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 contain 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 here and elsewhere in this prospectus, particularly in "Risk Factors" and "Forward-looking Statements."

OVERVIEW

We are a leading integrated financial services provider in the PRC securities industry. We provide comprehensive securities services, including brokerage, sales and trading as well as investment banking and investment management.

We have four business lines: (i) brokerage, sales and trading, (ii) investment banking, (iii) investment management and (iv) overseas business. We report financial results for our business lines in the seven business segments identified below. We report financial results for our brokerage, sales and trading business line in three segments: (i) securities brokerage, (ii) futures brokerage and (iii) proprietary trading and other securities trading services. We report financial results for our investment management business line in two segments: asset management and private equity investment. Our seven business segments include:

- *Securities brokerage*. We execute trades on behalf of clients in stocks, bonds, funds and derivatives. We also provide margin financing and securities lending services and investment advisory services to our brokerage clients.
- *Futures brokerage*. We execute trades on behalf of clients in commodity futures and stock-index futures and provide futures investment advisory services.
- *Proprietary trading and other securities trading services*. We engage in trading of stocks, bonds, funds, derivatives and other financial products for our own account. We also provide other securities services and products to meet client needs for liquidity, financing and investment opportunities.
- *Investment banking*. We provide investment banking services, including equity underwriting, debt underwriting and financial advisory services.
- *Asset management*. We offer asset management products and services, including collective asset management plans, targeted asset management plans and other management services for assets under our clients' investment accounts.
- *Private equity investment*. We make equity investments in private companies with an aim to generate returns through dividends and/or gains from sale of our equity interest.
- *Overseas business.* We currently conduct our overseas business through Hong Kong-based Galaxy International Holdings and its subsidiaries. Galaxy International Holdings and its

subsidiaries have obtained the business licenses to provide diverse financial and securities services in Hong Kong, including brokerage and sales, investment banking, investment research, asset management and financing services.

In addition, our others segment primarily consists of the interest income from our own bank deposits and our treasury management activities as well as staff costs and administrative expenses related to the management functions of our headquarters.

BASIS OF PRESENTATION

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 and services.

The financial information incorporates our financial statements and 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. Non-controlling interests in subsidiaries are presented separately from our equity therein.

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.

Macroeconomic and Market Conditions in the PRC

Our results of operations and financial conditions are significantly affected by general economic and market conditions in the PRC and, to a lesser extent, the economic and market conditions of Hong Kong and the rest of the world.

We believe general economic and market conditions that would be favorable to our operations include, among other factors, high GDP growth, liquid and efficient capital markets, reasonable levels of inflation, high investor confidence, stable geopolitical conditions, strong corporate earnings and rising personal wealth. Unfavorable or uncertain economic and market conditions include, but not limited to:

- declines in economic growth, business activities or investor confidence;
- decreases in the availability of, or increases in the cost of, credit and capital;
- significant inflation, increases in interest rates and volatility of exchange rates and commodity prices;
- outbreaks of hostilities or other geopolitical instability; or
- natural disasters or pandemics.

In 2010, 2011 and 2012, our results of operations were adversely affected by the tightening of monetary policies and high inflation in the PRC, continued global financial market uncertainties, the euro zone sovereign debt crisis, as well as the depressed PRC stock markets. Our total revenue and other income decreased by 7.3% to RMB5,961.6 million in 2012 compared to RMB6,431.1 million in 2011, which decreased by 24.0% compared to RMB8,460.2 million in 2010, and our profit for the year decreased by 9.6% to RMB1,432.5 million in 2012 compared to RMB1,584.8 million in 2011, which decreased by 43.2% compared to RMB2,790.5 million in 2010. During the same period, the aggregate net profit generated by securities firms in the PRC decreased by 49.2% from RMB77,557 million in 2010 compared to RMB39,377 million in 2011 and further decreased by 16.4% to RMB32,930 million in 2012.

Our business and profitability have been and will continue to be affected by market conditions in several ways, including:

- Our securities and futures brokerage business depends heavily on market trading turnover. Volatile market prices may negatively impact on investor confidence, and if a significant number of our clients choose to refrain from trading until price fluctuations moderate, revenues from our brokerage businesses would be adversely affected. See "—Factors Affecting Our Results of Operations—Trading Turnover in the PRC Securities Market."
- Our investment banking business depends on the size and number of corporate capital raising and financial advisory transactions in which we participate. Unfavorable economic and market conditions and other adverse geopolitical conditions may negatively impact investor confidence and corporate financing activities, resulting in significant declines in the size and number of corporate 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 clients' portfolios or their assets under investment accounts managed by us. In addition, we may also earn performance fees from certain collective and targeted asset management plans if we achieve certain targets of returns. Market volatility and adverse economic conditions may affect the performance of the client assets managed by us, which could adversely affect the management fees or performance fees that we can receive on our asset management services.
- We have net long trading positions primarily in equity and fixed-income securities for our proprietary trading business. Because a substantial portion of these investments and trading positions is marked-to-market, weak market performance would cause declines in fair value of such investments, which may directly impact our earnings and/or capital position. Although we use derivative instruments to hedge the exposure to declines in market value, only a portion of our portfolio is hedged by using such derivative instruments.

Trading Turnover in the PRC Securities Market

Commission and fee income on securities brokerage has been the largest component of our total revenue and other income. In 2010, 2011 and 2012, our commission and fee income on securities brokerage amounted to RMB5,813.6 million, RMB3,672.7 million and RMB2,732.3 million, representing 68.7%, 57.1% and 45.8% of our total revenue and other income, respectively.

Commission and fee income on securities brokerage is mainly driven by the volume of trades that we execute for our clients and the brokerage commission rate. Our brokerage trading turnover to a large extent depends on the trading activities in the PRC securities markets, in particular trading activities in the stock markets. For example, because of the adverse market conditions in the PRC securities market, the average daily trading turnover in the PRC stock market decreased by 25.1% to RMB129.5 billion in 2012 compared to RMB172.8 billion in 2011, which decreased by 23.4% compared to RMB225.5 billion in 2010. Our stock brokerage trading turnover therefore declined by 26.1% to RMB3,229.5 billion in 2012 compared to RMB4,368.6 billion in 2011, which decreased by 21.7% compared to RMB5,576.3 billion in 2010, which caused a 25.6% decrease in the commission and fee income on securities brokerage to RMB2,732.3 million in 2012 compared to RMB3,672.7 million in 2011, which decreased by 36.8% compared to RMB5,813.6 million in 2010. Our total revenue and other income decreased by 7.3% to RMB5,961.6 million in 2012 compared to RMB6,431.1 million in 2011, which decreased by 24.0% compared to RMB8,460.2 million in 2010, partly attributable to the decrease in our revenue from securities brokerage business. While we continue to diversify our business and increase revenue contribution from our other business lines, our securities brokerage business is expected to remain as our primary source of revenue. Any decline in or continued low level of the trading turnover in the PRC securities market could have an adverse effect on our business and results of operations.

Interest Rate Environment

Our business and results of operations are also affected by changes in interest rates and credit spreads in several ways. First, the changes in interest rates affect the value of our financial assets. An increase in interest rates could cause a decline in the fair value of fixed-income securities we invest in and adversely affect our average investment yield. Second, a rise in interest rates could lower the ability or willingness of our corporate clients to raise funds from the debt markets, which could lower the revenue generated by our debt underwriting business. Third, increase in interest rates would increase the amount of interest income we would earn on floating-rate interest-earning assets and the amount of interest expenses we need to pay on floating-rate interest-bearing liabilities. Our interest-earning assets consist primarily of deposits with banks and non-bank financial institutions, deposits with exchanges and non-bank financial institutions, clearing settlement funds, financial assets held under resale agreements and advances to customers we provide for our margin financing and securities lending business. We make interest payments on deposits we hold on behalf of our customers, our short-term borrowings from banks and financial assets sold under repurchase agreements. 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. If the increase in the amount of interest expenses we need to pay is higher than the increase in the amount of interest income we earn, our business and results of operations may be adversely affected. In order to control excessive inflation, the PBOC raised the benchmark interest rates five times from October 2010 to July 2011. In June and July 2012, the PBOC reduced the benchmark interest rates twice in order to promote economic growth.

Competition

The PRC securities industry is highly competitive, and we face intense competition in each of our business segments, including:

- *Securities brokerage*. We compete primarily with other PRC securities firms in terms of pricing and the range of products and services offered. As of December 31, 2012, there were more than 110 registered securities firms in the PRC. Intense price competition in recent years has lowered commission rates for our securities brokerage business.

- *Futures brokerage*. We compete primarily with other PRC futures firms in terms of pricing and the range of products and services offered. As of December 31, 2012, there were approximately 160 futures firms in the PRC.
- *Investment banking*. We compete primarily with other PRC and Sino-foreign joint venture securities firms as well as commercial banks in terms of brand recognition, marketing and distribution capability, service quality, execution capability, financial strength and pricing.
- *Asset management*. We compete primarily with fund management companies, commercial banks, insurance companies and other financial institutions in the PRC in terms of the range of products and services offered, pricing, investment performance and quality of client service.
- *Private equity investment*. 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.

It is possible for our competitors to quickly adopt our business practices and set lower prices to compete with 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 into or expand in the market.

To effectively compete with our competitors and maintain or increase our market share, we need to maintain our competitive strengths, in particular our capability to offer customized, comprehensive and differentiated financial products and services to our clients. If we fail to maintain our competitive strengths, we may lose market share in our principal business segments and our revenue may decrease.

Regulatory Environment

Our business and results of operations are subject to changes in policies, laws and regulations relating to the PRC's securities industry, which will have an effect on the scope of our services and products, pricing and fee levels, capital adequacy and risk management.

The regulatory regime of the PRC securities industry has been evolving, and the CSRC and other regulatory authorities are committed to gradually relaxing securities regulations and broadening the scope of new products and services. For example, in October 2012, the State Council announced the changes to the approval process for certain securities services, including removing the approval procedures for setting up collective asset management plans and acting as futures introducing broker. In addition, from 2008 to 2012, the CSRC launched several pilot programs, including private equity investment, stock index futures, margin financing and securities lending, securities-based lending and dealer-quoted bond repurchase products to expand the products and services that securities firms can offer. The CSRC has been encouraging securities firms to diversify their product and service offerings and issued specific guidelines on product and service innovation for securities firms. We believe the new products and services which the CSRC may approve in the future, and potential launch of the International Board, the New OTC Board and the New Regional OTC Board will enable us to further expand and diversify our business and revenue streams as well as increase our profitability.

In addition, the PRC regulatory authorities have been modifying the capital requirements for securities firms in order to encourage securities firms to increase their capital efficiency. In April 2012, the CSRC lowered the risk-weighted capital reserve requirements for qualified securities firms based on certain criteria, including lowering the risk-weighted capital reserve requirements for proprietary trading, asset management and securities brokerage businesses to support the capital and leverage ratio management of securities firms. We believe changes in laws and regulations, or in their interpretation or enforcement, could materially affect our business, financial condition or results of operations.

Pricing

The pricing of our products and services has been a principal factor affecting our business 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 commission and fee income on securities brokerage accounted for a substantial portion of our revenue and other income and is primarily affected by securities brokerage commission rates and trading turnover. In 2010, 2011 and 2012, our average securities brokerage commission rate in the PRC was 0.103%, 0.083% and 0.083%, respectively. The following table illustrates the potential impact of the changes in our average securities brokerage commission rate on our revenue and other income for the periods indicated:

	Changes in revenue and other income for the year ended December 31,		
	2010	2011	2012
	(in millions of RMB)		
Changes in average securities brokerage commission rate (percentage point)			
Increase by 0.005	282	221	164
Decrease by 0.005	(282)	(221)	(164)
Increase by 0.010	564	442	329
Decrease by 0.010	(564)	(442)	(329)

Our average commission rate was 0.085% for the three months ended March 31, 2013, compared to 0.081% for the same period of 2012. Intensified price competition among PRC securities firms in the securities brokerage business has reduced brokerage commission rates and may force us to charge a lower rate in order to stay competitive going forward. See "Risk Factors—Risks Relating to Our Business and Industry—Intense competition in existing and innovative businesses could materially and adversely affected our business if we are unable to compete effectively." In addition, in March 2013, the CSRC issued the Supervisory Provisions on Branches of Securities Companies (證券公司分支機構監管規定), or the Supervisory Provisions on Branches, which remove the limit on the number of branches that securities companies can establish and allow the qualifying securities companies to set up branches nationwide. Based on the Supervisory Provisions on Branches, the PRC securities companies may establish more new branches, which may further increase the competition in the securities brokerage business in the PRC and decrease the securities brokerage commission rate.

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 profitability.

Business Lines and Product Mix

We are a full-service securities firm. Geographically, we divide our business into two main regions: (i) business in the PRC and (ii) overseas business. Our business in the PRC consists of three business lines, including (i) brokerage, sales and trading, (ii) investment banking and (iii) investment management, which are further divided into six principal business segments, including securities brokerage, futures brokerage, proprietary trading and other securities trading services, investment banking, asset management and private equity investment. Our operating margins vary across different business segments as well as different products and services in each business segment. Our product mix and changes in such mix, which reflect our business strategies, market conditions, client demands and other factors, may affect our revenue and profitability from time to time.

Our commission and fee income on securities brokerage 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 such services. Though we expect our commission and fee income on securities brokerage to continue to be the primary source of our revenue in the future, we have also been striving to increase the revenue contribution from other products and services with relatively higher profit, such as margin financing and securities lending, investment banking and securities trading services, all of which we believe have significant growth potential because of the gradual relaxation of the PRC securities regulations.

With a view to increasing our revenue and profitability, we intend to closely monitor and adjust our product mix across our principal business segments and to further expand our product and service offerings. Our financial condition and performance can be affected by our ability to successfully offer new products and services, to transact business with new clients and counterparties, to manage new asset classes and to engage in new markets.

SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES

We have identified certain accounting policies and estimates significant to the preparation of the financial information in accordance with IFRSs. The Accountants' Report in Appendix I to this prospectus sets forth these significant accounting policies in note 3 to Section G, which are important for an understanding of our financial condition and results of operations.

Certain of our accounting policies involve subjective assumptions, estimates and judgments that are discussed in note 4 to Section G 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 the 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 service fees from our brokerage business are 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;
- 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;
- consultancy and advisory fee income is 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.

Financial Instruments

Financial assets and financial liabilities are recognized in the Group's and the Company's statements 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

Our financial assets can be classified as financial assets at fair value through profit or loss, loans and receivables, available-for-sale financial assets and held-to-maturity 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 financial assets. 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 of financial assets require delivery of assets within the time frame established by regulation or convention in the market place.

Financial Assets at Fair Value Through Profit or Loss

Financial assets at fair value through profit or loss have two subcategories, including financial assets held for trading and those designated as financial assets at fair value through profit or loss on initial recognition.

A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of selling it 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.

A financial asset other than a financial asset held for trading may be designated as a financial asset at fair value through profit or loss upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise;
- the financial asset forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with our documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and IAS 39 permits the entire combined contract (asset or liability) to be designated as at fair value through profit or loss.

Financial assets at fair value through profit or loss are stated at fair value, with changes in fair value arising from remeasurement recognized directly in profit or loss in the period in which they arise. The net gain or loss recognized in profit or loss excludes dividends and interest earned on 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. After initial recognition, loans and receivables including advances to customers, accounts receivable, other receivables, amount due from subsidiaries, financial assets held under resale agreements, deposits with exchanges and a non-bank financial institution, clearing settlement funds, bank balances, are subsequently carried at amortized cost using the effective interest method, less any identified impairment losses.

Available-for-Sale Financial Assets

Available-for-sale financial assets 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 investments.

Available-for-sale financial assets 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.

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 are measured at cost less any identified impairment losses at the end of each reporting period.

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 each 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 reorganization; 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 are assessed for impairment on a collective basis even if they were assessed not to be impaired individually. 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 defaults on receivables.

For financial assets carried at amortized cost, an impairment loss is recognized in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the 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 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 in 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 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 according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument.

Our financial liabilities are generally classified into financial liabilities at fair value through profit or loss and other financial liabilities. Financial liabilities at fair value through profit or loss are measured at fair value, with changes in fair value arising from remeasurement recognized directly in profit or loss for the period in which the changes arise. The net gain or loss recognized in profit or loss excludes interest paid on the financial liabilities. Other financial liabilities including amount due to banks and a non-bank financial institution, accounts payable to brokerage clients, other payables and financial assets sold under repurchase agreements are subsequently measured at amortized cost, using the effective interest method.

An equity instrument is any contract that evidences a residual interest in our assets after deducting all of our liabilities. Equity instruments issued by a group entity are recognized at the proceeds received from external parties, net of direct issuance 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 or payments (including all fees 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.

Derivative Financial Instruments

Derivatives are initially recognized at fair value at the date a derivative contract is entered into and are subsequently remeasured to their fair value at the end of each 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.

Embedded derivatives

Derivatives embedded in non-derivative host contracts are treated as separate derivatives when they meet the definition of a derivative, their risks and characteristics are not closely related to those of the host contracts and the host contracts are not measured at fair value with changes in fair value recognized in profit or loss.

Financial Assets Sold Under Repurchase Agreements and Financial Assets Held Under Resale Agreements

Financial assets sold under repurchase agreements, which do not result in derecognition of the financial assets, are recorded as "financial assets held for trading" or "available-for-sale financial assets" as appropriate. The corresponding liability is included in "financial assets sold under repurchase agreements." Consideration paid for financial assets held under agreements to resell are recorded as "financial assets held under resale agreements." 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.

Securities Lending

We lend securities to clients. The cash collateral balances required under the securities lending agreements and the interest arising from these lendings are included in "accounts payable to brokerage clients." For those securities held by us that are lent to clients, they are not derecognized and are recorded as "available-for-sale financial assets" or "financial assets designated at fair value through profit or loss" as appropriate.

Derecognition

Financial assets are derecognized when the rights to receive cash flows from the assets expire or the financial assets are transferred and we have transferred substantially all the risks and rewards of ownership of the financial assets. If we retain substantially all the risks and rewards of the ownership of a transferred financial asset, we continue to recognize the financial asset and also recognize 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.

Financial liabilities are derecognized when the obligation specified in the relevant contract is discharged, cancelled 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.

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 also review the value of the securities collateral received from our customers firstly on individual basis, then on collective basis 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 18 to Section G of the Accountants' Report in Appendix I to this prospectus.

Impairment of Available-for-Sale Financial Assets

The determination of whether available-for-sale financial assets are 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 an objective evidence of impairment. 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. 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, economies or the law, as well as industry and sector performance and the financial information regarding the investee that provide evidence that the cost of the equity securities may not be recoverable. For available-for-sale debt instruments, we make judgments as to whether there is an objective evidence of impairment which indicates a measurable decrease in the estimated future cash flows of these debt instruments. This requires a significant level of management judgment which would affect the amount of impairment losses.

Fair Value of Available-for-Sale Equity Investments with Restriction on Disposal

For available-for-sale equity investments which are subject to a legally enforceable restriction that prevents us from disposing them within the specified period, the fair value of these listed shares is determined with reference to the quoted market prices with an adjustment of discount to reflect the effect of such restriction. The estimation of fair value of these shares includes certain assumptions not supported by observable data. Changes in assumptions could affect the fair value of the available-for-sale equity instruments.

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.

The realization 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 it becomes probable that sufficient profits or taxable temporary differences are expected to be generated, deferred tax assets would be recognized in profit or loss in that period. On the contrary, if sufficient profits or taxable temporary differences are not expected to be generated, deferred tax assets would be reversed in profit or loss in that period. For details of our tax losses, please see note 22 to Section G of the Accountants' Report in Appendix I to this prospectus.

Retirement Benefit Obligations

The determination of retirement benefit obligations is based on various assumptions, including discount rate, mortality rate and expected rate of benefits increase. There may be difference between the actual amount and the estimated amount. Any difference arising from the actual result or changes in assumptions may affect the amount of expense recognized in the consolidated income statement in the period during which such changes take place and the corresponding liability recognized in the consolidated statement of financial position.

PRINCIPAL COMPONENTS OF CONSOLIDATED INCOME STATEMENTS

Revenue and Other Income

Our revenue and other income consist primarily of commission and fee income, interest income, net investment gains and other income and gains.

Commission and Fee Income

Our commission and fee income consists primarily of (i) commission and fee income on securities and futures brokerage (including commissions from management companies of publicly-raised funds as our clients and institutional clients), (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 from our brokerage, sales and trading businesses by trading stocks, bonds, funds, derivatives and futures, on behalf of our customers.

We generate underwriting and sponsors fees and consultancy and financial advisory fees primarily in our investment banking business by providing securities sponsoring and underwriting, as well as financial advisory services. We also generate consultancy and advisory fees in our securities brokerage business by providing investment advisory services.

We also generate asset management fees and performance fees in our asset management business by managing our customers' assets and investment portfolios.

Interest Income

Our interest income primarily includes (i) interest income from our own deposits and deposits we hold on behalf of our customers with banks and other financial institutions, (ii) interest income from advances to customers in our margin financing and securities lending business 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, other financial institutions as well as our customers), under which we are entitled to receive interest income by purchasing financial assets (such as bonds, notes and stocks) 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. See "—Liquidity and Capital Resources—Assets and Liabilities—Current assets and liabilities."

Net Investment Gains

Our net investment gains primarily consist of (i) net gains from financial assets at fair value through profit or loss (including net gains from financial assets held for trading, financial assets designated as at fair value through profit or loss, and derivatives) and (ii) net gains from available-for-sale financial assets.

Our net gains from financial assets at fair value through profit or loss consist primarily of (i) net gains or losses from disposal of these financial assets, (ii) changes in fair value of these financial assets and (iii) dividends and interest income earned on these financial assets.

Our net gains from available-for-sale financial assets consist primarily of (i) dividends and interest income earned on these financial assets and (ii) net gains or losses from disposal of these financial assets.

Other Income and Gains

Our other income and gains consist primarily of government grants and rental income. We receive 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 in the future. We receive rental income for leasing or sub leasing space at our owned or rented premises.

Total Expenses

Our total expenses consist of staff costs, interest expenses, depreciation and amortization, commission and fee expenses and other operating expenses. Historically, staff costs have been the largest component of our operating expenses. Operating lease rentals, business taxes and surcharges and data transmission expenses in our other operating expenses are also major components of our operating expenses.

Staff Costs

Our staff costs consist primarily of salaries, bonuses and allowances, social welfare, contributions to annuity schemes and other compensations for our employees. Staff costs accounted for 47.6%, 43.5% and 45.9% of our total expenses in 2010, 2011 and 2012, respectively.

Interest Expenses

Our interest expenses consist primarily of (i) interest expenses on deposits we hold on behalf of our customers, (ii) interest expenses from repurchase transactions and (iii) interest expenses on borrowings from banks and other financial institutions.

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, other financial institutions as well as our customers), 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. See "—Liquidity and Capital Resources—Assets and Liabilities—Current assets and liabilities."

We obtained short-term borrowings from the CSFC to operate our margin financing and securities lending business. We also engage in short-term borrowings from banks from time to time for our liquidity management purpose and pay interests on such borrowings.

Depreciation and Amortization

Our depreciation and amortization relate primarily to depreciation of our properties and equipment and amortization of our intangible assets.

Commission and Fee Expenses

Our commission and fee expenses consist primarily of (i) securities dealing expenses charged by the stock exchanges and other authorized institutions for using their transaction and settlement systems and (ii) commissions we pay to other financial institutions for distribution of the equity and debt securities we underwrite in our investment banking business.

Other Operating Expenses

Our other operating expenses consist primarily of rental expenses, business tax and surcharges, data transmission expenses, travel expenses and other operating expenses.

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% 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 22%, 24% and 25%, respectively, in 2010, 2011 and 2012. 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 28.3%, 29.9% and 24.1% in 2010, 2011 and 2012, respectively.

RESULTS OF OPERATIONS

The following table sets forth our summary results of operations for the periods indicated:

	For the year ended December 31,		
	2010	2011	2012
	(in millions of RMB)		
Revenue			
Commission and fee income	6,869.2	4,664.2	3,830.5
Interest income	1,243.2	1,629.3	1,698.7
Net investment gains	313.6	104.4	394.8
Total revenue	8,426.0	6,397.9	5,924.0
Other income and gains	34.2	33.2	37.6
Total revenue and other income	**8,460.2**	**6,431.1**	**5,961.6**
Total expenses	(4,569.6)	(4,170.1)	(4,075.3)
Profit before income tax	**3,890.6**	**2,261.0**	**1,886.3**
Income tax expense	(1,100.1)	(676.2)	(453.8)
Profit for the year	**2,790.5**	**1,584.8**	**1,432.5**
Attributable to the owners of the Company	2,777.0	1,578.1	1,419.8
Attributable to non-controlling interests	13.5	6.7	12.7

The following discussion compares the major components of our operating results in 2010, 2011 and 2012.

Revenue and Other Income

The following table sets forth the breakdown of our total revenue and other income for the periods indicated:

	For the year ended December 31,		
	2010	2011	2012
	(in millions of RMB)		
Commission and fee income	6,869.2	4,664.2	3,830.5
Interest income	1,243.2	1,629.3	1,698.7
Net investment gains	313.6	104.4	394.8
Other income and gains	34.2	33.2	37.6
Total revenue and other income	**8,460.2**	**6,431.1**	**5,961.6**

Comparison Between 2012 and 2011

Our revenue and other income decreased by 7.3% to RMB5,961.6 million in 2012 compared to RMB6,431.1 million in 2011, primarily due to the decrease in our commission and fee income, which was partially offset by increases in net investment gains and interest income.

Comparison Between 2011 and 2010

Our revenue and other income decreased by 24.0% to RMB6,431.1 million in 2011 compared to RMB8,460.2 million in 2010, primarily due to decreases in our commission and fee income and net investment gains, which were partially offset by an increase in interest income.

Commission and Fee Income

The following table sets forth our commission and fee income for the periods indicated:

	For the year ended December 31,		
	2010	2011	2012
	(in millions of RMB)		
Commission and fee income on securities brokerage	5,813.6	3,672.7	2,732.3
Underwriting and sponsors fees	715.2	634.2	674.9
Commission and fee income on futures brokerage	253.3	267.5	337.7
Consultancy and financial advisory fee income	47.7	49.9	33.2
Asset management fee income	31.3	27.1	41.2
Others	8.1	12.8	11.2
Total commission and fee income	**6,869.2**	**4,664.2**	**3,830.5**

Comparison Between 2012 and 2011

Our commission and fee income decreased by 17.9% to RMB3,830.5 million in 2012 compared to RMB4,664.2 million in 2011, primarily due to a decrease in our commission and fee income on securities brokerage. Our commission and fee income on securities brokerage decreased by 25.6% to RMB2,732.3 million in 2012 compared to RMB3,672.7 million in 2011, primarily due to decreased trading turnover of stocks and funds, reflecting the continued weak performance of the PRC's stock market in 2012. Our stocks and funds brokerage trading turnover declined by 25.6% to RMB3,288.7 billion in 2012 compared to RMB4,420.1 billion in 2011. Our market share in terms of stocks and funds brokerage turnover was 5.18% and 3.80% in 2012 compared to 5.22% and 4.27% in 2011, respectively, while our average securities brokerage commission rate remained stable at 0.083% in 2012. The decrease in our commission and fee income on securities brokerage was partially offset by increases in our underwriting and sponsors fees, commission and fee income on futures brokerage as well as asset management fee income which increased by 6.4%, 26.3% and 51.8% to RMB674.9 million, RMB337.7 million and RMB41.2 million, respectively, in 2012 as a result of growth in our debt financing, futures brokerage and asset management businesses.

Comparison Between 2011 and 2010

Our commission and fee income decreased by 32.1% to RMB4,664.2 million in 2011 compared to RMB6,869.2 million in 2010, primarily due to a decrease in our commission and fee income on securities brokerage. Our commission and fee income on securities brokerage decreased by 36.8% to RMB3,672.7 million in 2011 compared to RMB5,813.6 million in 2010, primarily due to (i) lower trading turnover of stocks and funds as a result of the weak performance of the PRC's stock market in 2011 and (ii) lower commission rates for securities brokerage resulting from the increased price competition among PRC securities firms because PRC securities companies established new branches in 2011, increasing the aggregate number of branches from 4,628 as at December 31, 2010 to 5,032 as at December 31, 2011. Our stocks and funds brokerage trading turnover declined by 21.6% to RMB4,420.1 billion in 2011 compared to RMB5,641.0 billion in 2010 while our average securities brokerage commission rate decreased to 0.083% in 2011 compared to 0.103% in 2010. However, our market share in terms of stocks and funds brokerage turnover in the PRC increased to 5.22% and 4.27% in 2011 compared to 5.14% and 3.80% in 2010, respectively, in the face of weak market performance and intense competition.

Interest Income

The following table sets forth our interest income (excluding interest income from investments) for the periods indicated:

	For the year ended December 31,		
	2010	2011	2012
	(in millions of RMB)		
Deposits with banks and non-bank financial institutions	1,232.1	1,454.9	1,313.5
Advances to customers and securities lending	6.7	162.2	355.2
Financial assets held under resale agreements	4.4	12.2	30.0
Total interest income	**1,243.2**	**1,629.3**	**1,698.7**

Comparison Between 2012 and 2011

Our interest income increased slightly by 4.3% to RMB1,698.7 million in 2012 compared to RMB1,629.3 million in 2011, primarily due to the increases in interest income from advances to customers and securities lending as well as financial assets held under resale agreements, which were partially offset by the decrease in interest income from deposits with banks and non-bank financial institutions.

Our interest income from advances to customers and securities lending increased by 119.0% to RMB355.2 million in 2012 compared to RMB162.2 million in 2011, primarily due to an increase in our average balance of advances and securities lent to customers as a result of the continuous growth of our margin financing and securities lending business.

Our interest income from financial assets held under resale agreements increased to RMB30.0 million in 2012 compared to RMB12.2 million in 2011, primarily due to an increase in the balance of short-term financing to customers through resale transactions for our securities-based lending product, as a result of our efforts to promote our innovative securities trading services.

Our interest income from deposits with banks and non-bank financial institutions, including our own deposits and deposits we held on behalf of our customers, decreased by 9.7% to RMB1,313.5 million in 2012 compared to RMB1,454.9 million in 2011. This decrease was primarily due to a decrease in the deposits we held on behalf of our customers, reflecting declined customer trading activities attributable to the weak performance of the PRC securities market in 2012 as well as a decrease in our own deposits because we used our funds for advances to customers in our margin financing and securities lending business and investments in debt securities primarily for Daily Profit, our dealer-quoted bond repurchase product.

Comparison Between 2011 and 2010

Our interest income increased by 31.1% to RMB1,629.3 million in 2011 compared to RMB1,243.2 million in 2010, primarily due to the increases in interest income from our deposits with banks and non-bank financial institutions and advances to customers and securities lending.

Our interest income from deposits with banks and non-bank financial institutions, including our own deposits and deposits we held on behalf of our customers, increased by 18.1% to RMB1,454.9 million in 2011 compared to RMB1,232.1 million in 2010. This increase was primarily due to

(i) higher interest rates that commercial banks offered on deposits than those in 2010, reflecting the increases in the benchmark interest rates set by the PBOC and the tightened market liquidity in 2011, and (ii) our effective liquidity management measures.

Our interest income from advances to customers and securities lending significantly increased to RMB162.2 million in 2011 compared to RMB6.7 million in 2010, primarily due to a significant increase in our average balance of advances and securities lent to customers as a result of the rapid growth of our margin financing and securities lending business.

Our interest income from financial assets held under resale agreements amounted to RMB12.2 million in 2011 compared to RMB4.4 million in 2010, primarily due to an increase in resale transactions we conducted to manage our liquidity and enhance our returns on liquid funds.

Net Investment Gains

The following table sets forth our investment gains for the periods indicated:

	For the year ended December 31,		
	2010	2011	2012
	(in millions of RMB)		
Net realized (losses)/gains from disposal of available-for-sale financial assets	(22.6)	(41.8)	5.4
Dividend income and interest income from available-for-sale financial assets	48.3	44.1	157.4
Net realized gains/(losses) from financial assets at fair value through profit or loss(1)	135.3	(75.6)	(196.8)
Dividend income and interest income from financial assets at fair value through profit or loss(1)	191.5	199.8	386.1
Unrealized fair value change of financial instruments at fair value through profit or loss(1)	(38.9)	(22.1)	42.7
	313.6	**104.4**	**394.8**

(1) Financial assets at fair value through profit or loss consist of financial assets held for trading, financial assets designated as at fair value through profit or loss, and derivatives.

Comparison Between 2012 and 2011

Our net investment gains significantly increased to RMB394.8 million in 2012 compared to RMB104.4 million in 2011, primarily due to increases in our net investment gains from available-for-sale financial assets and financial assets held for trading, as well as an unrealized increase in fair value of financial assets at fair value through profit or loss. The increase in our net investment gains from available-for-sale financial assets was primarily due to an increase in interest income from debt securities in which we invested, mainly attributable to our increased investments in debt securities to develop Daily Profit, our dealer-quoted bond repurchase product in 2012. The increase in our net investment gains from financial assets held for trading was primarily due to an increase in our investments in debt securities as well as higher investment yields realized for our debt securities portfolio in 2012. We had an unrealized increase in fair value of financial assets at fair value through profit or loss in 2012 compared to an unrealized decrease in fair value of such financial assets in 2011 primarily due to the better performance in the PRC stock markets in 2012 compared to that in 2011.

Comparison Between 2011 and 2010

Our net investment gains decreased by 66.7% to RMB104.4 million in 2011 from RMB313.6 million in 2010, primarily due to decreases in our net investment gains from financial assets held for trading and financial assets designated as at fair value through profit or loss, which were partially offset by an increase in our net investment gains from derivatives as a result of our hedging strategy. The decreases in our net investment gains from financial assets held for trading and financial assets designated as at fair value through profit or loss were primarily due to net losses arising from our disposal of a portion of equity securities in our investment portfolio in 2011 as compared to net disposal gains in 2010, reflecting the adverse equity market conditions in the PRC with the CSI 300 Index decreasing by 25.0% in 2011. However, losses arising from our disposal of financial assets in 2011 were offset by relatively stable dividends and interest income earned on such financial assets. As a result, we achieved net investment gains despite the increased volatility in the PRC securities market.

Other Income and Gains

Comparison Between 2012 and 2011

Our other income and gains increased by 13.3% to RMB37.6 million in 2012 compared to RMB33.2 million in 2011, primarily due to (i) a write-off of other payable and (ii) gains from the disposal of Galaxy Dahua to Galaxy Financial Holdings in December 2012, which were partially offset by decreases in rental income, government grants and incentives from PRC stock and futures exchanges.

Comparison Between 2011 and 2010

Our other income and gains decreased by 2.9% to RMB33.2 million in 2011 compared to RMB34.2 million in 2010, primarily due to decreases in government grants and other gains, which were partially offset by an increase in rental income.

Total Expenses

The following table sets forth the breakdown of our total expenses for the periods indicated:

	For the year ended December 31,		
	2010	**2011**	**2012**
	(in millions of RMB)		
Staff costs	2,173.3	1,812.4	1,870.8
Interest expenses	328.9	309.3	279.1
Depreciation and amortization	250.7	273.5	283.8
Commission and fee expenses	209.0	169.0	107.7
Other operating expenses	1,586.8	1,586.4	1,506.9
Impairment losses	20.9	19.5	27.0
Total expenses	**4,569.6**	**4,170.1**	**4,075.3**

Comparison Between 2012 and 2011

Our total expenses decreased by 2.3% to RMB4,075.3 million in 2012 compared to RMB4,170.1 million in 2011, primarily due to the decreases in other operating expenses, commission and fee expenses as well as interest expenses, which were partially offset by the increases in our staff costs, depreciation and amortization as well as impairment losses.

Comparison Between 2011 and 2010

Our total expenses decreased by 8.7% to RMB4,170.1 million in 2011 compared to RMB4,569.6 million in 2010, primarily due to the decreases in our staff costs, commission and fee expenses as well as interest expenses, which were partially offset by an increase in our depreciation and amortization.

Staff Costs

Comparison Between 2012 and 2011

Our staff costs increased by 3.2% to RMB1,870.8 million in 2012 compared to RMB1,812.4 million in 2011, primarily due to (i) an increase in salaries and bonuses as a result of the increased compensation to the new employees we hired for developing of our securities trading services, asset management and overseas businesses and an increase in performance-based salaries and bonuses we paid to our employees in futures brokerage, proprietary trading and other securities trading services as well as asset management businesses in line with the increases in revenue of these businesses and (ii) an increase in payments and contributions we made for employees' social welfare benefits attributable to the increase in local benchmark salaries. These increases were partially offset by (i) a decrease in other staff costs, consisting primarily of labor union funds, employee education and training funds as well as other welfare funds, attributable to our strengthened cost control measures, and (ii) a decrease in contributions to employee annuity schemes because such contributions are made at a fixed rate based on the employees' salaries for the previous year.

Comparison Between 2011 and 2010

Our staff costs decreased by 16.6% to RMB1,812.4 million in 2011 compared to RMB2,173.3 million in 2010, primarily due to (i) a decrease in performance-based salaries and bonuses we paid to our employees in line with the decreases in our revenues in 2011 and (ii) a decrease in retirement benefit obligations because we recognized higher expenses in 2010 with one-time adjustments to retirement benefits arrangements we made for certain employees in that year. These decreases were partially offset by an increase in payments and contributions we made for employees' social welfare benefits, which are calculated at fixed percentages of our total staff salaries and bonuses of the prior year.

Interest Expenses

The following table sets forth the breakdown of our interest expenses for the periods indicated:

	For the year ended December 31,		
	2010	2011	2012
	(in millions of RMB)		
Accounts payable to brokerage clients	269.5	262.0	157.4
Financial assets sold under repurchase agreements	58.3	47.3	109.2
Due to banks and non-bank financial institutions	1.1	—	12.5
Total interest expenses	**328.9**	**309.3**	**279.1**

Comparison Between 2012 and 2011

Our interest expenses decreased by 9.8% to RMB279.1 million in 2012 compared to RMB309.3 million in 2011, primarily due to a decrease in interest expenses on accounts payable to brokerage clients, reflecting (i) the decrease in the average balance of deposits we held on behalf of our customers, reflecting declined customer trading activities attributable to the weak performance of the PRC securities market in 2012 and (ii) the decreases in the benchmark interest rates set by the PBOC in 2012. Such decrease was partially offset by an increase in interest expenses on our financial assets sold under repurchase agreements attributable to higher average balance of proceeds from exchange-quoted bond repurchase transactions with our customers for Daily Profit.

Comparison Between 2011 and 2010

Our interest expenses decreased by 6.0% to RMB309.3 million in 2011 compared to RMB328.9 million in 2010, primarily due to (i) a decrease in interest expenses on accounts payable to brokerage clients, reflecting the decrease in the average balance of deposits we held on behalf of our customers in 2011 and (ii) a decrease in interest expenses on financial assets sold under repurchase agreements attributable to lower average balance of proceeds from these transactions.

Depreciation and Amortization

Comparison Between 2012 and 2011

Our depreciation and amortization increased by 3.8% to RMB283.8 million in 2012 compared to RMB273.5 million in 2011, primarily due to an increase in amortization of intangible assets as a result of new purchases and replacement of computer software to support our business in 2012 and the past few years.

Comparison Between 2011 and 2010

Our depreciation and amortization increased by 9.1% to RMB273.5 million in 2011 compared to RMB250.7 million in 2010 primarily due to (i) additional securities brokerage branches we opened in the PRC and establishment of Galaxy International Holdings and its subsidiaries in Hong Kong, (ii) refurbishment of certain securities brokerage branches and (iii) new purchases and replacement of IT equipment and systems to support our business growth.

Commission and Fee Expenses

Comparison Between 2012 and 2011

Our commission and fee expenses decreased by 36.3% to RMB107.7 million in 2012 compared to RMB169.0 million in 2011, primarily due to (i) a 27.2% decrease in securities dealing and brokering expenses as a result of lower trading turnover of stocks and funds in 2012 and (ii) a 53.3% decrease in underwriting and sponsors fee expenses which consist primarily of commissions we paid to other financial institutions for distribution of the equity and debt securities we underwrote, reflecting the decreases in the amount of equity financing we underwrote.

Comparison Between 2011 and 2010

Our commission and fee expenses decreased by 19.1% to RMB169.0 million in 2011 compared to RMB209.0 million in 2010, primarily due to a 38.5% decrease in securities dealing and brokering expenses as a result of lower trading turnover of stocks and funds in 2011, which was partially offset by a 49.9% increase in underwriting and sponsors fee expenses.

Other Operating Expenses

	For the year ended December 31,		
	2010	2011	2012
	(in millions of RMB)		
General and administrative expenses	457.2	493.7	447.0
Operating lease rentals in respect of rented premises	277.2	335.9	371.9
Business taxes and surcharges	397.1	278.1	254.4
Data transmission expenses	151.3	159.6	162.2
Business travel expenses	61.4	84.6	81.1
Utilities expenses	49.3	51.1	52.1
Securities investor protection funds	76.0	55.9	25.0
Litigation provision	—	—	18.9
Auditors' remuneration	1.9	2.0	3.0
Foreign exchange (gains)/losses, net	(0.2)	10.1	1.2
Sundry expenses	115.6	115.4	90.1
Total	**1,586.8**	**1,586.4**	**1,506.9**

Comparison Between 2012 and 2011

Our other operating expenses decreased by 5.0% to RMB1,506.9 million in 2012 compared to RMB1,586.4 million in 2011, primarily due to (i) a decrease in general and administrative expenses attributable to our cost control measures, (ii) a decrease in our contribution to securities investor protection funds primarily due to decreased contribution ratio given our "AA" regulatory rating in consecutive years and (iii) a decrease in business taxes and surcharges as a result of the decrease in our revenue. These decreases were partially offset by an increase in operating lease rentals in respect of rented premises attributable to new branches we opened and the rises in market rental prices.

Comparison Between 2011 and 2010

Our other operating expenses were relatively stable at RMB1,586.4 million in 2011 compared to RMB1,586.8 million in 2010, primarily due to decreases in business tax and surcharges as well as our payment for securities investor protection funds as a result of the decrease in our revenue, which were offset by increases in operating lease rentals in respect of rented premises, general and administrative expenses, travel expenses, as well as data transmission expenses, in line with the growth of our business.

Impairment Losses

Comparison Between 2012 and 2011

Our impairment losses increased by 38.5% to RMB27.0 million in 2012 compared to RMB19.5 million in 2011 because we made a provision of RMB30.0 million for the investments of our collective asset management plans, which was partially offset by a reversal of provisions of RMB13.7 million we made for impairment loss on accounts receivable attributable to our collection efforts. We made the provision for our own investments in our collective asset management plans in accordance with our accounting policies and general provisioning practices of other PRC securities companies that require provisioning for an investment, the value of which is lower than 50% of its book value or has been below its book value for more than one year. The value of our own investments in our collective asset management plans has been continuously below the book value primarily attributable to the weak market performance in the PRC.

Comparison Between 2011 and 2010

Our impairment losses decreased by 6.7% to RMB19.5 million in 2011 compared to RMB20.9 million in 2010, primarily due to a decrease in the provision we made for loss on other receivables.

Profit Before Income Tax

Comparison Between 2012 and 2011

Our profit before income tax decreased by 16.6% to RMB1,886.3 million in 2012 compared to RMB2,261.0 million in 2011.

Comparison Between 2011 and 2010

Our profit before income tax decreased by 41.9% to RMB2,261.0 million in 2011 compared to RMB3,890.6 million in 2010.

Income Tax Expense

The following table sets forth our income tax expense for the periods indicated:

	For the year ended December 31,		
	2010	2011	2012
	(in millions of RMB, except percentages)		
Profit before income tax	3,890.6	2,261.0	1,886.3
Income tax expense	(1,100.1)	(676.2)	(453.8)
Effective tax rate	28.3%	29.9%	24.1%

Comparison Between 2012 and 2011

Our income tax expense decreased by 32.9% to RMB453.8 million in 2012 compared to RMB676.2 million in 2011, primarily due to a decrease in our taxable income. Our effective tax rate was 24.1% in 2012, lower than the statutory income tax rate of 25% applicable to PRC enterprises, primarily due to non-taxable interest income on government bonds that we invested in.

Comparison Between 2011 and 2010

Our income tax expense decreased by 38.5% to RMB676.2 million in 2011 compared to RMB1,100.1 million in 2010, primarily due to a decrease in our taxable income.

Our effective tax rate was 28.3% and 29.9% in 2010 and 2011, respectively. Our effective tax rate was higher than the statutory income tax rate of 25% applicable to PRC enterprises in 2010 and 2011, primarily because of (i) taxes we paid in each of those years attributable to the previous fiscal year due to the time gap between when our profit before tax is determined and when our taxable profit for tax purposes is determined and (ii) the adjustment to our expenses non-deductible for tax purposes in those years.

The aforementioned time gap was primarily as a result of the time required for tax audit carried out by independent auditors to determine our taxable profit as requested by local tax authorities for companies incorporated in Beijing. In order to shorten such time gap, we have commenced our annual independent tax audit earlier for the year ended December 31, 2012.

Profit for the Year and Net Margin

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

	For the year ended December 31,		
	2010	**2011**	**2012**
	(in millions of RMB, except percentages)		
Operating profit(1)	3,856.4	2,227.8	1,848.7
Operating margin(2)	45.8%	34.8%	31.2%
Adjusted operating margin(3)	48.9%	37.6%	33.4%
Profit for the year	2,790.5	1,584.8	1,432.5
Net margin(4)	33.1%	24.8%	24.2%
Adjusted net margin(5)	35.4%	26.8%	25.9%
Return on average equity(6)	20.3%	10.3%	8.5%
Return on average total assets(7)	2.8%	2.1%	2.3%

(1) Calculated as the difference between total revenue and total expenses.
(2) Calculated by dividing the operating profit by total revenue.
(3) Adjusted operating margin = (total revenue - total expenses)/(total revenue - commission and fee expenses - interest expenses). Adjusted operating margin is not a standard measure under IFRS but is presented here because PRC securities companies present their operating revenues after deduction of commission and fee expenses and interest expenses under PRC GAAP, which is different from the practices for presenting the gross revenue under IFRS. We believe that, the adjusted operating margin and adjusted net margin provide appropriate indicators of our results of operations that are more comparable to other PRC securities companies due to different presentation requirements under PRC GAAP. 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 companies due to different calculation methods or assumptions.
(4) Calculated as dividing the profit for the year by total revenue.
(5) Adjusted net margin = (profit for the year)/(total revenue - commission and fee expenses - interest expenses). Adjusted net margin is not a standard measure under IFRS but is presented here for the reasons stated in note 3 above.
(6) Calculated by dividing the attributable net profit by the average amount of Shareholders' equity at the end of the previous year and the end of the current year.
(7) Calculated by dividing the attributable net profit by the average balance of total assets at the end of the previous year and the end of the current year.

Comparison Between 2012 and 2011

Our profit for the year decreased by 9.6% to RMB1,432.5 million in 2012 compared to RMB1,584.8 million in 2011. Our net margin decreased to 24.2% in 2012 compared to 24.8% in 2011. The changes in our profit and net margin were primarily due to the decrease in our brokerage trading turnover for stocks and funds resulting from the continued weak performance of the PRC securities markets in 2012, resulting in the decrease in our securities brokerage commission and fee income. Our return on total assets increased to 2.3% in 2012 compared to 2.1% in 2011, primarily due to increased yield on our assets as a result of the increase in our advance to customers, financial assets held under resale agreements and investments in debt securities, returns of which are higher than bank deposits. Our return on equity decreased to 8.5% in 2012 compared to 10.3% in 2011, primarily due to the decrease in our profit before income tax, primarily reflecting the decrease in our securities brokerage commission and fee income attributable to the unfavorable securities market conditions.

Comparison Between 2011 and 2010

Our profit for the year decreased by 43.2% to RMB1,584.8 million in 2011 compared to RMB2,790.5 million in 2010. Our net margin decreased to 24.8% in 2011 compared to 33.1% in 2010. Our return on equity and return on total assets decreased to 10.3% and 2.1% in 2011, respectively, compared to 20.3% and 2.8% in 2010, respectively. All of these changes are primarily due to (i) the decrease in our brokerage trading turnover for stocks and funds resulting from the adverse market conditions in the PRC in 2011 and the decrease in our average securities brokerage commission rate, resulting in the decrease in our securities brokerage commission and fee income and (ii) the decrease in the net gains from financial assets at fair value through profit or loss attributable to adverse market conditions.

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. We have four business lines: (i) brokerage, sales and trading, (ii) investment banking, (iii) investment management and (iv) overseas business. We report financial results for our business lines in seven business segments. We report financial results for our brokerage, sales and trading business line in three segments: (i) securities brokerage, (ii) futures brokerage and (iii) proprietary trading and other securities trading services. We report financial results for our investment management business line in two segments: asset management and private equity investment. In addition, our others segment primarily consists of the interest income from our own bank deposits and our treasury management activities as well as staff costs and administrative expenses related to the management functions of our headquarters. The following discussions 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:

	For the year ended December 31,					
	2010		2011		2012	
	Amount	% of total	Amount	% of total	Amount	% of total
	(in millions of RMB, except percentages)					
Securities brokerage	6,868.4	81.2%	4,918.2	76.5%	4,081.0	68.4%
Futures brokerage	304.3	3.6	387.7	6.0	521.2	8.7
Proprietary trading and other securities trading services	323.0	3.8	118.8	1.8	401.5	6.7
Investment banking	740.1	8.8	682.5	10.6	684.9	11.5
Asset management	61.1	0.7	31.1	0.5	44.8	0.8
Private equity investment	27.1	0.3	27.7	0.4	25.2	0.4
Overseas business	—	—	4.3	0.1	33.5	0.6
Others	141.4	1.7	267.0	4.2	176.1	3.0
Inter-segment eliminations	(5.2)	(0.1)	(6.2)	(0.1)	(6.6)	(0.1)
Total	**8,460.2**	**100.0%**	**6,431.1**	**100.0%**	**5,961.6**	**100.0%**

The following table sets forth segment expenses (including inter-segment expenses) for the periods indicated:

	For the year ended December 31,					
	2010		2011		2012	
	Amount	% of total	Amount	% of total	Amount	% of total
	(in millions of RMB, except percentages)					
Securities brokerage	3,194.2	69.9%	2,983.5	71.5%	2,624.4	64.4%
Futures brokerage	216.3	4.7	276.1	6.6	358.4	8.8
Proprietary trading and other securities trading services	115.9	2.5	82.7	2.0	164.6	4.0
Investment banking	446.8	9.8	425.0	10.2	403.3	9.9
Asset management	102.3	2.2	45.2	1.1	73.8	1.8
Private equity investment	15.2	0.3	26.9	0.6	23.2	0.6
Overseas business	—	—	14.7	0.4	68.8	1.7
Others	484.1	10.7	322.2	7.7	365.4	9.0
Inter-segment eliminations	(5.2)	(0.1)	(6.2)	(0.1)	(6.6)	(0.2)
Total	**4,569.6**	**100.0%**	**4,170.1**	**100.0%**	**4,075.3**	**100.0%**

The following table sets forth segment results (profit/(loss) before income tax) for the periods indicated. Each segment result is calculated as segment revenue and other income (including inter-segment revenue) minus segment expenses (including inter-segment expenses).

	For the year ended December 31,					
	2010		2011		2012	
	Amount	% of total	Amount	% of total	Amount	% of total
	(in millions of RMB, except percentages)					
Securities brokerage	3,674.2	94.5%	1,934.7	85.6%	1,456.6	77.2%
Futures brokerage	88.0	2.3	111.6	4.9	162.8	8.6
Proprietary trading and other securities trading services	207.1	5.3	36.1	1.6	236.9	12.6
Investment banking	293.3	7.5	257.5	11.4	281.6	14.9
Asset management	(41.2)	(1.1)	(14.1)	(0.6)	(29.0)	(1.5)
Private equity investment	11.9	0.3	0.8	0.0	2.0	0.1
Overseas business	—	—	(10.4)	(0.5)	(35.3)	(1.9)
Others	(342.7)	(8.8)	(55.2)	(2.4)	(189.3)	(10.0)
Inter-segment eliminations	—	—	—	—	—	—
Total	**3,890.6**	**100.0%**	**2,261.0**	**100.0%**	**1,886.3**	**100.0%**

The following table sets forth segment margins for the periods indicated. The margin of each segment is calculated as the segment result (including inter-segment results) divided by the segment revenue and other income (including inter-segment revenue).

	For the year ended December 31,		
	2010	2011	2012
Securities brokerage	53.5%	39.3%	35.7%
Futures brokerage	28.9%	28.8%	31.2%
Proprietary trading and other securities trading services	64.1%	30.4%	59.0%
Investment banking	39.6%	37.7%	41.1%
Asset management	(67.4%)	(45.3%)	(64.7%)
Private equity investment	43.9%	2.9%	7.9%
Overseas business	—	(241.9%)	(105.4%)
Others	(242.4%)	(20.7%)	(107.5%)
Total	**46.0%**	**35.2%**	**31.6%**

Securities Brokerage

Segment revenue and other income from our securities brokerage business consist primarily of commission and fee income on securities brokerage (including commissions from management companies of publicly-raised funds as our clients and other institutional clients), interest income from deposits we hold on behalf of our customers and interest income from margin financing and securities lending services. Segment expenses consist primarily of staff costs, interest expenses on accounts payable to brokerage customers, rental expenses, depreciation and amortization and other general and administrative expenses, as well as expenses that are directly correlated to our securities brokerage trading turnover and commission and fee income, including securities brokerage transaction fees as well as business tax and surcharges.

Comparison Between 2012 and 2011

Segment result of our securities brokerage business decreased by 24.7% to RMB1,456.6 million in 2012 compared to RMB1,934.7 million in 2011, primarily due to a 17.0% decrease in segment revenue and other income from RMB4,918.2 million in 2011 to RMB4,081.0 million in 2012 as a result of decreases in the commission and fee income of our securities brokerage business and interest income from deposits we held on behalf of our customers, which was partially offset by an increase in the interest income from advances to customers and securities lending. The decrease in the commission and fee income of our securities brokerage business was primarily due to decreased trading turnover in our stocks and funds brokerage that resulted from the continued weak performance of the PRC securities markets in 2012. Our brokerage trading turnover of stocks and funds decreased by 25.6% to RMB3,288.7 billion in 2012 compared to RMB4,420.1 billion in 2011. Our market share in terms of stocks and funds brokerage turnover was 5.18% and 3.80% in 2012 compared to 5.22% and 4.27% in 2011, respectively, while our average securities brokerage commission rate remained stable at 0.083% in 2012. The decrease in the interest income from deposits we held on behalf of our customers primarily reflected declined customer trading activities attributable to the weak performance of the PRC securities market in 2012. The increase in the interest income from advances to customers and securities lending primarily reflected the continuous growth of our margin financing and securities lending business in 2012.

Segment expenses decreased by 12.0% to RMB2,624.4 million in 2012 compared to RMB2,983.5 million in 2011, primarily due to (i) a decrease in salaries and bonuses to our employees as a result of the decreased number of our client managers for securities brokerage business in 2012, (ii) a decrease in interest expenses as a result of the decrease in the average balance of deposits we held on behalf of our customers in 2012 and (iii) the decreased sales and marketing expenses attributable to our cost control measures.

As a result, the segment margin of our securities brokerage business decreased to 35.7% in 2012 compared to 39.3% in 2011.

Comparison Between 2011 and 2010

Segment result of our securities brokerage business decreased by 47.3% to RMB1,934.7 million in 2011 compared to RMB3,674.2 million in 2010, primarily due to a 28.4% decrease in segment revenue and other income from RMB6,868.4 million in 2010 to RMB4,918.2 million in 2011 as a result of the decrease in the commission and fee income of our securities brokerage business, which was partially offset by an increase in the interest income of our securities brokerage business. The decrease in the commission and fee income of our securities brokerage business was primarily due to (i) decreased trading turnover of our stocks and funds brokerage that resulted from the downturn of the PRC securities markets in 2011 and (ii) lower commission rates we charged for securities brokerage due to intense competition in the PRC securities industry because PRC securities companies established new branches in 2011, increasing the aggregate number of branches from 4,628 as at December 31, 2010 to 5,032 as at December 31, 2011. Our brokerage trading turnover of stocks and funds decreased by 21.6% from RMB5,641.0 billion in 2010 to RMB4,420.9 billion in 2011 as a result of the downturn of securities market. Our average securities brokerage commission rate decreased from 0.103% in 2010 to 0.083% in 2011. However, our market shares in terms of stocks and funds brokerage turnover increased from 5.14% and 3.80% in 2010 to 5.22% and 4.27% in 2011, respectively, despite weak market performance and intense competition. The increase in the interest income of our securities brokerage was primarily due to (i) the increase in our average balance of advances to customers in line with the rapid growth of our margin financing and securities lending business and (ii) the increase in deposit interest rates offered by commercial banks as a result of the increases in the benchmark interest rates set by the PBOC.

Segment expenses decreased by 6.6% to RMB2,983.5 million in 2011 compared to RMB3,194.2 million in 2010, primarily due to a decrease in salaries and bonuses we paid to our employees as a result of the decrease in our revenue from this segment.

As a result, the segment margin of our securities brokerage business decreased to 39.3% in 2011 compared to 53.5% in 2010.

Futures Brokerage

We conduct futures brokerage business through our subsidiary, Galaxy Futures. Segment revenue and other income from our futures brokerage business consist primarily of commission and fee income on futures brokerage (net of commission and fees paid to futures exchanges) and interest income from deposits we hold on behalf of our customers. Segment expenses consist primarily of staff costs, rental expenses, depreciation and amortization and other general and administrative expenses, as well as expenses that are directly correlated to our futures brokerage trading turnover and commission and fee income, including business tax and surcharges.

Comparison Between 2012 and 2011

Segment result of our futures brokerage business increased by 45.9% from RMB111.6 million in 2011 to RMB162.8 million in 2012, primarily due to a 34.4% increase in segment revenue and other income from RMB387.7 million in 2011 to RMB521.2 million in 2012, which was partially offset by a 29.8% increase in segment expenses from RMB276.1 million in 2011 to RMB358.4 million in 2012. The increase in the segment revenue and other income of our futures brokerage business was primarily due to increases in commission and fee income as well as interest income. Our commission and fee income on futures brokerage increased in 2012, primarily due to (i) increases in our client margin deposit balance, trading turnover and trading volume as a result of the increased trading activities in the PRC futures market as well as our enhanced market position in commodities futures business and (ii) decreases in commission rates charged by the futures exchanges in 2012. The increase in interest income was primarily attributable to increases in client margin deposit balance and our own funds as a result of the growth of our futures brokerage business and the full-year impact of our capital injection to Galaxy Futures in 2011.

The increase in the segment expenses of our futures brokerage business was primarily as a result of increased staff costs and general and administrative expenses in line with the growth of our futures brokerage business.

As a result, the segment margin of our futures brokerage business increased to 31.2% in 2012 from 28.8% in 2011.

Comparison Between 2011 and 2010

Segment result of our futures brokerage business increased by 26.8% from RMB88.0 million in 2010 to RMB111.6 million in 2011, primarily due to a 27.4% increase in segment revenue and other income from RMB304.3 million in 2010 to RMB387.7 million in 2011, which was partially offset by a 27.6% increase in segment expenses from RMB216.3 million in 2010 to RMB276.1 million in 2011. The increase in the segment revenue and other income of our futures brokerage business was primarily due to increases in interest income and commission and fee income. The increase in interest income was primarily attributable to increases in the deposits we held on behalf of customers and our own fund as a result of the growth of our futures brokerage customer base and deposits from customers after our capital injections to Galaxy Futures in 2010 and 2011. The increase in commission and fee income was primarily due to our efforts on developing futures brokerage business and the synergies with our securities brokerage business in areas such as the brand name as well as sharing of distribution network and customer base through the futures IB business.

The increase in the segment expenses of our futures brokerage business was primarily as a result of (i) additional futures brokerage branches we opened and (ii) increased staff costs and general and administrative expenses in line with the growth of our futures brokerage business.

As a result, the segment margin of our futures brokerage business remained stable at 28.8% in 2011 compared to 28.9% in 2010.

Proprietary Trading and Other Securities Trading Services

Segment revenue and other income from our proprietary trading and other securities trading services consist primarily of net gains from financial assets at fair value through profit or loss (including financial assets held for trading, financial assets designated as at fair value through profit or loss, and derivatives) and available-for-sale financial assets. The segment expenses consist primarily of trading commissions paid to exchanges, business tax and surcharges, as well as compensation we pay to our professional staff.

Comparison Between 2012 and 2011

Segment result of our proprietary trading and other securities trading services significantly increased to RMB236.9 million in 2012 compared to RMB36.1 million in 2011, primarily due to a RMB282.7 million increase in our segment revenue and other income as a result of increases in our net investment gains from available-for-sale financial assets and financial assets held for trading. The increase in our net investment gains from available-for-sale financial assets was primarily due to an increase in interest income from debt securities in which we invested, attributable to our increased investments in debt securities to develop Daily Profit, our dealer-quoted bond repurchase product in 2012. The increase in our net investment gains from financial assets held for trading was primarily due to an increase in our investments in debt securities as well as higher investment yields realized for our debt securities portfolio in 2012. We had an unrealized increase in fair value of financial assets at fair value through profit or loss in 2012 compared to an unrealized decrease in fair value of such financial assets in 2011 primarily due to the better performance in the PRC stock markets in 2012 compared to that in 2011. Segment expenses increased by 99.0% to RMB164.6 million in 2012 compared to RMB82.7 million in 2011, primarily due to (i) the increase in business taxes and surcharges as a result of the increase in the segment revenue and (ii) increased staff costs and other expenses as a result of the development of our new securities trading products and services and increased performance-based salaries and bonuses in line with the growth in our revenue.

As a result, the segment margin increased to 59.0% in 2012 compared to 30.4% in 2011.

Comparison Between 2011 and 2010

Segment result of our proprietary trading and other securities trading services decreased by 82.6% to RMB36.1 million in 2011 compared to RMB207.1 million in 2010, primarily due to a 63.2%, or RMB204.2 million, decrease in our segment revenue and other income as a result of decreases in our net investment gains from financial assets held for trading and financial assets designated as at fair value through profit or loss, which were partially offset by an increase in our net investment gains from derivatives as a result of our hedging strategy. The decreases in our net investment gains from financial assets held for trading and financial assets designated as at fair value through profit or loss were primarily due to net losses arising from our disposal of a portion of equity securities in our investment portfolio in 2011 compared to net disposal gains in 2010, reflecting the adverse equity market conditions in the PRC with the CSI 300 Index decreasing by 25.0% in 2011. However, losses arising from our disposal of financial assets in 2011 were offset by relatively stable dividends and interest income earned on such financial assets. As a result, we achieved net investment gains despite the increased volatilities in the PRC securities market. Segment expenses decreased by 28.6% to RMB82.7 million in 2011 compared to RMB115.9 million in 2010, primarily due to a decrease in salaries and bonuses we paid to our employees as a result of the decrease in our revenue from this segment.

As a result, the segment margin decreased to 30.4% in 2011 compared to 64.1% in 2010.

Investment Banking

Segment revenue and other income from our investment banking business consist primarily of underwriting and sponsors fees as well as consultancy and financial advisory fees. Segment expenses consist primarily of expenses associated with our underwriting activities, salaries we pay to our professional staff, sales personnel and sponsor representatives, distribution expenses, travel expenses as well as depreciation and amortization.

Comparison Between 2012 and 2011

Segment result of our investment banking business increased by 9.4% to RMB281.6 million in 2012 compared to RMB257.5 million in 2011, primarily due to (i) a 5.1%, or RMB21.7 million, decrease in the segment expenses and (ii) a 0.4%, or RMB2.4 million, increase in the segment revenue and other income. The decrease in the segment expenses was primarily because our revenues from underwriting debt securities offerings, commission and fee expenses of which are usually less than those of equity offerings, represented a higher percentage of the segment revenue in 2012 than that in 2011. The increase in the segment revenue and other income was primarily due to the increase in our underwriting fees income from debt securities offerings, reflecting the rising debt market in the PRC in 2012.

As a result, the segment margin of our investment banking business increased to 41.1% in 2012 compared to 37.7% in 2011.

Comparison Between 2011 and 2010

Segment result of our investment banking business decreased by 12.2% to RMB257.5 million in 2011 compared to RMB293.3 million in 2010, primarily due to a 7.8%, or RMB57.6 million, decrease in the segment revenue and other income as a result of the decrease in our underwriting and sponsors fees. Our underwriting and sponsors fees decreased by 11.3%, or RMB81.1 million, from 2010 to 2011, primarily due to a decrease in underwriting and sponsors fees from equity offering transactions as a result of the decreases in the number of and the transaction value of equity financing transactions we underwrote. The segment expenses decreased by 4.9% to RMB425.0 million in 2011 compared to RMB446.8 million in 2010, primarily due to a decrease in salaries and bonuses we paid to our employees as a result of the decrease in our revenue.

As a result, the segment margin of our investment banking business decreased to 37.7% in 2011 compared to 39.6% in 2010.

Asset Management

Segment revenue and other income from our asset management business consist primarily of (i) asset management fees, at fixed percentages of the clients' assets under our management, and (ii) performance fees that we are entitled to if we achieve certain targets of returns. Segment expenses consist primarily of marketing and maintenance fees of funds, staff costs, operating expenses as well as depreciation and amortization.

We started our asset management business in 2009. We incurred a substantial amount of expenditures in 2010 and 2011 because of our spending for strategic purposes to build up the business scale and professional team in the early stage of developing our asset management business. In addition, the weak performance of the PRC securities market since 2010 lowered investors' willingness to subscribe asset management products investing primarily in equity securities, which resulted in decreases in the asset management fees and performance fees we received in 2011 compared to those we received in 2010. Although the revenue and other income from our asset management business increased in 2012, our expenses for this business also increased in 2012 because of a provision of RMB30.0 million we made for our own investments in our collective asset management plans, the value of which has continuously been below the book value attributable to the weak market performance. Therefore, we had operating loss for our asset management business in 2010, 2011 and 2012.

Comparison Between 2012 and 2011

Our loss for asset management business increased to RMB29.0 million in 2012 compared to RMB14.1 million in 2011, primarily due to a 63.3%, or RMB28.6 million, increase in the segment expenses, which was partially offset by a 44.1%, or RMB13.7 million, increase in the segment revenue and other income. The increase in the segment expenses was primarily due to a provision of RMB30.0 million we made for our own investments in our collective asset management plans in accordance with our accounting policies and general provisioning practices of other PRC securities companies that require provisioning for an investment, the value of which is lower than 50% of its book value or has been below its book value for more than one year. The value of our own investments in our collective asset management plans has been continuously below the book value primarily attributable to the weak market performance in the PRC. The increase in the segment revenue and other income was primarily due to an increase in asset management fees we received as a result of the increase in the average balance of our AUM, reflecting the increased number of our asset management products as we continue to grow our asset management business.

Comparison Between 2011 and 2010

Our loss for asset management business decreased to RMB14.1 million in 2011 compared to RMB41.2 million in 2010, primarily due to a 55.8% decrease in the segment expenses as a result of (i) a decrease in the salaries and bonuses we paid to our employees and (ii) a decrease in strategic spending and overall expenses for asset management business because this business has been gradually growing. The segment revenue and other income from our asset management business decreased by 49.1% to RMB31.1 million in 2011 compared to RMB61.1 million in 2010, primarily due to (i) a decrease in management fees we received attributable to a 17.3% decrease in the average balance of our AUM because certain customers of our collective asset management plans liquidated their subscriptions and (ii) a decrease in performance fees we received as a result of the decrease in the returns of our asset management products, both of which reflected the downturn of the PRC securities market.

Private Equity Investment

We started private equity investment business in October 2009 and have not disposed of any of our private equity investments, so the segment revenue and other income from our private equity investment business in the Track Record Period consist primarily of interest income from our unutilized capital. Segment expenses of our private equity investment business consist primarily of salaries and performance-based commissions we pay to our professional staff, depreciation and amortization as well as operating expenses.

Comparison Between 2012 and 2011

Segment result of our private equity investment business increased by 150.0% to RMB2.0 million in 2012 compared to RMB0.8 million in 2011, primarily due to a 13.8%, or RMB3.7 million, decrease in our segment expenses, which was partially offset by a 9.0%, or RMB2.5 million, decrease in the segment revenue and other income. The decrease in our segment expenses was primarily due to a decrease in the performance-based salaries and bonuses. The decrease in the segment revenue and other income was primarily due to a decrease in interest income as a result of the decrease in our own funds because we increased our investments in private companies.

As a result, the segment margin of our private equity investment business increased to 7.9% in 2012 compared to 2.9% in 2011.

Comparison Between 2011 and 2010

Segment result of our private equity investment business decreased by 93.3% to RMB0.8 million in 2011 compared to RMB11.9 million in 2010, primarily due to a 77.0%, or RMB11.7 million, increase in our segment expenses attributable to an increase in the professional staff we hired to further develop our private equity investment business since we commenced this business in October 2009. The segment revenue and other income increased by 2.2% to RMB27.7 million in 2011 compared to RMB27.1 million in 2010, primarily due to an increase in interest income as a result of higher market interest rates in 2011.

As a result, the segment margin of our private equity investment business decreased to 2.9% in 2011 compared to 43.9% in 2010.

Overseas Business

Segment revenue and other income from our overseas business consist primarily of commission and fee income from 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 overseas subsidiaries. Segment expenses consist primarily of commissions to client managers, staff costs and other operating expenses.

Comparison Between 2012 and 2011

Our loss for overseas business increased to RMB35.3 million in 2012 compared to RMB10.4 million in 2011, primarily due to a RMB54.1 million increase in our segment expenses attributable to expenses we incurred to hire staff and develop our overseas business, which was partially offset by a RMB29.2 million increase in the segment revenue and other income as a result of the growth of our overseas business.

Comparison Between 2011 and 2010

We started our overseas business in 2011. We recorded segment revenue and other income of RMB4.3 million and incurred a loss of RMB10.4 million in 2011, primarily due to expenses we incurred to hire staff and develop our overseas business.

Others

Revenue and other income from others segment consist primarily of interest income from our own bank deposits and our treasury management activities. 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 functions of our headquarters, including staff costs, data transmission expenses, rental expenses, depreciation and amortization and other operating expenses.

We implement effective treasury management measures. A substantial portion of our own funds is allocated to each business line for their operations. The expenses at our headquarters level consist primarily of general and administrative expenses incurred for various management functions to support business operations.

Comparison Between 2012 and 2011

Our loss for the others segment increased to RMB189.3 million in 2012 compared to RMB55.2 million in 2011, primarily due to (i) a 34.0%, or RMB90.9 million, decrease in the segment revenue and other income and (ii) a 13.4%, or RMB43.2 million, increase in the segment expenses. The decrease in the segment revenue and other income was primarily due to a decrease in interest income from our own bank deposits as a result of a decrease in our own deposits as we used our funds for advances to customers in our margin financing and securities lending business and investments in debt securities primarily for Daily Profit, our dealer-quoted bond repurchase product. The increase in the segment expenses was primarily due to (i) an increase in rental cost for our headquarters attributable to more area we rented and the rises in market rental prices and (ii) an increase in staff costs.

Comparison Between 2011 and 2010

We had loss for others segment in 2010, 2011 and 2012 because interest income from our own bank deposits was insufficient to cover the general and administrative expenses incurred for our headquarters' management functions. Our loss for the others segment decreased to RMB55.2 million in 2011 compared to RMB342.7 million in 2010, primarily due to (i) a 88.8%, or RMB125.6 million, increase in the segment revenue and other income and (ii) a 33.4%, or RMB161.9 million, decrease in the segment expenses. The increase in the segment revenue and other income was primarily due to an increase in interest income from our own bank deposits as a result of (i) higher interest rates that commercial banks offered on deposits than those in 2010, reflecting the increases in the benchmark interest rates set by the PBOC and the tightened market liquidity in 2011, and (ii) our effective liquidity management measures. The decrease in the segment expenses was primarily due to a decrease in salaries and bonuses we paid to our employees as a result of the decrease in our total revenue and our strengthened cost control measures on operating expenses.

LIQUIDITY AND CAPITAL RESOURCES

We have in the past funded our working capital and other capital requirements primarily from cash flows from operations and repurchase transactions, as well as existing cash and cash equivalents. We also engage in short-term borrowings from banks from time to time for our liquidity management purpose. However, bank borrowings have not been a major source of our capital historically.

We make our annual budget that forecasts our cash flows and cash balances 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 indicators, 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 bank borrowings, we actively manage our liquid assets through money market and capital market operations by investing in liquid financial instruments with relatively low risk, such as fixed-income securities and financial assets held under resale agreements. We also seek to diversify our sources and types of financing to meet various liquidity needs in our operations. Currently, we derive short-term financing primarily from bond repurchase transactions in the interbank market or through stock exchanges as well as short-term bank borrowings.

As at December 31, 2012, we had aggregate cash and cash equivalents of RMB3,921.0 million, consisting primarily of bank balances and cash and clearing settlement funds. In addition, we hold a substantial amount of liquid financial instruments to manage our liquidity and capital, including financial assets at fair value through profit or loss and financial assets held under resale agreements. As at December 31, 2012, we had proceeds from repurchase transactions of RMB5,183.4 million. In addition, we had financial assets held under resale agreements of RMB809.5 million as at December 31, 2012, which we can quickly trade with counterparties to increase our working capital and meet other liquidity requirements from time to time.

Taking into account the financial resources available to us, including our existing cash and cash equivalents, net proceeds from this Global Offering, cash flows from operations and available facilities, our Directors believe that we have sufficient working capital for our present requirements for at least the next 12 months from the date of this prospectus.

Between January 1, 2013 and March 31, 2013, we incurred approximately RMB4.0 million in expenses for the Global Offering, and we expect to incur an additional RMB259.5 million (including the commission and expenses that can be capitalized, assuming an Offer Price of HK$5.88 per H Share, which is the mid-point of the stated range of the Offer Price of between HK$4.99 and HK$6.77 per H Share) until the completion of the Global Offering. We do not expect these expenses to have a material impact on our results of operations for 2013 as to be reflected in our consolidated income statement for 2013.

The following discussion of liquidity and capital resources principally focuses on our consolidated statements of cash flows and assets and liabilities.

Cash Flows

The following table sets forth a selected summary of our consolidated statements of cash flows for the periods indicated:

	For the year ended December 31,		
	2010	2011	2012
	(in millions of RMB)		
Net cash (used in)/from operating activities	(1,575.6)	(14.0)	3,183.6
Net cash (used in)/from investing activities	(1,874.7)	825.4	(5,829.8)
Net cash (used in)/from financing activities	(1,162.4)	29.7	2.4
Net (decrease)/increase in cash and cash equivalents	(4,612.7)	841.1	(2,643.8)
Cash and cash equivalents at the beginning of the year	10,347.9	5,731.3	6,564.9
Effect of foreign exchange rate changes	(3.9)	(7.5)	(0.1)
Cash and cash equivalents at the end of the year	5,731.3	6,564.9	3,921.0

Net Cash (Used in)/from Operating Activities

Our cash flows from operating activities consist primarily of cash generated or paid in relation to our commission-based securities and futures business, investment banking business, 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 movements in working capital, such as increase or decrease in advances to customers, cash held on behalf of customers, financial assets at fair value through profit or loss, as well as financial assets held under resale agreements or sold under repurchase agreements, and (iii) other cash items such as income tax paid and interest paid.

The following table sets forth a selected summary of our net cash from/(used in) operating activities:

	For the year ended December 31,		
	2010	2011	2012
	(in millions of RMB)		
Profit before income tax	3,890.6	2,261.0	1,886.3
Adjustments for non-cash and non-operating items	574.2	609.3	423.3
Operating cash flows before movements in working capital	4,464.8	2,870.3	2,309.6
Movements in working capital	(4,631.6)	(1,772.0)	1,603.8
Cash (used in)/from operations	(166.8)	1,098.3	3,913.4
Income taxes and interest paid	(1,408.8)	(1,112.3)	(729.8)
Net cash (used in)/from operating activities	(1,575.6)	(14.0)	3,183.6

In 2012, we had net cash from operating activities of RMB3,183.6 million, primarily because we generated net cash inflows from movements in working capital. The net cash inflows arising from movements in working capital were primarily due to a RMB5,180.8 million increase in proceeds from financial assets sold under repurchase agreements due to the rapid growth of Daily Profit, our dealer-quoted bond repurchase product, as a result of our efforts to promote our innovative securities trading products. This increase was partially offset by (i) a RMB2,889.9 million increase in advances to customers as a result of the continued growth of our margin financing and securities lending business, (ii) a RMB441.4 million increase in financial assets at fair value through profit or loss as we increased our investment in debt securities and (iii) a RMB217.8 million increase in financial assets held under resale agreements as a result of increase in short-term financing to customers through resale transactions for our securities-based lending product.

In 2011, we had net cash used in operating activities of RMB14.0 million, primarily because the net cash outflows arising from movements in working capital, the income taxes and interest paid in aggregate exceeded our profit before tax of RMB2,261.0 million. The net cash outflows arising from movements in working capital were primarily due to (i) a RMB2,015.9 million increase in advances to customers as a result of the growth of our margin financing and securities lending business and (ii) a RMB531.8 million increase in our financial assets held under resale agreements to generate higher returns on our funds based on our liquidity management strategy. These increases were partially offset by a RMB1,684.9 million decrease in our financial assets at fair value through profit or loss that reflected our investment strategies based on the market conditions.

In 2010, we had net cash used in operating activities of RMB1,575.6 million because the net cash outflows arising from movements in our working capital, the income taxes and interest paid in aggregate exceeded our profit before tax of RMB3,890.6 million. The net cash outflows arising from movements in working capital were primarily due to (i) a RMB4,252.7 million decrease in financial assets sold under repurchase agreements and a RMB1,293.1 million increase in financial assets at fair value through profit or loss, both of which reflected our investment decisions and trading strategies to lower our debt investment leverage ratio, and (ii) a RMB532.8 million increase in advances to customers due to the growth of our margin financing and securities lending business. These increases were partially offset by a RMB1,769.6 million decrease in financial assets held under resale agreements based on our liquidity management strategy.

We had net cash from operating activities of RMB3,183.6 million in 2012 compared to net cash used in operating activities of RMB14.0 million in 2011, primarily due to cash inflows in our working capital and the decreases in income taxes and interest we paid, which were partially offset by the decrease in our profit before income tax. The net cash inflows in our working capital amounted to RMB1,603.8 million in 2012 compared to net cash outflows in our working capital of RMB1,772.0 million in 2011, primarily due to a significant increase in financial assets sold under repurchase agreement attributable to the rapid growth of Daily Profit, our dealer-quoted bond repurchase product, as a result of our efforts to promote our innovative securities trading products, which was partially offset by the increase in advances to customers and our increased investments in financial assets at fair value through profit or loss in 2012 based on our adjusted investment strategy in response to the PRC securities market conditions.

Our net cash used in operating activities significantly decreased in 2011, primarily due to less cash outflows in our working capital, which were partially offset by the decrease in our profit before income tax. The net cash outflows in our working capital amounted to RMB1,772.0 million in 2011 compared to RMB4,631.6 million in 2010, primarily due to (i) a decrease in financial assets sold under repurchase agreements as we lowered our debt investment leverage ratio in 2010 and (ii) our increased investments in financial assets at fair value through profit or loss in 2010 with our working capital whereas we received proceeds from disposal of a portion of financial assets at fair value through profit or loss in 2011 based on our adjusted investment strategy in response to the PRC securities market conditions, which were partially offset by an increase in advances to customers.

We believe that we are able to generate sufficient cash flows from operating activities. Our operating cash flows before movements in working capital amounted to RMB4,464.8 million, RMB2,870.3 million and RMB2,309.6 million, respectively, in 2010, 2011 and 2012. In addition, we had net current assets of RMB12,604.7 million, RMB14,270.3 million and RMB15,539.7 million as at December 31, 2010, 2011 and 2012, respectively, which indicated that our working capital needs had been adequately met in 2010, 2011 and 2012.

Net Cash (Used in)/from Investing Activities

Our cash outflows used in investing activities consist primarily of (i) our purchase of available-for-sale financial assets and (ii) our purchase of property and equipment as well as other intangible assets which consist primarily of trading units we maintain with stock and future exchanges and software we purchase. Our cash inflows from investing activities consist primarily of (i) the proceeds of disposal of available-for-sale financial assets, (ii) the proceeds of disposal of property and equipment and other intangible assets and (iii) the dividends and interest we receive from subsidiaries and available-for-sale financial assets.

In 2012, our net cash used in investing activities was RMB5,829.8 million, primarily due to (i) our purchase of available-for-sale financial assets of RMB5,631.6 million mainly attributable to our increased investments in debt securities to develop Daily Profit, our dealer-quoted bond repurchase product, and (ii) our purchase of property and equipment as well as other intangible assets of RMB238.3 million, which were partially offset by dividends and interest of RMB22.2 million received from available-for-sale financial assets.

In 2011, our net cash from investing activities was RMB825.4 million, primarily due to (i) a RMB1,056.7 million disposal in available-for-sale financial assets based on our investment decisions and (ii) dividends of RMB47.7 million we received from available-for-sale financial assets, which were partially offset by our purchase of property and equipment and other intangible assets of RMB287.7 million, reflecting the growth of our business.

In 2010, our net cash used in investing activities was RMB1,874.7 million, primarily due to (i) a RMB1,714.9 million increase in available-for-sale financial assets that reflected our investment decisions and (ii) our purchase of property and equipment as well as other intangible assets of RMB201.4 million, which were partially offset by dividends and interest of RMB37.2 million received from available-for-sale financial assets.

We had net cash used in investing activities in 2012 compared to net cash from investing activities in 2011 because we had net purchase of available-for-sale financial assets in 2012, whereas we disposed of a portion of such financial assets in 2011.

We had net cash from investing activities in 2011 compared to net cash used in investing activities in 2010 because we had net purchase of available-for-sale financial assets in 2010 whereas we disposed of a portion of such financial assets in 2011 as a result of our adjusted investment strategy in response to the PRC securities market conditions.

Net Cash (Used in)/from Financing Activities

Our cash outflows used in financing activities consist primarily of the dividends we pay to our Shareholders and payment made to acquire non-controlling equity interest in the entities in which we invest. Our cash inflows from financing activities consist primarily of proceeds from issuing shares of subsidiaries.

In 2012, our net cash from financing activities was RMB2.4 million, primarily due to the short-term bank borrowing of RMB18.9 million, which was partially offset by dividends of RMB11.7 million we paid to the non-controlling shareholders of Galaxy Futures.

In 2011, our net cash from financing activities was RMB29.7 million, primarily attributable to the capital injection of RMB54.9 million from non-controlling shareholders of Galaxy Futures, which was partially offset by a payment of RMB25.2 million we made to purchase a 4.16% equity interest in Galaxy Futures from a non-controlling shareholder.

In 2010, our net cash used in financing activities was RMB1,162.4 million, attributable to dividends of RMB1,200.0 million we paid to our Shareholders, which were partially offset by the capital injection of RMB37.6 million from non-controlling shareholders of Galaxy Futures.

Our net cash from financing activities decreased in 2012 compared to 2011, primarily because we did not receive any capital injection from non-controlling shareholders of our subsidiaries in 2012 and we paid dividends of RMB11.7 million to the non-controlling shareholders of Galaxy Futures. We had net cash from financing activities in 2011 compared to net cash used in financing activities in 2010, primarily due to dividends of RMB1,200.0 million we paid to our Shareholders in 2010.

Assets and Liabilities

To ensure appropriate cash liquidity management and capital allocation, we 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 assets and liabilities consist of current assets and liabilities.

Current Assets and Liabilities

The following table sets forth a summary of our current assets and liabilities as at the dates indicated:

	As at December 31,			As at March 31,
	2010	2011	2012	2013
	(in millions of RMB)			
Current Assets				
Advances to customers	532.8	2,548.7	5,438.7	9,806.4
Accounts receivable	129.4	108.0	209.7	216.0
Prepaid taxes	18.3	149.4	268.1	251.5
Other receivables and prepayments	447.3	322.1	426.6	668.2
Available-for-sale financial assets	1,833.0	641.0	5,908.0	6,995.9
Financial assets held under resale agreements	60.0	591.8	809.5	1,465.4
Financial assets held for trading	6,514.5	5,010.8	4,622.0	4,727.5
Financial assets designated as at fair value through profit or loss	182.1	0.9	831.0	351.2
Deposits with exchanges and a non-bank financial institution	2,346.8	2,137.0	2,614.3	2,943.3
Clearing settlement funds	24,675.5	3,584.1	4,541.5	4,551.5
Bank balances	55,584.9	42,264.4	36,607.0	38,154.7
Total current assets	**92,324.6**	**57,358.2**	**62,276.4**	**70,131.6**
Current Liabilities				
Due to banks and a non-bank financial institution	—	—	318.9	3,973.0
Accounts payable to brokerage clients	76,794.5	41,231.1	39,745.6	38,456.9
Accrued staff costs	2,343.4	1,487.4	1,104.8	847.7
Other payables and accruals	393.7	337.1	363.7	2,565.6
Current tax liabilities	188.3	29.7	20.3	18.6
Financial assets sold under repurchase agreements	—	2.6	5,183.4	7,799.9
Total current liabilities	**79,719.9**	**43,087.9**	**46,736.7**	**53,661.7**
Net Current Assets	**12,604.7**	**14,270.3**	**15,539.7**	**16,469.9**

Our current assets consist primarily of bank balances (including cash held on behalf of customers), clearing settlement funds (including customer clearing settlement funds), financial assets held for trading, advances to customers, available-for-sale financial assets and deposits with exchanges and a non-bank financial institution. Our current liabilities consist primarily of accounts payable to brokerage clients, which are primarily repayable at our customers' requests, and financial assets sold under repurchase agreements. Deposits from customers in our securities and futures brokerage businesses represent major components of our current assets and current liabilities. Customer deposits are primarily included in cash held on behalf of customers and customer clearing settlement funds as current assets whereas included in accounts payable to brokerage clients as current liabilities. Customer deposits fluctuate based on our customers' trading activities, market conditions and other external factors beyond our control. As a result, customer deposits in our securities and futures brokerage businesses are not a meaningful indicator of our financial condition or results of operations. See "—Adjusted Current Assets and Liabilities" below for information on our assets and liabilities excluding customer deposits in our securities and futures brokerage businesses.

Our net current assets, the difference between total current assets and current liabilities, remained positive in 2010, 2011 and 2012 and in the first quarter of 2013.

As at March 31, 2013, our net current assets increased to RMB16,469.9 million compared to RMB15,539.7 million as at December 31, 2012, because the increase in our total current assets was greater than the increase in our total current liabilities. The increase in our current assets was primarily due to (i) a RMB4,367.7 million increase in advances to customers as a result of the growth in our margin financing and securities lending business, (ii) a RMB1,087.9 million increase in available-for-sale financial assets primarily as a result of the increase in debt securities we purchased as collateral for Daily Profit, our dealer-quoted bond repurchase product, and (iii) a RMB655.9 million increase in financial assets held under resale agreements primarily attributable to the growth in our securities-based lending product. The increase in our current liabilities was primarily due to (i) a RMB3,654.1 million increase in due to banks and a non-bank financial institution primarily as a result of the increased margin and securities refinancing from the CSFC, (ii) a RMB2,616.5 million increase in financial assets sold under repurchase agreements primarily attributable to the growth in Daily Profit and (iii) a RMB2,201.9 million increase in other payables and accruals primarily because the clearing and settlement date for an amount received on behalf of a customer was scheduled after the end of the first quarter of 2013, which were partially offset by a RMB1,288.7 million decrease in our accounts payable to brokerage clients primarily as a result of the decrease in cash held on behalf of customers in the first quarter of 2013.

As at December 31, 2012, our net current assets increased to RMB15,539.7 million compared to RMB14,270.3 million as at December 31, 2011, because the increase in our total current assets was greater than the increase in our total current liabilities. The increase in our current assets was primarily due to (i) a RMB5,267.0 million increase in available-for-sale financial assets, (ii) a RMB2,890.0 million increase in advances to customers and (iii) a RMB957.4 million increase in clearing settlement funds held for clients, which were partially offset by decreases in cash held on behalf of customers and bank balances. The increase in our current liabilities was primarily due to a RMB5,180.8 million increase in our financial assets sold under repurchase agreements, which was partially offset by a RMB1,485.5 million decrease in our accounts payable to brokerage clients as a result of the decrease in cash held on behalf of customers in 2012, reflecting the declined customer trading activities due to the weak performance of the PRC securities market in 2012.

As at December 31, 2011, our net current assets increased to RMB14,270.3 million compared to RMB12,604.7 million as at December 31, 2010, because the decrease in our total current liabilities was greater than the decrease in our total current assets. The decrease in our current assets was primarily due to (i) a RMB14,575.1 million decrease in cash held on behalf of our customers, (ii) a RMB1,503.7 million decrease in financial assets held for trading and (iii) a RMB1,192.0 million decrease in available-for-sale financial assets, which were partially offset by the increases in advances to customers and bank balances and cash. The decrease in our current liabilities was primarily due to a RMB35,563.4 million decrease in our accounts payable to brokerage clients as a result of the decrease in cash held on behalf of customers in 2011, reflecting decreased customers' trading activities due to the weak performance of the PRC securities market in 2011.

We hold financial assets sold under repurchase agreements and financial assets held under resale agreements primarily 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 assets could significantly fluctuate among various balance sheet dates. For example, we may increase our holding of financial assets held under resale agreements prior to holidays to earn returns on our funds during holidays. These financial instruments are short-term in nature and can be quickly liquidated on short notice to increase our working capital and meet other liquidity requirements from time to time. For a detailed discussion of our resale or repurchase transactions, see "—Principal Components of Consolidated Income Statements—Revenue and other income—Interest income" and "—Principal Components of Consolidated Incomes Statements—Total Expenses—Interest expenses."

Adjusted Current Assets and Liabilities

Because customer deposits held by us fluctuate based on our customers' trading activities, market conditions and other external factors that are beyond our control, we have adjusted our assets and liabilities to exclude our assets held on behalf of customers and accounts payable to brokerage customers so that prospective investors could have an accurate understanding of our financial condition. The following table sets forth our adjusted current assets and liabilities as at the dates indicated:

	As at December 31,			As at March 31,
	2010	2011	2012	2013
	(in millions of RMB)			
Adjusted current assets[1]	15,530.1	16,127.1	22,530.8	31,674.7
Adjusted current liabilities[2]	2,925.4	1,856.8	6,991.1	15,204.8
Current ratio[3]	5.3x	8.7x	3.2x	2.1x

(1) Represents total current assets less accounts payable to brokerage clients.
(2) Represents total current liabilities less accounts payable to brokerage clients.
(3) Calculated by dividing the adjusted current assets by the adjusted current liabilities.

Non-current Assets and Liabilities

The following table sets forth a summary of our non-current assets and liabilities as at the dates indicated:

	As at December 31,		
	2010	2011	2012
	(in millions of RMB)		
Non-current assets			
Property and equipment	608.8	583.9	515.6
Goodwill	223.3	223.3	223.3
Other intangible assets	322.1	353.3	362.8
Available-for-sale financial assets	324.2	391.1	743.0
Deferred tax assets	461.6	304.9	174.4
Total non-current assets	**1,940.0**	**1,856.5**	**2,019.1**

Our non-current assets consist primarily of property and equipment, available-for-sale financial assets and other intangible assets. Our property and equipment consist primarily of properties we use for the operations of our branch network. Our available-for-sale financial assets consist primarily of equity investments that we made in our private equity investment business and equity investment that we do not expect to sell within one year due to transfer restrictions. Other intangible assets consist primarily of the trading units we maintain with stock and future exchanges and software we purchase. Our non-current assets increased to RMB2,019.1 million as at December 31, 2012 from RMB1,856.5 million as at December 31, 2011, primarily due to an increase in our available-for-sale financial assets.

Our non-current assets decreased to RMB1,856.5 million as at December 31, 2011 from RMB1,940.0 million as at December 31, 2010, primarily due to a decrease in our deferred tax assets.

We did not have non-current liabilities at December 31, 2010, 2011 and 2012.

Indebtedness

We mainly rely on our operating cash flows as well as repurchase transactions as the principal sources of liquidity for our PRC operations in our ordinary course of business. We also engage in short-term borrowings from banks for our liquidity management purpose. As at December 31, 2010, 2011 and 2012 and March 31, 2013, our borrowings from banks amounted to nil, nil, RMB18.9 million and nil, respectively. Apart from intra-group liabilities, we did not have, as of March 31, 2013, any outstanding mortgages, charges, debentures, other issued debt capital, bank overdrafts, loans, liabilities under acceptance or other similar indebtedness, hire purchase and finance lease commitments, any guarantees or other material contingent liabilities.

In November 2012, our Shareholders authorized us to issue short-term notes in an aggregate principal amount of up to RMB7.0 billion. The PBOC approved our application for issuing short-term notes on April 1, 2013 and, in accordance with the PBOC's approval, we may, at our discretion, issue short-term notes in an aggregate principal amount of up to RMB7.0 billion within a one-year period. We issued the first tranche of fixed interest rate short-term notes in a principal amount of RMB3.5 billion on April 12, 2013 in the national interbank bond market through a bidding process. This tranche of short-term notes has a term of 90 days, an interest rate of 3.58%, an issuer rating of AAA and an issuance rating of A-1. The proceeds raised from this first tranche of short-term notes are intended to be used to replenish our working capital. The Directors have confirmed that, except the short-term notes issued on April 12, 2013, there has not been any material change in our indebtedness since March 31, 2013.

CAPITAL EXPENDITURES

Our capital expenditures consist primarily of expenditures for the purchase of property, plant and equipment as well as other intangibles assets. The following table sets forth our capital expenditures for the periods indicated:

	For the year ended December 31,		
	2010	2011	2012
	(in millions of RMB)		
Purchase of property, equipment and other intangible assets	201.4	287.7	238.3

Our capital expenditures amounted to RMB201.4 million, RMB287.7 million and RMB238.3 million in 2010, 2011 and 2012, respectively, primarily due to purchases of property and equipment to expand our branch network and our overseas business.

As of March 31, 2013, we expect our capital expenditures in 2013 to be RMB150 million, which will be used primarily in purchasing and refurbishing the operating premises of our branches, upgrading computer facilities and customer applications as well as purchasing and developing IT software. We intend to fund our capital expenditures with cash generated from our operating activities.

COMMITMENTS AND CONTINGENT LIABILITIES

Capital Commitments

The following table below sets forth our capital commitments for acquisition of property and equipment as at the dates indicated.

	As at December 31,			As at March 31,
	2010	2011	2012	2013
	(in millions of RMB)			
Contracted but not provided for	28.8	23.6	5.8	8.7

We have funded a substantial portion of our capital commitments by cash flows from our operating activities. Our capital commitments were made primarily to purchase property and equipment in connection with our branch network expansion, and as we grow, we expect to continue to incur additional capital commitments to support our business expansion.

Operating Lease Commitments

We lease certain of our office properties from third parties under non-cancellable operating leases. The following table sets forth our future minimum lease payments payable under non-cancellable operating leases as at the dates indicated:

	As at December 31,			As at March 31,
	2010	2011	2012	2013
	(in millions of RMB)			
Within 1 year (including 1 year)	188.0	278.1	311.9	301.4
1 to 2 years (including 2 years)	151.1	255.4	192.4	187.9
2 to 3 years (including 3 years)	133.0	142.8	140.5	147.8
3 to 5 years (including 5 years)	147.4	159.6	195.2	196.1
Over 5 years	120.8	123.6	79.4	81.7
	740.3	**959.5**	**919.4**	**914.9**

Contingent Liabilities

As at March 31, 2013, 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. We make provision for the probable losses with respect to claims when our management can reasonably estimate the outcome of the proceedings, considering the court rulings and legal advice we have received. In 2012, we made a provision of RMB18.9 million for pending litigations.

As at March 31, 2013, we did not have any guarantees, mortgages, charges, or other material contingent liabilities.

OFF-BALANCE SHEET ARRANGEMENTS

As at the Latest Practicable Date, we did not have any outstanding, off-balance sheet guarantees or foreign currency forward contracts.

CAPITAL ADEQUACY AND RISK CONTROL INDICATOR

Pursuant to the CSRC's Administrative Measures for Risk Control Indicators of Securities Companies, or the Risk Control Indicators 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 at December 31, 2010, 2011 and 2012 and as at March 31, 2013, we were in compliance with all of the capital adequacy and risk control indicator requirements. As at December 31, 2012, our Net Capital amounted to RMB13,508.3 million.

The following table sets forth our Net Capital and key regulatory risk control indicators that we prepared in accordance with the PRC GAAP and relevant PRC regulatory requirements as at the dates indicated. During the Track Record Period, our Net Capital and key risk control indicators met the required levels.

	As at December 31,			Warning level (1)	Minimum/ Maximum level
	2010	2011	2012		
Net Capital(2) (in millions of RMB)	11,316.0	12,664.3	13,508.3	≥240.0	≥200.0
Net Capital/total risk capital reserves(3) (%)	298.3%	436.2%	662.6%	≥120.0%	≥100.0%
Net Capital/net assets (%)	78.8%	79.5%	77.9%	≥48.0%	≥40.0%
Net Capital/total liabilities(4) (%)	399.2%	740.9%	199.6%	≥9.6%	≥8.0%
Net assets/total liabilities (%)	506.9%	932.3%	256.3%	≥24.0%	≥20.0%
Value of equity securities and derivatives held/Net Capital (%)	5.3%	8.0%	9.9%	≤80.0%	≤100.0%
Value of fixed-income securities held/Net Capital (%)	72.4%	37.9%	76.4%	≤400.0%	≤500.0%

(1) The warning level is set by the CSRC according to the Risk Control Indicator Measures. If an indicator is required to stay above a minimum level, the warning level is 120% of the minimum requirement, and if an 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 in the process of 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 brokerage customers.

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.

In addition, when conducting margin financing and securities lending business, 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 capitalization.

We closely monitor all risk control indicators when conducting our proprietary trading as well as margin financing and securities lending businesses. During the Track Record Period, we had not had any non-compliances with these risk control indicators, nor had we received any warnings or penalties from the CSRC.

We collect financial and operational data through our dynamic net capital monitoring system to ensure the authenticity, accuracy and completeness of collection and calculation of such data. This system can monitor and calculate our Net Capital and risk control indicators on a daily basis and automatically generate and submit various statements in compliance with the regulatory requirements to our management and the regulators. We conduct regular assessment on the effectiveness of this dynamic monitoring system, and adjust and improve this system based on the changes in the market, business development as well as the technological and regulatory environment. In addition, we have formulated a contingency plan for the dynamic net capital monitoring system. Based on the data generated by the system, our Risk Management Department and Audit Department monitor and supervise risk control indicators, as well as our Net Capital, on a regular basis. Our Audit Department conducts independent audit on the statements related to our Net Capital and regulatory risk control indicators.

QUANTITATIVE AND QUALITATIVE ANALYSIS OF MARKET RISK

We have designed a risk management and control system to measure, monitor and manage financial risks arising in our ordinary course of business. See "Business—Risk Management" and note 52 in the Accountants' Report in Appendix I to this prospectus for an overview of our risk management process. The main financial risks faced by us in the ordinary course of business are credit risk, liquidity risk and market risk. Market risk is the risk of loss arising from adverse change in fair value or movement in cash flows in respect of financial instruments due to interest rate risk, currency risk and price risk.

Credit Risk

We are exposed to credit risk, which is the risk of loss arising from a borrower's or counterparty's failures or inabilities to fulfill obligations to us or downgrade of its credit rating.

Our credit exposure arises primarily from fixed-income financial assets, margin trading assets and our securities and futures brokerage businesses. Fixed-income financial assets consist of bank balance, clearing settlement funds and debt securities. Credit risk of fixed-income financial assets may arise from counterparty's default or securities issuer's default.

We deposit our bank balances primarily with state-owned commercial banks or joint-stock commercial banks and clearing settlement funds with the CSDCC. Our credit risk exposure to them is considered low.

For our proprietary trading business, when the transactions are conducted through stock exchanges and the CSDCC, the counterparty default risk is considered low. For transactions conducted through the interbank market, counterparties are evaluated and only parties with good credit rating are authorized for trading. In order to control the risk of our investment portfolio, we limit the bonds we trade to those with ratings of AA- or above. Therefore, we consider that the credit exposure of our proprietary trading business is not significant.

Margin trading assets consist of advances to customers and securities lent to customers. The main credit risk of these financial assets is customers' failure to repay the principal, interest or securities lent to them. We monitor margin clients' accounts on an individual customer basis and call for additional margin deposits, cash collateral or securities when required. The advances to margin clients and securities lent to customers are monitored through their collateral ratios, which ensure the value of the collateral is sufficient to cover the advances. As at December 31, 2010, 2011 and 2012, the collateral ratios of all of our margin clients were above 130%, respectively, which indicated the collateral value was sufficient to cover our exposure of credit risk from margin financing and securities lending business.

We are also exposed to the credit risk that arises from our securities and futures brokerage businesses. If customers fail to deposit adequate funds, we may have to complete the trade settlement using our own funds. We mitigate such credit risk and can ensure the risk is under our control by requiring all transactions to be fully funded before we settle on behalf of our customers.

The following table sets forth our maximum credit risk exposure, which is the carrying amount of financial assets, net of impairment, without taking into account of collateral and other credit enhancements:

	As at December 31,		
	2010	2011	2012
	(in millions of RMB)		
Advances to customers	532.8	2,548.7	5,438.7
Accounts receivable	129.4	108.0	209.7
Other financial assets	406.3	261.7	374.5
Available-for-sale financial assets	1,829.6	612.4	5,552.6
Including securities lent to customers	0.2	9.4	35.5
Financial assets held under resale agreements	60.0	591.8	809.5
Financial assets held for trading	5,644.1	2,860.7	3,346.5
Financial assets designated as at fair value through profit or loss	182.1	0.9	655.2
Including securities lent to customers	—	—	169.8
Deposits with exchanges and a non-bank financial institution	2,346.8	2,137.0	2,614.3
Clearing settlement funds	24,675.5	3,584.1	4,541.5
Bank balances	55,584.9	42,264.4	36,607.0
Maximum credit risk exposure	**91,391.5**	**54,969.7**	**60,149.5**

We did not hold financial assets that were past due but not impaired as at December 31, 2010, 2011 and 2012.

Liquidity Risk

Liquidity risk is the risk that adequate cash flows or financial instruments cannot be generated or liquidated at a reasonable cost in a timely manner to meet our obligations. During the ordinary course of business, we may face liquidity risk caused by changes of macroeconomic policies, market fluctuations, poor operations, credit downgrades, mismatch of assets and liabilities, low turnover rates of assets, large amounts of underwriting, significant proprietary trading position, or high ratio of long-term investments. If we fail to address any liquidity risk by adjusting the asset structure or comply with regulatory authority requirements on the risk indicators, we could be penalized by the regulatory authority by imposing restrictions on our business operations, which could have adverse impact on our operations and reputation.

We have taken measures to manage our liquidity risk. We implement centralized management and control over funds through our early warning system and management of using large amount of funds. Based on the balance among safety, liquidity and profitability, we adjust and configure assets size and terms structure to establish multiple levels of liquidity reserves and achieve the objective of liquidity risk management through money market and capital markets transactions in a timely manner. In addition, we have also established a liquidity risk management reporting system which requires us to prepare funding plans of different terms and report the implementation of such funding plans to reflect the status of liquidity risk managements.

The following tables set forth the maturity analysis of financial assets and liabilities by remaining contractual maturities at the dates indicated:

	As at December 31, 2010							
	On demand	Less than three months	Three months to one year	One year to five years	More than five years	Undated	Total	Carrying amount
	(in millions of RMB)							
Financial assets								
Advances to customers	—	4.4	549.7	—	—	—	554.1	532.8
Accounts receivable	129.4	—	—	—	—	—	129.4	129.4
Other financial assets	255.3	—	—	—	—	—	255.3	255.3
Available-for-sale financial assets	—	600.1	663.7	649.9	256.4	137.8	2,307.9	2,157.2
Financial assets held under resale agreements	—	60.1	—	—	—	—	60.1	60.0
Financial assets held for trading	—	1,163.4	2,395.4	1,997.9	784.8	870.4	7,211.9	6,514.5
Financial assets designated as at fair value through profit or loss	—	—	1.2	5.0	158.3	—	164.5	182.1
Deposits with exchanges and a non-bank financial institution	2,346.8	—	—	—	—	—	2,346.8	2,346.8
Clearing settlement funds	24,675.5	—	—	—	—	—	24,675.5	24,675.5
Bank balances	55,584.9	—	—	—	—	—	55,584.9	55,584.9
Subtotal	**82,991.9**	**1,828.0**	**3,610.0**	**2,652.8**	**1,199.5**	**1,008.2**	**93,290.4**	**92,438.5**
Financial liabilities								
Accounts payable to brokerage clients	76,794.5	—	—	—	—	—	76,794.5	76,794.5
Other financial liabilities	171.4	—	—	—	—	—	171.4	171.4
Subtotal	**76,965.9**	**—**	**—**	**—**	**—**	**—**	**76,965.9**	**76,965.9**
Net position	**6,026.0**	**1,828.0**	**3,610.0**	**2,652.8**	**1,199.5**	**1,008.2**	**16,324.5**	**15,472.6**

	As at December 31, 2011							
	On demand	Less than three months	Three months to one year	One year to five years	More than five years	Undated	Total	Carrying amount
	(in millions of RMB)							
Financial assets								
Advances to customers	—	897.6	1,765.7	—	—	—	2,663.3	2,548.7
Accounts receivable	108.0	—	—	—	—	—	108.0	108.0
Other financial assets	88.5	—	—	—	—	—	88.5	88.5
Available-for-sale financial assets	—	0.3	22.4	753.4	66.3	269.0	1,111.4	1,032.1
Financial assets held under resale agreements	—	589.1	5.2	—	—	—	594.3	591.8
Financial assets for trading	—	94.5	223.5	2,639.9	553.6	2,150.0	5,661.5	5,010.8
Financial assets designated as at fair value through profit or loss	—	—	1.0	—	—	—	1.0	0.9
Deposits with exchanges and a non-bank financial institution	2,137.0	—	—	—	—	—	2,137.0	2,137.0
Clearing settlement funds	3,584.1	—	—	—	—	—	3,584.1	3,584.1
Bank balances	42,264.4	—	—	—	—	—	42,264.4	42,264.4
Subtotal	**48,182.0**	**1,581.5**	**2,017.8**	**3,393.3**	**619.9**	**2,419.0**	**58,213.5**	**57,366.3**
Financial liabilities								
Accounts payable to brokerage clients	41,231.1	—	—	—	—	—	41,231.1	41,231.1
Other financial liabilities	184.1	—	—	—	—	—	184.1	184.1
Financial assets sold under repurchase agreements	—	2.6	—	—	—	—	2.6	2.6
Subtotal	**41,415.2**	**2.6**	**—**	**—**	**—**	**—**	**41,417.8**	**41,417.8**
Net position	**6,766.8**	**1,578.9**	**2,017.8**	**3,393.3**	**619.9**	**2,419.0**	**16,795.7**	**15,948.5**

	As at December 31, 2012							
	On demand	Less than three months	Three months to one year	One year to five years	More than five years	Undated	Total	Carrying amount
	(in millions of RMB)							
Financial assets								
Advances to customers	—	1,164.1	4,499.9	—	—	—	5,664.0	5,438.7
Accounts receivable	209.7	—	—	—	—	—	209.7	209.7
Other financial assets	74.1	—	—	—	—	—	74.1	74.1
Available-for-sale financial assets	—	124.5	262.2	3,082.5	4,793.0	833.3	9,095.5	6,651.0
Financial assets held under resale agreements	—	306.1	540.4	—	—	—	846.5	809.5
Financial assets held for trading	—	43.8	359.9	2,254.7	2,178.0	1,081.2	5,917.6	4,622.0
Financial assets designated as at fair value through profit or loss	—	0.2	3.2	477.3	40.4	345.6	866.7	831.0
Deposits with exchanges and a non-bank financial institution	2,614.3	—	—	—	—	—	2,614.3	2,614.3
Clearing settlement funds	4,541.5	—	—	—	—	—	4,541.5	4,541.5
Bank balances	36,607.0	—	—	—	—	—	36,607.0	36,607.0
Subtotal	**44,046.6**	**1,638.7**	**5,665.6**	**5,814.5**	**7,011.4**	**2,260.1**	**66,436.9**	**62,398.8**
Financial liabilities								
Due to banks and a non-bank financial institution	—	320.2	—	—	—	—	320.2	318.9
Accounts payable to brokerage clients	39,745.6	—	—	—	—	—	39,745.6	39,745.6
Other financial liabilities	177.4	—	—	—	—	—	177.4	177.4
Financial assets sold under repurchase agreements	—	5,196.2	—	—	—	—	5,196.2	5,183.4
Subtotal	**39,923.0**	**5,516.4**	—	—	—	—	**45,439.4**	**45,425.3**
Net position	**4,123.6**	**(3,877.7)**	**5,665.6**	**5,814.5**	**7,011.4**	**2,260.1**	**20,997.5**	**16,973.5**

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. We conduct sensitivity analysis to monitor our interest rate risk and to measure the impact of a reasonable and possible change in interest rates on our total profit and equity, assuming all other variables remain constant. Debt securities consist primarily of corporate bonds, and we mitigate the interest rate risk through optimizing the duration and convexity of the bond portfolio. Interest rate risk in connection with cash held on behalf of customers is offset by the associated accounts payable to brokerage clients because cash held by us on behalf of customers and accounts payable to brokerage clients match each other.

The following table sets forth the remaining terms to contractual repricing or maturity date, whichever is earlier, of our financial assets and liabilities at the dates indicated. Financial assets and liabilities not included below are either non-interest-bearing or not involved in interest rate risk.

	As at December 31, 2010				
	Less than one year	One to three years	Three to five years	More than five years	Total
	(in millions of RMB)				
Financial assets					
Advances to customers	532.8	—	—	—	532.8
Available-for-sale debt securities	1,232.2	19.5	396.2	181.6	1,829.5
Financial assets held under resale agreements	60.0	—	—	—	60.0
Financial assets held for trading	3,951.7	709.7	707.6	275.1	5,644.1
Financial assets designated as at fair value through profit or loss	—	—	—	182.1	182.1
Clearing settlement funds	24,675.5	—	—	—	24,675.5
Bank balances	55,584.9	—	—	—	55,584.9
Subtotal	86,037.1	729.2	1,103.8	638.8	88,508.9
Financial liabilities					
Accounts payable to brokerage clients	76,794.5	—	—	—	76,794.5
Net interest-bearing position	**9,242.6**	**729.2**	**1,103.8**	**638.8**	**11,714.4**

	As at December 31, 2011				
	Less than one year	One to three years	Three to five years	More than five years	Total
	(in millions of RMB)				
Financial assets					
Advances to customers	2,548.7	—	—	—	2,548.7
Available-for-sale debt securities	20.1	532.8	30.7	19.4	603.0
Financial assets held under resale agreements	591.8	—	—	—	591.8
Financial assets held for trading	430.2	679.5	1,249.7	501.3	2,860.7
Financial assets designated as at fair value through profit or loss	0.9	—	—	—	0.9
Clearing settlement funds	3,584.1	—	—	—	3,584.1
Bank balances	42,264.4	—	—	—	42,264.4
Subtotal	49,440.2	1,212.3	1,280.4	520.7	52,453.6
Financial liabilities					
Accounts payable to brokerage clients	41,231.1	—	—	—	41,231.1
Financial assets sold under repurchase agreements	2.6	—	—	—	2.6
Subtotal	41,233.7	—	—	—	41,233.7
Net interest-bearing position	**8,206.5**	**1,212.3**	**1,280.4**	**520.7**	**11,219.9**

	As at December 31, 2012				
	Less than one year	One to three years	Three to five years	More than five years	Total
	(in millions of RMB)				
Financial assets					
Advances to customers	5,438.7	—	—	—	5,438.7
Available-for-sale debt securities	100.6	293.1	1,471.4	3,652.0	5,517.1
Financial assets held under resale agreements	809.5	—	—	—	809.5
Financial assets held for trading	281.9	789.9	851.0	1,423.7	3,346.5
Financial assets designated as at fair value through profit or loss	—	—	454.7	30.7	485.4
Clearing settlement funds	4,541.5	—	—	—	4,541.5
Bank balances	36,607.0	—	—	—	36,607.0
Subtotal	47,779.2	1,083.0	2,777.1	5,106.4	56,745.7
Financial liabilities					
Due to banks and a non-bank financial institution	318.9	—	—	—	318.9
Accounts payable to brokerage clients	39,745.6	—	—	—	39,745.6
Financial assets sold under repurchase agreements	5,183.4	—	—	—	5,183.4
Subtotal	45,247.9	—	—	—	45,247.9
Net interest-bearing position	**2,531.3**	**1,083.0**	**2,777.1**	**5,106.4**	**11,497.8**

Sensitivity Analysis

The following table illustrates the potential impact of a parallel upward or downward shift of 100 basis points in all currencies' yield curves on our total profit and shareholders' equity, based on our positions of interest-earning assets and interest-bearing liabilities at the end of each period indicated.

	For the year ended December 31,		
	2010	2011	2012
	(in millions of RMB)		
Profit before income tax for the year			
Increase by 100 basis points	(33.1)	(45.2)	(117.4)
Decrease by 100 basis points	33.1	45.2	117.4
Other comprehensive income before income tax			
Increase by 100 basis points	(30.1)	(14.8)	(293.2)
Decrease by 100 basis points	30.1	14.8	293.2

The impact on our total profit is based on the changes in interest income of the net interest-earning asset position and revaluation of trading financial assets and financial liabilities arising on certain changes in interest rates. Impact on shareholders' equity refers to the change in fair value of available-for-sale financial assets arising from certain changes in interest rates.

The analysis above assumes different terms of yield curve moving up or down in parallel, therefore, it does not reflect the possible impact when only some terms of the yield curve shift while others remain unchanged. This analysis is also based on other simplified assumptions, including that all positions will be held to maturity. The impact of interest rate fluctuations is only for illustrative purposes, showing the potential impact on our total profit and equity under different yield structures and current interest rate risk situations. The impact did not take into account the risk management procedures that we take to mitigate the interest rate risk. Therefore the above analysis may differ from the actual situation.

Price Risk

Price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices other than interest rates or currency rates, which are caused by factors specific to the individual financial instrument or its issuer or factors affecting all similar financial instruments traded in the market. Financial assets at fair value through profit or loss and available-for-sale financial assets are both measured at fair value. Therefore, we are exposed to the price risk of equity securities market. We mitigate the price risk of equity securities investments by holding diverse equity securities in our portfolio.

Sensitivity Analysis

The table below sets forth the potential impact on our total profit and shareholders' equity of an increase or decrease of the price of equity securities, funds and other investments by 10%, assuming all other variables remain constant.

	For the year ended December 31,		
	2010	2011	2012
	(in millions of RMB)		
Impact on profit before income tax			
Increase by 10%	84.3	172.4	155.5
Decrease by 10%	(84.3)	(172.4)	(155.5)
Impact on other comprehensive income before income tax			
Increase by 10%	19.4	19.8	69.1
Decrease by 10%	(19.4)	(19.8)	(69.1)

Currency Risk

Currency risk is the risk of fluctuation of fair value or future cash flows because of changes in the foreign exchange rate. A substantial portion of our businesses are denominated in Renminbi. Limited transactions are denominated in U.S. dollars or Hong Kong dollars.

The foreign currency assets and liabilities held by us are not material compared to our total assets and liabilities. In terms of our revenue structure, a majority of the business transactions are denominated in Renminbi, and the proportion of foreign currency transactions are not significant to us. We consider that the currency risk of our operations is immaterial due to the relatively low proportion of our foreign currency denominated assets, liabilities, income and expense, as compared to our total assets, liabilities, income and expense.

DIVIDEND POLICY

Our Board of Directors is responsible for submitting proposals in respect of dividend payments, if any, to the Shareholders' General Meeting for approval. The determination of whether to pay a dividend and in what amount is based on our results of operations, cash flows, financial condition, capital adequacy ratio, cash dividends we receive from our subsidiaries, future business prospects, statutory and regulatory restrictions on the payment of dividends by us and other factors that our Board of Directors deems relevant.

According to our Articles of Association, we will pay dividends out of our distributable profit after tax of the year only after we have made the following allocations from our profit after tax of the year:

- recovery of accumulated losses, if any;
- 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 reserve for general risk equivalent to 10% of our profit after tax, and, when the reserve for general risk reaches and is maintained at or above 50% of our registered capital, no further allocations to this reserve for general risk will be required; and
- allocations to the transaction risk reserve equivalent to 10% of our profit after tax.

In accordance with our Articles of Association, dividends may be paid only out of distributable profits as determined under PRC GAAP or IFRS or the accounting rules of the listing venue, whichever is lower. Our Articles of Association stipulates that we shall distribute not less than 10% of our annual distributable profits as cash dividends in any fiscal year so long as we have profits after tax and accumulated undistributed profits in that year, except that we may decide not to distribute cash dividends because of any significant investment.

In 2010, we declared cash dividends of RMB1,200.0 million for the year of 2009 to our Shareholders. We did not declare cash dividends to our Shareholders in 2011 and 2012.

At an extraordinary general meeting of Shareholders on January 25, 2013, our Shareholders adopted a proposal on dividend distribution before our proposed initial public offering. We will declare a cash dividend (the "Special Dividend"), in respect of the period (the "Special Dividend Period") from January 1, 2013 to the last day of the calendar month immediately prior to the completion of our initial public offering (the "Special Dividend Date"), to Shareholders on our register of members as of the Special Dividend Date. The amount of the Special Dividend will be determined based on the audited unconsolidated net profit of our Company in accordance with PRC GAAP or IFRS, whichever is lower, after the required appropriations for a statutory reserve, a reserve for general risk and a transaction risk reserve that amounts to 10%, 10% and 10%, respectively, for the unconsolidated net profit of our Company for the same period. Based on the latest available management accounts of our Company and the reasonable estimates of our management, we currently estimate this Special Dividend for the Special Dividend Period, which is the first four months of 2013, to be approximately RMB490 million.

The actual amount of the Special Dividend will be determined upon the completion of an audit in the second half of 2013. We will make an announcement regarding the actual amount of the Special Dividend before we pay such Special Dividend. The holders of our H Shares are not entitled to share the Special Dividend. Any distributable profit for distribution to our Shareholders after the Global Offering will exclude the Special Dividend. Our results of operations depend, to a large extent, on our commission and fee income on securities and futures brokerage which is affected by the trading turnover in the PRC stock market. For the Special Dividend Period, the stock trading turnover in the PRC stock market was RMB13,800.5 billion. As the trading turnover in the PRC stock market is subject to fluctuations, you should not rely on the estimate amount of the Special Dividend as an indication of our net profit for the full year of 2013.

Our existing and new Shareholders will be entitled to our accumulated undistributed profits prior to the Global Offering (except for the Special Dividend).

DISTRIBUTABLE RESERVES

As at December 31, 2012, we had retained profits of RMB5,070.7 million available for distribution to the Shareholders of our Company.

UNAUDITED PRO FORMA ADJUSTED CONSOLIDATED NET TANGIBLE ASSETS

The following statement of our unaudited pro forma adjusted consolidated net tangible assets attributable to our Shareholders is prepared based on our unaudited consolidated net tangible assets attributable to our Shareholders at December 31, 2012, adjusted as described below. The unaudited pro forma adjusted consolidated net tangible assets attributable to our Shareholders have been prepared for illustrative purposes only, and because of their nature, they may not give a true picture of our consolidated financial position at December 31, 2012 or any future date following the Global Offering.

The statement of unaudited pro forma adjusted consolidated net tangible assets attributable to our Shareholders has been prepared to show the effect on our unaudited consolidated net tangible assets attributable to our Shareholders at December 31, 2012 as if the Global Offering had occurred on December 31, 2012. The unaudited pro forma adjusted consolidated net tangible assets per Share attributable to our Shareholders is calculated in accordance with Listing Rules 4.29.

	Audited consolidated net tangible assets of the Group attributable to the owners of the Company as at December 31, 2012	Estimated net proceeds from the Global Offering	Unaudited pro forma adjusted consolidated net tangible assets of the Group 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	
	RMB' million (Note 1)	RMB' million (Note 2)	RMB' million	RMB (Note 3)	HK$ (Note 4)
Based on offer price of HK$4.99 for each Offer Share	16,843.8	5,765.6	22,609.4	3.01	3.76
Based on offer price of HK$6.77 for each Offer Share	16,843.8	7,840.4	24,684.2	3.29	4.11

Notes:

(1) The audited consolidated net tangible assets of the Group attributable to the owners of the Company as at December 31, 2012 is derived from the Accountants' Report set out in Appendix I to the prospectus, which is based on the audited consolidated net assets of the Group attributable to the owners of the Company at December 31, 2012 of approximately RMB17,429.9 million with an adjustment for goodwill and other intangible assets in an aggregate amount of approximately RMB586.1 million at December 31, 2012.

(2) The estimated net proceeds from the Global Offering are based on the offer price of HK$4.99 per share and HK$6.77 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 per share is calculated after the adjustments referred to in note (2) above and on the basis that 7,500,000,000 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.

(4) The translation between Renminbi and Hong Kong dollar has been made at the rate of RMB0.80119 to HK$1.00, PBOC rate prevailing on April 26, 2013. 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.

(5) On January 25, 2013, the Shareholders approved a cash dividend (the "Special Dividend"), in respect of the period from January 1, 2013 to the last day of the month immediately prior to the completion of its Global Offering (the "Special Dividend Date"), to Shareholders on the Company's register of members as of the Special Dividend Date in an amount equal to the audited net profit of the Company for the period from January 1, 2013 to the Special Dividend Date, after the required appropriations to the statutory reserve, the reserve for general risk and the transaction risk reserve. The amount of the Special Dividend will be determined based on the audited financial statements of the Company prepared in accordance with PRC GAAP and IFRS, whichever is lower.

The unaudited pro forma adjusted consolidated net tangible assets of the Group attributable to the owners of the Company and the unaudited pro forma adjusted consolidated net tangible assets of the Group attributable to the owners of the Company per share have not taken into account the effect of the Special Dividend. If the Special Dividend has been accounted for, the unaudited pro forma adjusted consolidated net tangible assets of the Group attributable to the owners of the Company and the unaudited pro forma adjusted consolidated net tangible assets of the Group attributable to the owners of the Company per share would be reduced.

(6) No adjustments have been made to the unaudited pro forma adjusted consolidated net tangible assets attributable to the owners of the Company to reflect any trading results or other transactions which the Group entered into subsequent to December 31, 2012.

DISCLOSURE REQUIRED UNDER THE HONG KONG LISTING RULES

Our Directors have confirmed that, as at the Latest Practicable Date, they were 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.

NO MATERIAL ADVERSE CHANGE

Our Directors have confirmed, after performing all the due diligence work which the Directors consider appropriate, that, as of the date of this prospectus, there has been no material adverse change in our financial position or prospects since December 31, 2012.