

## RECENT DEVELOPMENTS

*The following information should be read in conjunction with the Company's unaudited condensed consolidated financial statements as at and for the three months ended March 31, 2013, included in Appendix I-A to this prospectus, together with the accompanying notes, as well as the information set forth under "Financial Information" in this prospectus and the audited consolidated financial statements included in "Appendix I—Accountants' Report" to this prospectus, together with the accompanying notes.*

*Our unaudited condensed consolidated financial statements have been prepared in accordance with IFRS and reviewed by the reporting accountants in accordance with International Standard on Review Engagements 2410. Our historical results of operations and financial condition as at and for the three months ended March 31, 2013 do not necessarily indicate our results of operations or financial condition expected for any future periods, nor do they necessarily indicate our expected annual results of operations or year-end financial condition for 2013.*

*All figures in this Recent Developments section have been rounded to the nearest million, where applicable, and all percentages in this Recent Developments section are calculated based on the figures used in this Recent Developments section. Accordingly, figures shown as totals in certain tables may not be an arithmetic aggregation of the figures preceding them.*

### RESULTS OF OPERATIONS FOR THE THREE MONTHS ENDED MARCH 31, 2013 COMPARED TO THE THREE MONTHS ENDED MARCH 31, 2012

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

	For the three months ended March 31,	
	2013	2012
	(in millions of RMB)	
<b>Revenue</b>		
Commission and fee income .....	1,243.4	1,016.9
Interest income .....	499.0	437.2
Net investment gains .....	232.0	84.5
Total revenue .....	1,974.3	1,538.7
Other income and gains .....	3.0	5.9
<b>Total revenue and other income</b> .....	<b>1,977.3</b>	<b>1,544.6</b>
Total expenses .....	(1,129.7)	(959.8)
<b>Profit before income tax</b> .....	<b>847.6</b>	<b>584.8</b>
Income tax expense .....	(219.9)	(148.3)
<b>Profit for the period</b> .....	<b>627.7</b>	<b>436.4</b>
Attributable to the owners of the Company .....	622.4	430.6
Attributable to non-controlling interests .....	5.3	5.8

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The following discussion compares the major components of our operating results in the three months ended March 31, 2013 and the three months ended March 31, 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 three months ended March 31,	
	2013	2012
	(in millions of RMB)	
Commission and fee income .....	1,243.4	1,016.9
Interest income .....	499.0	437.2
Net investment gains .....	232.0	84.5
Other income and gains .....	3.0	5.9
<b>Total revenue and other income .....</b>	<b>1,977.3</b>	<b>1,544.6</b>

Our revenue and other income increased by 28.0% to RMB1,977.3 million for the three months ended March 31, 2013 from RMB1,544.6 million for the same period of 2012, reflecting that:

- our commission and fee income increased by 22.3% to RMB1,243.4 million in the first quarter of 2013 compared to RMB1,016.9 million for the same period of 2012. This increase was primarily due to a 32.2% increase in our commission and fee income on securities brokerage primarily generated by our securities brokerage business from RMB739.6 million in the first quarter of 2012 to RMB977.8 million in the first quarter of 2013 mainly as a result of increased trading turnover of stocks and funds and average securities brokerage commission rate, which was partially offset by (i) an 18.2% decrease in our underwriting and sponsors fees generated by our investment banking business from RMB169.6 million in the first quarter of 2012 to RMB138.8 million in the first quarter of 2013 mainly due to a decrease in underwriting and sponsors fees from our debt financing business and (ii) an 8.9% decrease in our commission and fee income on futures brokerage generated by our futures business from RMB92.0 million in the first quarter of 2012 to RMB83.8 million in the first quarter of 2013 as a result of decreased commission and transaction fee rebate from the futures exchanges;
- our interest income increased by 14.1% to RMB499.0 million in the first quarter of 2013 compared to RMB437.2 million for the same period of 2012. This increase was primarily due to a 159.9% increase in our interest income from advances to customers and securities lending primarily generated by our margin financing and securities lending business from RMB63.8 million in the first quarter of 2012 to RMB165.8 million in the first quarter of 2013, which was partially offset by a 15.8% decrease in our interest income from deposits with banks and non-bank financial institutions from RMB366.5 million in the first quarter of 2012 to RMB308.6 million in the first quarter of 2013 primarily due to 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;
- our net investment gains primarily generated by our proprietary trading and other securities trading services increased by 174.6% to RMB232.0 million in the first quarter of 2013 compared to RMB84.5 million for the same period of 2012 mainly driven by investment gains from our bond investments; and

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- our other income and gains decreased by 49.2% to RMB3.0 million in the first quarter of 2013 compared to RMB5.9 million for the same period of 2012 due to decreases in rental income and income from disposal of fixed assets.

### Total Expenses

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

	For the three months ended March 31,	
	2013	2012
	(in millions of RMB)	
Staff costs .....	563.2	464.8
Interest expenses .....	102.6	66.3
Depreciation and amortization .....	61.1	64.3
Commission and fee expenses .....	26.9	19.3
Other operating expenses .....	372.3	345.2
Allowance for/(reversal of) impairment losses .....	3.6	(0.1)
<b>Total expenses .....</b>	<b>1,129.7</b>	<b>959.8</b>

Our total expenses increased by 17.7% to RMB1,129.7 million for the three months ended March 31, 2013 from RMB959.8 million for the same period of 2012, reflecting that:

- our staff costs increased by 21.2% to RMB563.2 million for the three months ended March 31, 2013 from RMB464.8 million for the same period of 2012, primarily due to an increase in performance-based salaries and bonuses we paid to our employees in line with the increases in our revenues in the three months ended March 31, 2013.
- our interest expenses increased by 54.9% to RMB102.6 million for the three months ended March 31, 2013 from RMB66.3 million for the same period of 2012, primarily due to increases in (i) interest expenses on our financial assets sold under repurchase agreements attributable to higher average balance of dealer-quoted bond repurchase transactions (“Daily Profit”), and (ii) interest expenses due to banks and non-bank financial institutions primarily as a result of the increased margin and securities refinancing from the CSFC.
- our depreciations and amortization decreased by 5.0% to RMB61.1 million for the three months ended March 31, 2013 from RMB64.3 million for the same period of 2012 as a result of a decrease in value of assets subject to depreciation.
- our commission and fee expenses, increased by 39.0% to RMB26.9 million for the three months ended March 31, 2013 from RMB19.3 million for the same period of 2012, primarily due to an increase in commission and fee expenses for our overseas business as a result of continued growth of our overseas subsidiaries and an increase in sub-underwriting fee expenses incurred for our investment banking business.
- our other operating expenses increased by 7.8% to RMB372.3 million for the three months ended March 31, 2013 from RMB345.2 million for the same period of 2012, primarily due to increases in i) business tax and surcharges as a result of the increase in our revenue, ii) general and administrative expenses attributable to higher marketing expenses, and iii) operating lease rentals in respect of rented premises.

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- our impairment losses amounted to RMB3.6 million for the three months ended March 31, 2013 primarily as a result of provisions we made for our own investments in our collective asset management plans, compared to a net reversal of provisions of RMB0.1 million for the same period of 2012.

### Profit before Income Tax

Our profit before income tax increased by 44.9% to RMB847.6 million for the three months ended March 31, 2013 from RMB584.8 million for the same period of 2012.

### Income Tax Expense

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

	<u>For the three months ended March 31,</u>	
	<u>2013</u>	<u>2012</u>
	(in millions of RMB, except percentages)	
Profit before income tax .....	847.6	584.8
Income tax expense .....	(219.9)	(148.3)
Effective tax rate .....	25.9%	25.4%

Our income tax expense increased by 48.3% to RMB219.9 million for the three months ended March 31, 2013 compared to RMB148.3 million for the same period of 2012, primarily due to the increase in our profit before income tax.

### Profit for the Period and Net Margin

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

	<u>For the three months ended March 31,</u>	
	<u>2013</u>	<u>2012</u>
	(in millions of RMB, except percentages)	
Operating profit <sup>(1)</sup> .....	844.6	578.9
Operating margin <sup>(2)</sup> .....	42.8%	37.6%
Adjusted operating margin <sup>(3)</sup> .....	45.8%	39.8%
Profit for the period .....	627.7	436.4
Net margin <sup>(4)</sup> .....	31.8%	28.4%
Adjusted net margin <sup>(5)</sup> .....	34.0%	30.0%

(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 period by total revenue.

(5) Adjusted net margin = (profit for the period)/(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.

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Our profit for the period increased by 43.8% to RMB627.7 million in the three months ended March 31, 2013 from RMB436.4 million in the same period of 2012. Our net margin increased to 31.8% in the three months ended March 31, 2013 from 28.4% in the same period of 2012. The changes in our profit and net margin were primarily due to the increase in our brokerage trading turnover for stocks and funds resulting from a recovery in the performance of the PRC securities markets in the first three months of 2013, which led to the increase in our securities brokerage commission and fee income.