been carried out in accordance with the auditing standards or other standards and practices generally accepted in the United States of America or auditing standards of the Public Company Accounting Oversight Board (United States) and, accordingly, should not be relied upon as if it has been carried out in accordance with those standards.

The Unaudited Pro Forma Financial Information is for illustrative purpose only, based on the judgments and assumptions of the Directors and, because of its hypothetical nature, does not provide any assurance or indication that any event will take place in the future and may not be indicative of the financial position of the Group as at 31 December 2011 or any future dates.

Opinion

In our opinion:

- (a) the Unaudited Pro Forma Financial Information has been properly compiled by the Directors on the basis stated;
- (b) such basis is consistent with the accounting policies of the Group; and
- (c) the adjustments are appropriate for the purpose of the Unaudited Pro Forma Financial Information as disclosed pursuant to paragraph 29(1) of Chapter 4 of the Listing Rules.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
17 April 2012

TAXATION OF SECURITIES HOLDERS

The following is a summary of certain PRC and Hong Kong tax consequences of the ownership of H Shares by an investor that purchases such H Shares in connection with the Global Offering and holds the H Shares as capital assets. This summary does not purport to address all material tax consequences of the ownership of H Shares, and does not take into account the specific circumstances of any particular investors, some of which may be subject to special rules. This summary is based on the tax laws of the PRC and Hong Kong as in effect on the date hereof, all of which are subject to change (or changes in interpretation), possibly with retroactive effect.

This section of this prospectus does not address any aspects of Hong Kong or PRC taxation other than income taxation, capital taxation, stamp taxation and estate taxation. Prospective investors are urged to consult their tax advisors regarding the PRC, Hong Kong and other tax consequences of owning and disposing of H Shares.

TAXATION IN THE PRC

Taxation of the Dividends

Individual Investors

According to *the Individual Income Tax Law of China* (《中華人民共和國個人所得稅法》) (the “Individual Income Tax Law”) promulgated on September 10, 1980, as amended on October 31, 1993, August 30, 1999, October 27, 2005, June 29, 2007, December 29, 2007, June 30, 2011, and *the Provision for Implementation of the Individual Income Tax Law* (《中華人民共和國個人所得稅法實施條例》) (“Provision for Implementation”) promulgated on January 28, 1994, as amended on December 19, 2005, February 18, 2008 and July 19, 2011, dividends paid by PRC companies to individuals are ordinarily subject to a PRC withholding tax levied at a flat rate of 20%. For a foreign individual who is not a resident of the PRC, the receipt of dividends from a company in the PRC is normally subject to a withholding tax of 20% unless specifically exempted by the tax authority of the State Council or reduced by an applicable tax treaty.

Pursuant to *the Notice on Matters Concerning the Levy and Administration of Individual Income Tax After the Repeal of Guo Shui Fa [1993] No. 45 (Guo Shui Han [2011] No. 348)* (《關於國稅發[1993]045號文件廢止後有關個人所得稅徵管問題的通知》(國稅函[2011]348號)) promulgated by the SAT recently, domestic non-foreign-invested enterprises issuing shares in Hong Kong may, when distributing dividends, withhold individual income tax at the rate of 10%. For the individual holders of H Shares receiving dividends who are citizens from countries that has entered into an income tax treaty with the tax rates lower than 10%, we will apply on behalf of the such holders to seek entitlement of the lower preferential tax treatments, and upon examination and approval by the tax authorities, the amounts which is over the withheld tax will be refunded. For the individual holders of H shares receiving dividends who are citizens from countries that entered into an income tax treaty with the tax rates higher than

10% but lower than 20%, we are required to withhold the tax at the agreed rate under the treaty, and no application procedures will be necessary. For the individual holders of H Shares receiving dividends who are citizens from countries without taxation agreements with the PRC or are under other situations, we are required to withhold the tax at a the rate of 20%.

Enterprise

According to the new *PRC Enterprise Income Tax Law* (《中華人民共和國企業所得稅法》) (the “EIT Law”) and *the Provision for Implementation of Enterprise Income Tax Law of the PRC* (《中華人民共和國企業所得稅法實施條例》) (the “Implementation Regulations”), which both became effective on January 1, 2008, the nonresident enterprises shall be subject to 10% enterprise tax for the income originated from the PRC provided that the non-resident enterprises do not establish institutions or premises in the PRC, or where there are institutions and premises established, there is no connection between the income received and the institutions or premises established by the non-resident enterprises. Such withholding tax may be reduced pursuant to an applicable double taxation treaty.

According to *the Notice of the State Administration of Taxation Regarding Questions on Withholding Enterprise Income tax on the Dividends Paid by PRC Resident Enterprises to Non-resident Enterprise Shareholders of H Shares* (*Guo Shui Han [2008] No. 897*) (《國家稅務總局關於中國居民企業向境外H股非居民企業股東派發股息代扣代繳企業所得稅有關問題的通知》, 國稅函[2008]897號), which became effective on November 6, 2008, PRC enterprises should withhold enterprise income tax at a rate of 10% when they distribute dividends to non-resident enterprise shareholders of H shares from the year of 2008. Such withholding tax may be reduced pursuant to an applicable double taxation treaty.

According to *the Arrangement between the Mainland China and Hong Kong for the Avoidance of Double Taxation on Income* (《內地和香港特別行政區關於對所得避免雙重徵稅和防止偷漏稅的安排》) signed on August 21, 2006, the PRC Government may impose tax on dividends payable by a PRC company to a Hong Kong resident, but such tax shall not exceed 10% of the gross amount of dividends payable, and in the case where a Hong Kong resident holds 25% equity interest or more in a PRC company, such tax shall not exceed 5% of the gross amount of dividends payable by the PRC company.

Tax Treaties

Investors who do not reside in the PRC and reside in countries that have entered into double taxation treaties with the PRC may be entitled to a reduction of the withholding tax imposed on the payment of dividends to investors of our Company who do not reside in the PRC. The PRC currently has double-taxation treaties with many nations in the world, which include but not limited to:

- Australia;
- Canada;

- France;
- Germany;
- Japan;
- Malaysia;
- the Netherlands;
- Singapore;
- the United Kingdom; and
- the United States.

Taxation of Capital Gains

Individual Investors

With respect to individual holders of H shares, the Individual Income Tax Law and Provision for Implementation generally stipulate that gains derived from assignment of property shall be subject to income tax at a rate of 20%. In addition, the Provisions stipulate that measures for the levying of individual income tax on gains derived from the sale of equity securities shall be formulated separately by the Ministry of Finance and shall be implemented following approval of the State Council. Pursuant to *the Notice of the Ministry of Finance and the State Administration of Taxation concerning the Continued Individual Income Tax Exemption for Individuals' Proceeds from Share Transfers* (《財政部、國家稅務總局關於個人轉讓股票所得繼續暫免徵收個人所得稅的通知》) (the "Exemption Notice") which came into effect on March 30, 1998, and effective since January 1, 1997, individual income tax exemption is continually valid from individuals' transfers of shares of public companies. However, there is no further interpretation whether such exemption is applied to H Shares. Theoretically, there is exposure that PRC individual income tax shall be applicable to capital gains derived from disposal of H shares by non-resident individuals, which may have not been collected by the PRC tax authorities in practice at the moment. However, if PRC tax laws and regulations, in the future, provide that such exemption is withdrawn or ceases to be effective, or is not applied to H Shares, individual holders of H shares who are Hong Kong or Macau residents are subject to capital gains tax when transferring their H shares.

Enterprise

According to the EIT Law and the Implementation Regulations, the non-resident enterprises shall be subject to 10% enterprise tax for the income originated from the PRC provided that the non-resident enterprises do not establish offices or premises in the PRC, or where there are offices and premises established, there is no connection between the gains received and the offices or premises established by the non-resident enterprises. Such withholding tax may be reduced pursuant to an applicable double taxation treaty.

Additional Chinese Tax Considerations***PRC Stamp Duty***

PRC stamp duty imposed on the transfer of shares of PRC publicly traded companies should not apply to the acquisition and disposal by non-PRC investors of H Shares outside of the PRC by virtue of *the Provisional Regulations of the PRC Concerning Stamp Duty* (《中華人民共和國印花稅暫行條例》), which became effective on October 1, 1988 and which provide that PRC stamp duty is imposed only on documents, executed or received within the PRC that are legally binding in the PRC and are protected under PRC law.

Estate Tax

No liability for estate tax under PRC law will arise from non-PRC national's holding of H shares.

Taxation of the Company by the PRC***Income Tax***

As stipulated under the new EIT Law, enterprises and other organizations which generate income within the PRC shall pay enterprise income tax according to stipulations of the new EIT Law and are subject to enterprise income tax at the rate of 25%.

Business Tax

Pursuant to *the Provisional Regulations of the PRC Concerning Business Tax* (《中華人民共和國營業稅暫行條例》) effective from January 1, 1994 which was amended in November 2008 and the relevant implementing rules, a business tax is imposed on enterprises which provide taxable services, transfer intangible property or sell real estate in the PRC. The business tax is levied at a rate from 3% to 20% on the provision of taxable services, transfer of intangible property or sale of real estate in the PRC.

The PRC implemented value-added tax reform according to which industries that are subject to business tax will gradually transit to pay value-added tax instead of business tax. According to the requirements of the Pilot Scheme for the Change from Business Tax to Value-Added Tax [Cai Shui [2011] No.110] issued by the Ministry of Finance and the SAT on November 16 2011, the future financial insurance industry is principally applicable to the simple VAT taxation method and the pilot scheme will commence from January 1, 2012. However, there are no specific requirements on the tax rate and simple taxation method for financial insurance industry.

Foreign Exchange Control

The lawful currency of the PRC is the RMB, which is subject to foreign exchange controls and is not freely convertible into foreign exchange at this time. SAFE, under the authority of PBOC, is empowered with the functions of administering all matters relating to foreign exchange, including the enforcement of foreign exchange control regulations.

On January 29, 1996, the State Council promulgated new *Regulation of Foreign Exchange* (《中華人民共和國外匯管理條例》) (the “Foreign Exchange Regulations”) which was effective from April 1, 1996. The Foreign Exchange Regulations classifies all international payments and transfers into current account items and capital account items. Most of the current account items are no longer subject to the approval from the SAFE while capital account items still are. The Foreign Exchange Regulations was subsequently amended on January 14, 1997 and on August 1, 2008. This latest amendment affirmatively states that the State shall not restrict international current account payments and transfers.

On June 20, 1996, PBOC promulgated *the Regulations for Administration of Settlement, Sale and Payment of Foreign Exchange* (《結匯、售匯及付匯管理規定》) (the “Settlement Regulations”) which took effect on July 1, 1996. The Settlement Regulations superseded *the Provisional Regulations for the Administration of Settlement, Sale and Payment of Foreign Exchange* and abolished the remaining restrictions on convertibility of foreign exchange in respect of current account items while retaining the existing restrictions on foreign exchange transactions in respect of capital account items.

On October 25, 1998, PBOC and SAFE promulgated *the Notice Concerning Closure of the Foreign Exchange Swap Business Activities* (《關於停辦外匯調劑業務的通知》) pursuant to which and with effect from December 1, 1998, all foreign exchange swapping business in the PRC for foreign-invested enterprises shall be discontinued, while the trading of foreign exchange by foreign-invested enterprise shall come under the banking system for the settlement and sale of foreign exchange.

On July 21, 2005, PBOC announced that from the same date, the PRC would implement a managed floating exchange rate system based on market supply and demand and with reference to a basket of currencies. Therefore, the RMB exchange rate was no longer pegged to the U.S. dollar only. The PBOC would announce the closing price of a foreign currency such as the U.S. dollar against the RMB in the inter-bank foreign exchange market after the closing of the market on each working day. This closing price will be used as the middle price for quoting the RMB exchange rate on the following working day.

Since January 4, 2006, PBOC improved the method of generating the middle price for quoting the RMB exchange rate by introducing an enquiry system while keeping the match-making system in the interbank spot foreign exchange market. In addition, PBOC provided liquidity in the foreign exchange market by introducing the market-making system in the inter-bank foreign exchange market. After the introduction of the enquiry system, the generation of the middle price for quoting the RMB was transformed to a mechanism under

which PBOC authorized the China Foreign Exchange Trading System to determine and announce the middle price for quoting the RMB against the U.S. dollar, based on the enquiry system, at 9:15 am on each business day.

According to Foreign Exchange Regulation, current account foreign exchange income may, in accordance with relevant provision of the state, be retained or sold to any financial institution engaged in foreign exchange settlement and sale business, and where any foreign exchange income on capital account is to be retained or sold to a financial institution engaged in foreign exchange settlement and sales business, an approval shall be obtained from the relevant foreign exchange administrative authority, other than where no approval is required under state provisions.

PRC enterprises (including foreign-invested enterprises) which require foreign exchange for transactions relating to current account items, may, without the approval of SAFE, effect payment from their foreign exchange account or convert and pay at the designated foreign exchange banks, on the strength of valid receipts and proof of transactions. Foreign-invested enterprises which need foreign exchange for the distribution of profits to their shareholders, and PRC enterprises which in accordance with regulations are required to pay dividends to shareholders in foreign exchange, may on the strength of general meeting resolutions of such PRC enterprises or board resolutions on the distribution of profits, and with the submission of other required supporting documents, effect payment from their foreign exchange account or convert and pay at the designated foreign exchange banks.

Convertibility of foreign exchange in respect of capital account items, like direct investment and capital contribution, is still subject to restriction, and prior approval from SAFE or the relevant branch.

The Notice Concerning Foreign Exchange Control of Overseas-listed Enterprises (《關於境外上市企業外匯管理有關問題的通知》), as jointly promulgated by CSRC and the State Administration of Foreign Exchange (“SAFE”), came into effect on January 13, 1994, and provides that:

- (i) Funds raised by domestic enterprises through issuing shares in foreign countries shall be categorized as income from capital projects, and may be deposited in cash in foreign exchange accounts opened in China as approved by the SAFE.
- (ii) A domestic enterprise issuing shares in foreign countries shall, within ten days after the foreign funds raised through the issuance of the shares have become available, transfer the full amount of the funds into China and deposit the amount in a foreign exchange account opened with approval.
- (iii) Foreign currencies needed by domestic enterprises issuing shares in foreign countries for the purpose of distributing dividends and capital bonuses to overseas shareholders may be paid and remitted by the enterprises’ banks from their foreign exchange accounts with approval of the SAFE. The enterprises’ foreign currency uses for other purposes shall be handled according to applicable regulations.

- (iv) If the sum of foreign-currency funds raised by a domestic enterprise through the issuance of shares in foreign countries reaches 25% or more of the enterprise's total net assets, it may apply to the Ministry of Commerce of the PRC (previously known as the Ministry of Foreign Trade and Economic Cooperation of China) or its authorized department to establish a Sino-foreign joint venture according to the Law on Sino-foreign Joint Ventures. If it is granted the status of a Sino-foreign joint venture, its foreign-currency income and expenses shall be handled pursuant to the foreign exchange control regulation governing foreign-invested enterprises.

The Notice Concerning Further Improving Foreign Exchange Control of Overseas-listed Enterprises (《關於進一步完善境外上市外匯管理有關問題的通知》), jointly issued by CSRC and SAFE, took effect on September 1, 2002, and provides that:

- (i) Companies with foreign shares listed overseas and domestic equity holders of overseas-listed companies held by domestic shareholders shall, within 30 days after obtaining CSRC's approval for issuing and listing shares in foreign countries, fulfill the procedure with SAFE for foreign exchange registration of overseas-listed shares.
- (ii) Companies with foreign shares listed overseas shall, within 30 days after the funds raised have become ready, transfer into China the amount of the funds remaining after deduction of associated costs and expenses, and shall not retain the funds in foreign countries without permission of SAFE. The funds transferred back into China shall be subject to control as if they were funds directly injected by foreign investors and may be kept in earmarked accounts or be used for foreign exchange settlement if approved by SAFE.
- (iii) Foreign-currency funds, obtained by companies with foreign shares listed overseas and domestic equity holders of overseas-listed companies held by domestic shareholders through reducing holdings of shares in listed companies or through the listed companies' sale of their assets (or equity), shall be transferred back into China within 30 days after the funds become available and after deduction of associated costs and expenses, which may not be detained in foreign countries without approval of SAFE. Foreign exchange settlement shall be made for such funds as approved by SAFE after they are transferred back into China.
- (iv) If overseas accounts are to be opened to temporarily keep the abovementioned foreign-currency funds before they are transferred back into China, application may be made to SAFE for opening such earmarked foreign exchange accounts, of which the maximum term shall be 3 months from the date of account opening.
- (v) Companies with foreign shares listed overseas needing to repurchase their own shares listed and circulated in foreign countries shall, after obtaining the approval from CSRC, follow procedures set by SAFE for changing foreign exchange registration of their overseas-listed shares and for approval of opening an overseas account and remittance of funds to foreign countries.

On September 9, 2003, SAFE issued *the Notice Concerning Improving Foreign Exchange Control of Overseas Listings* (《關於完善境外上市外匯管理有關問題的通知》), clarifying relevant issues in *the Notice Concerning Further Improving Foreign Exchange Control of Overseas-listed Enterprises*.

On February 1, 2005, SAFE promulgated *the Circular Concerning Foreign Exchange Control of Overseas Listings* (《關於境外上市外匯管理有關問題的通知》), further revising and supplementing the abovementioned circulars as follows:

- (i) The time limit for companies with foreign shares listed overseas and domestic equity owners of overseas-listed companies held by domestic shareholders to transfer funds back into China has been extended to “within six months after the funds so raised have become ready,” and for earmarked overseas foreign exchange accounts, the time period has been extended to “two years from the date of account opening.”
- (ii) Where foreign-currency funds, obtained by companies with foreign shares listed overseas and domestic equity owners of overseas-listed companies held by domestic shareholders through reducing holdings of shares in listed companies or through the listed companies’ sale of their assets (or equity), are transferred back into China, such domestic equity owners may apply to the local foreign exchange office for opening an earmarked account (or use existing earmarked account) to retain such funds. Foreign exchange settlement shall not be made for such funds without the approval of local foreign exchange office.

TAXATION IN HONG KONG

1. Taxation on Dividends

Under the current practice of the Hong Kong Inland Revenue Department, no tax is payable in Hong Kong in respect of dividends paid by us.

2. Taxation on Capital Gains and Profits

No tax is imposed in Hong Kong in respect of capital gains from the sale of the H shares. Trading gains from the sale of H shares by persons carrying on a trade, profession or business in Hong Kong, where such gains are derived from or arise in Hong Kong from such trade, profession or business, will be chargeable to Hong Kong profits tax. Currently, profits tax is imposed on corporations at the rate of 16.5% and on unincorporated businesses at a maximum rate of 15.0%. Gains from sales of the H shares effected on the Hong Kong Stock Exchange will be considered to be derived from or arise in Hong Kong. Liability for Hong Kong profits tax would thus arise in respect of trading gains from sales of H shares effected on the Hong Kong Stock Exchange realized by persons carrying on a business of trading or dealing in securities in Hong Kong.

3. Stamp Duty

Hong Kong stamp duty will be payable by the purchaser on every purchase, and by the seller on every sale, of the H shares. The duty is charged at the ad valorem rate of 0.1% of the consideration for, or (if greater) the value of, the H shares transferred on each of the seller and purchaser. In other words, a total of 0.2% is currently payable on a typical sale and purchase transaction of H shares. In addition, a fixed duty of HK\$5 is charged on each instrument of transfer (if required). Where a sale or purchase of H shares is effected by a person who is not a resident of Hong Kong and any stamp duty payable on the instrument of transfer is not paid, the relevant instrument of transfer (if any) shall be chargeable with such duty, together with the duty otherwise chargeable thereon, and the transferee shall be liable to pay such duty.

4. Estate Duty

The Revenue (Abolition of Estate Duty) Ordinance 2005 came into effect on February 11, 2006 in Hong Kong. No Hong Kong estate duty is payable and no estate duty clearance papers are needed for an application for a grant of representation in respect of holders of H shares whose deaths occur on or after February 11, 2006.

APPENDIX IV SUMMARY OF PRINCIPAL PRC AND HONG KONG LEGAL AND REGULATORY PROVISIONS

The PRC Legal System

The PRC legal system is based on the PRC Constitution (《中華人民共和國憲法》) and is made up of written laws, administrative regulations, local regulations, autonomy regulations, separate regulations, rules and regulations of State Council departments, rules and regulations of local governments and international treaties of which the PRC government is a signatory. Decided court cases do not constitute binding precedents, although they may be used for the purposes of judicial reference and guidance.

The National Peoples' Congress of the PRC ("NPC") and the Standing Committee of the NPC are empowered to exercise the legislative power of the State. The NPC has the power to formulate and amend basic laws governing State organs, civil and criminal matters and other matters. The Standing Committee of the NPC is empowered to formulate and amend laws other than those required to be enacted by the NPC and to supplement and amend any parts of laws enacted by the NPC during the adjournment of the NPC, provided such supplements and amendments are not in conflict with the basic principles of such laws. The Standing Committee of the NPC is empowered to interpret, enact and amend other laws not required to be enacted by the NPC.

The State Council is the highest organ of the PRC administration and has the power to formulate administrative regulations based on the constitution and laws.

The people's congresses of provinces, autonomous regions and municipalities and their respective standing committees may formulate local regulations based on the specific circumstances and actual requirements of their own respective administrative areas, subject to the constitution, laws and administrative regulations. The people's congresses of larger cities and their respective standing committees may formulate local regulations based on the specific circumstances and actual requirements of such cities and take the same effect after submitting to the standing committee of the people's congresses of provinces or autonomous regions for approval. The standing committee of the people's congresses of provinces or autonomous regions shall examine the legality of local regulations submitted for approval, and such approval should be granted within four months if they are not in conflict with the constitution, laws, administrative regulations and local regulations of the province or autonomous region concerned. Where conflicts with the rules and regulations of the People's Government of the province or autonomous region concerned are identified in the examination of local regulations of larger cities by the standing committee of the people's congresses of provinces or autonomous regions, a decision should be made to deal with the matter. "Larger cities" refer to cities where the people's governments of provinces or autonomous regions are located, cities where special economic zones are located and larger cities as approved by the State Council.

People's congresses of national autonomous areas have the power to enact autonomy regulations and separate regulations in the light of the political, economic and cultural characteristics of the nationality (nationalities) in the areas concerned. The autonomy regulations and separate regulations of autonomous regions shall be submitted to the Standing

APPENDIX IV SUMMARY OF PRINCIPAL PRC AND HONG KONG LEGAL AND REGULATORY PROVISIONS

Committee of the NPC for approval before taking effect. The autonomous regulations and separate regulations of the autonomous prefectures or counties shall be submitted to the standing committees of the people's congresses of the relevant provinces, autonomous regions or municipalities. Based on the characteristics of the local nationality (nationalities), adaptations to the provisions of laws and administrative regulations may be introduced to the autonomy regulations and separate regulations so long as they do not contravene the basic principles of the laws or administrative regulations, provided that no adaptations shall be made to specific provisions on national autonomous areas contained in the constitution, autonomy law of national areas and other relevant laws and administrative regulations.

The ministries, commissions, People's Bank of China, National Audit Office of the State Council and institutions with administrative functions directly under the State Council may formulate department rules within the jurisdiction of their respective departments based on the laws and the administrative regulations, decisions and rulings of the State Council. Matters governed by the departmental rules and regulations should be those for the enforcement of the laws and administrative regulations, decisions and rulings of the State Council. The people's governments of provinces, autonomous regions, municipalities and larger cities may formulate rules based on the laws, administrative regulations and local regulations of such provinces and autonomous regions and municipalities.

According to the PRC Constitution, the power to interpret laws is vested in the Standing Committee of the NPC. According to the Decision of the Standing Committee of the NPC Regarding the Strengthening of Interpretation of Laws passed on June 10, 1981, the Supreme People's Court has the power to give general interpretation on questions involving the specific application of laws and decrees in court trials. The State Council and its ministries and commissions are also vested with the power to give interpretation of the administrative regulations and department rules which they have promulgated. At the regional level, the power to give interpretations of the local laws and regulations as well as administrative rules is vested in the regional legislative and administrative organs which promulgate such laws, regulations and rules.

The PRC Judicial System

Under the PRC Constitution and the Law of Organization of the People's Courts of the PRC (《中華人民共和國法院組織法》), the PRC judicial system is made up of the Supreme People's Court, the local people's courts, military courts and other special people's courts. The local people's courts are divided into three levels, namely, the primary people's courts, the intermediate people's courts and the high people's courts. The primary people's courts may set up civil, criminal, economic and administrative divisions. The intermediate people's courts have divisions similar to those of the primary people's courts and other special divisions (such as the intellectual property division). These two levels of people's courts are subject to supervision of the high people's courts. The people's procuratorates also have the right to exercise legal supervision over the civil proceedings of people's courts of the same level and lower levels. The Supreme People's Court is the highest trial organ of the PRC. It supervises the administration of justice by the people's courts at all levels.

APPENDIX IV SUMMARY OF PRINCIPAL PRC AND HONG KONG LEGAL AND REGULATORY PROVISIONS

The people's court shall apply the system whereby the second instance is final, i.e., the judgment or ruling of the second instance at a people's court is final. A party to the case concerned may appeal to the people's court at the next higher level against the judgment or ruling of the first instance. The people's procuratorate may appeal to the people's court at the next higher level in accordance with procedures stipulated by the laws. In the absence of any appeal by any parties to the case and any appeal by the people's procuratorate within the stipulated period, the judgment or ruling of the people's court shall be the final judgment or rulings. Judgments or rulings of the second instance of the intermediate people's courts, the higher people's courts and the Supreme People's Court are final. Judgments or rulings of the first instance of the Supreme People's Court are also final. If, however, the Supreme People's Court or a people's court at a higher level finds an error in a final and binding judgment which has taken effect in any people's court at a lower level, or the president of a people's court finds an error in a final and binding judgment which has taken effect in the court over which he presides, a retrial of the case may be conducted according to the adjudication supervision procedures.

The Civil Procedure Law of the PRC (the "Civil Procedure Law") adopted on April 9, 1991 and amended on October 28, 2007 prescribes the provisions for instituting a civil action, the jurisdiction of the people's courts, the procedures to be followed for conducting a civil action, and the procedures for enforcement of a civil judgment or ruling. All parties to a civil action conducted within the PRC must comply with the Civil Procedure Law. A civil case is generally heard by a court located in the defendant's place of domicile. The competent court may also be selected by express agreement amongst the parties to a contract provided that the court selected is located at the plaintiff's or the defendant's place of domicile, the place of performing the contract or the place of executing the contract or the object of the action, provided that the provisions of this Law regarding the level of jurisdiction and exclusive jurisdiction shall not be violated.

A foreign national or foreign enterprise is generally given the same litigation rights and obligations as a citizen or legal person of the PRC. Should a juridical system of a foreign country limit the litigation rights of PRC citizens and enterprises, subject to the principle of reciprocity, the PRC courts may apply the same limitations to the citizens and enterprises (in China) of that foreign country. If any party to a civil action refuses to comply with a judgment or ruling made by a people's court or an award made by an arbitration tribunal in the PRC, the other party may apply to the people's court for the enforcement of the same within a stipulated period. Should anyone be unable to execute the judgment of the people's court within a stipulated period, as a result of any party's application, the people's court shall enforce such a judgment in accordance with the law.

A party seeking to enforce a judgment or ruling of a people's court against a party who is not personally or whose property is not within the PRC may apply to a foreign court with jurisdiction over the case for recognition and enforcement of such judgment or ruling. Similarly, if the PRC has entered into a treaty relating to judicial enforcement with the relevant foreign country or a relevant international treaty, a foreign judgment or ruling may also be

APPENDIX IV SUMMARY OF PRINCIPAL PRC AND HONG KONG LEGAL AND REGULATORY PROVISIONS

recognized and enforced according to PRC enforcement procedures by a PRC court based on the equity principle unless the people's court considers that the recognition or enforcement of a judgment or ruling will violate the basic legal principles of the PRC or its sovereignty or national security, or social and public interest.

The Company Law, Special Regulations and Mandatory Provisions

The Company Law was adopted by the Standing Committee of the Eighth NPC at its Fifth Meeting on December 29, 1993 and came into effect on July 1, 1994. It was amended thrice on December 25, 1999 and on August 28, 2004 and revised on October 27, 2005. The latest revised Company Law came into effect on January 1, 2006.

The Special Regulations of the State Council on the Overseas Offering and Listing of Shares by Joint Stock Limited Companies ("Special Regulations") were passed at the 22nd Standing Committee Meeting of the State Council on July 4, 1994 and promulgated and implemented on August 4, 1994. The Special Regulations are formulated in respect of the overseas share subscription and listing of joint stock limited companies. The Mandatory Provisions of the Companies Seeking Overseas Listing (the "Mandatory Provisions") promulgated by Securities Commission and the State Restructuring Commission on August 27, 1994 prescribe provisions which must be incorporated in the articles of association of joint stock limited companies to be listed on overseas stock exchanges. Accordingly, the Mandatory Provisions have been incorporated in the Articles of Association.

Set out below is a summary of the major provisions of the Company Law, the Special Regulations and the Mandatory Provisions.

General

A "company" is a corporate legal person incorporated within PRC under the Company Law with independent legal person properties and entitlements to such legal person properties. The liability of the company is limited to the full amount of its assets and the liability of its shareholders is limited to the extent of the capital contributions subscribed or the shares subscribed respectively by them. Companies can be divided into two different categories: limited liability companies and joint stock limited companies.

Incorporation

A joint stock limited company may be incorporated by promotion or subscription. A joint stock limited company may be incorporated by a minimum of two but not more than two hundred promoters. At least half of the promoters must have residence within the PRC.

Joint stock limited companies incorporated by promotion are companies the entire registered capital of which is subscribed for by the promoters. The initial capital contribution by all promoters of the joint stock limited company shall not be less than 20% of the registered

APPENDIX IV SUMMARY OF PRINCIPAL PRC AND HONG KONG LEGAL AND REGULATORY PROVISIONS

capital. The remainder shall be paid up within two years from the date of incorporation of the joint stock limited company by the promoters. For investment joint stock limited companies, the remainder may be paid up within five years. Shares in the company shall not be offered to other persons unless the registered capital has been paid up. For joint stock limited companies incorporated by public subscription, the registered capital is the amount of its total paid up capital as registered with the registration authorities. The minimum registered capital of a joint stock limited company is RMB5 million or as required by the laws or administrative regulations, whichever is higher.

For joint stock limited companies incorporated by way of promotion, the promoters shall subscribe in full in writing for shares required to be subscribed by them by the articles of association. The full amount of capital contribution shall be paid up if payments are made in one lump sum and the first installment shall be paid forthwith if payments are made in installments. Procedures relating to the transfer of title for non-monetary assets shall be duly completed if such assets are to be contributed as capital. Promoters who fail to pay up their capital contributions in accordance with the foregoing provision shall be liable for breach of contract in accordance with the covenants laid down in the promoters' agreement. After the promoters have completed the initial capital contribution, a board of directors and a supervisory committee shall be elected and the board of directors shall apply for registration of incorporation by filing the articles of association with the company registration authorities, together with a capital verification certificate issued by a capital verification institution established by law and other documents required by the law or administrative regulations.

Where joint stock limited companies are incorporated by subscription, not less than 35% of their total shares must be subscribed for by the promoters and the remainder can be subscribed for by the public or particular persons, unless otherwise provided for by the law or administrative regulations. A promoter who offers shares to the public must publish a prospectus and draft a share subscription form to be signed and sealed by subscribers, specifying the number and amount of shares to be subscribed for and their addresses. The subscribers shall pay up the amounts for the number of shares they have subscribed for. Where a promoter is offering shares to the public, such offer shall be underwritten by securities firms established by law, in relation to which underwriting agreements shall be signed. A promoter offering shares to the public shall also sign an agreement with a bank in relation to the receipt of subscription amounts. The receiving bank shall receive and keep in custody the subscription amounts, issue receipts to subscribers who have paid the subscription amounts and furnish evidence of receipt of subscription amounts to the relevant authorities. After the subscription amounts for the share issuance have been paid in full, a capital verification institution established by law must be engaged to conduct capital verification and furnish a report thereon. The promoters shall convene an inauguration meeting within thirty days and notify each subscriber of or publicly announce the date of the inaugural meeting no less than fifteen days in advance of the meeting. The inauguration meeting shall be held only if the promoters and subscribers representing more than half of the total shares issued are present. Where shares issued remain undersubscribed by the cut-off date stipulated in the share offering prospectus, or where the promoter fails to convene an inauguration meeting within thirty days after

APPENDIX IV SUMMARY OF PRINCIPAL PRC AND HONG KONG LEGAL AND REGULATORY PROVISIONS

subscription amounts for the shares issued have been fully paid up, the subscribers may demand the promoter return the subscription amounts so paid up together with interest at bank rates payable for a deposit of an equivalent amount for the same term. Within thirty days after the conclusion of the inaugural meeting, the board of directors shall apply to the registration authority for registration of the establishment of the company.

A joint stock limited company is formally established and has the status of a legal person after the approval of registration has been given by the relevant administration bureau for industry and commerce and a business license has been issued.

A joint stock limited company's promoter shall bear the following liabilities:

- (i) Where the company cannot be incorporated, they shall bear the joint and several liability for all the debts and expenses incurred in the act of incorporation;
- (ii) Where the company cannot be incorporated, they shall bear the joint and several liability for refunding the subscription moneys paid by the subscribers, plus their bank deposit interest calculated for the same period of time; and
- (iii) Where the interests of the company are impaired due to the fault committed by the promoters in the process of the incorporation of the company, they shall bear the liability to pay compensation to the company.

Share capital

The promoter of a joint stock limited company may make capital contribution in currencies, or in kind or by way of injection of assets, intellectual property rights or land use rights based on their appraised value, and may also convert lawfully transferred non-monetary assets into capital contribution with a monetary value, save for assets prohibited to be contributed as capital by the law or administrative regulations. If a capital contribution is made other than in cash, a valuation and verification of the asset contributed must be carried out without any overvaluation or under-valuation, subject to any provisions of the law or administrative regulations on valuation. The amount of monetary contribution by all shareholders shall not be less than 30% of the registered capital of the company.

A joint stock limited company may issue registered or bearer share certificates. The Special Regulations and the Mandatory Provisions provide that shares issued to foreign investors and listed overseas be issued in registered form and shall be denominated in Renminbi and subscribed for in foreign currency. Shares issued to foreign investors and investors from the territories of Hong Kong, Macau and China Taiwan and listed in Hong Kong are classified as H shares, and those shares issued to investors within the PRC other than the territories specified above are known as domestic shares. Under the Special Regulations, upon approval of the CSRC, a company may agree, in the underwriting agreement in respect of an issue of H shares, to retain not more than 15% of the aggregate number of H shares proposed to be issued besides the amount of underwritten shares. The share offering price may be equal to or greater than the par value, but may not be less than the par value.

APPENDIX IV SUMMARY OF PRINCIPAL PRC AND HONG KONG LEGAL AND REGULATORY PROVISIONS

Increase in share capital

According to the Company Law, the issuance of shares shall be conducted in a fair and equitable manner. Shares in the same class shall rank pari passu with one another. Shares of the same class in the same offer shall be issued on the same conditions and at the same price. The same price per share shall be paid by any units or individuals subscribing for shares.

When a joint stock limited company is issuing new shares, resolutions shall be passed by a shareholders' general meeting, approving the class and number of the new shares, the issue price of the new shares, the commencement and end of the new share issue and the class and amount of new shares to be issued to existing shareholders. When a joint stock limited company launches a public issue of new shares with the approval of the securities regulatory authorities under the State Council, a new share offering prospectus and financial accounting report must be published and a subscription form must be prepared. After the new share issuance of the Company has been paid up, the change must be registered with the company registration authorities and an announcement must be made. Where a joint stock limited company is issuing new shares to increase its registered capital, the subscription of new shares by shareholders shall be conducted in accordance with provisions on the payment of subscription amounts in relation to the incorporation of the company.

Besides the Company Law's provision that the issue of new shares shall be approved by a shareholders' general meeting, the Securities Law also stipulates that any company that makes an initial public offer (IPO) of its stock shall: (i) have a sound organizational structure and be well-operated; (ii) have a profitable outlook and be of sound financial status; (iii) have no record of having filed any false financial statement in the previous three years or any other major legal irregularity; and (iv) meet any other State Council-approved requirement prescribed by the securities regulatory authority under the State Council.

Reduction of share capital

Subject to the minimum registered capital requirements, a joint stock limited company may reduce its registered capital in accordance with the following procedures prescribed by the Company Law: (i) the joint stock limited company shall prepare a balance sheet and a property list; (ii) the reduction of registered capital must be approved by shareholders in a shareholders' general meeting; (iii) the joint stock limited company shall inform its creditors of the reduction in capital within ten days and publish an announcement of the reduction in the newspaper within thirty days after the resolution approving the reduction has been passed; (iv) the creditors of the company may within the statutory prescribed time limit require the company to pay its debts or provide guarantees covering the debts; and (v) the company must apply to the relevant administration bureau for industry and commence the registration of the reduction in registered capital.

APPENDIX IV SUMMARY OF PRINCIPAL PRC AND HONG KONG LEGAL AND REGULATORY PROVISIONS

Repurchase of shares

A Company may not purchase its own shares other than for one of the following purposes:

(i) to reduce its registered share capital; (ii) to merge with another company that holds its shares; (iii) to grant shares to its employees as incentives; (iv) to purchase its own shares from its shareholders who are against the resolution regarding the merger or demerger with other company in a shareholders' general meeting; and (v) such other purposes permitted by law and administrative regulations. The company's acquisition of its own shares on the grounds set out in (i) to (iii) above shall require approval by way of a resolution passed by a shareholders' general meeting. Following the company's acquisition of its shares in accordance with the foregoing, such shares shall be canceled within ten days from the date of acquisition in the case of (i) and transferred or canceled within six months in the case of (ii) or (iv).

Shares acquired by the company in accordance with (iii) under paragraph one of this section shall not exceed 5% of the total number of issued shares of the company. Such acquisition shall be financed by funds appropriated from the company's profit after taxation, and the shares so acquired shall be transferred to the employees of the company within one year.

Transfer of shares

Shares held by shareholders may be transferred in accordance with the relevant laws and regulations. A shareholder may only effect a transfer of its shares on a stock exchange established in accordance with law or by other ways as required by the State Council. Registered shares may be transferred after the shareholders endorse their signatures on the back of the share certificates or in any other manner specified by the law or administrative regulations. Following the transfer, the company shall enter the name of the transferee and its address into the share register. The transfer of bearer's share certificate shall become effective upon the delivery of such share certificate to the transferee by the shareholder. Subject to the Company Law, no changes of registration in the share register provided in the foregoing shall be effected during a period of twenty days prior to the convening of the shareholders' general meeting or five days prior to the record day for the purpose of determining entitlements to dividend distributions, subject to any legal provisions on the registration of changes in the share register of listed companies. Subject to the Mandatory Provisions, the shareholders' register may not be modified within the thirty days preceding the shareholder's general meeting or within the five days preceding any ex-dividend date fixed by the company.

Shares held by a promoter may not be transferred within one year after the company's establishment. Shares of the company issued prior to the public issue of shares shall not be transferred within one year from the date of the company's listing on a stock exchange. Directors, supervisors and the senior management of a company shall declare to the company their shareholdings in the company and any changes in such shareholdings. During their term of office, they shall transfer no more than 25% of the shares they hold in the company. They

APPENDIX IV SUMMARY OF PRINCIPAL PRC AND HONG KONG LEGAL AND REGULATORY PROVISIONS

shall not transfer the shares they hold within one year from the date of the company's listing on a stock exchange, nor within six months after they have resigned from their positions with the company. The articles of association may lay down other restrictive provisions in respect of the transfer of shares in the company held by the Directors, supervisors and the senior management of the company.

Shareholders

A shareholder's rights and duties are all stipulated in the company's articles of association, which is binding on all shareholders.

Under the Company Law and the Mandatory Provisions, the rights of a shareholder include:

- (i) to attend shareholders' general meetings and exercise the voting rights on the basis of the number of the shares held by such shareholder personally or appoint an agent to attend such meetings and exercise the rights referred to hereinabove;
- (ii) to transfer the shares held by such shareholder subject to the applicable laws, regulations and the company's article;
- (iii) to bring an action in the people's court to rescind the resolution when any law or administrative regulation or any legal right or interest of any shareholder is violated by a resolution passed by the shareholders' general meeting or the board of directors;
- (iv) to inspect the articles of association, share register, counterfoil of company debentures, minutes of shareholders' general meetings, board resolutions, resolutions of the supervisory committee and financial and accounting reports and to make proposals or enquiries in respect of the company's operations;
- (v) to receive dividends in respect of the number of shares held;
- (vi) to receive residual properties of the company in proportion to their shareholdings upon the liquidation of the company; and
- (vii) any other shareholders' rights provided for in the articles of association.

The obligations of a shareholder include the obligation to abide by the company's articles of association, to pay the subscription moneys in respect of the shares subscribed for, to be liable for the company's debts and liabilities to the extent of the amount of subscription moneys agreed to be paid in respect of the shares taken up by him and any other shareholders' obligation specified in the company's articles of association.

APPENDIX IV SUMMARY OF PRINCIPAL PRC AND HONG KONG LEGAL AND REGULATORY PROVISIONS

Shareholders' general meetings

The shareholders' general meeting is the organ of authority of the company, which exercises its powers in accordance with the Company Law.

The shareholders' general meeting exercises the following principal powers:

- (i) to decide on the company's operational policies and investment plans;
- (ii) to elect or remove the directors and supervisors (that are not staff representatives) and to decide on matters relating to the remuneration of directors and supervisors;
- (iii) to examine and approve reports of the board of directors;
- (iv) to examine and approve reports of the supervisory committee or supervisor;
- (v) to examine and approve the company's proposed annual financial budget and final accounts;
- (vi) to examine and approve the company's proposals for profit distribution plans and recovery of losses;
- (vii) to decide on any increase or reduction of the company's registered capital;
- (viii) to decide on the issue of bonds by the company;
- (ix) to decide on issues such as merger, division, dissolution and liquidation of the company and other matters;
- (x) to amend the company's articles of association; and
- (xi) other powers as provided for in the articles of association.

Shareholders' general meetings are required to be held once every year. An extraordinary shareholders' general meeting is required to be held within two months after the occurrence of any of the following:

- (i) the number of directors is less than the number stipulated by the law or less than two-thirds of the number specified in the articles of association;
- (ii) the aggregate losses of the company which are not recovered reach one third of the company's total paid-in share capital;
- (iii) when shareholders alone or in aggregate holding 10% or more of the company's shares request the convening of an extraordinary general meeting;

APPENDIX IV SUMMARY OF PRINCIPAL PRC AND HONG KONG LEGAL AND REGULATORY PROVISIONS

- (iv) whenever the board of directors deems necessary;
- (v) when the supervisory committee so requests; or
- (vi) other circumstances as provided for in the articles of associations.

Shareholders' general meetings shall be convened by the board of directors, and presided over by the chairman of the board of directors. In the event that the chairman is incapable of performing or not performing his duties, the meeting shall be presided over by the vice chairman. In the event that the vice chairman is incapable of performing or not performing his duties, a director nominated by more than half of directors shall preside over the meeting. Where the board of directors is incapable of performing or not performing its duties of convening the shareholders' general meeting, the supervisory committee shall convene and preside over such meeting in a timely manner. In case the supervisory committee fails to convene and preside over such meeting, shareholders alone or in aggregate holding more than 10% of the company's shares for ninety days consecutively may unilaterally convene and preside over such meeting.

Subject to the Company Law, notice of the shareholders' general meeting stating the time and venue of and matters to be considered at the meeting shall be given to all shareholders twenty days before the meeting. Notice of extraordinary general meetings shall be given to all shareholders fifteen days prior to the meeting. Notice of the issuance of bearer's share shall be announced thirty days before the meeting. Subject to the Special Regulations and the Mandatory Provisions, such notice shall be delivered to all the shareholders forty-five days in advance, and the matters to be considered at the meeting shall be specified. Subject to the Special Regulations and the Mandatory Provisions, the confirmation letter of the shareholders planning to attend the meeting shall be delivered to the company twenty days in advance of the meeting. Moreover, subject to the Special Regulations, shareholders holding more than 5% of the company's shares may put forward a new proposal in writing for the meeting to discuss at the shareholder's annual meeting, and if the proposal falls within the purview of the meeting, it shall be placed on the agenda of that meeting. Shareholders present at a shareholders' general meeting have one vote for each share they hold, save that shares held by the company are not entitled to any voting rights. Resolutions of the shareholders' general meeting must be adopted by more than half of the voting rights held by shareholders present at the meeting, with the exception of matters relating to merger, division, dissolution of a company or amendments to the articles of association, which must be adopted by more than two-thirds of the voting rights held by the shareholders present at the meeting. Where the Company Law and the articles of association provide that the transfer or acquisition of significant assets or the provision of external guarantees by a company must be approved by way of resolution of the shareholders' general meeting, the directors shall convene a shareholders' general meeting promptly to vote on the above matters. The accumulative voting system may be adopted pursuant to the provisions of the articles of association or a resolution of the shareholders' general meeting for the election of directors and supervisors at the shareholders' general meeting. Under the accumulative voting system, each share shall be entitled to votes equivalent to the number of directors or supervisors to be elected at the shareholders' general meeting and shareholders may consolidate their voting rights when casting a vote.

APPENDIX IV SUMMARY OF PRINCIPAL PRC AND HONG KONG LEGAL AND REGULATORY PROVISIONS

Minutes shall be prepared in respect of matters considered at the shareholders' general meeting and the president of the meeting and directors attending the meeting shall sign to endorse such minutes. The minutes shall be kept together with the shareholders' attendance register and the proxy forms.

According to the Mandatory Provisions, the increase or reduction of share capital, the issue of shares of any class, warrants or other similar securities, and bonds or debentures, the liquidation of the company and any other matters in respect of which the shareholders by ordinary resolution so decide, must be approved through special resolutions by more than two-thirds of the voting rights held by shareholders present at the meeting.

There is no specific provision in the Company Law regarding the number of shareholders constituting a quorum in a shareholders' meeting, although the Special Regulations and the Mandatory Provisions provide that a company's annual general meeting may be convened when replies to the notice of that meeting from shareholders holding shares representing 50% of the voting rights in the company have been received twenty days before the proposed date, or if that 50% level is not achieved, the company shall within five days of the last day for receipt of the replies notify shareholders again by public announcement of the matters to be considered at the meeting and the date and place of the meeting and the annual general meeting may be held thereafter. The Mandatory Provisions require class meetings to be held in the event of a variation or derogation of the class rights of a class.

Directors

A company shall have a board of directors, which shall consist of five to 19 members. Members of the board of directors may include staff representatives of the company, who shall be democratically elected by the company's staff at the staff representative assembly, general staff meeting or otherwise. The term of a director shall be stipulated in the articles of association, provided that no term of office shall last for more than three years. A director may serve consecutive terms if re-elected. A director shall continue to perform his duties in accordance with the laws, administrative regulations and articles of association until a re-elected director takes office, if re-election is not conducted in a timely manner upon the expiry of his term of office or if the resignation of directors results in the number of directors being less than the quorum.

Under the Company Law, the board of directors exercises the following powers:

- (i) to convene the shareholders' general meetings and report on its work to the shareholders' general meetings;
- (ii) to implement the resolutions passed in general meetings;
- (iii) to decide on the company's business plans and investment proposals;

**APPENDIX IV SUMMARY OF PRINCIPAL PRC AND HONG KONG
LEGAL AND REGULATORY PROVISIONS**

- (iv) to formulate the company's proposed annual financial budget and final accounts;
- (v) to formulate the company's profit distribution proposals and for recovery of losses;
- (vi) to formulate proposals for the increase or reduction of the company's registered capital and the issuance of corporate bonds;
- (vii) to prepare plans for the merger, division or dissolution of the company;
- (viii) to decide on the company's internal management structure;
- (ix) to appoint or dismiss the company's general manager and based on the general manager's recommendation, to appoint or dismiss the deputy general managers and financial officers of the company and to decide on their remuneration;
- (x) to formulate the company's basic management system; and
- (xi) to exercise any other power under the articles of association.

Meetings of the board of directors shall be convened at least twice a year. Notice of meeting shall be given to all directors and supervisors ten days before the meeting. Interim board meetings may be convened by shareholders representing more than 10% of voting rights, more than one third of the directors or the supervisory committee. The chairman shall convene and preside over such meeting within ten days after receiving such proposal. The board of directors may provide for a different method of giving notice and notice period for convening an extraordinary meeting of the board of directors. Meetings of the board of directors shall be held only if half or more of the directors are present. Resolutions of the board of directors require the approval of more than half of all directors. Each director shall have one vote for resolutions to be approved by the board of directors. Directors shall attend board meetings in person. If a director is unable to attend a board meeting, he may appoint another director by a written power of attorney specifying the scope of the authorization to attend the meeting on his behalf.

If a resolution of the board of directors violates the law, administrative regulations or the company's articles of association, and as a result of which the company sustains serious losses, the directors participating in the resolution are liable to compensate the company. However, if it can be proved that a director expressly objected to the resolution when the resolution was voted on, and that such objections were recorded in the minutes of the meeting, such director may be relieved from that liability.

**APPENDIX IV SUMMARY OF PRINCIPAL PRC AND HONG KONG
LEGAL AND REGULATORY PROVISIONS**

Under the Company Law, the following persons may not serve as a director of a company:

- (i) persons without civil capacity or with restricted civil capacity;
- (ii) persons who have committed the offence of corruption, bribery, taking of property, misappropriation of property or destruction of the social economic order, and have been sentenced to criminal punishment, where less than five years have elapsed since the date of completion of the sentence; or persons who have been deprived of their political rights due to criminal offence, where less than five years have elapsed since the date of the completion of implementation of this deprivation;
- (iii) persons who are former directors, factory managers or managers of a company or enterprise which has become bankrupt and been liquidated and who are personally liable for the bankruptcy of such company or enterprise, where less than three years have elapsed since the date of the completion of the bankruptcy and liquidation of the company or enterprise;
- (iv) persons who were legal representatives of a company or enterprise which had its business license revoked due to violation of the law and who are personally liable, where less than three years have elapsed since the date of the revocation of the business license; and
- (v) persons who have a relatively large amount of debts due and outstanding.

The election, appointment or engagement of directors elected or appointed by the company in violation of the aforesaid provisions shall be null and void. If one of these restrictions becomes applicable to a director during his term of office, such director shall be released of his duties by the company.

Other circumstances under which a person is disqualified from acting as a director of a company are set out in the Mandatory Provisions.

The board of directors shall appoint a chairman and may appoint a vice chairman. The chairman and the vice chairman are elected with approval of more than half of all the directors. The chairman shall convene and preside over board meetings and examine the implementation of board resolutions. The vice chairman shall assist in the work of the chairman. In the event that the chairman is not performing his duties, the duties shall be performed by the vice chairman. In the event that the vice chairman is incapable of performing or not performing his duties, a director nominated by more than half of directors shall perform his duties.

APPENDIX IV SUMMARY OF PRINCIPAL PRC AND HONG KONG LEGAL AND REGULATORY PROVISIONS

Supervisors

A company shall have a supervisory committee composed of not less than three members. The supervisory committee is made up of representatives of the shareholders and an appropriate proportion of representatives of the company's staff. The actual proportion shall be stipulated in the articles of association, provided that the proportion of representatives of the company's staff shall not be less than one-third of the Directors and officers may not act concurrently as supervisors. Representatives of the company's staff and workers at the supervisory committee shall be democratically elected at the staff representative assembly, general staff meeting or otherwise. The supervisory committee shall appoint a chairman and may appoint a vice chairman. The chairman and the vice chairman of the supervisory committee are elected with approval of more than half of all the supervisors. The chairman of the supervisory committee shall convene and preside over supervisory committee meetings. In the event that the chairman of the supervisory committee is incapable of performing or not performing his duties, the vice chairman of the supervisory committee shall convene and preside over supervisory committee meetings. In the event that the vice chairman of the supervisory committee is incapable of performing or not performing his duties, a supervisor nominated by more than half of supervisors shall convene and preside over supervisory committee meetings.

Each term of office of a supervisor is three years and he or she may serve consecutive terms if reelected. A supervisor shall continue to perform his duties in accordance with the laws, administrative regulations and articles of association until a duly re-elected supervisor takes office, if re-election is not conducted in a timely manner upon the expiry of his term of office or if the resignation of supervisors results in the number of supervisor being less than the quorum.

The supervisory committee exercises the following powers:

- (i) to review the company's financial position;
- (ii) to supervise the directors and officers in their performance of their duties and to propose the removal of directors and officers who have violated laws, regulations, the articles of association or shareholders' resolution;
- (iii) when the acts of directors and officers are harmful to the company's interests, to require correction of these acts;
- (iv) to propose the convening of extraordinary shareholders' general meetings and to convene and preside over shareholders' meetings when the board of directors fails to perform the duty of convening and presiding over shareholders' meeting under this law;
- (v) make proposals for resolutions to shareholders' general meeting;

**APPENDIX IV SUMMARY OF PRINCIPAL PRC AND HONG KONG
LEGAL AND REGULATORY PROVISIONS**

- (vi) to initiate proceedings against directors and officers; and
- (vii) other powers specified in the articles of association.

Supervisors may be in attendance at board meetings and make enquiries or proposals in respect of board resolutions. The supervisory committee or (where there is no supervisory committee) the supervisors of a company may initiate investigations into any irregularities identified in the operation of the company and, where necessary, may engage an accountant to assist in their work at the company's expense.

Managers and officers

A company shall have a manager who shall be appointed or removed by the board of directors. The manager shall report to the board of directors and may exercise the following powers:

- (i) supervise the production, business and administration of the company and arrange for the implementation of resolutions of the board of directors;
- (ii) arrange for the implementation of the company's annual business and investment plans;
- (iii) formulate plans for the establishment of the company's internal management structure;
- (iv) formulate the basic administration system of the company;
- (v) formulate the company's internal rules;
- (vi) recommend the appointment and dismissal of deputy managers and any financial controller;
- (vii) appoint or dismiss other administration officers (other than those required to be appointed or dismissed by the board of directors); and
- (viii) other powers conferred by the board of directors or the articles of association.

Other provisions of the articles of association concerning the general manager's powers shall also be complied with. The general manager shall be in attendance at board meetings.

According to the Company Law, officers shall mean the general manager, deputy general manager(s), financial controller, board secretaries (in case of a listed company) of a company and other personnel as stipulated in the articles of association.

APPENDIX IV SUMMARY OF PRINCIPAL PRC AND HONG KONG LEGAL AND REGULATORY PROVISIONS

Duties of the directors, supervisors, general managers and other officers

Directors, supervisors, managers and officers of a company are required under the Company Law to comply with the relevant laws, regulations and the articles of association, and carry out their duties honestly and diligently. Directors, supervisors, managers and officers are prohibited from abusing their powers to accept bribes or other unlawful income and from misappropriating the company's properties. Directors and officers are prohibited from:

- (i) misappropriation of company funds;
- (ii) deposit of company funds into accounts under his own name or the name of other individuals;
- (iii) loaning company funds to others or providing guarantees in favor of others supported by the company properties in violation of the articles of association or without prior approval of the shareholders' meeting, shareholders' general meeting or board of directors;
- (iv) entering into contracts or deals with the company in violation of the articles of association or without prior approval of the shareholders' meeting, shareholders' general meeting or board of directors;
- (v) using their position and powers to procure business opportunities for themselves or others that should have otherwise been available to the company or operating for their own benefit or managing on behalf of others businesses similar to that of the company without prior approval of the shareholders' meeting or the shareholders' general meeting;
- (vi) accepting for their own benefit commissions from a third party dealing with the company;
- (vii) unauthorized divulgence of confidential business information of the company; or
- (viii) other acts in violation of their duty of loyalty to the company.

Income generated by directors or officers in violation of the foregoing provisions shall revert to the company.

A director, supervisor or officer who contravenes any law, regulation or the company's articles of association in the performance of his duties resulting in any loss to the company shall be personally liable to the company.

Where the attendance of a director, supervisor or officer is requested by the shareholders' general meeting, such director, supervisor or officer shall attend the meeting as requested and answer enquiries of shareholders.

APPENDIX IV SUMMARY OF PRINCIPAL PRC AND HONG KONG LEGAL AND REGULATORY PROVISIONS

Directors and officers should furnish with all truthfulness facts and information to the supervisory committee or the supervisor (for companies with limited liability that do not have supervisory committees) without obstructing the discharge of duties by the supervisory committee or the supervisors.

The Special Regulations and the Mandatory Provisions provide that a company's directors, supervisors, general managers and other officers shall have duty of loyalty towards the company. They are required to faithfully perform their duties, protect the interests of the company and not use their positions for their own benefit. The Mandatory Provisions contain detailed stipulations on these duties.

Finance and accounting

A company shall establish its financial and accounting systems according to laws, administrative regulations and the regulations of the responsible financial department of the State Council and at the end of each financial year prepare a financial report which shall be audited by an accountant as provided by law. The financial and accounting report shall be prepared in accordance with provisions of the laws, administrative regulations and the regulations of the financial department of the State Council.

The financial report of a liability limited company shall be delivered to all the shareholders within the time limit stipulated in the company's articles. A joint stock limited company shall deposit its financial statements at the company for inspection by the shareholders at least twenty days before the convening of an annual general meeting of shareholders. A joint stock limited company issuing its shares in public must publish its financial statements.

When distributing each year's after-tax profits, the company shall set aside 10% of its after-tax profits for the company's statutory surplus common reserve fund (except where the fund has reached 50% of the company's registered capital). When the company's statutory common reserve fund is not sufficient to make up for the company's losses of the previous year, current year profits shall be used to make good the losses before allocating such profits. After the company has made appropriations to the statutory common reserve fund from its after-tax profit, it may, with the approval of the shareholders' meeting or the shareholders' general meeting by way of resolution, make further appropriations from its after-tax profit to the discretionary common reserve fund. After the company has made good its losses and made allocations to its common reserve fund, the remaining profits are distributed in proportion to the number of shares held by the shareholders, or in other manner. Profit distributed to shareholders by the shareholders' meeting or shareholders' general meeting or the board of directors before losses have been made good and appropriations have been made to the statutory commons reserve fund in violation of the foregoing provisions must be returned to the company. Company shares held by the company shall not be entitled to any distribution of profit.

APPENDIX IV SUMMARY OF PRINCIPAL PRC AND HONG KONG LEGAL AND REGULATORY PROVISIONS

The premium over the nominal value of the shares of the company on issue and other amounts required by the relevant governmental authority to be treated as the capital common reserve shall be accounted for as capital common reserve. The capital common reserve of a company shall be applied to make up the company's losses, expand the business operations of the company or increase the company's capital. The capital common reserve shall not be used to make good the company's losses. Upon the conversion of statutory common reserve into capital, the balance of the statutory common reserve shall not be less than 25% of the registered capital of the company before such conversion.

The company shall have no other accounting books except the statutory accounting books. The company's assets shall not be deposited in any accounts opened in the name of an individual.

Appointment and retirement of auditors

Pursuant to the Company Law, the appointment or dismissal of accountants responsible for the company's auditing shall be determined by the shareholders' meeting, the shareholders' general meeting or the board of directors in accordance with the articles of association. The accountant should be allowed to make representations when the shareholders' meeting, the shareholders' general meeting or board of directors is going to conduct a vote on the dismissal of the accountant. The company should provide true and complete accounting evidences, books, financial and accounting reports and other accounting data to the accountant it hires without any refusal, withholding and false information.

The Special Regulations require a company to employ an independent qualified firm of accountants to audit the company's annual report and review and check other financial reports. The accountant's term of office shall commence from the end of the annual general meeting of the company's shareholders and it shall expire on the end of the next annual general meeting of the company's shareholders.

Distribution of profits

According to the Company Law, the company shall not distribute profits before losses are covered and the statutory common reserve is drawn. Under the Mandatory Provisions, the payment of foreign currency to shareholders shall be made through a receiving agent.

Amendment of articles of association

Any amendments to the articles of association must be made in accordance with the procedures set forth in applicable laws, regulations and the articles of association. Any amendment of provisions incorporated in the articles of association in accordance with the Mandatory Provisions will only be effective after approval by the company's approval department authorized by the CSRC and the State Council and filed with the State Administration of Industry and Commerce or any of its local bureaus for registration. If the amendment to the articles of association falls to be registered and filed and has been adopted, the company must process registration of changes in accordance with applicable laws and regulations.

APPENDIX IV SUMMARY OF PRINCIPAL PRC AND HONG KONG LEGAL AND REGULATORY PROVISIONS

Dissolve and liquidation

According to the Company Law, a company shall be dissolved by reason of the following:

- (i) the term of its operations set down in the company's articles of association has expired or other events of dissolution specified in the company's articles of association have occurred;
- (ii) the shareholders in general meeting have resolved to dissolve the company;
- (iii) the company is dissolved by reason of its merger or demerger;
- (iv) the business license is invalidated; the operation is suspended, or the company is dissolved as ordered; or
- (v) the company is dissolved by the people's court in response to the request of shareholders holding shares that represent more than 10% of the voting rights of all shareholders of the company, on the grounds that the operation of the company experiences serious difficulties that cannot be resolved through other means, rendering ongoing existence of the company a source of significant losses for shareholders.

In the event of (i) above, the company may carry on its existence by amending its articles of association. The amendment of the articles of association in accordance with provisions set out in the previous paragraph shall require approval of shareholders holding more than two-thirds of voting rights in the case of companies with limited liability and more than two-thirds of voting rights of shareholders attending a shareholders' general meeting in the case of a joint stock limited company.

Where the company is dissolved in the circumstances described in (i), (ii), (iv) or (v) above, a liquidation committee shall be established and liquidation within fifteen days after the occurrence of an event of dissolution.

Members of the liquidation committee of a joint stock limited company shall be composed of its directors or the person appointed by the shareholders' general meeting. If a liquidation committee is not established within the stipulated period, the company's creditors can apply to the people's court, requesting the court to appoint relevant personnel to form the liquidation committee. The people's court should accept such application and form a liquidation committee to conduct a liquidation in a timely manner.

APPENDIX IV SUMMARY OF PRINCIPAL PRC AND HONG KONG LEGAL AND REGULATORY PROVISIONS

The liquidation committee shall exercise the following powers during the liquidation period:

- (i) to handle the company's assets and to prepare a balance sheet and an inventory of the assets;
- (ii) to notify creditors or issue public notices;
- (iii) to deal with the company's outstanding businesses related to liquidation;
- (iv) to pay any tax overdue as well as tax amounts arising from the process of liquidation;
- (v) claiming credits and paying off debts;
- (vi) to handle the surplus assets of the company after its debts have been paid off; and
- (vii) to represent the company in civil lawsuits.

The liquidation committee shall notify the company's creditors within ten days after its establishment, and issue public notices in the newspapers within sixteen days. A creditor shall lodge his claim with the liquidation committee within thirty days after receiving notification, or within forty-five days of the public notice if he did not receive any notification. A creditor shall state all matters relevant to his creditor rights in making his claim and furnish evidence. The liquidation committee shall register such creditor rights. The liquidation committee shall not make any debt settlement to creditors during the period of claim.

Upon liquidation of the company's properties and the preparation of the balance sheet and inventory of assets, the liquidation committee shall draw up a liquidation plan to be submitted to the shareholders' meeting, shareholders' general meeting or people's court for endorsement.

The remaining assets of the company after payment of liquidation expenses, wages, social insurance expenses and statutory compensation, outstanding taxes and the company's debt shall be distributed to shareholders according to their proportion of capital contribution in the case of companies with limited liability and according to shareholding proportion in the case of joint stock limited companies. The company shall continue to exist during the liquidation period, although it can only engage in any operating activities that are related to the liquidation. The company's properties shall not be distributed to the shareholders before repayment are made in accordance to the foregoing provisions.

Upon liquidation of the company's properties and the preparation of the balance sheet and inventory of assets, if the liquidation committee becomes aware that the company does not have sufficient assets to meet its liabilities, it must immediately apply to the people's court for a declaration for bankruptcy.

APPENDIX IV SUMMARY OF PRINCIPAL PRC AND HONG KONG LEGAL AND REGULATORY PROVISIONS

Following such declaration, the liquidation committee shall hand over all affairs of the liquidation to the people's court.

Upon completion of the liquidation, the liquidation committee shall submit a liquidation report to the shareholders' meeting, shareholders' general meeting or the court for verification. Thereafter, the report shall be submitted to the company's registration authority in order to cancel the company's registration, and a public notice of its termination shall be issued. Members of the liquidation committee are required to discharge their duties honestly and in compliance with the relevant laws. Members of the liquidation committee shall be prohibited from making of their powers to accept bribes or other unlawful income and from appropriating the company's properties.

A member of the liquidation committee is liable to indemnify the company and its creditors in respect of any loss arising from his willful or material default.

Securities Law and Regulations and Regulatory Regimes

Since 1992, the PRC has promulgated a number of regulations in relation to the issue and trading of shares and disclosure of information. In October 1992, the Securities Commission and the CSRC were established under the State Council. The Securities Commission is responsible for coordinating the drafting of relevant laws and regulations on securities, formulating policies on securities affairs, planning the development of securities markets and guiding, coordinating and regulating all PRC institutions involved in securities affairs and supervising the CSRC. The CSRC is the regulatory and execution arm of the Securities Commission and is responsible for drafting regulations governing the securities market, supervising securities companies, regulating the domestic and overseas public issue of securities by PRC companies, supervising securities trading, compiling securities related statistics and conducted research and analysis. In 1998, the State Council decided to cancel the Securities Commission of the State Council and the functions of the Securities Commission was assumed by the CSRC.

On December 25, 1995, the State Council promulgated the Regulations of the State Council Concerning Domestic Listed Foreign Shares of Joint Stock Limited Companies. These regulations deal mainly with the issue, subscription, trading, declaration of dividends and other distributions of domestic listed foreign shares and the disclosure of information of joint stock limited companies having domestic listed foreign shares.

On December 29, 1998, the Standing Committee of the NPC promulgated the Securities Law which came into effect on July 1, 1999. This is the first national securities law in the PRC and is the fundamental law comprehensively regulating activities in the PRC securities market. On August 28, 2004 and October 27, 2005, the Securities Law was respectively revised twice. The Securities Law is applicable to the issuance and trading in the PRC of shares, company bonds and other securities designated by the State Council according to law, and provisions of the issuance and transaction of securities, acquisitions of listed companies, stock exchanges, security companies and the duties and responsibilities of securities regulatory authority under the State Council, etc.

APPENDIX IV SUMMARY OF PRINCIPAL PRC AND HONG KONG LEGAL AND REGULATORY PROVISIONS

Where the Securities Law does not apply, the provisions of the Company Law and other applicable laws and administrative regulations will apply.

Anti-money Laundering Regulation

The “Anti-money Laundering Law of the PRC” (《中華人民共和國反洗錢法》), which became effective on January 1, 2007, sets out the responsibilities of the relevant financial regulatory authorities regarding anti-money laundering, including participating in the formulation of the rules and regulations regarding anti-money laundering activities of the financial institutions which they regulate and requiring financial institutions to establish sound internal control systems regarding anti-money laundering.

To facilitate the implementation of the “Anti-money Laundering Law of the PRC,” PBOC promulgated the “Provisions on Anti-money Laundering of Financial Institutions” (《金融機構反洗錢規定》) which became effective on January 1, 2007. According to those regulations, PRC financial institutions are required to establish an internal anti-money laundering procedure and either establish an independent anti-money laundering department or designate a relevant department to implement their anti-money laundering procedures.

PRC financial institutions are required to establish a customer identification system in accordance with the “Measures on the Administration of Identification of Clients and Preservation of Client Identities Information and Trading Records of Financial Institutions” (《金融機構客戶身份識別和客戶身份資料及交易記錄保存管理辦法》) promulgated jointly by PBOC, CBRC, CSRC and CIRC which became effective on August 1, 2007. PRC financial institutions are also required to record the identities of all customers and the information relating to each transaction, and keep retail transaction documents and books.

In accordance with the “Administrative Measures for the Financial Institutions’ Report of Large-sum Transactions and Doubtful Transactions” (《金融機構大額交易和可疑交易報告管理辦法》) promulgated by PBOC which became effective on March 1, 2007, upon the detection of any suspicious transactions or transactions involving large amounts, PRC financial institutions are required to report the transactions to PBOC or SAFE, as applicable. Where necessary and pursuant to appropriate judicial proceedings, PRC financial institutions are required to cooperate with government authorities in preventing money laundering activities and in freezing assets. PBOC supervises and conducts on-site examinations of PRC financial institutions’ compliance with its anti-money laundering regulations, and may impose penalties for any violations thereof in accordance with the “Anti-money Laundering Law of the PRC.”

The “Measures on the Anti-money Laundering by Securities and Futures Industry” (《證券期貨業反洗錢工作實施辦法》) which was formulated by CSRC and has come into effect since October 1, 2010 further sets forth the anti-money laundering rules of the securities and futures sectors and the anti-money laundering obligations which have to be met by institutions engaged in sales of funds. An institution engaged in securities and futures operation should establish a sound internal control system against money laundering.

APPENDIX IV SUMMARY OF PRINCIPAL PRC AND HONG KONG LEGAL AND REGULATORY PROVISIONS

Foreign Exchange Control

The State Administration of Foreign Exchange (“SAFE”) promulgated the “Notice of SAFE on the Relevant Issues concerning Foreign Exchange Administration of Foreign Investment by Funds Management Companies and Securities Companies” (《國家外匯管理局關於基金管理公司和證券公司境外證券投資外匯管理有關問題的通知》) on September 29, 2009, which regulates the exchange control for investments in overseas securities by domestic fund management companies and securities companies. For securities operating institutions which possess the qualification to engage in foreign exchange business to conduct investments in overseas securities, they shall apply to SAFE for investment quotas; SAFE adopts the method of quota balance in managing the investment quotas, the net amount remitted by a securities operating institution shall not exceed the approved investment quota, a securities institution are not allowed to transfer or sell its investment quota to other institutions in any form; a securities operating institution may raise foreign exchange funds from the domestic investors, or it may raise capital in RMB from the domestic investors to purchase foreign currency for investments in overseas securities, domestic investors are not allowed to purchase the relevant products issued by securities operating institutions with foreign currencies; a securities company shall, within seven working days after establishment of each product, report to SAFE the situations such as the actual size and source of funds of the product, a securities operating institution shall, within seven working days after the end of each month, report to SAFE the aggregate data on overseas securities investments by that institution, a domestic custodian shall, within seven working days after the end of each month, report to SAFE the relevant data for investments in overseas securities by the securities operating institutions under the custody. Securities operating institutions and domestic custodians shall discharge their declaration responsibilities in accordance with the relevant provisions of the declaration of international balance of payment statistics.

In accordance with the “Provisions on the Foreign Exchange Administration of Domestic Securities Investments by Qualified Foreign Institutional Investors” (《合格境外機構投資者境內證券投資外匯管理規定》) which entered into force on September 29, 2009, the administration of quota on domestic securities investments by QFIIs has been implemented. The investment quota applied for by a QFII shall be worth no less than USD50 million each time, with the accumulative investment quota not exceeding USD1 billion and the aforesaid quota may be subject to adjustment. A QFII shall not file another application for increase of investment quota within one year after the approval of the previous investment quota. The lock-in period for deposit for the QFIIs of such types as pension fund, insurance fund, common fund, charity fund, donation fund and government and currency administration and the open-ended Chinese fund established by QFIIs shall be three months; and that of deposit for other QFIIs one year. A custodian should go through a filing in the foreign exchange bureau where the custodian is domiciled within five working days upon the opening of the QFII foreign exchange account and the special RMB account, submit the official custody agreement to SAFE and receive the “Foreign Exchange Registration Certificate” (《外匯登記證》) for the QFII. The “Provisions on the Foreign Exchange Administration of Domestic Securities Investments by Qualified Foreign Institutional Investors” has also listed out details regarding QFII account management, currency exchange management as well as statistics and supervision issues.

APPENDIX IV SUMMARY OF PRINCIPAL PRC AND HONG KONG LEGAL AND REGULATORY PROVISIONS

Regulation of Listed Companies

As our A Shares have been listed on the Shanghai Stock Exchange since 2007, we are subject to the Securities Law of the PRC and the Shanghai Listing Rules. The Shanghai Listing Rules regulate share listing and information disclosure by the listed companies, including us, and seek to maintain the orderly operation of the stock exchange market and protect the interests of the investors. As a company with A Shares listed on the Shanghai Stock Exchange, we are subject to a number of obligations under the Shanghai Listing Rules, including:

- Publishing annual, semiannual and quarterly reports;
- Disclosing all information that may have a material impact upon our share price;
- Making announcements in relation to certain corporate matters; and
- Appointing a secretary to the board of directors, who is responsible for, among other things, certain corporate administration matters and information disclosure matters.

HONG KONG LAWS AND REGULATIONS

(a) Company Law

The Hong Kong law applicable to a company having share capital incorporated in Hong Kong is based on the Companies Ordinance and is supplemented by common law. Our Company, which is a joint stock limited liability company established in the PRC, is governed by the Company Law and all other rules and regulations promulgated pursuant to the Company Law applicable to a joint stock limited liability company established in the PRC issuing overseas listed foreign shares to be listed on the Hong Kong Stock Exchange.

Set out below is a summary of the material differences between the Companies Ordinance applicable to a company incorporated in Hong Kong and the Company Law applicable to a joint stock limited liability company incorporated and existing under the Company Law. This summary is, however, not intended to be an exhaustive comparison:

(i) *Corporate existence*

Under Companies Ordinance, a company having share capital is incorporated by the Registrar of Companies in Hong Kong issuing a certificate of incorporation and upon its incorporation, a company will acquire an independent corporate existence. A company may be incorporated as a public company or a private company.

APPENDIX IV SUMMARY OF PRINCIPAL PRC AND HONG KONG LEGAL AND REGULATORY PROVISIONS

Under the Company Law, a joint stock limited liability company may be incorporated by either the promotion method or the subscription method. A joint stock limited liability company must have a minimum registered capital of RMB5 million, or higher as may otherwise be required by the laws and regulations. Hong Kong law does not prescribe any minimum capital requirements for a Hong Kong company. Under the Company Law, the monetary contributions by all the shareholders must not be less than 30% of the registered capital. There is no such restriction on a Hong Kong company under Hong Kong law.

(ii) Share capital

Under Hong Kong law, the authorized share capital of a Hong Kong company is the amount of share capital which the company is authorized to issue and a company is not bound to issue the entire amount of its authorized share capital. For a Hong Kong company, the authorized share capital may be larger than the issued share capital. Hence, the directors of a Hong Kong company may, with the prior approval of the shareholders, if required, cause the company to issue new shares. The Company Law does not recognize the concept of authorized share capital. The registered capital of a joint stock limited liability company is the amount of the issued share capital. Any increase in registered capital must be approved by the shareholders in general meeting and by the relevant governmental and regulatory authorities in the PRC.

Under the Company Law, a company which is authorized by the relevant securities administration authority to list its shares on a stock exchange must have a registered capital of not less than RMB30 million. Hong Kong law does not prescribe any minimum capital requirements for companies incorporated in Hong Kong.

Under the Company Law, the shares may be subscribed for in the form of money or non-monetary assets (other than assets not entitled to be used as capital contributions under relevant laws and administrative regulations). For non-monetary assets to be used as capital contributions, appraisals and verification must be carried out to ensure no overvaluation or under-valuation of the assets. The monetary contribution shall not be less than 30% of a joint stock limited liability company's registered capital. There is no such restriction on a Hong Kong company under Hong Kong law.

(iii) Restrictions on shareholding and transfer of shares

Under PRC law, the domestic shares in the share capital of a joint stock limited liability company which are denominated and subscribed for in RMB may only be subscribed or traded by the State, PRC legal and natural persons. The overseas listed foreign shares issued by a joint stock limited liability company which are denominated in RMB and subscribed for in a currency other than RMB may only be subscribed and traded by investors from Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan or any country and territory outside the PRC.

APPENDIX IV SUMMARY OF PRINCIPAL PRC AND HONG KONG LEGAL AND REGULATORY PROVISIONS

Under the Company Law, shares in a joint stock limited liability company held by its promoters cannot be transferred within one year after the date of establishment of the company. Shares in issue prior to the company's public offering cannot be transferred within one year from the listing date of the shares on the Hong Kong Stock Exchange. Shares in a joint stock limited liability company held by its directors, supervisors and managers and transferred each year during their term of office shall not exceed 25% of the total shares they held in the company, and the shares they held in the company cannot be transferred within one year from the listing date of the shares, and also cannot be transferred within half a year after the said personnel has left office. The articles of association may set other restrictive requirements on the transfer of the company's shares held by its directors, supervisors and officers. There are no such restrictions on shareholdings and transfers of shares under Hong Kong law apart from the six-month lock up on the company's issue of shares and the 12-month lock up on controlling shareholders' disposal of shares, as illustrated by the undertakings given by our Company to the Hong Kong Stock Exchange as described in the section entitled "Underwriting" in this prospectus.

(iv) Financial assistance for acquisition of shares

The Company Law does not contain any provision prohibiting or restricting a joint stock limited liability company or its subsidiaries from providing financial assistance for the purpose of an acquisition of its own or its holding company's shares. The Mandatory Provisions contain certain restrictions on a company and its subsidiaries providing such financial assistance similar to those under Companies Ordinance.

(v) Variation of class rights

The Company Law makes no specific provision relating to variation of class rights. However, the Company Law states that the State Council can promulgate regulations relating to other kinds of shares. The Mandatory Provisions contain elaborate provisions relating to the circumstances which are deemed to be variation of class rights and the approval procedures required to be followed in respect thereof. These provisions have been incorporated in the Articles of Association, which are summarized in the appendix entitled "Appendix V – Summary of the Articles of Association" to this prospectus. Under Companies Ordinance, no rights attached to any class of shares can be varied except (i) with the approval of a special resolution of the holders of the relevant class at a separate meeting, (ii) with the consent in writing of the holders of three-fourths in nominal value of the issued shares of the class in question, (iii) by agreement of all the members of the company or (iv) if there are provisions in the articles of association relating to the variation of those rights, then in accordance with those provisions.

Our Company (as required by the Listing Rules and the Mandatory Provisions) have adopted in the Articles of Association provisions protecting class rights in a similar manner to those found in Hong Kong law. Holders of overseas listed shares and domestic listed shares are defined in the Articles of Association as different classes, except in the case of (i) where our

APPENDIX IV SUMMARY OF PRINCIPAL PRC AND HONG KONG LEGAL AND REGULATORY PROVISIONS

Company issues, upon the approval by special resolution of the Shareholders in general meeting, either separately or concurrently once every 12 months, not more than 20% of each of our existing issued domestic Shares or overseas-listed foreign-invested Shares; (ii) where our Company completes, with 15 months from the date on which approval is given by the securities regulatory authorities of the State Council, our plan (made at the time of our establishment) to issue domestic Shares and overseas-listed foreign-invested Shares; and (iii) where the Shares registered on our domestic Share register may be transferred to overseas investors, and such transferred Shares may be listed or traded on an overseas stock exchange, subject to the approval of the securities regulatory authorities of the State Council.

(vi) Directors

The Company Law, unlike Companies Ordinance, does not contain any requirements relating to the declaration of interests in material contracts, restrictions on interested directors being counted towards the quorum of and voting at a meeting of the board of directors at which a transaction in which a director is interested is being considered, restrictions on directors' authority in making major dispositions, restrictions on companies providing certain benefits such as loans to directors and guarantees in respect of directors' liability and prohibition against compensation for loss of office without shareholders' approval. The Mandatory Provisions, however, contain requirements and restrictions in relation to the foregoing matters similar to those applicable under Hong Kong law.

(vii) Supervisory committee

Under the Company Law, the board of directors and managers of a joint stock limited liability company is subject to the supervision and inspection of a supervisory committee but there is no mandatory requirement for the establishment of a supervisory committee for a company incorporated in Hong Kong. The Mandatory Provisions provide that each supervisor owes a duty, in the exercise of his powers, to act in good faith and honestly in what he considers to be in the best interests of the company and to exercise the care, diligence and skill that a reasonably prudent person would exercise under comparable circumstances.

(viii) Derivative action by minority shareholders

Hong Kong law permits minority shareholders to start a derivative action on behalf of a company against directors who have been guilty of a breach of their fiduciary duties to the company, if such directors control a majority of votes at a general meeting thereby effectively preventing a company from suing the directors in breach of their duties in its own name. The Company Law gives shareholders of a joint stock limited liability company the right that in the event that the directors and senior managers violate their fiduciary obligations to a company, shareholders individually or jointly holding over 1% of the shares in the company for more than 180 days consecutively may request in writing the supervisory committee to initiate proceedings in the people's court. In the event that the supervisory committee violates their fiduciary obligations to a company, the above said shareholders may request in writing the

APPENDIX IV SUMMARY OF PRINCIPAL PRC AND HONG KONG LEGAL AND REGULATORY PROVISIONS

board of directors to initiate proceedings in the people's court. Upon receipt of such request in writing from the shareholders, if the supervisory committee or the board of directors refuse to initiate such proceedings, or has not initiated proceedings within 30 days upon receipt of the request, or if under urgent situations, failure of initiating immediate proceeding may cause irreparable damages to the company, the above said shareholders shall for the benefit of the company's interests, have the right to initiate proceedings directly to the court in its own name.

The Mandatory Provisions further provide remedies to the company against directors, supervisors and officers in breach of their duties to the company. In addition, every director and supervisor of a joint stock limited liability company applying for a listing of its foreign shares on the Hong Kong Stock Exchange is required to give an undertaking in favor of the company to comply with the company's articles of association. This allows minority shareholders to act against directors and supervisors in default.

(ix) Protection of minorities

Under Hong Kong law, a shareholder who complains that the affairs of a company incorporated in Hong Kong are conducted in a manner unfairly prejudicial to his interests may petition to court to either wind up the company or make an appropriate order regulating the affairs of the company. In addition, on the application of a specified number of members, the Financial Secretary may appoint inspectors who are given extensive statutory powers to investigate the affairs of a company incorporated in Hong Kong. The Company Law does not contain similar safeguards. The Mandatory Provisions, however, contain provisions to the effect that a controlling shareholder may not exercise its voting rights in a manner prejudicial to the interests of the shareholders generally or of some part of the shareholders of a company to relieve a director or supervisor of his duty to act honestly in the best interests of the company or to approve the expropriation by a director or supervisor of the company's assets or the individual rights of other shareholders.

(x) Notice of shareholders' meetings

Under the Company Law, notice of a shareholders' general meeting must be given 20 days before the meeting, while notice of an extraordinary meeting must be given 15 days before the meeting or, in the case of a company having bearer shares, a public announcement of a shareholders' general meeting must be made 30 days prior to its being held. Under the Special Regulations and the Mandatory Provisions, 45 days' written notice must be given to all shareholders and shareholders who wish to attend the meeting must reply in writing 20 days before the date of the meeting. For a company incorporated in Hong Kong, the minimum notice periods of a general meeting convened for passing an ordinary resolution and a special resolution are 14 days and 21 days, respectively; and the notice period for an annual general meeting is 21 days.

APPENDIX IV SUMMARY OF PRINCIPAL PRC AND HONG KONG LEGAL AND REGULATORY PROVISIONS

(xi) Quorum for shareholders' meetings

Under Hong Kong law, the quorum for a general meeting is two members unless the articles of association of the company otherwise provide. For one member companies, one member will be a quorum. The Company Law does not specify any quorum requirement for shareholders' general meeting but the Special Regulations and the Mandatory Provisions provide that a company's general meeting can be convened when replies to the notice of that meeting have been received from shareholders whose shares represent 50% of the voting rights in the company at least 20 days before the proposed date of the meeting. If that 50% level is not achieved, the company shall within five days notify shareholders by public announcement and the shareholders' general meeting may be held thereafter.

(xii) Voting

Under Hong Kong law, an ordinary resolution is passed by a simple majority of votes cast by members present in person or by proxy at a general meeting and a special resolution is passed by a majority of not less than three fourths of votes cast by members present in person or by proxy at a general meeting. Under the Company Law, the passing of any resolution requires more than one half of the votes cast by shareholders present in person or by proxy at a shareholders' general meeting except in cases of proposed amendment to the articles of association, increase or reduction of share capital, and merger, demerger or dissolution of a joint stock limited liability company or changes to the company status, which require two-thirds or more of votes cast by shareholders present at a shareholders' general meeting.

(xiii) Financial disclosure

A joint stock limited liability company is required under the Company Law to make available at its office for inspection by shareholders its annual balance sheet, profit and loss account, changes in financial position and other relevant annexures 20 days before an annual general meeting. In addition, a company established by the public subscription method under the Company Law must publish its financial situation. The annual balance sheet has to be verified by registered accountants. The Companies Ordinance requires a company to send to every shareholder a copy of its balance sheet, auditors' report and directors' report which are to be tabled before the company in its annual general meeting not less than 21 days before such meeting.

A joint stock limited liability company is required under the PRC law to prepare its financial statements in accordance with the PRC accounting standards. The Mandatory Provisions require that the company must, in addition to preparing accounts according to the PRC GAAP, have its accounts prepared and audited in accordance with IFRS or Hong Kong accounting standards and its financial statements must also contain a statement of the financial effect of the material differences (if any) from the financial statements prepared in accordance with the PRC GAAP.

APPENDIX IV SUMMARY OF PRINCIPAL PRC AND HONG KONG LEGAL AND REGULATORY PROVISIONS

The Special Regulations require that there should not be any inconsistency between the information disclosed within and outside the PRC and that, to the extent that there are differences in the information disclosed in accordance with the relevant PRC and overseas laws, regulations and requirements of the relevant stock exchanges, such differences should also be disclosed simultaneously.

(xiv) Information on directors and shareholders

The Company Law gives shareholders the right to inspect the articles of association, minutes of the shareholders' general meetings and financial and accounting reports. Under the articles of association, shareholders have the right to inspect and copy (at reasonable charges) certain information on shareholders and on directors similar to that available to shareholders of Hong Kong companies under Hong Kong law.

(xv) Receiving agent

Under both the PRC and Hong Kong law, dividends once declared become debts payable to shareholders. The limitation period for debt recovery action under Hong Kong law is six years while that under the PRC law is two years. The Mandatory Provisions require the appointment of a trust company registered under the Hong Kong Trustee Ordinance (Chapter 29 of the Laws of Hong Kong) as a receiving agent to receive on behalf of holders of foreign shares dividends declared and all other monies owed by a joint stock limited liability company in respect of such foreign shares.

(xvi) Corporate reorganization

Corporate reorganization involving a company incorporated in Hong Kong may be effected in a number of ways, such as a transfer of the whole or part of the business or property of the company in the course of being wound up voluntarily to another company pursuant to section 237 of the Companies Ordinance or a compromise or arrangement between the company and its creditors or between the company and its members pursuant to section 166 of the Companies Ordinance which requires the sanction of the court. Under PRC law, the merger, demerger, dissolution or change to the status of a joint stock limited liability company has to be approved by shareholders in general meeting.

(xvii) Arbitration of disputes

In Hong Kong, disputes between shareholders and a company incorporated in Hong Kong or its directors may be resolved through the courts. The Mandatory Provisions provide that such disputes should be submitted to arbitration at either the HKIAC or the CIETAC, at the claimant's choice.

APPENDIX IV SUMMARY OF PRINCIPAL PRC AND HONG KONG LEGAL AND REGULATORY PROVISIONS

(xviii) Mandatory transfers

Under the Company Law, a joint stock limited liability company is required to make transfers equivalent to certain prescribed percentages of its after tax profit to the statutory common reserve fund. There are no such requirements under Hong Kong law.

(xix) Remedies of a company

Under the Company Law, if a director, supervisor or manager in carrying out his duties infringes any law, administrative regulation or the articles of association of a company, which results in damage to the company, that director, supervisor or manager should be responsible to the company for such damages. In addition, in compliance with the Mandatory Provisions, the Articles of Association set out remedies to the company similar to those available under Hong Kong law (including recovery of profits made by a director, supervisor or officer).

(xx) Dividends

The articles of association of a company empower the company to withhold, and pay to the relevant tax authorities, any tax payable under PRC law on any dividends or other distributions payable to a shareholder. Under Hong Kong law, the limitation period for an action to recover a debt (including the recovery of dividends) is six years, whereas under PRC laws, the relevant limitation period is two years. A company shall not exercise its powers to forfeit any unclaimed dividend in respect of its listed foreign shares until after the expiry of the applicable limitation period.

(xxi) Fiduciary duties

In Hong Kong, there is the common law concept of the fiduciary duty of directors. Under the Company Law and the Special Regulations, directors, supervisors, officers, and managers owe a fiduciary duty towards a company and are not permitted to engage in any activities which compete with or damage the interests of the company.

(xxii) Closure of register of shareholders

The Companies Ordinance requires that the register of shareholders of a company must not generally be closed for the registration of transfers of shares for more than 30 days (extendable to 60 days in certain circumstances) in a year, whereas the articles of association of a company provide, as required by the Company Law and the Mandatory Provisions, that share transfers may not be registered within 30 days before the date of a shareholders' meeting or within five days before the record date set for the purpose of distribution of dividends.

APPENDIX IV SUMMARY OF PRINCIPAL PRC AND HONG KONG LEGAL AND REGULATORY PROVISIONS

(b) Listing Rules

The Listing Rules provide additional requirements which apply to an issuer which is incorporated in the PRC as a joint stock limited liability company and seeks a primary listing or whose primary listing is on the Hong Kong Stock Exchange. Set out below is a summary of such principal additional requirements which apply to our Company:

(i) Compliance advisor

A company seeking listing on the Hong Kong Stock Exchange is required to appoint a compliance advisor acceptable to the Hong Kong Stock Exchange for the period from its listing date up to the date of the publication of its first full year's financial results, to provide the company with professional advice on continuous compliance with the Listing Rules and all other applicable laws, regulations, rules, codes and guidelines, and to act at all times, in addition to the company's two authorized representatives, as the principal channel of communication with the Hong Kong Stock Exchange. The appointment of the compliance advisor may not be terminated until a replacement acceptable to the Hong Kong Stock Exchange has been appointed.

If the Hong Kong Stock Exchange is not satisfied that the compliance advisor is fulfilling its responsibilities adequately, it may require the company to terminate the compliance advisor's appointment and appoint a replacement.

The compliance advisor must keep the company informed on a timely basis of changes in the Listing Rules and any new or amended law, regulation or code in Hong Kong applicable to the company. It must act as the company's principal channel of communication with the Hong Kong Stock Exchange if the authorized representatives of the company are expected to be frequently outside Hong Kong.

(ii) Accountants' report

The accountant's report must normally be drawn up in conformity with: (a) Hong Kong Financial Reporting Standards (HKFRS); or (b) International Financial Reporting Standards (IFRS); or (c) China Accounting Standards for Business Enterprises (CASBE) in the case of a PRC issuer that has adopted CASBE for the preparation of its annual financial statements.

(iii) Process agent

Our Company is required to appoint and maintain a person authorized to accept service of process and notices on its behalf in Hong Kong throughout the period during which its securities are listed on the Hong Kong Stock Exchange and must notify the Hong Kong Stock Exchange of his appointment, the termination of his appointment and his contact particulars.

APPENDIX IV SUMMARY OF PRINCIPAL PRC AND HONG KONG LEGAL AND REGULATORY PROVISIONS

(iv) Public shareholdings

If at any time there are existing issued securities of a PRC issuer other than foreign shares which are listed on the Hong Kong Stock Exchange, the Listing Rules require that the aggregate amount of H shares and other securities held by the public must constitute not less than 25% of the PRC issuer's issued share capital and that the class of securities for which listing is sought must not be less than 15% of the issuer's total issued share capital, having an expected market capitalization at the time of listing of not less than HK\$50 million.

The Hong Kong Stock Exchange may, at its discretion, accept a lower percentage of between 15% and 25% in the case of issuers with an expected market capitalization at the time of listing of over HK\$10,000 million.

(v) Independent non-executive directors and supervisors

The independent non-executive directors of a PRC issuer are required to demonstrate an acceptable standard of competence and adequate commercial or professional expertise to ensure that the interests of the general body of shareholders will be adequately represented. The supervisors of a PRC issuer must have the character, expertise and integrity and be able to demonstrate a standard of competence commensurate with their position as supervisors.

(vi) Restrictions on purchase and subscription of its own securities

Subject to governmental approvals and the provisions of the Articles of Association, our Company may repurchase our own H shares on the Hong Kong Stock Exchange in accordance with the provisions of the Listing Rules. Approval by way of special resolution of the holders of domestic Shares and the holders of H Shares at separate class meetings conducted in accordance with the Articles of Association is required for share repurchases. In seeking approvals, our Company is required to provide information on any proposed or actual purchases of all or any of our equity securities, whether or not listed or traded on the Hong Kong Stock Exchange. The Directors must also state the consequences of any purchases which will arise under either or both of the Code on Takeovers and Mergers and any similar PRC law of which they are aware, if any. Any general mandate given to the Directors to repurchase H shares must not exceed 10% of the total amount of existing issued H Shares.

(vii) Mandatory provisions

With a view to increasing the level of protection afforded to investors, the Hong Kong Stock Exchange requires the incorporation, in the articles of association of a PRC company whose primary listing is on the Hong Kong Stock Exchange, of the Mandatory Provisions and provisions relating to the change, removal and resignation of auditors, class meetings and the conduct of the supervisory committee of the company. Such provisions have been incorporated into the Articles of Association, a summary of which is set out in the appendix entitled "Appendix V – Summary of the Articles of Association" to this prospectus.

APPENDIX IV SUMMARY OF PRINCIPAL PRC AND HONG KONG LEGAL AND REGULATORY PROVISIONS

(viii) Redeemable Shares

Our Company must not issue any redeemable Shares unless the Hong Kong Stock Exchange is satisfied that the relative rights of the holders of the H Shares are adequately protected.

(ix) Pre-emptive rights

Except in the circumstances mentioned below, the Directors are required to obtain the approval by a special resolution of Shareholders in general meeting, and the approvals by special resolutions of the holders of domestic Shares and H Shares (each being otherwise entitled to vote at general meetings) at separate class meetings conducted in accordance with the Articles of Association, prior to authorizing, allotting, issuing or granting shares or securities convertible into shares, or options, warrants or similar rights to subscribe for any shares or such convertible securities.

No such approval will be required under the Listing Rules, but only to the extent that, the existing Shareholders of our Company have by special resolution in general meeting given a mandate to the Directors, either unconditionally or subject to such terms and conditions as may be specified in the resolution, to authorize, allot or issue, either separately or concurrently once every 12 months, not more than 20% of the existing domestic Shares and H Shares as of the date of the passing of the relevant special resolution or of such Shares that are part of our plan at the time of our establishment to issue domestic Shares and H Shares and which plan is implemented within 15 months from the date of approval by the CSRC.

(x) Supervisors

Our Company is required to adopt rules governing dealings by the Supervisors in securities of our Company in terms no less exacting than those of the model code (set out in Appendix 10 to the Listing Rules) issued by the Hong Kong Stock Exchange.

Our Company is required to obtain the approval of the Shareholders in a general meeting (at which the relevant Supervisor and his associates shall not vote on the matter) prior to our Company or any of our subsidiaries entering into a service contract of the following nature with a Supervisor or proposed Supervisor of our Company or our subsidiaries: (i) the contract is for a duration that may exceed three years; or (ii) the contract expressly requires our Company to give more than one year's notice or to pay compensation or make other payments equivalent to more than one year's emoluments.

APPENDIX IV SUMMARY OF PRINCIPAL PRC AND HONG KONG LEGAL AND REGULATORY PROVISIONS

The remuneration committee of our Company or an independent board committee must form a view in respect of service contracts that require Shareholders' approval and advise Shareholders (other than shareholders with a material interest in the service contracts and their associates) as to whether the terms are fair and reasonable, advise whether such contracts are in the interests of our Company and the Shareholders as a whole and advise Shareholders on how to vote.

(xi) Amendment to the Articles of Association

Our Company is required not to permit or cause any amendment to be made to the Articles of Association which would cause the same to cease to comply with the mandatory provisions of the Listing Rules relating to such Articles of Association.

(xii) Documents for inspection

Our Company is required to make available at a place in Hong Kong for inspection by the public and shareholders free of charge, and for copying by Shareholders at reasonable charges of the following:

- a complete duplicate register of Shareholders;
- a report showing the state of the issued share capital of our Company;
- our Company's latest audited financial statements and the reports of the Directors, auditors and Supervisors (if any) thereon;
- special resolutions of our Company;
- reports showing the number and nominal value of securities repurchased by our Company since the end of the last financial year, the aggregate amount paid for such securities and the maximum and minimum prices paid in respect of each class of securities repurchased (with a breakdown between A Shares and H Shares); and
- for Shareholders only, copies of minutes of meetings of Shareholders.

(xiii) Receiving agents

Our Company is required to appoint one or more receiving agents in Hong Kong and pay to such agent(s) dividends declared and other monies owing in respect of the H Shares to be held, pending payment, in trust for the holders of such H Shares.

**APPENDIX IV SUMMARY OF PRINCIPAL PRC AND HONG KONG
LEGAL AND REGULATORY PROVISIONS**

(xiv) Statements in share certificates

Our Company is required to ensure that all of our listing documents and share certificates include the statements stipulated below and to instruct and cause each of our Share registrars not to register the subscription, purchase or transfer of any of our Shares in the name of any particular holder unless and until such holder delivers to such Share registrar a signed form in respect of such Shares bearing statements to the following effect that the acquirer of the Shares:

- agrees with our Company and each Shareholder of our Company, and our Company agrees with each Shareholder of our Company, to observe and comply with the Company Law, the Special Regulations, the Articles of Association and other relevant laws and administrative regulations;
- agrees with our Company, each Shareholder, Director, Supervisor, manager and officer of our Company, and our Company acting for itself and for each Director, Supervisor, manager and officer of our Company agrees with each Shareholder, to refer all differences and claims arising from the Articles of Association or any rights or obligations conferred or imposed by the Company Law or other relevant laws and administrative regulations concerning the affairs of our Company to arbitration in accordance with the Articles of Association, and any reference to arbitration shall be deemed to authorize the arbitration tribunal to conduct hearings in open session and to publish its award. Such arbitration shall be final and conclusive;
- agrees with our Company and each Shareholder of our Company that the H Shares are freely transferable by the holder thereof; and
- authorizes our Company to enter into a contract on his behalf with each Director and officer of our Company whereby each such Director and officer undertakes to observe and comply with his obligation to Shareholders as stipulated in the Articles of Association.

(xv) Compliance with the Company Law, the Special Regulations and the Articles of Association

Our Company is required to observe and comply with the Company Law, the Special Regulations and the Articles of Association.

APPENDIX IV SUMMARY OF PRINCIPAL PRC AND HONG KONG LEGAL AND REGULATORY PROVISIONS

(xvi) Contract between our Company and its Directors, officers and Supervisors

Our Company is required to enter into a contract in writing with every Director and officer containing at least the following provisions:

- an undertaking by the Director or officer to our Company to observe and comply with the Company Law, the Special Regulations, the Articles of Association, the Codes on Takeovers and Mergers and Share Repurchases and an agreement that our Company shall have the remedies provided in the Articles of Association and that neither the contract nor his office is capable of assignment;
- an undertaking by the Director or officer to our Company acting as agent for each Shareholder to observe and comply with his obligations to Shareholders as stipulated in the Articles of Association;
- an arbitration clause which provides that whenever any differences or claims arise from that contract, the Articles of Association or any rights or obligations conferred or imposed by the Company Law or other relevant law and administrative regulations concerning the affairs of our Company between our Company and the Directors or officers and between a holder of H Shares and a Director or officer of our Company, such differences or claims will be referred to arbitration at either the CIETAC in accordance with its rules or the HKIAC in accordance with its securities arbitration rules, at the election of the claimant and that once a claimant refers a dispute or claim to arbitration, the other party must submit to the arbitral body elected by the claimant. Such arbitration will be final and conclusive;
- if the party seeking arbitration elects to arbitrate the dispute or claim at HKIAC, then either party may apply to have such arbitration conducted in Shenzhen according to the securities arbitration rules of HKIAC;
- PRC laws shall govern the arbitration of disputes or claims referred to above, unless otherwise provided by law or administrative regulations;
- the award of the arbitral body is final and shall be binding on the parties thereto;
- the agreement to arbitrate is made by the Director or officer with our Company on our own behalf and on behalf of each Shareholder; and
- any reference to arbitration shall be deemed to authorize the arbitral tribunal to conduct hearings in open session and to publish its award.

Our Company is also required to enter into a contract in writing with every Supervisor containing statements in substantially the same terms.

APPENDIX IV SUMMARY OF PRINCIPAL PRC AND HONG KONG LEGAL AND REGULATORY PROVISIONS

(xvii) Subsequent listing

Our Company must not apply for the listing of any of the H shares on a PRC stock exchange unless the Hong Kong Stock Exchange is satisfied that the relative rights of the holders of foreign Shares are adequately protected.

(xviii) English translation

All notices or other documents required under the Listing Rules to be sent by our Company to the Hong Kong Stock Exchange or to holders of the H Shares are required to be in the English language, or accompanied by a certified English translation.

(xix) General

If any change in the PRC law or market practices materially alters the validity or accuracy of any of the basis upon which the additional requirements have been prepared, then the Hong Kong Stock Exchange may impose additional requirements or make listing of the equity securities of a PRC issuer, including our Company, subject to special conditions as the Hong Kong Stock Exchange considers appropriate. Whether or not any such changes in the PRC law or market practices occur, the Hong Kong Stock Exchange retains its general power under the Listing Rules to impose additional requirements and make special conditions in respect of the Listing.

(c) Other Legal and Regulatory Provisions

Upon the Listing, the provisions of the SFO, the Codes on Takeovers and Mergers and Share Repurchases and such other relevant ordinances and regulations as may be applicable to companies listed on the Hong Kong Stock Exchange will apply to our Company.

(d) Securities Arbitration Rules

The Articles of Association provide that certain claims arising from the Articles of Association or the Company Law shall be arbitrated at either the CIETAC or the HKIAC in accordance with their respective rules. The securities arbitration rules of the HKIAC contain provisions allowing an arbitral tribunal to conduct a hearing in Shenzhen for cases involving the affairs of companies incorporated in the PRC and listed on the Hong Kong Stock Exchange so that PRC parties and witnesses may attend. Where any party applies for a hearing to take place in Shenzhen, the tribunal shall, where satisfied that such application is based on bona fide grounds, order the hearing to take place in Shenzhen conditional upon all parties including witnesses and the arbitrators being permitted to enter Shenzhen for the purpose of the hearing. Where a party (other than a PRC party) or any of its witnesses or any arbitrator is not permitted to enter Shenzhen, then the tribunal shall order that the hearing be conducted in any practicable manner, including the use of electronic media. For the purpose of the securities arbitration rules, a PRC party means a party domiciled in the PRC.

Set out below is a summary of the principal provisions of the Articles of Association of the Company, the principal objective of which is to provide an overview of the Articles of Association of the Company. As the information contained below is only a summary, it does not contain all the information that may be important.

1. EFFECTIVE DAY OF THE ARTICLES OF ASSOCIATION OF THE COMPANY

This Articles were adopted by a special resolution on the general meeting, and will be effective on the day of the Company’s Overseas listed Foreign Shares (H Shares) being listed on The Stock Exchange of Hong Kong Limited (hereinafter referred as “Hong Kong Stock Exchange”). Upon the effective day of the Articles, the existing Articles of the Company and amendments thereto will lapse automatically.

2. ISSUANCE OF SHARES

The Company shall create ordinary shares at all times; and if needed, upon approval being granted by the authorities authorized by the State Council, the Company may create shares of other classes.

Shareholders of different classes of the Company rank *pari passu* over dividends or any forms of distribution.

The Company shall issue Shares under the principles of openness, fairness and equity, and Shares of the same class shall carry same rights.

The issue conditions and price per Shares of the same class in the same issue shall be the same; and every Shares purchased by any entity or individual shall be at the same price.

All shares issue by the Company have a par value of RMB1 per Share.

The Company may, upon obtaining approval from the securities regulatory authority under the State Council or other relevant regulatory authorities, issue Shares to domestic investors and overseas investors.

The Company or its subsidiaries (including its affiliates) shall not give any financial assistance, in the form of gift, advance, guarantee, compensation, loan, etc., to person who acquires or proposes to acquire shares of the Company.

3. INCREMENT AND REDUCTION OF CAPITAL AND REPURCHASE OF SHARES**(a) Increment of Capital**

The Company may, based on its requirements for operation and development and in accordance with the relevant provisions of the laws and regulations, having obtained the approval of the shareholder's general meeting, increase its capital by way of:

- (i) offer of new shares to investors not particularly designated;
- (ii) non-open offer of Shares;
- (iii) place new shares to its existing shareholders;
- (iv) bonus issue of new shares to existing shareholders;
- (v) transfer of capital reserve fund into capital;
- (vi) any other way permitted by laws, administrative regulations and relevant regulatory authorities.

After obtaining the approval required by this Articles, the Company can issue Shares to increase its capital pursuant to the laws and administrative regulations of the PRC.

(b) Reduction of Capital

The Company may reduce its registered capital. The reduction of registered capital should be made in accordance with the Company Law and any other relevant requirements as well as procedures stipulated in this Articles.

When the Company proposes of reducing its registered capital, it must draw up a balance sheet and an inventory of assets.

The Company shall notify its creditors within 10 days of the date of the resolution authorizing the reduction of capital, and publish a public notice in newspapers within 30 days of that date. Creditors shall, within 30 days of receiving the notice or 45 days of the first publication of the public notice (for those who have not received a notification), have a right to require the Company to settle its debts or to offer corresponding guarantees for their settlement.

The registered capital of the Company following the reduction of capital shall not fall below the minimum statutory requirement.

(c) Repurchase of Shares

The Company may, according to the provisions of the relevant laws, administrative regulations, departmental rules and the Articles, repurchase its shares under the following circumstances:

- (i) to reduce registered capital of the Company;
- (ii) to merge with another company that holds shares in the Company;
- (iii) to grant shares to employees of the Company as incentives;
- (iv) to acquire shares held by shareholders (upon their request) who vote against any resolution proposed in any shareholders' general meeting on the merger or division of the Company;
- (v) other circumstances as permitted by laws and administrative regulations.

The Company shall not engage in the trading of its shares save for the circumstances specified above.

The Company may conduct the repurchase in one of the following manners:

- (i) an offer to repurchase made to all shareholders in equal proportions;
- (ii) to repurchase through open transactions in stock exchanges;
- (iii) to repurchase through off-market agreements outside a stock exchange;
- (iv) other means as permitted by laws of PRC, administrative regulations and other relevant competent authorities.

Where the Company repurchases its shares through off-market agreements outside a stock exchange, it shall seek prior approval of the shareholders at the shareholders' general meeting in accordance with the Articles. The Company may release or vary a contract so entered into by the Company or waive its rights thereunder with prior approval by shareholders at shareholders' general meeting obtained in the same manner.

The contract to repurchase shares as referred to in the preceding paragraph includes, but not limited to, an agreement to become obliged to repurchase or to acquire the right to repurchase shares.

The Company shall not assign a contract for repurchasing its shares or any of its right thereunder.

In respect of the redeemable shares that the Company has the rights to repurchase, if the repurchases are not made on the market or by an offer, the prices shall be limited to a maximum price; if repurchases are made by an offer, such offer should be made available to all shareholders equally.

Shares repurchased in accordance with the laws by the Company shall be canceled within the period prescribed by laws and administrative regulations, and the Company shall apply to the original company registration authority for registration of the change of its registered share capital.

The amount of the Company's registered share capital shall be reduced by the aggregate par value of those canceled shares.

Except where the Company is in the course of liquidation, it must comply with the following provisions in repurchasing its own issued shares:

- (i) Where the Company repurchases its shares at their par value, the amount of the total par value shall be deducted from the Company's distributable profits or out of the proceeds of a fresh issue of shares made for that purpose;
- (ii) Where the Company repurchases its shares at a premium, an amount equivalent to their total par value shall be deducted from the distributable profits of the Company or out of the proceeds of a fresh issue of shares made for that purpose. Payment of the portion in excess of their par value shall be effected as follows:
 - (a) if the shares being repurchased were issued at their par value, payment shall be made out of distributable profits of the Company;
 - (b) if the shares being repurchased were issued at a premium, payment shall be made out of distributable profits of the Company or the proceeds of a fresh issue of shares made for that purpose, provided that the amount paid out of the proceeds of the fresh issue may not exceed the aggregate of premiums received by the Company on the issue of the shares repurchased or the current balance of the Company's capital common reserve account (inclusive of the premiums from the fresh issue);
- (iii) Payment by the Company in consideration for:
 - (a) the acquisition of rights to repurchase shares;
 - (b) the variation of any contract to repurchase shares;
 - (c) the release of any obligation under any contract to repurchase shares;shall be made out of the Company's distributable profits;
- (iv) To the extent that shares are repurchased out of an amount deducted from the distributable profits of the Company, the amount of the Company's registered capital reduced under the relevant requirements shall be transferred to the Company's capital reserve account.

Where the laws, regulations, rules, regulatory documents and relevant requirements of the securities regulatory authorities in the place where the Company's shares are listed have any other provisions in respect of the finance arrangement related to the aforesaid shares repurchase, such provisions shall prevail.

4. TRANSFER OF SHARES

Unless otherwise provided by PRC laws, administrative regulations and relevant requirements of the securities regulatory authorities in the place where the Company's shares are listed, the shares of the Company may be transferred freely without any lien being attached. Transfer of overseas listed foreign shares listed in Hong Kong requires to be registered by the share registrar in Honk Kong entrusted by the Company.

The Company will not accept any pledge with its own shares as the subject.

Shares of the Company held by promoters are not allowed to transfer within a year from the date of the establishment of the Company.

The transfer of Shares issued before the initial public offering of the Company shall be made compliance with the laws, administrative regulations and relevant requirements of the Listing Rules. The transfer of more than 5% of the Company's shares shall be made in accordance with the laws, administrative regulations, regulatory documents and relevant requirements of the Listing Rules. Directors, Supervisors and other senior management members of the Company shall report to the Company their shareholdings in the Company and changes therein and shall not transfer in a given year during their terms of office more than 25% of the total number of shares of the Company which they hold, save and except changes in shareholdings caused by judicial enforcement, inheritance, bequest and legal division of assets; the shares of the Company held by them shall not be transferred within one year from the first day on which the shares of the Company are listed and traded. The aforesaid persons shall not transfer the shares of the Company held by them within six months from the date of their leaving the Company.

Where any Director, Supervisor, senior management members or shareholder holding 5% or above of the Company's shares in issue sell his shares in the Company within a period 6 months after their purchase, or purchase shares in the Company again within a period of 6 months after their disposal, the gains so earned shall belong to the Company, and the Board of Directors of the Company may forfeit such gains for the benefit of the Company. However, if a securities company holds 5% or more of the Company's shares as a result of its underwriting of the untaken shares in an offer, the sales of those shares shall not be under the said 6- month restriction.

If the Board does not act in accordance with the provisions of the above paragraph, shareholders shall have the right to request the Board to take action within 30 days from the date of request. If the Board does not take such action within the said period, then the shareholders shall be entitled to commence proceedings with the People's Court directly in their own names for the benefit of the Company.

APPENDIX V SUMMARY OF THE ARTICLES OF ASSOCIATION

Where the Board does not act in accordance with the provisions of the first paragraph of this Article, the responsible directors shall assume joint and several liability.

All fully paid overseas listed foreign shares listed on the Hong Kong Stock Exchange may be transferred freely in accordance with this Articles. However, the Board may refuse to recognize any instrument of transfer without stating any reasons unless the following conditions are satisfied:

- (i) instrument of transfer and any other documents related to the title of any Shares or may affect the title of any Shares shall be registered, and made payment to the Company for such registration according to the expenses stipulated by the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (hereinafter referred to as the “Hong Kong Listing Rules”);
- (ii) the instrument of transfer only involves the overseas listed foreign shares listed on the Hong Kong Stock Exchange;
- (iii) the stamp duty required by the law of Hong Kong for the instrument of transfer being paid;
- (iv) the relevant share certificates and evidence reasonably required by the Board showing that the transferor has the right to transfer such shares have been provided;
- (v) if the shares are to be transferred to joint holders, the number of joint registered shareholders shall not exceed four;
- (vi) the relevant Shares of the Company are free from all liens.

If the Board refuses to register the transfer of shares, the Company shall deliver a notification related to the refusal of shares transfer to the transferor and transferee within 2 months from the date of the application for transferring the Shares.

All transfers of overseas listed foreign shares listed in Hong Kong shall be effected by instruments of transfer in writing in an ordinary or usual form or in any other form acceptable to the Board (including the standard transfer format or form of transfer specified by Hong Kong Stock Exchange from time to time); The instruments of transfer may be signed by hand only or (where the transferor or transferee is a corporation) by the company’s seal. Where the transferor or transferee is a recognized clearing house (“Recognized Clearing House”) (as defined by relevant regulations in Hong Kong laws from time to time) or its nominee, the form of transfer may be signed by hand or in a machine-imprinted format.

All instruments of transfer shall be maintained at the legal address of the Company or such places as the Board may specify from time to time.

5. SHARE CERTIFICATES AND REGISTER OF SHAREHOLDERS

The Company's share certificates shall be in registered form. The following shall be specified in the Company's share certificates:

- (i) the name of the Company;
- (ii) the date on which the Company was established;
- (iii) the class and par value of the shares and the number of shares represented;
- (iv) the number of the share certificate;
- (v) any other matters needed to be specified as required by the Company Law and the securities regulatory authorities in the place where the Company's Shares are listed.

The Company may issue overseas listed foreign shares in form of foreign depository receipts or other derivative means of shares in accordance with the laws and the practice of registration and depository of securities in the listing place.

During the period of H shares listing in Hong Kong, the Company shall ensure that all its listing documents include the statements stipulated below and shall instruct and cause each of its share registrars not to register the subscription, purchase or transfer of any of its shares in the name of any particular holder unless and until such holder delivers to such share registrar a signed form in respect of such shares bearing statements to the following effect:

- (i) The acquirer of Shares agrees with the Company and each Shareholder of the Company, and the Company agrees with each Shareholder, to observe and comply with the Company Law, the Special Regulations and other requirements related to the laws, administrative regulations and the Articles of Association.
- (ii) The acquirer of shares agrees with the Company, each shareholder, Director, Supervisor, President and other senior management members of the Company and the Company acting for itself and for each Director, Supervisor, President and other senior management members agrees with each shareholder to refer all differences and claims arising from the Articles of Association or any right or obligation conferred or imposed by the Company Law or other relevant laws and administrative regulations concerning the affairs of the Company to arbitration in accordance with the articles of association, and any reference to arbitration shall be deemed to authorize the arbitration tribunal to conduct hearing in open session and to publish its award. Such arbitration shall be final and conclusive.
- (iii) The acquirer of shares agrees with the Company and each shareholder of the Company that shares in the Company are freely transferable by the holder thereof.

- (iv) The acquirer authorizes the Company to enter into a contract on his behalf with each Director, President and other officer whereby such Directors, President and other senior management members undertake to observe and comply with their obligations to shareholders stipulated in the Articles of Association.

Share certificates shall be signed by the chairman of the Board. Where the signatures of the general manager or other senior management members of the Company are required by the securities regulatory authorities or securities exchange(s) in the place where the Company's shares listed, the share certificates shall also be signed by such general manager or other relevant senior management members. The shares certificates of the Company shall take effect immediately upon the Company's seal being affixed or printed thereon. The affixture of the Company's seal on the share certificate shall be authorized by the Board. The signatures of the chairman of the Board, the general manager or other relevant senior management members appearing on the share certificate may also be printed.

Stipulations applicable to the securities regulatory authorities or securities exchange(s) in the jurisdiction where the shares of the Company are listed shall be separately defined in case the shares of the Company are issued and transacted in a paperless manner.

6. SHAREHOLDERS AND GENERAL MEETING

(a) Shareholders

The name of the Company's shareholders shall be recorded in the register of shareholders, with the following particulars being recorded:

- (i) the name or title, address or residence, and occupation or nature of each shareholder;
- (ii) the category and quantity of shares held by each shareholder;
- (iii) the amount paid or payable on the shares held by each shareholder;
- (iv) share certificate numbers of the shares held by each shareholder;
- (v) the date on which each shareholder was registered as a shareholder;
- (vi) the date on which each shareholder ceased to be a shareholder.

The register of shareholders shall be full evidence of the shareholders' shareholding in the Company, unless there is evidence to the contrary.

All acts or transfer of overseas listed foreign shares will be record in the register of shareholders of overseas listed foreign shares which is kept in the place where such shares are listed.

APPENDIX V SUMMARY OF THE ARTICLES OF ASSOCIATION

When two or more persons are registered as joint shareholders of any share, they shall be deemed to be joint owners of such shares and subject to constraints of the following terms:

- (i) joint shareholders shall not form by more than four individuals, which means the Company shall not register more than four persons as joint shareholders for any share;
- (ii) all the joint holders of any share shall jointly or severally assume the liability to pay for all amounts payable for the relevant shares;
- (iii) in case one of the joint holders has deceased, only the surviving joint holders shall be deemed by the Company to be such persons as having the ownership of the relevant shares. But the Board shall have the right, for the purpose of making amendments to the register of shareholders, to demand a death certificate of such shareholder where it deems it appropriate to do so; and
- (iv) for joint holding of any shares, only the joint holder whose name appears first in the register of shareholders is entitled to receive the certificate for the relevant shares, receive the Company's notices, and to attend and exercise all voting rights of the relevant shares in the shareholders' general meetings of the Company. Any notice served on the above persons shall be deemed to have been served on all joint holders of the relevant shares.

The Company may, pursuant to any understanding or agreement reached between the securities regulatory authorities under the State Council and overseas securities regulatory authorities, keep the register of the shareholders of overseas listed foreign shares in any place outside the PRC, and entrust its administration to an overseas agency. The original register of shareholders of overseas listed foreign shares listed on Hong Kong Stock Exchange shall be kept in Hong Kong.

The Company shall maintain an office copy of this register at the address of the Company; the entrusted overseas agent shall ensure that the original and duplicate copies of the register of shareholders of overseas listed foreign shares are consistent at all times.

Where the original and office copies of the register of shareholders of overseas listed foreign shares are not consistent, the original version shall prevail.

The Company shall have a complete register of shareholders.

The register of shareholders shall include the followings:

- (i) the register of shareholders maintained at the Company's residence (other than those parts as described in items (2) and (3) of this Article);
- (ii) the register of shareholders of overseas listed foreign shares of the Company maintained at the place where the overseas securities exchange on which the shares are listed is located;

(iii) the register of shareholders maintained at such other place as the Board may consider necessary for the purpose of listing of the Company's shares.

Different parts of the register of shareholders shall not overlap one another. No transfer of the shares registered in any part of the register shall, during the existence of that registration, be registered in any other part of the register of shareholders.

Alteration or rectification of each part of the register of shareholders shall be made in accordance with the laws of the place where that part of the register of shareholders is maintained.

Transfers may not be entered in the register of shareholders within 30 days prior to the date of a shareholders' general meeting or within 5 days before the record date set by the Company for the purpose of distribution of dividends.

Other regulations of the securities regulatory authorities in the jurisdiction where the shares of the Company are listed shall prevail.

When the Company intends to convene a shareholders' general meeting, distribute dividends, liquidate and engage in other activities that involve determination of shareholdings, the Board or the shareholders' general meeting shall designate a day to be the record day. Shareholders whose names appear in the register of shareholders at the end of the record date are shareholders who are entitled to relevant interests.

Any person who objects to the register of shareholders and requests to have his name (title) entered in or removed from the register of shareholders may apply to a court of competent jurisdiction for rectification of the register.

Any shareholder who is registered in, or any person who requests to have his name (title) entered in, the register of shareholders may, if his share certificates (the "Original Certificates") are stolen, lost or misplaced, apply to the Company for a replacement share certificate in respect of such shares (the "Relevant Shares").

The Company shall not have any obligation to indemnify any person for any damages suffered thereby arising from the cancellation of the Original Certificates or the issuance of a replacement share certificate, unless such person concerned can prove that the Company has committed a fraudulent act.

A shareholder of the Company is a person who lawfully holds shares of the Company and has his name (title) recorded in the register of members.

A shareholder shall enjoy the relevant rights and assume the relevant obligations in accordance with the class and number of shares he holds. Shareholders holding the same class of shares shall enjoy the same rights and assume the same obligations.

The ordinary shareholders of the Company shall be entitled to the following rights:

- (i) the right to dividends and other distributions in proportion to the number of shares held;
- (ii) the right to attend or appoint a proxy to attend shareholders' general meetings and to exercise the voting right;
- (iii) the right to supervise and manage the business activities of the Company and to put forward proposals and raise inquiries;
- (iv) the right to transfer shares in accordance with the laws, administrative regulations and provisions of the Articles;
- (v) the right to obtain relevant information in accordance with the provisions of the Articles, including:
 - (a) the right to obtain a copy of the Articles, subject to payment of the cost of such copy;
 - (b) the right to inspect and copy, subject to payment of a reasonable charge:
 - (1) all parts of the register of shareholders;
 - (2) personal particulars of each of the Company's Directors, Supervisors, general manager and other senior management members;
 - (3) report on the state of the Company's share capital;
 - (4) the latest audited financial statements of the Company, and reports of the Board, auditor and Supervisory Committee;
 - (5) special resolutions of shareholders' general meetings and/or the Board of the Company;
 - (6) reports showing the aggregate par value, quantity, maximum and minimum price paid in respect of each class of shares repurchased by the Company since the end of the last accounting year and the aggregate amount of cost incurred by the Company for this purpose, and their breakdown by domestic and foreign invested shares;
 - (7) minutes of shareholders' general meetings;
 - (8) duplicate of the latest Annual Application Form that has been filed with Chinese AIC or other competent authority;

- (9) corporate bond counterfoils;
- (10) resolutions of Board meetings;
- (11) resolutions of supervisory meetings; and
- (12) the financial report.

Documents of items (1) to (8) (except item (2)) mentioned above shall be made available by the Company, according to the requirements of the Listing Rules, at the Company's address in Hong Kong, for the public and overseas-listed foreign invested shareholders to inspect with no charge (the item (vii) is only for shareholders to inspect);

- (vi) with respect to shareholders who vote against any resolution adopted at the shareholders' general meeting on the merger or division of the Company, the right to demand the Company to acquire the shares held by them;
- (vii) in the event of the termination or liquidation of the Company, the right to participate in the distribution of the remaining assets of the Company in accordance with the number of shares held;
- (viii) such other rights conferred by the laws, regulations, rules, normative documents and the Article.

The Company shall not exercise its rights to freeze or harm in any other forms the rights attaching to any shares held in the event that any person has not disclosed the rights and interests they hold directly or indirectly.

Shareholders shall notify the Company in advance if, through subscription or assignment of the Company's shares or the shares of the Company's shareholders or otherwise, the shareholders will hold not less than 5% of the Company's registered share capital. Shareholders shall be able to hold such amount of the Company's shares upon approval from the relevant securities supervision and administrative authorities under the PRC State Council. Shareholders that hold or beneficially own 5% or more of the Company's shares shall not have any voting rights with respect to any matters until such approval is properly obtained from the relevant securities supervision and administrative authorities under the PRC State Council. The abovementioned shareholders shall dispose the corresponding shares if they are unable to obtain such approval within one year from the date of acquiring the shares.

Shareholders demanding inspection of the relevant information or copies of the materials mentioned in the preceding provision shall provide to the Company written documents evidencing the class and number of shares of the Company they hold. Upon verification of the shareholder's identity, the Company shall provide such information at the shareholder's request.

If a resolution passed at the Company's general meeting or Board meeting violates the laws or administrative regulations, the shareholders shall have the right to submit a petition to the people's court to render the same as invalid.

If the procedures for convening, or the method of voting at, a shareholders' general meeting or Board meeting violate the laws, administrative regulations or the Articles, or the contents of a resolution violates the Articles, shareholders shall be entitled to submit a petition to the people's court to rescind such resolutions within 60 days from the date on which such resolution is adopted.

The ordinary shareholders of the Company shall assume the following obligations:

- (i) to abide by laws, administrative regulations and the Articles;
- (ii) to pay subscription monies according to the number of shares subscribed and the method of subscription;
- (iii) not to divest the shares unless required by the laws and regulations;
- (iv) not to abuse their shareholders' rights to harm the interests of the Company or other shareholders; and not to abuse the independent legal person status of the Company and the limited liability of shareholders to harm the interests of any creditor of the Company;

Shareholders of the Company who abuse their shareholder's rights and thereby cause loss on the Company or other shareholders shall be liable for indemnity according to the law.

Where shareholders of the Company abuse the Company's position as an independent legal person and the limited liability of shareholders for the purposes of evading repayment of debts, thereby materially impairing the interests of the creditors of the Company, such shareholders shall be jointly and severally liable for the debts owed by the Company.

- (i) other obligations imposed by laws, administrative regulations and the Articles.

Shareholders are not liable to make any further contribution to the share capital other than as agreed by the subscribers of the relevant shares on subscription.

Where a shareholder holding 5% or more voting shares of the Company pledges any shares in his possession, he shall report the same to the Company in writing on the day on which he pledges his shares.

(b) General Rules of Shareholders' General Meeting

The shareholders' general meeting is the organ of authority of the Company, and shall exercise the following functions and powers in accordance with law:

- (i) to decide on the operating policies and investment plans of the Company;
- (ii) to elect and remove Directors and Supervisors (not being staff representatives), and to fix the remuneration of the relevant Directors and Supervisors;

APPENDIX V SUMMARY OF THE ARTICLES OF ASSOCIATION

- (iii) to examine and approve the reports of the Board;
- (iv) to examine and approve the reports of the Supervisory Committee;
- (v) to examine and approve the proposed annual financial budgets and final accounts of the Company;
- (vi) to examine and approve the profit distribution plans and loss recovery plans of the Company;
- (vii) to adopt resolutions on any increase or reduction of registered capital of the Company;
- (viii) to adopt resolutions on any issuance of bonds of the Company;
- (ix) to adopt resolutions on matters such as merger, division, dissolution, liquidation and conversion of corporate form of the Company;
- (x) to amend the Articles of Association;
- (xi) to adopt resolutions on the appointments, dismissals or non-reappointments of accounting firms;
- (xii) to examine and approve matters relating to security under Article 64;
- (xiii) to examine matters relating to the purchases and disposals of the Company's material assets within one year, which exceed 15% the Company's latest audited total assets;
- (xiv) to examine and approve the external investments of which the value of a single investment reaches or exceeds 10% of the latest audited net assets of the Company;
- (xv) to examine and approve the connected transactions that shall be examined by the shareholders' general meeting as required by laws and regulations of the jurisdiction where the Company's shares are listed;
- (xvi) to examine the implementation plans on mechanism for long-term effective incentives;
- (xvii) to examine and approve the proposals submitted by shareholders separately or collectively holding not less than 3% (including 3%) of the Company's voting shares;
- (xviii) to examine other matters required by laws, administrative regulations, departmental rules or the Articles to be resolved by shareholders' general meeting.

For matters to be decided at shareholders' general meeting as prescribed by laws, administrative regulations and the Articles, such matters have to be reviewed at shareholders' general meeting so as to ensure that the shareholders of the Company have a right to decide over those matters. When it is deemed necessary and reasonable, in relation to resolutions that have been made but their relevant specific matters cannot be decided upon during the shareholders' general meeting, the shareholders' general meeting may authorize the Board to decide upon such matters within the scope of authorization of the shareholders' general meeting subject to the applicable laws, regulations and Articles of Association.

The following securities provided to third parties by the Company are subject to the review and approval of the general meeting of shareholders.

- (i) any security provided after the total amount of security to third parties provided by the Company has reached or exceeded 20% of the Company's latest audited net assets (except providing a counter-guarantee for its own liabilities).
- (ii) a security to be provided in favor of an object which has an asset-liability ratio in excess of 70%.
- (iii) a single security in excess of 10% of the Company's latest audited net assets.

Shareholders' general meetings shall be annual general meetings of shareholders and extraordinary general meetings of shareholders. The annual general meeting of shareholders shall be held once every year within six months after the end of the previous accounting year.

The Company shall hold an extraordinary general meeting of shareholders within two months upon the occurrence of one of the following circumstances:

- (i) the number of Directors is less than the number required by the Company Law or less than two-thirds of the number required by the Articles;
- (ii) the uncovered losses are in excess of one third of the Company's total number of paid-up shares;
- (iii) shareholders separately or collectively holding not less than 10% of the Company's shares request in writing;
- (iv) the Board considers it necessary;
- (v) the Supervisory Committee proposes to convene;
- (vi) such other circumstances as provided for by laws, administrative regulations, departmental rules or the Articles.

The number of shares aforementioned in item (3) shall be calculated as of the date when such shareholders request in writing.

(c) Proposals and Notices of Shareholders' General Meetings

The contents of a proposal shall be within the scope of the duties and responsibilities of the shareholders' general meeting, have definite topics and specific matters for resolution, as well as be compliance with the laws, administrative regulations and the Articles.

The board of Directors, the Supervisory Committee, and shareholders individually or jointly holding 3% or more of the Company's shares shall have the right to submit proposed resolutions to the Company for a shareholders' general meeting of the Company.

Shareholders individually or jointly holding 3% or more of the Company's shares may submit extra proposed resolutions to the convener of a shareholders' general meeting in writing 10 days prior to the meeting. The convener shall issue a supplementary notice of the general meeting and announce the contents of such extra proposed resolutions within 2 days after receipt thereof.

Except as provided by the preceding paragraph, the convener of a shareholders' general meeting shall not amend the proposed resolutions set out in the notice of the meeting or add any new proposed resolutions subsequent to the issue of the notice of the general meeting.

A written notice of a shareholders' general meeting to be held by the Company shall be given to all shareholders whose names appear in the register of members, 45 days before the meeting is held, specifying the matters to be considered at and the date and place of the meeting. A shareholder who intends to attend the shareholders' general meeting shall deliver a written reply slip confirming his intention to attend the meeting to the Company 20 days before the meeting is held.

The Company shall calculate the number of voting shares represented by shareholders who intend to attend a shareholders' general meeting on the basis of the written replies it has received 20 days before the date of the shareholders' general meeting. In the event that the number of voting shares represented by shareholders who intend to attend the meeting is more than half of the total number of the voting shares of the Company, the Company may hold the general meeting; if not, the Company shall, within 5 days, notify shareholders again of the matters to be considered at, and the date and place for, the meeting by public announcement. The Company may hold the shareholders' general meeting after such an announcement has been made.

The interval between the shareholding record date of a shareholders' general meeting and the date of the meeting shall not exceed 7 working days. Once the shareholding record date is confirmed, it shall not be altered

Unless the Articles otherwise requires, the notice of a general meeting shall be sent to shareholders (regardless of whether they are entitled to vote at the general meeting) by personal delivery or by prepaid mail. The addresses of the recipients shall be such addresses as shown in the register of members. For holders of domestic-invested shares, such notice of the shareholders' general meeting may also be given by way of announcement.

The announcement referred to in the preceding paragraph shall be published in one or more newspapers designated by the securities regulatory authorities of the State Council. Once such an announcement is made, all holders of the domestic-invested shares shall be deemed to have received the relevant notice of the shareholders' general meeting.

The announcement to shareholders of overseas listed foreign shares shall be issued on the website of Hong Kong Stock Exchange, or published in one or more newspapers designated. Once such an announcement is made, all holders of the domestic-invested shares shall be deemed to have received the relevant notice of the shareholders' general meeting.

(d) Holding of Shareholders' General Meetings

Any shareholder entitled to attend and vote at a shareholders' general meeting shall have the right to appoint one or several persons (who may not be shareholders) to act as his proxy to attend and vote at the meeting on his behalf. The proxy(ies) so appointed by the shareholder may, pursuant to the instructions of the shareholder, exercise the following rights:

- (i) the right which the shareholder has to speak at the meeting;
- (ii) the right to demand a poll alone or jointly with others;
- (iii) the right to exercise voting rights on a show of hands or on a poll, provided that where more than one proxy is appointed, the proxies may only exercise such voting rights on a poll.

The instrument appointing a proxy shall be in writing under the hand of the appointing shareholder or his attorney duly authorized in writing; where the appointing shareholder is a legal person or any other institution, such instrument shall be under its seal or under the hand of its legal representative duly authorized or attorney duly authorized.

Individual shareholders attending a shareholders' general meeting in person shall produce their identity cards or other valid proof or evidence of their identities as well as stock account cards and, in the case of attendance by proxies, the proxies shall produce valid proof of their identities and the proxy forms from shareholders.

Where a shareholder is a legal entity, its legal representative or a proxy authorized by such legal representative, the Board, or other decision making authorities shall attend a shareholders' general meeting. In case of attendance by legal representatives, they shall produce their identity cards and valid proof of their capacities as legal representatives and, in the case of attendance by proxies of such legal representatives, such proxies shall produce their identity cards and the letters of authorization duly issued by such legal representatives, the Board or other decision making authorities.

All Directors, Supervisors and the Secretary to the Board shall attend shareholders' general meetings. The general manager and other senior management members shall also be present at the meeting.

For a shareholders' general meeting convened by the Board, the meeting shall be presided over by the chairman of the Board; if the chairman of the Board is unable to perform or fails to perform his duties, the deputy chairman of the Board shall preside over the meeting; where the deputy chairman of the Board is unable to perform or fails to perform his duties, a director jointly selected by more than one half of all directors shall preside over the meeting. In the event that the Board is unable to perform or fails to perform the duties of convening shareholders' general meetings, the Supervisory Committee shall in time convene and preside over the meetings; in the case of the failure of the Supervisory Committee to convene and preside over a shareholders' general meeting, shareholders severally or jointly holding 10% or more of the Company's shares for more than ninety consecutive days shall be entitled to convene and preside over the meeting on an unilateral basis. Where the shareholders fail to elect a chairman for any reasons, the shareholder (including his proxy) present in person or by proxy who holds the largest number of shares carrying the right to vote thereat shall be the chairman to preside over the meeting.

Shareholders' general meeting convened by the Supervisory Committee shall be presided over by the chairman of the Supervisory Committee. If the chairman of the Supervisory Committee is unable or fails to perform his duties, a supervisor elected by more than half of supervisors shall preside over the meeting.

A shareholders' general meeting convened by the shareholders themselves shall be presided over by a representative nominated by the convening shareholders.

When a shareholders' general meeting is held and the chairman of the meeting violates the rules of procedures such that the general meeting cannot proceed, a person may be elected to preside over the meeting, subject to approval of shareholders entitled to more than half of the voting rights present at the meeting.

The Company shall formulate rules of procedures of the shareholders' general meeting to specify in details the convention and voting procedures of the meeting, including notice, registration, deliberation of proposals, votes, vote counting, announcement of voting results, form of resolutions, minutes and the signatures thereon, announcements, as well as the principles of authorization by the shareholders' general meeting to the Board, the contents of such authorization shall be expressly specified. The rules of proceedings of the general meeting shall be an appendix to the Articles of Association upon approved by the shareholders' general meeting.

At the annual general meeting, the Board and the Supervisory Committee shall report their respective work of the previous year to the general meeting, and the Supervisory Committee shall make specific statements on the financial position and compliance situation of the Company. Each independent director shall also make his duty report.

Directors, Supervisors and senior management members shall make response to and give explanation of the inquiries and suggestions made by shareholders, provided that those involve company trade secrets.

The chairman of the meeting shall, prior to voting, announce the number of shareholders and proxies attending the meeting in person as well as the total number of their voting shares, which shall be the number of shareholders and proxies attending the meeting in person and the total number of their voting shares as indicated in the meeting's registration record.

The convener shall ensure that a shareholders' general meeting is held continuously until final resolutions have been reached. In the event that the general meeting is suspended or the shareholders fail to reach any resolution due to force majeure or other special reasons, necessary measures shall be taken to resume the meeting as soon as possible or the meeting shall be terminated directly and an announcement of such termination shall be made promptly. At the same time, the convener shall report to the agency of the CSRC in the locality of the Company and the stock exchange.

(e) Voting and Resolutions of Shareholders' General Meeting

Resolutions of a shareholders' general meeting can be ordinary resolutions or special resolutions.

An ordinary resolution of a shareholders' general meeting shall be passed by an affirmative vote of more than half of the Company's total voting shares being held by the shareholders who are present at the meeting (including proxies).

A special resolution of a shareholders' general meeting shall be passed by an affirmative vote of more than two-thirds of the Company's total voting shares being held by the shareholders who are present at the meeting (including proxies).

The following matters shall be approved by ordinary resolutions of a shareholders' general meeting:

- (i) the work reports of the board of Directors and the Supervisory Committee;
- (ii) the plans formulated by the board of Directors for profit distribution and making up losses;
- (iii) the appointment and removal of members of the board of Directors and the Supervisory Committee and their remuneration and the methods of payment thereof;
- (iv) the Company's annual financial budgets and final accounts, balance sheets, income statements and other financial statement;
- (v) the annual reports of the Company;
- (vi) other matters other than those required by laws, administrative regulations or the Articles to be approved by special resolutions.

APPENDIX V SUMMARY OF THE ARTICLES OF ASSOCIATION

The following matters shall be approved by special resolutions of a shareholders' general meeting:

- (i) the increase or reduction of the Company registered capital and the issue of any class of shares, warrants and other similar securities of the Company;
- (ii) the issue of corporate bonds;
- (iii) any spin-off, merger, dissolution or liquidation;
- (iv) the amendments to the Articles of Association;
- (v) acquisition or disposal of material assets or provision of guarantees by the Company within 1 year which involves an amount exceeding 15% of the Company's latest audited total assets;
- (vi) repurchase of the Company's shares;
- (vii) Implementation Plan for long-term incentives program;
- (viii) such other matters as may be required by laws, administrative regulations or the Articles or which, pursuant to ordinary resolutions passed at shareholders' general meeting, are considered to have material effects on the Company and require approval by special resolutions.

Shareholders (including proxies) shall exercise their voting rights according to the number of voting shares they represent, with one vote for each share.

Shares in the Company which are held by the Company do not carry any voting rights, and shall not be counted in the total number of voting shares represented by shareholders present at a shareholders' general meeting.

The board of Directors, Independent Directors and shareholders who meet the relevant requirements may collect votes from shareholders.

Where the Hong Kong Listing Rules requires any shareholder to abandon his or her voting on specific resolution, or restricts any shareholder to vote for or against specific resolution, any vote of the shareholder or his or her proxy against the relevant requirement or restriction shall not be included.

Unless vote is cast on poll particularly as required by the relevant requirements of the securities regulatory authorities of the jurisdictions where the shares of the Company are listed, or a poll is (before or after any voting by show of hands) demanded by the following persons, voting at a shareholders' general meeting shall be by a show of hands:

- (i) the chairman of the meeting;

- (ii) at least two shareholders entitled to vote or their proxies;
- (iii) one or more shareholders (including proxies) individually or jointly holding more than 10% of the voting shares represented by all shareholders present at the meeting.

Unless a poll is so demanded, a declaration by the chairman of the meeting that a resolution has on a show of hands been carried, and an entry to that effect in the minutes of the meeting shall be conclusive evidence of the fact without proof of the number or proportion of the votes recorded in favor or against such resolution at the meeting.

The demand for a poll may be withdrawn by the person who makes such demand.

A poll demanded on such matters as the election of chairman or the adjournment of the meeting, shall be taken forthwith. A poll demanded on any other matters shall be taken at such time as the chairman may decide, and the meeting may proceed to discuss other matters, while the results of the poll shall still be deemed to be a resolution of that meeting.

On a poll taken at a meeting, a shareholder (including proxy) entitled to two or more votes need not cast all his votes for, against or abstain in the same way.

In the case of an equality of votes, whether it is by show of hands or a poll, the chairman of the meeting shall be entitled to an additional vote.

The chairman of the meeting shall determine, according to the results of the votes, whether the resolutions of the shareholders' general meeting are approved. The chairman's decision is the final decision, and the results of the votes shall be announced in the meeting. The results of the votes shall be recorded in the meeting minutes.

Save where the Company is in a crisis or other special circumstances, without the prior approval of a special resolution of a shareholders' general meeting, the Company shall not enter into a contract with a person other than a Director, Supervisor, general manager or other senior management member whereby the management of all or a material part of the business of the Company is delegated to such person.

The shareholders' general meeting should vote on each motion individually. Should there be different motions on the same issue, voting should be done according to the order of the motions raised. Except for special reasons such as force majeure causing the shareholders' general meeting to suspend or unable to reach a resolution, the shareholders' general meeting shall not set aside any motion or have any motion not voted.

When considering a proposed resolution at a shareholders' general meeting, no amendments shall be made thereto. Otherwise, any change made thereto shall be considered as a new proposed resolution, of which the voting shall not proceed in that meeting.

The same vote may only be cast once at the venue of a shareholders' general meeting, or by online voting or other means. In the event of multiple casting of the same vote, only the outcome of the first casting of such vote shall be counted.

At any shareholders' meeting, voting shall be with registered voter.

Before the relevant proposed resolution is voted on at the shareholders' general meeting, two representatives of the shareholders shall be elected to take part in counting the votes and scrutinizing the conduct of the poll. Any shareholder who is interested in the matter under consideration and his proxy shall not take part in counting the votes or scrutinizing the conduct of the poll.

When the relevant proposed resolution is being voted on at the shareholders' general meeting, lawyers, the shareholders' representatives and representatives of the Supervisors shall be jointly responsible for counting the votes and scrutinizing the conduct of the poll, and the voting result shall be announced at the meeting. The voting results relating to such proposed resolution shall be recorded in the minutes of meeting.

Shareholders of the Company or their proxies, who have cast their votes by online voting or by other means, shall have the right to check the voting results in the way in which they have cast their votes.

The ending time of a shareholders' general meeting shall not be earlier than that of online or other access to the meeting. The chairman of the meeting shall announce the status and results of voting in respect of each proposed resolution, and whether or not such proposed resolution has been passed according to such voting results.

Prior to the formal announcement of voting results, the relevant parties from the Company, the persons responsible for counting votes and scrutinizing the conduct of the relevant poll, the major shareholders, the person in charge of the relevant internet service provider involved in relation to voting at the shareholders' general meeting, online or by other means, shall be obliged to keep the status of voting confidential.

In the event that the chairman of the meeting has any doubt as to the result of a resolution put forward to the vote, he may have the votes counted. In the event that the chairman of the meeting fails to have the votes counted, any shareholder present in person or by proxy objects to the result announced by the chairman of the meeting may demand that the votes be counted immediately after the declaration of the voting result, the chairman of the meeting shall have the votes counted immediately.

In the event that the votes are counted at the shareholders' general meeting, the counting results shall be recorded in the minutes of the meeting.

The minutes of the meeting together with the attendance book for shareholders' signing and the proxy forms for proxies attending the meeting shall be kept at the domicile of the Company.

Copies of the minutes of the meeting shall be available for inspection during business hours of the Company by any shareholder without charge. If a shareholder demands from the Company a copy of such minutes, the Company shall send a copy to him within 7 days after receipt of reasonable charges.

Where a shareholders' general meeting has passed the resolutions for electing directors and Supervisors, the newly elected Directors and Supervisors shall fill their positions immediately after the announcement of the result of the voting, except otherwise specified in the resolution of the shareholders' general meeting.

Where a proposed resolution in relation to the payment of cash dividends, the issue of bonus shares or the capitalization of capital reserves has been passed at a shareholders' general meeting, the Company shall implement the specific plans within two months after the conclusion of the shareholders' general meeting.

(f) Special Procedures for Voting by Class Shareholders

Shareholders holding different classes of shares shall be class shareholders.

Class shareholders shall enjoy rights and assume obligations pursuant to the provisions of laws, administrative regulations and the Articles.

Save for shareholders of shares of other classes, the holders of domestic-invested shares and holders of overseas-listed foreign-invested shares are deemed to be different classes of shareholders.

Where the capital of the Company includes shares which do not carry voting rights, the words "non-voting" must appear in the designation of such shares.

Where the equity capital includes shares with different voting rights, the designation of each class of shares, other than those with the most favorable voting rights, must include the words "restricted voting" or "limited voting."

Any variation or abrogation of the rights of any class of shareholders proposed by the Company shall be approved by a special resolution of a general meeting and by the shareholders of the affected class at a separate class meeting convened in accordance with Article 123 to 128.

The following circumstances shall be deemed to be circumstances where the variation or abrogation of the rights of shareholders of a certain class is involved:

- (i) increasing or decreasing the number of shares of that class, or increasing or decreasing the number of shares of another class having the same or more rights of or to voting, distribution or other privileges when compared with shares of such class;
- (ii) converting all or part of the shares of such class into shares of other classes, or converting all or part of the shares of other classes into shares of such class or granting rights to effect such conversion;
- (iii) removing or reducing rights to accrued dividends or cumulative dividends attached to shares of such class;

- (iv) reducing or removing the right to receive priority dividends or, in the event of the liquidation of the Company, to receive priority distribution of property attached to shares of such class;
- (v) increasing, removing or reducing the right of conversion, options, voting rights, the right to transfer, priority in placement and the right to acquire securities of the Company attached to shares of such class;
- (vi) removing or reducing the right to receive sums payable by the Company in particular currencies attached to shares of such class;
- (vii) creating a new class of shares having the same or more rights of or to voting, distribution or other privileges when compared with the shares of such class;
- (viii) imposing restrictions on the transfer or ownership of the shares of such class or increasing such restrictions;
- (ix) issuing subscription rights or share conversion rights in respect of shares of such class or another classes;
- (x) increasing the rights and privileges of shares of another classes;
- (xi) proposing to restructure the Company where the proposed restructuring scheme will result in different classes of shareholders having to assume disproportionate liabilities in such restructuring;
- (xii) varying or repealing the terms provided in this chapter.

Shareholders of the affected class, whether or not having the right to vote at shareholders' general meetings, shall have the right to vote at the relevant class meeting in relation to any of the matters under circumstances (2) to (8) and (11) to (12) mentioned above, but interested shareholders shall not be entitled to vote at the relevant class meeting.

Interested shareholders mentioned in the preceding paragraph shall have the following meanings:

- (i) in the case of an offer by the Company to repurchase its own shares to all shareholders on a *pro rata* basis or a repurchase by the Company of its own shares on a stock exchange in accordance with Article 28 of the Articles, "interested shareholder" shall mean the controlling shareholder as defined in Article 287 of the Articles;
- (ii) in the case of a repurchase by the Company of its own shares by an off-market agreement in accordance with Article 28 of the Articles, "interested shareholders" shall mean the shareholders connected with such agreement;

- (iii) in the case of a proposed restructuring of the Company, “interested shareholder” shall mean a shareholder of a class assuming a smaller proportion of liabilities than the other shareholders of that class or who has interests different from those of the other shareholders of the same class.

A resolution of a class meeting shall be passed in accordance with Article 124 by at least a two-thirds majority calculated on the basis of the voting rights held by the shareholders present and entitled to vote at the class meeting.

Written notice of a meeting of any class of shareholders of the Company shall be issued 45 days prior to the date of the class meeting to all shareholders of such class whose names appear on the register of members, specifying the matters to be considered at and the place, the date and the time of the meeting. Shareholders who intend to attend the meeting shall deliver to the Company written replies of their intention to attend 20 days prior to the date of the meeting. When calculating the time limit, the date of meeting shall not be included. If the number of voting shares at such meeting held by shareholders who intend to attend such meeting reaches not less than one-half of the total number of voting shares at such meeting, the Company may hold such class meeting; if this cannot be attained, the Company shall further notify the shareholders by way of announcement within five days thereof specifying the matters to be considered and the place, the date and the time of the meeting. After such announcement has been given, the Company may then hold the class meeting.

Where there is any special regulation under the listing rules of the place(s) where the Company’s Shares are listed, such requirement shall prevail.

The quorum for a separate class meeting (other than an adjourned meeting) to consider a variation of the rights of any class of shares shall be the holders of at least one-third of the issued shares of that class.

Notice of a class meeting only needs to be given to shareholders entitled to vote thereat.

Unless otherwise provided for in the Articles, the procedures for holding the class meeting shall be similar to those for holding the shareholders’ general meeting as far as possible, and the provisions in the Articles of Association relating to the procedures for a shareholders’ general meeting shall apply to the class meeting.

The special procedures for voting by class shareholders shall not apply in the following circumstances:

- (i) where the Company issues, upon approval by a special resolution at a shareholders’ general meeting, domestic-invested shares and overseas-listed foreign-invested shares once every 12 months, either separately or concurrently, and the respective numbers of domestic-invested shares and overseas-listed foreign-invested shares proposed to be issued do not exceed 20% of the respective numbers of the issued domestic-invested shares and overseas-listed foreign-invested shares;

- (ii) where the Company's plan to issue domestic-invested shares and overseas-listed foreign-invested shares at the time of incorporation is carried out within 15 months from the date of approval by the securities regulatory authorities of the State Council;
- (iii) Where upon the approval from the securities authority of the State Council, the domestic-invested shares of the Company may be converted into foreign-invested shares, and such shares may be listed and traded in an overseas stock exchange.

7. DIRECTORS AND THE BOARD OF DIRECTORS

(a) Directors

Directors of the Company shall have their qualifications be approved by the China Securities Regulatory Commission before assuming office. The Company shall not appoint any personnel who has not obtained the qualification to be Director and shall not violate the provision by authorizing unqualified personnel to effectively exercise the duties.

The general manager or other senior management members may concurrently serve as a Director (other than Independent Directors), provided that the aggregate number of the Directors who concurrently serve as general manager or other senior management members shall not exceed one half of all the Directors of the Company.

Non-employee representative Directors shall be elected or replaced by the general meetings, while employee representative Directors shall be elected or replaced by the Company's employee representatives assembly. The term of office of a Director shall be three years and is eligible for re-election. A Director shall not be removed without reason from his office by the shareholders' general meeting or the employee representatives assembly before the end of his/her term. If a Director is removed by the general meetings or the employee representatives assembly of the Company, relevant explanation shall be provided. The Director being removed shall be entitled to state his/her opinion at the general meeting or the employee representatives assembly, CSRC or CSRC Shanghai Bureau. Subject to full compliance with the relevant laws and administrative regulations, the general meeting may by ordinary resolution remove any Director before the expiration of his term of office (but without prejudice to such Director's right to claim damages based on any contract).

Written notice of intention to nominate a candidate for the post of Director and the candidate's agreement to be nominated must be given to the Company seven days prior to the convening of the annual general meeting (Such seven-day period shall commence no earlier than the second day after the issue of the notice of the meeting at which the election shall be conducted and no later than seven days prior to the shareholders' general meeting). The term of the nomination and the acceptance of the nomination shall be no less than seven days.

The term of office of Directors shall commence from the date of appointment up to the maturity of the current term of office of the Board.

Those in the board of directors as employees' representatives are elected by the employees of the Company by employees' representative meeting means to join the board of directors directly.

The Directors shall not be required to hold shares of the Company.

The Directors shall comply with the laws, administrative regulations and the Articles and shall faithfully perform their due diligence obligations to the Company.

Subject to the prior approval at the Shareholders' general meeting, the Company shall include the compensation matters in the written contract to be entered between the Company and the Directors or Supervisors. The stated compensation matters shall include: the compensation of Directors, Supervisors and senior management of the Company; the compensation of directors, supervisors and senior management of Company's subsidiaries; the compensation for the services provided in managing the Company and its subsidiaries; the compensation for Directors and Supervisors due to their loss of position or retirement. Unless based on the aforementioned contract, Directors and Supervisors shall not take legal actions against the Company for the compensation matters stated above.

The Company shall not provide loans or loan guarantees directly or indirectly to directors, supervisors, general manager or other senior management of both the Company and its parent company, nor shall the Company provide loans or loan guarantees to affiliated parties of the aforementioned personnel.

The rule above does not apply to the following situations: the Company provides loans or loan guarantees to its subsidiaries; the Company, based on the letter of appointment approved at the Shareholders' general meeting, provides loans, loan guarantees or other funds to the Directors, Supervisors, General Manager or other senior management to reimburse them on the expenses incurred by them for the interest of the Company or for discharging their respective responsibilities

(b) the Board of Directors

The Board consists of 17 Directors, including six independent Directors and at least one with a senior title of accounting profession or qualified as a certified public accountant. The Board shall comprise one Chairman and one Vice Chairman.

The Board exercises the following powers:

- (i) to convene shareholders' general meetings and report its work to the shareholders' general meeting;
- (ii) to implement the resolutions of shareholders' general meetings;
- (iii) to decide on the Company's business plans and investment plans;
- (iv) to formulate the Company's plans on annual financial budgets and final accounts;
- (v) to formulate the Company's profit distribution plans and plans on making up losses;

- (vi) to formulate the proposal for increase or decrease of the registered capital of the Company, issue and listing of bonds or other securities of the Company;
- (vii) to formulate plans for substantial acquisition, repurchase of shares of the Company or merger, division, dissolution and alteration of corporate form of the Company;
- (viii) to determine external investments, acquisition and disposal of assets, assets pledge, external guarantees matters and connected transactions of the Company within the authorization of the general meeting;
- (ix) to formulate the implementation plan of the long-term incentives program for the management and employees;
- (x) to determine the establishment of the Company's internal management structure;
- (xi) to appoint or dismiss general manager, the Secretary to the Board, General Compliance Officer and, based on the nomination by the general manager, to appoint or dismiss senior management members including deputy general manager, assistants of general manager and chief financial controller of the Company and to determine their remunerations, incentives and punishments;
- (xii) to formulate the basic management system of the Company; and based on the approved business scopes and the Company's own business managing characteristics to establish a clear and effective internal control mechanism, so as to formulate a comprehensive and practicable internal control system;
- (xiii) to formulate proposals for amendment to the Articles;
- (xiv) to manage information disclosure of the Company;
- (xv) to propose at shareholders' general meetings for the appointment or change of accountants' firm conducting auditing for the Company;
- (xvi) to hear the work report and inspect the work of the general manager;
- (xvii) to consider and approve the fundamental system of compliance management and the compliance reports; responsible for monitoring the implementation of compliance policies;
- (xviii) to exercise any other powers specified in relevant laws, administrative regulations, departmental rules and conferred by the Articles.

APPENDIX V SUMMARY OF THE ARTICLES OF ASSOCIATION

The Board resolutions related to the increase or decrease of registered capital, bonds issue, merger, spin-off, dissolution and amendment to the Articles, shall be passed by not less than two-thirds of the Directors.

The chairman of the board of directors shall exercise the following authorities:

- (i) to preside over shareholders' general meetings and to convene and preside over Board meetings;
- (ii) to supervise and check on the implementation of resolutions passed at the meeting of the board of directors;
- (iii) to sign share certificates, bonds and other marketable securities of the Company;
- (iv) to sign important documents of the board of directors and other documents that shall be signed by the legal representative of the Company;
- (v) to exercise the authorities of legal representatives;
- (vi) in case of emergency circumstances of force majeure events such as extraordinary natural disasters, to exercise special disposal powers which are in compliance with legal requirements and are in the interests of the Company on matters of the Company and provide post-event reports to the board of Directors and the shareholders' general meeting;
- (vii) to exercise other functions and powers conferred by the board of Directors.

The board of Directors shall meet regularly and board of meetings shall be held at least four times a year at approximately quarterly intervals. A fourteen days' prior written notice for convening the meeting shall be given to all Directors and Supervisors.

A meeting of the board of Directors shall be held only when over half of the Directors attend the meeting. Unless otherwise provided by the Articles, resolutions of the Board shall be passed by more than half of all Directors.

One person shall have one vote when voting on the resolution of the board of directors.

Where the number of votes cast for and against a resolution is equal, the Chairman shall have the right to cast an additional vote.

If any Director has connection with the enterprise involved in the resolution made at a Board meeting, the said Director shall not vote on the said resolution for himself or on behalf of other Director. The Board meeting may be held when more than half of the non-connected Directors attend the meeting. The resolution of the Board meeting shall be passed by more than half of the non-connected Directors. If the number of non-connected Directors attending the meetings is less than 3, the matter shall be submitted to the shareholders' general meeting for examination.

(c) Borrowing power

Subject to compliance with applicable laws, administrative regulations and Listing Rules, the Company has the power to raise and borrow money, which includes, without limitation, the issue of debentures and the charging or mortgaging of the Company's properties. The Company also has the right to provide guarantee for any third party. The Articles of Association do not contain any specific provision in respect of the manner in which issuing bonds may be exercised by the Directors nor do they contain any specific provision in respect of the manner in which such powers may be varied, other than: (a) provisions which give the Board the power to formulate proposals for the issue of bonds by the Company; and (b) provisions which provide that the issue of bonds must be approved by the shareholders' general meeting.

8. THE SUPERVISORY COMMITTEE**(a) Supervisors**

The Supervisory Committee shall comprise shareholders' representatives and employees' representatives of the Company.

Directors, general manager, deputy general manager, assistant of general manager, chief financial controller and other senior management personnel as well as direct relatives and major social relationships thereof shall not hold the position of Supervisors.

Prior to their appointment, Supervisors of the Company shall have their qualification be approved by CSRC.

Each Supervisor shall serve for a term of three years. Non-employees' representative Supervisors shall be elected or removed by the Shareholders' general meeting and employees' representative Supervisors shall be democratically elected or removed by the meeting of the Company's employees' representatives. The term is renewable upon re-election and re-appointment.

The Supervisors shall ensure that all information disclosed are true, accurate, complete, prompt, and fair.

The Supervisors may attend board meetings as non-voting participants, and deliver enquiry or suggestion regarding resolutions at Board meetings.

Supervisors have the right to know the operation of the Company and to undertake the confidential duties accordingly. The Company shall have its internal audit reports, compliance inspection reports, monthly or quarterly financial reports, annual financial reports and other significant matters be reported to the Supervisory Committee in a timely manner.

Any Supervisor who fails to attend Supervisory Committee meetings in person two times consecutively, shall be deemed non-performance of duties and shall be removed and replaced by the shareholders' general meeting or the general meeting of employees' representatives.

Any Supervisor is obligated to perform his/her duty with diligence and in good faith in accordance with the laws, administrative regulations and the Articles of Association. Any Supervisor who violates any laws, administrative regulations, departmental rules or the Articles during the course of performing his duties and causes losses to the Company shall be liable for compensation to any loss caused to the Company.

(b) Supervisory Committee

The Company shall have a Supervisory Committee. The Supervisory Committee shall compose of 11 Supervisors, including representatives of shareholders and representatives of employees, of which the ratio of employees' representatives shall not be less than one-third. The Supervisory Committee shall have one chairman and one vice chairman. The election or removal of the chairman of the Supervisory Committee and vice chairman shall be determined by the affirmative votes of two-thirds or more of the members of the Supervisory Committee. Meetings of the Supervisory Committee shall be convened and presided over by the chairman of the Supervisory Committee. Where the chairman of the Supervisory Committee is incapable of performing or fails to perform his/her duties, the vice chairman of the Supervisory Committee shall convene and preside over the meetings; if the vice chairman of the Supervisory Committee is incapable of performing or fails to perform his/her duties, a Supervisor elected by not less than half of the Supervisors shall convene and preside over Supervisory Committee meetings.

Employee representative Supervisor of the Supervisory Committee shall be admitted to the Supervisory Committee directly after he/she is being elected by the employee representatives assembly.

The Supervisory Committee shall be accountable to the shareholders' general meeting and shall perform the following duties:

- (i) to review the Company's periodical reports prepared by the board of directors and to express its comments in writing;
- (ii) to inspect the Company's financial position;
- (iii) to supervise the behaviors of the directors and senior management personnel in performing their duties, and to advise on dismissal of any directors and senior management personnel who are in breach of laws, administrative regulations, the Articles or resolutions of the shareholders' general meetings;
- (iv) to enquire on the conduct of Directors and senior management personnel;
- (v) to demand the directors and senior management personnel to rectify their errors if they have acted in a harmful manner to the Company's interest;

- (vi) to propose to convene an extraordinary general meeting, and where the board of directors fails to perform the duties in relation to convening or presiding over a shareholders' general meeting as required by the Company Law, to convene and preside over the shareholders' general meeting;
- (vii) to engage an accountant firm qualified for engaging securities related business to conduct the audits on retiring or resigning senior management personnel;
- (viii) to propose motions in a shareholders' general meeting;
- (ix) to take legal actions against directors and senior management personnel in accordance with Article 152 of the Company Law;
- (x) to examine the financial information such as the financial report, business report and plans for distribution of profits to be submitted by the Board to the general meetings and, to conduct investigations whenever queries or unusual conditions of operation of the Company arises and if necessary, to engage professional personnel such as certified public accountants, practising auditors and lawyers to assist in the investigations;
- (xi) to conduct investigations whenever unusual conditions of operation, financial conditions and compliance of the Company arise and if necessary, to engage professional institutions such as firms of accountants and lawyers to assist in the investigations. Any reasonable costs arising therefore shall be borne by the Company;
- (xii) to exercise other authorities as authorized by the Company's Articles of Association or the general meetings.

The Supervisory Committee may require the Directors, personnel of manager level and other related personnel to attend meetings of the Supervisory Committee to answer any questions raised by the Supervisory Committee.

When the Supervisory Committee investigate the conduct of Directors, personnel of manager level of the Company in the performance of their duties, it may understand the situation through the Directors, personnel of manager level and the other involved personnel of the Company, who should provide assistance.

The Supervisory Committee shall carry out his/her compliance management duties in accordance with the requirements of the laws, regulations and the Articles, and shall be responsible for the validity of the compliance management of the Company.

The Supervisory Committee shall meet at least once in every six months. The chairman of Supervisory Committee shall convene the meeting and notify all Supervisors in writing 10 days before convening the meeting.

The Supervisory Committee shall convene meeting regularly within 120 days after the expiration of the last fiscal year for consideration and approval of inspection reports on the annual financial condition and the condition of compliance.

Each Supervisor is entitled to request that an explanation of his comments made at the meetings be noted in the minutes. The minutes of Supervisory Committee meetings shall be maintained as corporate archives by the Secretary to the Board for a period of 20 years.

9. PROFIT DISTRIBUTION

A Company can use profit before tax next year to offset loss for the current year; if the profit before tax of the next year is insufficient to offset the loss, the excessive part can be carried forward to next subsequent year; loss carry forward that exceeds statutory pre-tax offset period can use profit after tax to offset. For the year that the Company realizes the profit after tax (after offset loss, the same as below), the Company will appropriate the profit after tax in the following order: statutory surplus reserve, general risk reserve, transaction risk reserve and distribution to shareholders. 10% of the realized profit after tax of that year will be appropriated as statutory surplus reserve fund. When the aggregate statutory surplus reserve fund has reached 50% or more of the Company's registered capital, the Company may cease to make any further appropriation. 10% of the realized profit after tax of that year will be appropriated as general risk reserve. Not less than 10% of the realized profit after tax of that year will be appropriate as transaction risk reserve.

Subject to the resolution at the general meeting, the Company may also appropriate fund to statutory surplus reserve from profit after tax. The remaining profit after taxation, after recovery of losses and appropriation of reserve fund and all reserves shall be distributed to shareholders in proportion to their shareholdings. If a general meeting violates the provisions in the preceding paragraph of this Article and profits are distributed to the shareholders before the Company makes up losses or makes allocations to the statutory reserve fund, the profits distributed in violation of the provisions must be returned to the Company. No profit shall be distributed in respect of the shares of the Company which are held by the Company. The gain in fair value of the Company's distributable profit shall not be distributed to Shareholders by cash. If the standard required by the laws and the administrative regulations (such as net gearing ratio) not being met, no profit may be distributed to the Shareholders. If undistributed profit is negative, no profit may be distributed to the Shareholders. If capital reserve is negative, no cash distribution shall be made to the Shareholders.

Reserves of the Company are used for offsetting losses sustained by the Company, expanding the Company's production and operation or increasing the capital of the Company. However, capital reserve shall not be used for offsetting losses sustained by the Company.

When the statutory reserve fund is converted into capital, the balance of the statutory reserve shall not fall below 25% of the Company's registered capital before the increase of the capital.

The Company adopts a continuous, stable and aggressive profit distribution policy, which focuses on providing reasonable investment returns to Shareholders. The Company may, according to the profit made by the Company and taking into account the actual situation as well as current and long-term benefit of the Company, distribute dividend by way of cash or shares. In principle, the Company will distribute cash dividend for the year with profit. If no cash distribution proposal has been submitted for year with earnings, the Company will state the reasons for not distributing the profit and the usage of the profit retained in the periodic report. The Company may distribute interim dividend. The accumulated cash distribution of profit for the last three years of the Company were not less than 30% of the average annual distributable profit.

Any distributing of dividends by way of shares shall be resolved by general meeting and report to the relevant competent authorities, such as the CSRC, for approval.

Holders of shares which have been paid up before payment calls by the Company are entitled to dividends. Holders of prepaid shares are not entitled to dividends declared thereafter.

In relation to the receipt of dividends by shareholders, the Company is entitled to forfeit unclaimed dividends, provided that such power shall only be exercised in accordance with the relevant PRC laws, rules, regulations and regulatory documents and six years or thereafter after the date of announcement of the distribution.

The Company shall have the right to terminate sending dividend warrants to holders of overseas-listed foreign-invested shares by mail, but the Company shall exercise the right only after a dividend warrant fails to be redeemed for two consecutive occasions, however the Company can exercise the right after the first occasion on which such a dividend warrant is returned as undelivered.

In relation to the exercise of right to issue warrants to bearer, no warrant thereof shall be issued to replace one that has been lost unless the Company is satisfied beyond reasonable doubt that the original warrant thereof has been destroyed.

The Company shall have the power to sell, in such manner as the Board thinks fit, any shares of a Shareholder of overseas-listed foreign-invested shares who is untraceable, but is subject to the following conditions:

- (i) the Company has distributed dividends for at least 3 times in respect of such shares within 12 years, but none of such dividends was claimed; and
- (ii) the Company, after the expiration of a period of 12 years, made an advertisement on one or more newspapers of the place which the Company is listed, stating its intention to sell such shares, and notified the securities regulatory authority of the place which the Company is listed of such intention.

The Company shall appoint receiving agents on behalf of the holders of overseas-listed foreign-invested shares to receive on behalf of such shareholders dividends declared and all other monies owing by the Company in respect of such shares.

The receiving agents appointed by the Company shall satisfy the relevant requirements of the laws of the place and relevant regulations of the stock exchange where the Company's shares are listed.

The receiving agents appointed on behalf of holders of overseas-listed foreign-invested shares listed in the Hong Kong shall be a company registered as a trust company under the Trustee Ordinance of Hong Kong.

10. FINANCIAL REPORTS

The Company shall prepare its annual financial reports and submit to the CSRC and the stock exchange(s) within four months from the ending date of each fiscal year, the half year financial reports it prepare and submit to the local office of the CSRC and the stock exchange(s) within two months from the ending date of the first six months of each fiscal year, and the quarterly reports it prepare and submit to the local office of the CSRC and the stock exchange(s) within one month from the ending dates of the first three and first nine months of each fiscal year respectively.

The aforesaid financial report shall be drafted in accordance with the relevant laws, administrative rules and regulations, and announced according to the requirement of the securities regulatory authority of the place which the Company's shares listed.

The Board shall place before the shareholders at every annual general meeting such financial reports as are required by any laws, regulations, by-laws or directives to be prepared by the Company.

The Company's financial reports shall be made available for shareholders' inspection at the Company 20 days before the date of every annual general meetings. Each shareholder shall be entitled to obtain a copy of the financial reports referred to in this Chapter.

Unless otherwise required by this Articles, the Company shall deliver, by hand or by prepaid post, the abovementioned report or report of the Directors (together with balance sheet and income statement) to the address of each overseas listed foreign shares' holders as registered in the register of members at least 21 days before such annual general meeting; or the Company may published its report on the website of the Shanghai Stock Exchange and in a newspaper specified in this Articles, and on the website of the Hong Kong Stock Exchange or in one or more newspapers specified by it. Once an announcement is made, all shareholders are deemed to have received the aforementioned financial report.

The financial statements of the Company shall, in addition to being prepared in accordance with PRC accounting standards and regulations, be prepared in accordance with either international accounting standards or that of the overseas place where the Company's shares are listed. If there is any material difference between the financial statements prepared respectively in accordance with the two accounting standards, explanations shall be made in the financial statements. When the Company is to distribute its after-tax profits, the lower of the after-tax profits as shown in the two financial statements shall be adopted.

Any interim results or financial information published or disclosed by the Company must also be prepared and presented in accordance with PRC accounting standards and regulations, and also in accordance with either international accounting standards or that of the overseas place where the Company's shares are listed.

The Company will not keep accounts other than those stipulated by law. Assets of the Company shall not be deposited in an account maintained in the name of any individual.

11. LIQUIDATION

The Company shall be dissolved and liquidated according to laws upon the occurrence of the following events:

- (i) resolution on dissolution is passed by shareholders at a general meeting;
- (ii) dissolution is necessary due to a merger or division of the Company;
- (iii) the Company's business license is revoked or it is ordered to close down or it is canceled according to law;
- (iv) where the Company gets into serious trouble in operations and management and its continuation may cause substantial loss to the interests of its shareholders, and no solution can be found through any other channel, shareholders representing 10% or more of the total voting rights of the Company may request the people's court to dissolve the Company;
- (v) the Company is legally declared bankrupt due to its failure to repay debts due;
- (vi) other reasons for dissolution as specified in the Articles arises.

Upon the occurrence of the situation mentioned in (6) above, the Company may continue to exist by amending the Articles.

The amendment of the Articles pursuant to the preceding paragraph shall be subject to the approval of more than two-thirds of the voting rights held by the shareholders present at the shareholders' general meetings.

Where the Company is dissolved under subparagraphs (1), (3), (4) and (6) of the Article 270, a liquidation committee shall be set up in accordance with the laws within 15 days after the liquidation is approved by the securities regulatory authority of the State Council, and its members shall be determined by shareholders at a general meeting by way of ordinary resolution. If a liquidation committee is not set up within the specified period to carry out liquidation procedures, creditors may apply to the people's court for appointment of relevant persons to form a liquidation committee so as to proceed with the liquidation.

Where the Company is dissolved pursuant to subparagraph (3) of the preceding Article, the Company shall apply to the CSRC with reason of dissolution and the plan of settling liabilities. The Company will be dissolved after obtaining of the approval in the CSRC.

Where the Company is dissolved pursuant to subparagraph (4) of the preceding Article, the people's court shall, according to the relevant laws, organize to form a liquidation committee comprising the securities regulatory authority under the State Council, shareholders, relevant authorities and relevant professionals to enforce bankruptcy liquidation in accordance with the relevant bankruptcy law.

Where the Board proposes to liquidate the Company due to causes other than where the Company has declared that it is insolvent, the Board shall include a statement in its notice convening a shareholders' general meeting to consider the proposal to the effect that, after making full inquiry into the affairs of the Company, the Board is of the opinion that the Company will be able to pay its debts in full within 12 months from the commencement of the liquidation.

Upon the passing of the resolution by the shareholders in general meeting for the liquidation of the Company, all functions and powers of the Board shall cease.

The liquidation committee shall act in accordance with the instructions of the shareholders' general meeting to make a report at least once every year to the shareholders' general meeting on the committee's receipts and payments, the business of the Company and the progress of the liquidation and to present a final report to the shareholders' general meeting on completion of the liquidation.

During the liquidation period, the liquidation committee shall exercise the following functions and duties:

- (i) to ascertain the Company's assets and separately prepare a balance sheet and an inventory of assets;
- (ii) to notify creditors by sending notice or by making announcement;
- (iii) to deal with and settle the Company's outstanding business deals in relation to the liquidation;
- (iv) to settle outstanding taxes as well as taxes arising in the course of liquidation;
- (v) to ascertain all claims and debts;
- (vi) to dispose of the remaining assets of the Company after the repayment of debts; and
- (vii) to represent the Company in any civil proceedings.

The liquidation committee shall notify creditors within 10 days from the date of its establishment and make announcement, such as by newspaper, within sixty (60) days of that date. Creditors should, within 30 days after receipt of the notice, or for those who do not receive the notice, within 45 days from the date of the announcement, declare their claims to the liquidation committee.

When declaring their claims, creditors shall explain relevant particulars of their claims and provide supporting materials. The liquidation committee shall register the claims.

During the period of declaration of claims, the liquidation committee shall not repay any debts to the creditors.

After checking the Company's assets and preparing a balance sheet and an inventory of assets, the liquidation committee shall formulate a liquidation plan and submit the same to a general meetings or people's court for confirmation.

The property of the Company remained after the property is respectively applied to payment of the liquidation expenses, the wages, social insurance premiums and statutory compensation of staff and workers and the outstanding taxes, and to full payment of the debts of the Company shall be distributed in proportion to the shareholdings of the shareholders.

During the liquidation period, the Company shall continue to exist but shall not carry out any business activities not relating to liquidation. The assets of the Company shall not be distributed to the shareholders before the repayment of debts in accordance with provisions of the preceding article.

If the liquidation committee, after ascertaining the Company's assets and preparing a balance sheet and an inventory of assets, discovers that the Company's assets are insufficient to repay its debts, it shall immediately apply to the people's court for a declaration of bankruptcy.

After the Company is declared bankrupt by a ruling of the people's court, the liquidation committee shall transfer the liquidation matters to the people's court.

Following the completion of liquidation, the liquidation committee shall present a report on liquidation and prepare a statement of the receipts and payments and the financial accounts for the period of the liquidation which shall be audited by PRC certified public accountants and then submitted to the shareholders' general meeting or relevant competent authorities for confirmation.

The liquidation committee shall submit the aforesaid documents to the company registration authority, apply for cancelation of company registration, and announce the termination of the Company within 30 days after confirmation is obtained from the relevant competent authorities,.

12. AMENDMENTS TO THE ARTICLES

The Company may amend the Articles of Association in accordance with the laws, administrative regulations and the Articles of Association.

The Company shall amend the Articles of Association under any of the following situations:

- (i) there is a discrepancy between the provisions of the Articles of Association and those of laws and administrative regulations after the amendment to the Company Law or relevant laws and administrative regulations;
- (ii) there are changes in the situation of the Company resulting in inconsistency in relation to the scenarios mentioned in the Articles of Association;
- (iii) the shareholders' general meeting resolves to amend the Articles of Association.

Where the amendments to the Articles passed by the general meetings need the examination and approval of the competent authorities, these amendments shall be submitted hereto for approval.

Any amendment to the Articles of Association involving anything set out in the Mandatory Provisions for Articles of Association of Companies shall become effective upon approval by the department in charge of company approval affairs authorized by the State Council and by the CSRC. If there is any change relating to the registered particulars of the Company, application shall be made for registration of the changes in accordance with the laws.

The Board may amend the Articles of Association in accordance with the resolution on amendments to the Articles of Association passed at the shareholders' general meeting and the approval opinions of the relevant competent authorities.

Any amendment to the Articles of Association shall be subject to announcement if so required by the laws and regulations.

1. FURTHER INFORMATION ABOUT THE COMPANY

A. Incorporation

Our Company was established in the PRC as an enterprise owned by the whole people (全民所有制企業) in August 1988 under the name of Shanghai Haitong Securities Company* (上海海通證券公司) with a registered share capital of RMB10 million and the sole shareholder being Bank of Communications, Shanghai Branch. On September 27, 1994, our Company was converted into a limited liability company, and was renamed as Haitong Securities Company Limited* (“海通證券有限公司”). On January 28, 2002, upon the approval from CSRC and the Shanghai government, Haitong Securities Company Limited was converted into a joint stock limited liability company, and was renamed as Haitong Securities Co., Ltd.* (海通證券股份有限公司).

Our Company has established a place of business in Hong Kong at 21st Floor, Li Po Chun Chambers, 189 Des Voeux Road Central, Central, Hong Kong and has been registered as a non-Hong Kong company in Hong Kong under Part XI of the Hong Kong Companies Ordinance on November 22, 2011. Ms. Mok Mingwai has been appointed as our agent for the acceptance of service of process in Hong Kong whose correspondence address is 8th Floor, Gloucester Tower, The Landmark, 15 Queen’s Road Central, Hong Kong. As we are incorporated in the PRC, our corporate structure and Articles of Association are subject to the relevant laws and regulations of the PRC. A summary of the relevant provisions of our Articles of Association is set out in Appendix V. A summary of certain relevant aspects of the laws and regulations of the PRC is set out in Appendix IV.

B. Changes in Share Capital

At our establishment, our initial registered capital was RMB10,000,000, all of which were fully paid up.

On November 8, 1991, upon the approval from PBOC, the registered share capital of our Company was increased from RMB10,000,000 to RMB35,000,000.

On September 27, 1994, the Company conducted a restructuring and the registered capital of the Company was enlarged from RMB35,000,000 to RMB1,000,000,000.

On December 29, 2000, upon the approval from CSRC, the registered share capital of our Company was increased from RMB1,000,000,000 to RMB3,746,928,000.

On January 28, 2002, upon the approval from CSRC, the registered share capital of our Company was increased from RMB3,746,928,000 to RMB4,006,093,000.

On December 6, 2002, upon the approval from CSRC, the registered share capital of our Company was increased from RMB4,006,093,000 to RMB8,734,438,870.

On July 6, 2007, the registered share capital of our Company was changed from RMB8,734,438,870 to RMB3,389,272,910 as a result of the reverse takeover of SUABC.

On November 21, 2007, the registered share capital of our Company was increased from RMB3,389,272,910 to RMB4,113,910,590 as a result of issuance of 724,637,680 shares by non-public offering.

On June 12, 2008, upon the approval by our 2007 shareholders' meeting, we distributed a cash dividend of RMB411,391,059 together with a total of 1,234,173,177 bonus shares, and a total of 2,879,737,413 A Shares by converting a portion of our capital reserve into share capital. As a result, our total share capital was increased from RMB4,113,910,590 to RMB8,227,821,180.

Save as aforesaid, up to the Latest Practicable Date, there has been no alterations in our share capital since our establishment.

C. The Company's General Meetings held on May 16, 2011

At the general meeting of the Company held on May 16, 2011, the following resolutions, among other things, were passed by our Shareholders:

- (a) the conversion of the Company into an "overseas subscription company" was approved;
- (b) the issue by our Company of the H Shares with a par value of RMB1.00 each and such H Shares be listed on the Hong Kong Stock Exchange. The number of H Shares to be issued shall not exceed 13% of the total issued share capital as enlarged by the issue of H Shares assuming the Over-allotment Option is not exercised. The Over-allotment Option to issue not more than 15% of the H Shares initially available under the Global Offering if fully exercised was also granted;
- (c) subject to the completion of the Global Offering, the adoption of the Articles of Association and the authorization to the Board to amend such Articles of Association in accordance with the requirements of the relevant laws and regulations and the Hong Kong Listing Rules; and
- (d) authorization of the Board to handle all matters relating to, among other things, the Global Offering and the issue of H Shares and the listing of H Shares on the Hong Kong Stock Exchange.

2. OUR SUBSIDIARIES AND INTERESTS IN OTHER COMPANIES

Our principal subsidiaries and associates (for the purpose of the Listing Rules) as of June 30, 2011 are set out in Note 21 and Note 22 under the financial information in the Accountants' Report as included in Appendix I to this prospectus.

The following alterations in the registered capital of our principal subsidiaries have taken place within the two years preceding the date of this prospectus:

On November 28, 2011, the registered capital of Haitong Futures was increased from RMB500,000,000 to RMB1,000,000,000;

On August 15, 2011, the registered capital of Haitong Capital Investment was increased from RMB3,000,000,000 to RMB4,000,000,000;

On July 9, 2010, the registered capital of Haitong International Holdings was increased from HK\$2,000,000,000 to HK\$3,000,000,000. On December 30, 2010, registered capital of Haitong International Holdings was increased from HK\$3,000,000,000 to HK\$4,000,000,000;

On January 30, 2011, the registered capital of Jilin Province Modern Agricultural and Emerging Markets Investment Fund Limited was increased from RMB600,000,000 to RMB800,000,000;

On July 20, 2011, the registered capital of Haitong International Futures Limited was increased from HK\$50,000,000 to HK\$100,000,000;

On October 6, 2010, the registered capital of Haitong International Securities Company Limited was increased from HK\$600,000,000 to HK\$1,100,000,000. On January 10, 2011, the registered capital of Haitong International Securities Company Limited was increased from HK\$1,100,000,000 to HK\$1,500,000,000.

Haitong International Securities is a company listed on the Hong Kong Stock Exchange. Please refer to the announcements of Haitong International Securities on the HKEx website for all the changes of its issued share capital. Within the two years preceding the date of this prospectus, it has allotted and issued ordinary shares from time to time pursuant to the exercise of share options under the share option scheme adopted on August 23, 2002. It has also allotted and issued ordinary shares on August 16, 2011 pursuant to a loan capitalization agreement entered into between Haitong International Holdings and Haitong International Securities on June 23, 2011 and it has allotted ordinary shares in the form of scrip dividend on November 10, 2010 for 12 months ended on June 30, 2010.

Save as disclosed above, there has been no alterations in the share capital of our principal subsidiaries within the two years preceding the date of this prospectus.

3. SINO-FOREIGN JOINT VENTURE

Information regarding the Sino-foreign equity joint venture in which we are interested is set out below.

(1) HFT Investment Management

Parties and equity interest:	Our Company	51%
	BNPP IP BE Holding	49%
Terms of joint venture:	N/A	
Place of incorporation:	PRC	
Date of establishment:	April 18, 2003	
Scope of business:	Fund raising, fund sales, asset management and other services permitted by CSRC	
Nature:	Sino-foreign joint venture	
Paid-up share capital:	RMB150,000,000	
Registered share capital:	RMB150,000,000	

Any equity transfer of HFT Investment Management shall be subject to pre-emptive rights of the joint venture partners as set out in the joint venture contract and articles of association of HFT Investment Management. Equity of HFT Investment Management shall only be transferred to non-joint venture partners upon the written approval from the other joint venture partner and the approval from competent authority. The entitlements of the joint venture partners in profits, dividends and other distributions are in proportion to their capital contribution ratios. The board of directors of HFT Investment Management consists of nine members, of which three directors were appointed by our Company, two directors were appointed by BNPP IP BE Holding and four directors are independent directors. Chairman will be nominated by joint venture partners and appointed by the board of directors.

Upon dissolution of the joint venture, the joint venture parties shall be entitled to the remaining assets after paying off all debts of the company, based on their respective capital contribution ratios.

(2) Haitong-Fortis PE Management

Parties and equity interest:	Our Company	67%
	BNPP IP BE Holding	33%
Terms of joint venture:	30 years	
Place of incorporation:	PRC	
Date of establishment:	October 18, 2004	
Scope of business:	Management of industry fund, investment consulting and establishing industry fund	
Nature:	Sino-foreign joint venture	
Paid-up share capital:	RMB20,000,000	
Registered share capital:	RMB20,000,000	

Any equity transfer of Haitong-Fortis PE Management shall be subject to pre-emptive rights of the joint venture partners as set out in the joint venture contract and articles of association of Haitong-Fortis PE Management. The entitlements of the joint venture partners in profits, dividends and other distributions are in proportion to their capital contribution ratios. The board of directors of Haitong-Fortis PE Management consists of five members, of which two directors (including the chairman) were appointed by our Company, one director (the vice chairman) was appointed by BNPP IP BE Holding and two directors are independent directors.

Upon the expiry of the term of the joint venture contract, the joint venture parties shall be entitled to the remaining assets after paying off all debts of the company, based on their respective capital contribution ratios.

(3) Fullgoal Fund Management

Parties and equity interest:	Our Company	27.775%
	Bank of Montreal	27.775%
	Shenyin & Wanguo Securities Co., Ltd.	27.775%
	Shandong International Trust Corporation	16.675%
Terms of joint venture:	N/A	
Place of Incorporation:	PRC	
Date of establishment:	April 13, 1999	
Scope of business:	Fund raising, fund sales, asset management and other services permitted by CSRC	
Nature:	Sino-foreign joint venture	
Paid-up share capital:	RMB180,000,000	
Registered share capital:	RMB180,000,000	

Any transfer of equity interest of Fullgoal Fund Management shall be subject to pre-emptive rights of the joint venture partners as set out in the joint venture contract and articles of association of Fullgoal Fund Management. If more than one joint venture partner are interested in acquiring the equity interest to be transferred, the equity interest will be transferred in proportion to their capital contribution ratios or other percentages agreed in written. If none of the joint venture partners exercise the pre-emptive rights, the equity interest can only be transferred to non-joint venture partners upon written approval from the joint venture partners holding at least three-fourths of the total equity interest of Fullgoal Fund Management. The entitlements of the joint venture partners in profits, dividends and other distributions are in proportion to their capital contribution ratios. The board of directors of Fullgoal Fund Management consists of 11 members, of which seven directors were appointed by the joint venture partners and four directors are independent directors. Chairman will be nominated by the joint venture partners and appointed by the board of directors.

Upon dissolution of the joint venture, the joint venture parties shall be entitled to the remaining assets after paying off all debts of the company, based on their respective capital contribution ratios.

4. FURTHER INFORMATION ABOUT OUR BUSINESS

A. Summary of Our Material Contracts

We have entered into the following contracts (not being contracts entered into in our ordinary course of business) within the two years preceding the date of this prospectus, which are or may be material:

- (a) a registered capital increase agreement dated June 21, 2011 entered into between our Company and Shanghai Shengyuan Real Estate (Group) Co., Ltd., pursuant to which our Company and Shanghai Shengyuan Real Estate (Group) Co., Ltd. agreed to invest in Haitong Futures to increase the registered capital of Haitong Futures from RMB500,000,000 to RMB1,000,000,000;
- (b) a facilities agreement dated June 22, 2011 between Bank of China (Hong Kong) Limited, The Hongkong and Shanghai Banking Corporation Limited, Hang Seng Bank Limited, Chong Hing Bank Limited, Sumitomo Mitsui Banking Corporation, Wing Hang Bank Limited, Haitong International Securities Group Limited and Haitong International Holdings Limited, pursuant to which Bank of China (Hong Kong) Limited, The Hongkong and Shanghai Banking Corporation Limited, Hang Seng Bank Limited, Chong Hing Bank Limited, Sumitomo Mitsui Banking Corporation, Wing Hang Bank Limited have agreed to provide a Hong Kong dollar term loan facility in an aggregate amount of HK\$552,000,000 and a Hong Kong dollar revolving loan facility in an aggregate amount of HK\$828,000,000 to Haitong International Securities Group Limited;

- (c) a loan capitalization agreement dated June 23, 2011 between Haitong International Holdings Limited and Haitong International Securities Group Limited, pursuant to which Haitong International Holdings Limited agreed to subscribe for 200,000,000 new shares of Haitong International Securities Group Limited by way of capitalization of a sum of HK\$850,000,000 out of the total outstanding amount of the shareholder's loans owed by Haitong International Securities Group Limited to Haitong International Holdings Limited;
- (d) a cornerstone placing agreement dated March 30, 2012 entered into between our Company, The Chuo Mitsui Trust and Banking Co., Ltd., Haitong International Capital Limited, Haitong International Securities Company Limited and J.P. Morgan Securities (Asia Pacific) Limited, pursuant to which The Chuo Mitsui Trust and Banking Co., Ltd. agreed to subscribe for our H Shares in the amount of USD12,000,000;
- (e) a cornerstone placing agreement dated April 13, 2012 entered into between our Company, Albertson Capital Limited, Haitong International Capital Limited, Haitong International Securities Company Limited, J.P. Morgan Securities (Asia Pacific) Limited, Credit Suisse (Hong Kong) Limited, Deutsche Bank AG, Hong Kong Branch, Citigroup Global Markets Asia Limited and UBS AG, Hong Kong Branch, pursuant to which Albertson Capital Limited agreed to subscribe for our H Shares in the amount of USD15,000,000;
- (f) a cornerstone placing agreement dated April 13, 2012 entered into between our Company, Toyo Securities Company Limited, Haitong International Capital Limited, Haitong International Securities Company Limited, J.P. Morgan Securities (Asia Pacific) Limited, Credit Suisse (Hong Kong) Limited, Deutsche Bank AG, Hong Kong Branch, Citigroup Global Markets Asia Limited and UBS AG, Hong Kong Branch, pursuant to which Toyo Securities Company Limited agreed to subscribe for our H Shares in the amount of USD10,000,000;
- (g) a cornerstone placing agreement dated April 13, 2012 entered into between our Company, SBI Holdings, Inc., Haitong International Capital Limited, Haitong International Securities Company Limited, J.P. Morgan Securities (Asia Pacific) Limited, Credit Suisse (Hong Kong) Limited, Deutsche Bank AG, Hong Kong Branch, Citigroup Global Markets Asia Limited and UBS AG, Hong Kong Branch, pursuant to which SBI Holdings, Inc. agreed to subscribe for our H Shares in the amount of USD30,000,000;
- (h) a cornerstone placing agreement dated April 14, 2012 entered into between our Company, KGI Finance Ltd, Haitong International Capital Limited, Haitong International Securities Company Limited, J.P. Morgan Securities (Asia Pacific) Limited, Credit Suisse (Hong Kong) Limited, Deutsche Bank AG, Hong Kong Branch, Citigroup Global Markets Asia Limited, UBS AG, Hong Kong Branch and The Hongkong and Shanghai Banking Corporation Limited, pursuant to which KGI Finance Ltd agreed to subscribe for our H Shares in the amount of USD30,000,000;

- (i) a cornerstone placing agreement dated April 14, 2012 entered into between our Company, D. E. Shaw Valence International, INC., Haitong International Capital Limited, Haitong International Securities Company Limited, J.P. Morgan Securities (Asia Pacific) Limited, Credit Suisse (Hong Kong) Limited, Deutsche Bank AG, Hong Kong Branch, Citigroup Global Markets Asia Limited and UBS AG, Hong Kong Branch, pursuant to which D. E. Shaw Valence International, INC. agreed to subscribe for our H Shares in the amount of USD100,000,000;
- (j) a cornerstone placing agreement dated April 14, 2012 entered into between our Company, Leading Investment & Securities Co., Ltd, Haitong International Capital Limited, Haitong International Securities Company Limited, J.P. Morgan Securities (Asia Pacific) Limited, Credit Suisse (Hong Kong) Limited, Deutsche Bank AG, Hong Kong Branch, Citigroup Global Markets Asia Limited and UBS AG, Hong Kong Branch, pursuant to which Leading Investment & Securities Co., Ltd agreed to subscribe for our H Shares in the amount of USD20,000,000.
- (k) a cornerstone placing agreement dated April 14, 2012 entered into between our Company, World Prosper Limited, Haitong International Capital Limited, Haitong International Securities Company Limited, J.P. Morgan Securities (Asia Pacific) Limited, Credit Suisse (Hong Kong) Limited, Deutsche Bank AG, Hong Kong Branch, Citigroup Global Markets Asia Limited, UBS AG, Hong Kong Branch and The Hongkong and Shanghai Banking Corporation Limited, pursuant to which World Prosper Limited agreed to subscribe for our H Shares in the amount of USD15,000,000;
- (l) a cornerstone placing agreement dated April 14, 2012 entered into between our Company, Oman Investment Fund, Haitong International Capital Limited, Haitong International Securities Company Limited, J.P. Morgan Securities (Asia Pacific) Limited, Credit Suisse (Hong Kong) Limited, Deutsche Bank AG, Hong Kong Branch, Citigroup Global Markets Asia Limited, UBS AG, Hong Kong Branch and Nomura International (Hong Kong) Limited, pursuant to which Oman Investment Fund agreed to subscribe for our H Shares in the amount of USD30,000,000;
- (m) a cornerstone placing agreement dated April 14, 2012 entered into between our Company, Progress Investment Management Company (BVI) Limited, Haitong International Capital Limited, Haitong International Securities Company Limited, J.P. Morgan Securities (Asia Pacific) Limited, Credit Suisse (Hong Kong) Limited, Deutsche Bank AG, Hong Kong Branch, Citigroup Global Markets Asia Limited, UBS AG, Hong Kong Branch and The Hongkong and Shanghai Banking Corporation Limited, pursuant to which Progress Investment Management Company (BVI) Limited agreed to subscribe for our H Shares in the amount of USD15,000,000;

- (n) a cornerstone placing agreement dated April 14, 2012 entered into between our Company, PAGAC Horseshoe Holding I SARL, Haitong International Capital Limited, Haitong International Securities Company Limited, J.P. Morgan Securities (Asia Pacific) Limited, Credit Suisse (Hong Kong) Limited, Deutsche Bank AG, Hong Kong Branch, Citigroup Global Markets Asia Limited and UBS AG, Hong Kong Branch, pursuant to which PAGAC Horseshoe Holding I SARL agreed to subscribe for our H Shares in the amount of USD300,000,000; and



























- (o) a Hong Kong underwriting agreement dated April 16, 2012 entered into between our Company, Haitong International Capital Limited, Haitong International Securities Company Limited, J.P. Morgan Securities (Asia Pacific) Limited, Credit Suisse (Hong Kong) Limited, Deutsche Bank AG, Hong Kong Branch, Citigroup Global Markets Asia Limited, UBS AG, Hong Kong Branch, The Hongkong and Shanghai Banking Corporation Limited, Nomura International (Hong Kong) Limited, Standard Chartered Securities (Hong Kong) Limited, BOCOM International Securities Limited and the other Hong Kong Underwriters, further details of which are set out in the section headed “Underwriting”.

B. Our Intellectual Property Rights*(i) Trademarks**(a) Registered trademarks*



As of the Latest Practicable Date, we have registered the following trademarks in the PRC which we consider to be or may be material to our business:

No.	Registrant	Registration No.	Trademark	Class	Duration
1.	Haitong Securities Co., Ltd.	1385986		36	2010.04.14- 2020.04.13
2.	Haitong Securities Co., Ltd.	4371095		36	2008.09.14- 2018.09.13
3.	Haitong Securities Co., Ltd.	4034053		36	2007.04.21- 2017.04.20
4.	Haitong Securities Co., Ltd.	8252844		36	2011.12.28- 2021.12.27
5.	HFT Investment Management Co., Ltd.	4004620		36	2010.09.14- 2020.09.13
6.	HFT Investment Management Co., Ltd.	8338792		36	2011.08.28- 2021.08.27
7.	HFT Investment Management Co., Ltd.	6056371		36	2010.03.07- 2020.03.06
8.	Taifook Securities Group Limited	4846760		36	2010.02.28- 2020.02.27
9.	Taifook Securities Group Limited	4846759		36	2010.02.28- 2020.02.27

As of the Latest Practicable Date, we have registered the following trademarks in Hong Kong which we consider to be or may be material to our business:

No.	Registrant	Registration No.	Trademark	Class	Duration
1.	Haitong Securities Co., Ltd.	300689833	A  B  C 	36	2006.07.28- 2016.07.27
2.	Haitong Securities Co., Ltd.	300689851	A  B  C 	36	2006.07.28- 2016.07.27
3.	Haitong Securities Co., Ltd.	300689824	A  B 	36	2006.07.28- 2016.07.27
4.	Haitong Securities Co., Ltd.	300689842	A  B 	36	2006.07.28- 2016.07.27
5.	Taifook Securities Group Limited	300433386	   	36	2005.06.06- 2015.06.05
6.	Taifook Securities Group Limited	300433395	   	36	2005.06.06- 2015.06.05
7.	Taifook Securities Group Limited	300433377	   	36	2005.06.06- 2015.06.05
8.	Haitong International Holdings Limited	301746496	A  B  C  D 	36	2010.10.27- 2020.10.26

As of the Latest Practicable Date, we have registered the following trademarks in Macau which we consider to be or may be material to our business:

No.	Registrant	Registration No.	Trademark	Class	Duration
1.	Haitong International Holdings Limited	N/052594 N/052595		36	2011.02.22- 2018.02.22
2.	Haitong International Holdings Limited	N/052596		36	2011.02.22- 2018.02.22

(b) Trademarks under application

As of the Latest Practicable Date, we have applied for the registration of the following trademarks:

No.	Registrant	Application No.	Place of Registration	Trademark	Class	Application Date
1.	Haitong Securities Co., Ltd.	302040146	Hong Kong	A  B  C 	36	2011.09.23
2.	Haitong Securities Co., Ltd.	302040137	Hong Kong	A  B  C 	36	2011.09.23
3.	HFT Investment Management Co., Ltd.	302187649	Hong Kong		36	2012.03.12
4.	HFT Investment Management Co., Ltd.	302187621	Hong Kong		36	2012.03.12
5.	HFT Investment Management Co., Ltd.	302187658	Hong Kong		36	2012.03.12

(ii) Software copyright

As of the Latest Practicable Date, we have applied for the registration of the following copyright:

No.	Copyright	Owner	Registration No.	Registration Date
1.	Information Isolation Wall System	Haitong Securities Co., Ltd.	2010SR003176	2010.01.20
2.	Common Payment Server	iT Technology (Shenzhen) Co., Ltd	2010SR014259	2010.03.30
3.	Web Futures RTQ	iT Technology (Shenzhen) Co., Ltd	2010SR005019	2010.01.27
4.	Wifi Mobile Trading	iT Technology (Shenzhen) Co., Ltd	2010SR005003	2010.01.27
5.	DTS-I	iT Technology (Shenzhen) Co., Ltd	2010SR005000	2010.01.27
6.	Futures Competition System	iT Technology (Shenzhen) Co., Ltd	2010SR005022	2010.01.27
7.	Web Futures	iT Technology (Shenzhen) Co., Ltd	2010SR005020	2010.01.27

(iii) Domain name

As of the Latest Practicable Date, we have registered the following internet domain names:

No.	Registrant	Domain Name	Registration Date
1.	Haitong Securities Co., Ltd.	htsec.com.cn	2000.03.16
2.	Haitong Securities Co., Ltd.	htsec.com	1998.09.16
3.	Haitong International Holdings Limited	htsec.com.hk	2007.12.05
4.	Haitong International Holdings Limited	htseci.com.hk	2010.09.21
5.	Haitong International Holdings Limited	haitongintl.com.hk	2010.09.21
6.	Haitong International Holdings Limited	haitongintlsec.com.hk	2010.09.21
7.	Haitong International Holdings Limited	htseci.com	2010.09.21
8.	Haitong International Holdings Limited	haitongintlsec.com	2010.09.21
9.	Haitong International Holdings Limited	haitongintl.com	2010.09.21
10.	Taifook On-line Limited	htisec.cn	2010.10.25
11.	Taifook On-line Limited	taifook.com	1997.04.22
12.	Taifook On-line Services Limited	taifook.com.cn	2000.12.29
13.	Taifook On-line Services Limited	taifook.net	2001.12.15
14.	Taifook On-line Services Limited	taifookwealthclub.com	2009.02.03
15.	Taifook On-line Services Limited	haitonginternational.com	2010.07.30
16.	Taifook On-line Services Limited	htisec.hk	2010.12.03
17.	Taifook On-line Services Limited	htisec.com.hk	2010.12.03
18.	Taifook On-line Services Limited	海通國際.com	2010.07.30
19.	Taifook On-line Services Limited	海通證券.com	2010.07.30
20.	Taifook On-line Services Limited	海通國際證券.com	2010.07.30
21.	Taifook On-line Services Limited	海通證券國際.com	2010.07.30
22.	Taifook On-line Services Limited	海通國際集團.com	2010.07.30
23.	Taifook On-line Services Limited	海通國際金融.com	2010.07.30
24.	Taifook On-line Services Limited	海通國際投資.com	2010.07.30
25.	Taifook On-line Services Limited	海通證券香港.com	2010.07.30
26.	Taifook On-line Services Limited	海通香港.com	2010.07.30
27.	Taifook On-line Services Limited	海通國際.公司	2010.12.06
28.	Taifook On-line Services Limited	海通國際証券.公司	2010.12.29
29.	Taifook On-line Services Limited	海通國際證券集團公司	2010.12.29
30.	Haitong International On-line Services Limited	htisec.com	2010.07.13
31.	Haitong International On-line Services Limited	htisec.com.cn	2010.10.22
32.	Haitong International On-line Services Limited	htisec.net	2010.10.21
33.	I.T. Technology (Shenzhen) Company Limited	itsz.cn	2003.08.21
34.	Hai Tong Asset Management (HK) Limited	haitongetf.com.hk	2011.11.17

5. DISCLOSURE OF INTERESTS

A. Substantial Shareholders

As of the Latest Practicable Date, the following persons directly or indirectly control, or are entitled to exercise, or control the exercise of, 5 % or more of our A shares:

Name of Shareholder	No. of Domestic Shares directly or indirectly held	Approximate percentage of share capital (%)
Bright Food (Group) Co., Ltd. (光明食品(集團)有限公司)	482,686,582	5.87%
Shanghai Haiyan Investment Management Company Limited (上海海煙投資管理有限公司)	416,420,568	5.06%

The Directors are not aware of any person who will, immediately following the Global Offering, have an interest or short position in Shares or underlying Shares which would be required to be disclosed to our Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or, directly or indirectly, be interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of our Company.

We are not aware of any arrangement which may result in any change of control in our Company at any subsequent date.

B. Disclosure of the Directors' and Supervisors' interests in the issued share capital of the Company or our associated corporations

Immediately following the completion of the Global Offering and assuming the Over-allotment Option is not exercised, none of our Directors or Supervisors has any interest and/or short positions in the Shares, underlying shares and debentures of the Company or our associated corporation (within the meaning of Part XV of the SFO), which will have to be notified to us and the Hong Kong Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which he is taken or deemed to have under such provisions of the SFO) or which will be required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or will be required, pursuant to the Model Code for Securities Transactions by Directors of Listed Companies, to be notified to us and the Hong Kong Stock Exchange (for this purpose, the relevant provisions of the SFO will be interpreted as if they applied to the Supervisors).

C. Particulars of Service Contracts

Pursuant to Rules 19A.54 and 19A.55 of the Hong Kong Listing Rules, we have entered into a contract with each of our Directors and Supervisors in respect of, among other things, compliance of relevant laws and regulations, observation of the Articles of Association and provisions on arbitration. Save as disclosed above, we have not entered, and do not propose to enter, into any service contracts with any of our Directors or Supervisors in their respective capacities as Directors/Supervisors (other than contracts expiring or determinable by the employer within one year without the payment of compensation (other than statutory compensation)).

D. Directors' and Supervisors' Remuneration

Save as disclosed in the section headed "Directors, Supervisors and Senior Management" of this prospectus and under Note 48 to the financial information in the Accountants' Report set out in Appendix I to this prospectus, no Director or Supervisor received other remuneration or benefits in kind from the Company in respect of the three financial years ended December 31, 2009, 2010 and 2011.

Under the current arrangements, it is expected that our Directors would receive compensation (including remuneration, benefits in kind but excluding the discretionary bonuses) from our Group for the year ending December 31, 2012 in the aggregate amount of approximately RMB3,321,456.

Under the current arrangements, it is expected that our Supervisors would receive compensation (including remuneration, benefits in kind but excluding the discretionary bonuses) from our Group for the year ending December 31, 2012 in the aggregate amount of approximately RMB3,436,977.

E. Personal Guarantees

The Directors and Supervisors have not provided personal guarantees in favor of lenders in connection with banking facilities granted to us.

F. Agency Fees or Commissions Paid or Payable

Save as disclosed in the section headed "Underwriting" in this prospectus, no commissions, discounts, brokerages or other special terms have been granted in connection with the issue or sale of any share or loan capital of our Company or any of our subsidiaries within the two years ended on the date of this prospectus.

G. Related Party Transactions

During the two years preceding the date of this prospectus, we have engaged in the material related party transactions as described in Note 52 to the financial information in the Accountants' Report set out in Appendix I to this prospectus.

H. Disclaimers

Save as disclosed in this prospectus:

- (a) none of the Directors, Supervisors and any of the parties listed in the paragraph headed “Qualification of experts” of this Appendix is:
 - (i) interested in our promotion, or in any assets which, within the two years immediately preceding the date of this prospectus, have been acquired or disposed of by or leased to us, or are proposed to be acquired or disposed of by or leased to the Company;
 - (ii) materially interested in any contract or arrangement subsisting at the date of this prospectus which is significant in relation to our business;
- (b) neither of the parties listed in the paragraph headed “Qualification of experts”:
 - (i) is interested legally or beneficially in any of our Shares or any shares in any of our subsidiaries; or
 - (ii) has any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for our Shares or any of our securities;
- (c) none of our Directors or Supervisors or their associates or any shareholders of the Company who to the knowledge of the Directors owns more than 5% of our issued share capital has any interest in our top five business customers;
- (d) none of our Directors or Supervisors is a director or employee of a company which has an interest in the share capital of the Company which, once the H Shares are listed on the Hong Kong Stock Exchange, would have to be disclosed pursuant to Divisions 2 and 3 of Part XV of the SFO.

6. OTHER INFORMATION**A. Estate Duty**

We have real properties located in the PRC and Hong Kong.

We have been advised that currently there is no PRC law imposing liability on estate duty, thus no material liability for estate duty under PRC law is likely to be imposed on us.

We have also been advised that the Revenue (Abolition of Estate Duty) Ordinance 2005 came into effect on February 11, 2006 in Hong Kong. No Hong Kong estate duty is payable and no estate duty clearance papers are needed for an application for a grant of representation in respect of holders of H shares whose deaths occur on or after February 11, 2006.

B. Litigation

As of the Latest Practicable Date, save as disclosed in this prospectus, the Company is not involved in any litigation, arbitration or administrative proceedings of material importance which could have a material adverse effect on our financial condition or results of operations, and, so far as we are aware, no litigation, arbitration or administrative proceedings of material importance is pending or threatened against us.

C. Joint Sponsors

The Joint Sponsors have made an application on our behalf to the Listing Committee of the Hong Kong Stock Exchange for the listing of, and permission to deal in, our H Shares. All necessary arrangements have been made to enable the securities to be admitted into CCASS.

Apart from Haitong International Capital Limited, the other Joint Sponsor satisfies the independence criteria applicable to sponsors set out in Rule 3.07 of the Listing Rules.

Haitong International Capital Limited is one of our Company's subsidiaries. It is not an independent sponsor according to the independence criteria applicable to sponsors set out in Rule 3.07 of the Listing Rules.

D. Preliminary Expenses

The estimated preliminary expenses incurred or proposed to be incurred are approximately HK\$1,300,000 and are payable by our Company.

E. Qualification of Experts

The qualifications of the experts who have given opinions in this prospectus are as follows:

Name	Qualification
Deloitte Touche Tohmatsu	Certified public accountants
Grandall Law Firm (Shanghai)	PRC legal advisors

F. Joint Compliance Advisors

We will appoint Haitong International Capital Limited and BOCOM International (Asia) Limited as our joint compliance advisors upon the Listing in compliance with Rule 3A.19 of the Listing Rules.

G. Taxation of Holders of H Shares

The sale, purchase and transfer of H Shares are subject to Hong Kong stamp duty. The current rate charged on each of the seller and purchaser is HK\$1.00 for every HK\$1,000 (or part thereof) of the consideration or, if higher, the fair value of the H Shares being sold or transferred.

H. No Material Adverse Change

The Directors confirm that, up to the date of this prospectus, there has been no material adverse change in our financial or trading position since December 31, 2011.

I. Binding Effect

This prospectus shall have the effect, if an application is made in pursuance hereof, of rendering all persons concerned bound by all the provisions (other than the penal provisions) of sections 44A and 44B of the Companies Ordinance so far as applicable.

J. Miscellaneous

- (a) Save as disclosed in this prospectus, within the two years preceding the date of this prospectus: (i) we have not issued nor agreed to issue any share or loan capital fully or partly paid either for cash or for a consideration other than cash, and (ii) no commissions, discounts, brokerage fee or other special terms have been granted in connection with the issue or sale of any shares of the Company.
- (b) No share or loan capital of the Company is under option or is agreed conditionally or unconditionally to be put under option.
- (c) We have not issued nor agreed to issue any founder shares, management shares or deferred shares.
- (d) There are no arrangements under which future dividends are waived or agreed to be waived.
- (e) There are no procedures for the exercise of any right of pre-emption or transferability of subscription rights.
- (f) There are no contracts for hire or hire purchase of plant to or by us for a period of over one year which are substantial in relation to our business.
- (g) There have been no interruptions in our business which may have or have had a significant effect on our financial position in the last 12 months.
- (h) There are no restrictions affecting the remittance of profits or repatriation of capital by us into Hong Kong from outside Hong Kong.
- (i) Save for our A Shares which are listed on the Shanghai Stock Exchange, none of our equity and debt securities is listed or dealt with in any other stock exchange nor is any listing or permission to deal being or proposed to be sought.
- (j) We have no outstanding debenture or other debt securities.

- (k) We currently do not intend to apply for the status of a Sino-foreign investment joint stock limited company and do not expect to be subject to the Sino-foreign Joint Venture Law of the PRC.

K. Consents

Each of the experts as referred to in the paragraph headed “Qualification of experts” in this Appendix has given and has not withdrawn their respective written consents to the issue of this prospectus with the inclusion of their reports and/or letters and/or valuation certificates and/or the references to their names included herein in the form and context in which they are respectively included.

Neither of the experts named above has any shareholding interests in our Company or any of our subsidiaries or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in our Company or any of our subsidiaries.

L. Bilingual Prospectus

The English language and Chinese language versions of this prospectus are being published separately, in reliance upon the exemption provided by section 4 of the Companies Ordinance (Exemption of Companies and Prospectuses from Compliance with Provisions) Notice (Chapter 32L of the Laws of Hong Kong).

M. Promoters

The promoters of the Company are as follows:

1. SIIC Shanghai (Holding) Co., Ltd. (上海上實(集團)有限公司)
2. Shanghai Electric (Group) Corporation (上海電氣(集團)總公司)
3. Shenergy Group Company Limited (申能(集團)有限公司)
4. Jiangsu Sunshine Group (江蘇陽光集團公司)
5. Shanghai Lansheng Co., Ltd. (上海蘭生股份有限公司)
6. Liaoning Energy Investment (Group) Co., Ltd. (遼寧能源總公司)
7. China Energy Conservation and Environmental Protection Group (CECEP) (中國節能投資公司)
8. Century Industry Investment Co., Ltd. (世紀興業投資有限公司)

9. Shanghai Hua Lian Corporation Ltd. (上海華聯商廈股份有限公司)
10. Shenergy Company Limited (申能股份有限公司)
11. Orient International (Holding) Co., Ltd. (東方國際(集團)有限公司)
12. Shanghai Mandarin Star Holding Limited* (上海中星(集團)有限公司)
13. Orient International Enterprise Ltd. (東方國際創業股份有限公司)
14. Datang Huayin Electric Power Co., Ltd (DHEP) (湖南華銀電力股份有限公司)
15. Shanghai Shimao Co., Ltd (上海世茂股份有限公司)
16. Shandong provincial Wendeng Tannery Farm* (山東省文登市制革廠)
17. Shanghai Waigaoqiao Free Trade Zone Development Co., Ltd. (上海市外高橋保稅區開發股份有限公司)
18. Shanghai Jiushi Corporation (上海久事公司)
19. Shanghai Municipal Electric Power Company (上海市電力公司)
20. South Huiton Co., Ltd. (南方匯通股份有限公司)
21. Zhejiang AMP Incorporation (浙江農資集團有限公司)
22. Shanghai Jinqiao Export Processing Zone Development Co., Ltd. (上海金橋出口加工區開發股份有限公司)
23. Sinopec Shanghai Petrochemical Company Limited (上海石油化工股份有限公司)
24. China First Pencil Co., Ltd. (中國第一鉛筆股份有限公司)
25. Shanghai Aerospace Industrial Co., Ltd.* (上海航天實業有限公司)
26. Zhejiang Sun & Moon Jewellery (Group) Co Ltd. (浙江日月首飾集團有限公司)
27. Ningbo Hualian Group Co., Ltd. (寧波華聯集團股份有限公司)
28. Fudan University (復旦大學)
29. Yangtze River Economy United Development (Group) Co., Ltd. (長江經濟聯合發展(集團)股份有限公司)

30. Shanghai Food (Group) Corp. (上海市食品(集團)公司)
31. Double Coin Holdings Ltd. (上海輪胎橡膠(集團)股份有限公司)
32. Dazhong Transportation Group Co., Ltd. (大眾交通(集團)股份有限公司)
33. Chengdu Measuring & Cutting Tools Co., Ltd. (成都量具刃具股份有限公司)
34. Beiman Special Steel Co., Ltd. (北滿特殊鋼股份有限公司)
35. Shanghai Chlor-Alkali Chemical Co., Ltd. (上海氯鹼化工股份有限公司)
36. Taiyuan Tap Water Co. (太原市自來水公司)
37. Xi'an Aerospace Technology and Industry Company* (西安航天科技工業公司)
38. Shanghai ErFangJi Co., Ltd. (上海二紡機股份有限公司)
39. Shanghai Jinqiao Export Processing Zone Development Co., Ltd. (上海金橋出口加工區發展有限公司)
40. Shanghai Ocean Shipping Company Ltd. (上海遠洋運輸公司)
41. Shanghai Housing Industry Co., Ltd. (上海市房屋實業有限公司)
42. Shao Xing Real Estate Development Company* (紹興市房地產開發公司)
43. Sinotrans Eastern Company Limited Jinling Branch (中國外運金陵公司)
44. Zhejiang Machinery & Equipment Import & Export Co., Ltd. (ZMEC) (浙江省機械設備進出口公司)
45. Shanghai Yuyuan Tourist Mart Co., Ltd. (上海豫園旅遊商城股份有限公司)

Save as disclosed in the prospectus, within the two years immediately preceding the date of this prospectus, no cash, securities, amount or other benefit has been paid, allotted or given, or has been proposed to be paid, allotted or given, to any of the Promoters named above in connection with the Global Offering or the related transactions described in this prospectus.

DOCUMENTS DELIVERED TO THE REGISTRAR OF COMPANIES

The documents attached to the copy of this prospectus and delivered to the Registrar of Companies in Hong Kong for registration were a copy of each of the **WHITE, YELLOW** and **GREEN** Application Forms, the written consents referred to in the section entitled “Other Information – Consents” in Appendix VI to this prospectus and a copy of each of the material contracts referred to in the section entitled “Further Information about Our Business – Summary of Our Material Contracts” in Appendix VI to this prospectus.

DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection at the offices of Clifford Chance at 28th Floor, Jardine House, One Connaught Place, Central, Hong Kong during normal business hours up to and including the date which is 14 days from the date of this prospectus:

- (a) the Articles of Association;
- (b) the accountants’ report issued by Deloitte Touche Tohmatsu as set out in Appendix I to this prospectus;
- (c) the audited accounts of our Group for each of the years ended December 31, 2009, 2010 and 2011;
- (d) the report on the unaudited pro forma financial information, the text of which is set out in Appendix II to this prospectus;
- (e) a statement of adjustment prepared by Deloitte Touche Tohmatsu;
- (f) the material contracts referred to in the section entitled “Further Information about Our Business – Summary of our material contracts” in Appendix VI to this prospectus;
- (g) the written consents referred to in the section entitled “Other Information – Consents” in Appendix VI to this prospectus;
- (h) the PRC legal opinion issued by Grandall Law Firm (Shanghai), the legal advisor to the Company on the PRC law, confirming that in its opinion, the summary of relevant PRC laws and principal regulatory provisions set out in Appendix IV is a correct summary of the relevant PRC laws and regulatory provisions; and
- (i) the Company Law, the Mandatory Provisions and the Special Regulations together with their unofficial translations.



海通证券股份有限公司
HAITONG SECURITIES CO., LTD.*

**For identification purpose only*