

### OVERVIEW

We are a leading full-service securities firm in the PRC with an integrated business platform, extensive branch network and substantial customer base. We have established prudent operating strategies and are the only major PRC securities firm founded in the 1980s that remains in operation under the same brand without receiving government-backed capital injections or being the target of a successful acquisition. Leveraging our integrated business platform, we provide a comprehensive range of financial products and services, and primarily focus on five principal business lines in the PRC, comprising securities and futures brokerage (including margin financing and securities lending), investment banking, asset management, proprietary trading and direct investment. We have gained leading market positions across multiple business lines in the PRC securities industry. We also provide a variety of securities products and services overseas.

We are one of the largest securities firms in the PRC. According to the SAC, among all securities firms in the PRC, we ranked second in terms of total assets and net assets as of December 31, 2010 and third in terms of total revenue in 2010. As of September 30, 2011, we owned 210 brokerage branches, the third-largest branch network among all PRC securities firms according to the data from the Shanghai Stock Exchange and the China Futures Association. Headquartered in Shanghai, the financial center of the PRC, our branches are located across 27 provinces and 113 cities in the PRC. In addition, as of September 30, 2011, we operated 13 branches in Hong Kong and Macau through our Hong Kong-listed subsidiary, Haitong International Securities. As of September 30, 2011, we had over 4.0 million retail customers (including approximately 2.1 million active customers) and over 12,000 institutional and high net worth customers. Our A Shares have been listed on the Shanghai Stock Exchange since July 2007. In July 2007, December 2007 and December 2008, we were admitted to the CSI 300 Index, the SSE 180 Index and the SSE 50 Index, respectively. In addition, in June 2008, our A Shares became one of the constituent stocks of the SSE Corporate Governance Index.

Our five principal business lines in the PRC include:

- *Securities and futures brokerage.* We engage in the trading of equities, bonds, funds and warrants, as well as futures on behalf of our customers, and also provide margin financing and securities lending services.
- *Investment banking.* We provide corporate finance services, including equity underwriting, debt underwriting and financial advisory services to our institutional clients.
- *Asset management.* We offer traditional asset management products and services through our Company and one of our subsidiaries, HFT Investment Management. We operate our private equity asset management business through our subsidiaries, Haitong-Fortis PE Management, Haitong Jihe Management and Haitong Chuangxin Management.

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## BUSINESS

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- *Proprietary trading.* We engage in the trading of equities, bonds, funds, derivatives and other financial products for our own account.
- *Direct investment.* We make direct equity investments in private companies and earn capital gains by exiting from these private equity investments through IPOs or share sales, or receiving dividends from these portfolio companies. In addition, we invest in private equity funds with our own capital.

We conduct our overseas business primarily through our Hong Kong-based subsidiary, Haitong International Holdings. Haitong International Securities, a subsidiary of Haitong International Holdings, is a leading full-service securities firm in Hong Kong. Haitong International Securities provides securities and futures brokerage, corporate finance and advisory services and asset management services, as well as other securities products and services to a broad range of retail customers and institutional clients in Hong Kong and overseas.

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

Leveraging our prudent operating strategies and proven execution capabilities, we have gained leading market positions in securities and futures brokerage, investment banking and other traditional businesses in the PRC, which have experienced steady growth in recent years. According to the data from the SAC, the Shanghai Stock Exchange, the Shenzhen Stock Exchange and the CSRC, among all PRC securities firms, we ranked:

- second in terms of total assets and net assets as of December 31, 2008, 2009 and 2010;
- among the top five in terms of securities brokerage trading volume in 2008, 2009 and 2010;
- among the top five in terms of securities brokerage net revenue in 2008, 2009 and 2010;
- fourth in terms of the value of equity securities underwritten in 2010; and
- in the top two in terms of the number of major asset restructuring transactions of domestic listed PRC companies we advised in 2008, 2009 and 2010.

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## BUSINESS

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We have also established leading positions in developing new businesses. We are frequently designated by the PRC regulatory authorities as one of the first PRC securities firms to participate in pilot programs for new securities products and services. Benefiting from our strong capital position, substantial customer base and proven execution capabilities, we have experienced rapid growth and achieved leading market positions in developing new businesses in the PRC securities industry, such as margin financing and securities lending, stock index futures trading and direct investment businesses. According to the data from the Shanghai Stock Exchange, the Shenzhen Stock Exchange and the China Financial Futures Exchange, we ranked:

- first among PRC securities firms in terms of margin trading volume for the nine months ended September 30, 2011, and in terms of margin loan balance and market value of securities lent as of September 30, 2011;
- first among PRC futures companies in terms of stock index futures trading volume for the nine months ended September 30, 2011; and
- second among PRC securities firms in terms of registered capital of direct investment subsidiaries as of December 31, 2010.

In recent years, we have received numerous awards and honors in recognition of our outstanding performance and management capabilities, including, among others:

- “2011 Best PRC Securities Firm” by Moneyweek;
- “2011 Best PRC Investment Bank” by Moneyweek;
- “2011 Best PRC Investment Bank For Equity Refinancing” by Moneyweek;
- “2010 Best PRC Securities Firm” by 21st Century Business Herald;
- “2010 Top 10 PRC Investment Banks” by Moneyweek; and
- “2009 Best Securities Broker” by Securities Times.

As of December 31, 2008, 2009 and 2010 and September 30, 2011, we had total assets of RMB74,686.0 million, RMB120,730.2 million, RMB115,413.1 million and RMB101,050.5 million, respectively, and total equity of RMB38,637.0 million, RMB44,518.6 million, RMB45,616.8 million and RMB46,014.8 million, respectively. For the years ended December 31, 2008, 2009 and 2010 and the nine months ended September 30, 2011, our total revenue and other income was RMB7,948.2 million, RMB11,315.8 million, RMB11,304.9 million and RMB8,036.1 million, respectively, and our profit was RMB3,385.0 million, RMB4,661.7 million, RMB3,868.2 million and RMB2,887.6 million, respectively.

**COMPETITIVE STRENGTHS**

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

***Full-service securities firm in the PRC with leading market positions across multiple business lines***

We are one of the largest securities firms in the PRC. According to the SAC, we ranked second among PRC securities firms in terms of total assets and net assets as of December 31 2008, 2009 and 2010, respectively. We primarily focus on five principal business lines in the PRC, including securities and futures brokerage, investment banking, asset management, proprietary trading and direct investment. Each of these businesses contributed 51.1%, 9.7%, 7.7%, 6.9% and 0.9%, respectively, to our total revenue and other income in 2010. Our overseas business, conducted primarily through Haitong International Holdings, contributed 8.0% to our total revenue and other income in 2010.

With our extensive network, substantial customer base and proven track record, we have gained leading market positions in the securities and futures brokerage and investment banking businesses in the PRC and have established a well-recognized brand. According to the SAC, among PRC securities firms, we ranked among the top five in terms of securities brokerage net revenue in 2008, 2009 and 2010, among the top two in terms of the number of domestic listed PRC companies we advised on major asset restructuring transactions in 2008, 2009 and 2010 and fourth in terms of the value of equity securities underwritten in 2010. In addition, we have experienced rapid growth and achieved leading market positions in developing new businesses, such as margin financing and securities lending, stock index futures trading and direct investment.

Our diversified business model has allowed us to achieve sustainable growth. Our securities and futures brokerage and asset management businesses have achieved steady growth and provided us with stable revenue streams. In addition, our investment banking, proprietary trading, direct investment businesses and the development of new businesses have served as additional growth drivers. We believe our business model generates balanced revenue streams which provide sustainable profits and strong growth prospects.

In addition, we believe our integrated business platform has allowed us to benefit from revenue and cost synergies across different business lines and enhanced our capabilities to attract and retain customers by maximizing cross-selling opportunities and the sharing of business resources.

***Strategically located branch network across the PRC with a substantial and stable customer base***

We have an extensive nationwide branch network in the PRC. As of September 30, 2011, we had 210 securities and futures brokerage branches spanning across 27 provinces and 113 cities in the PRC, as well as 13 branches in Hong Kong and Macau operated through our subsidiary, Haitong International Securities. According to the data from the Shanghai Stock Exchange and the China Futures Association, we ranked third among all securities firms in the PRC in terms of the number of branches as of September 30, 2011. In addition, in order to adapt to the evolving competitive landscape and development trends specific to different regions, we have established ten branch offices in Beijing, Shanghai and seven other provinces, and plan to establish ten additional branch offices. Such branch offices directly manage and supervise regional securities brokerage branches and allow us to enhance management efficiency and resource allocation at our branches.

Our branches are also strategically located. We are headquartered in Shanghai, the financial center in the PRC. We first expanded into the Yangtze River Delta, Pearl River Delta and Bohai Rim where high net worth customers and SMEs are concentrated. As of September 30, 2011, approximately half of our securities brokerage branches were located in these well-developed regions. We also established branches in less penetrated regions such as the northeastern, central and western regions of the PRC. While expanding our traditional branch network, we have also developed a web-based platform, which our customers can use to trade online. In addition, our customer service representatives at our branches offer real-time advisory services to our customers. This has provided a solid foundation for attracting new customers and expanding our businesses. We believe that our balanced geographic coverage of branches in the PRC has enabled us to benefit from the rapid economic growth and accelerating urbanization in certain developing regions.

We believe our strategic geographic coverage has enabled us to provide localized services to our customers and capture growth potential and cross-selling opportunities among multiple business lines. For example, we have identified investment banking opportunities from our numerous SME customers covered by our branch network. Our extensive branch network and localized services also support our distribution of differentiated and value-added products and services, such as our wealth management products.

Leveraging our extensive and strategically located branch network, we have built a large and stable customer base. As of September 30, 2011, we had over 4.0 million retail customers (including approximately 2.1 million active customers) and over 12,000 institutional and high net worth customers. Among these customers, approximately 76% have maintained their accounts with us for over three years and approximately 38% have maintained their accounts with us for over ten years.

### *A pioneer in the PRC securities industry for offering new businesses*

In recognition of our strong capital position, effective risk management and internal controls and proven execution capabilities, we are frequently designated by the regulatory authorities as one of the first few securities firms to participate in pilot programs for new businesses in the PRC securities industry, for example:

- in February 2010, we became one of the first few PRC securities firms approved by the CSRC to conduct a stock index futures trading business in the PRC;
- in March 2010, we were designated by the CSRC as one of the first six securities firms in the PRC to pilot run the margin financing and securities lending business;
- in October 2008, we became one of the first few PRC securities firms to launch a direct investment business. As early as 2004, we co-founded the China-Belgium Fund with other shareholders and established Haitong-Fortis PE Management to enter into the private equity investment and management businesses; and
- in April 2008, we were among the first few PRC securities firms approved by the CSRC to conduct futures IB business.

In recent years, we have experienced rapid growth and established leading market positions in our new businesses. According to data from the Shanghai Stock Exchange, the Shenzhen Stock Exchange and the China Financial Futures Exchange, we ranked:

- first among PRC securities firms in terms of margin trading volume during the nine months ended September 30, 2011, and in terms of margin loan balance and market value of securities lent as of September 30, 2011;
- first among PRC futures companies in terms of stock index futures trading volume during the nine months ended September 30, 2011; and
- second among PRC securities firms in terms of registered capital of direct investment subsidiaries as of December 31, 2010.

We believe our substantial customer base, strong capital position, extensive branch network, strong cross-selling and execution capabilities have enabled us to gain a first-mover advantage in offering new businesses. In addition, we believe our integrated business platform has enabled us to expand our new businesses quickly. For example, our sizable proprietary trading business has provided a sufficient pool of stocks to expand our securities lending business and our strong futures IB business platform has contributed to the rapid growth of our stock index futures trading and futures brokerage businesses.

We believe that our leadership in new businesses could enable us to further expand our market share in traditional securities businesses. For example, our leading market position in margin financing and securities lending and stock index futures businesses has expanded our source of revenue, diversified our product and service offerings and enhanced customer loyalty in our brokerage business.

We expect the CSRC to continue to launch pilot programs and encourage the introduction of new businesses in the PRC securities markets. With the gradual relaxation of the PRC securities regulations, we believe we are well-positioned to capture future market opportunities by leveraging our leading market positions in multiple business lines and our first-mover advantage in new businesses.

***Well-established international platform to capture growing cross-border business opportunities***

In December 2009, we acquired a controlling interest in Taifook Securities in Hong Kong, which we subsequently renamed as Haitong International Securities. The acquisition and successful integration of Taifook Securities allowed us to establish a foothold in Hong Kong and provided a platform for further overseas expansion.

Haitong International Securities is one of the leading local full-service securities firms in Hong Kong, with 38 years of operating history, and has been awarded the best equity firm in Hong Kong for over ten consecutive years by internationally renowned financial media, such as FinanceAsia, Asiamoney and Euromoney. Currently, through 13 branches in Hong Kong and Macau, two representative offices in Beijing and Shanghai and six investment advisory centers in six major cities in the PRC, Haitong International Securities serves over 140,000 brokerage customers with comprehensive securities and futures brokerage products and services, and other clients with corporate finance and advisory services and asset management services. Currently, there are only a small number of PRC securities firms which have listed business platforms in Hong Kong, among which Haitong International Securities has a long operating history, with the most extensive distribution network in Hong Kong.

The full-service overseas platform of Haitong International Securities and its overseas customer base and branch network have allowed us to capture increasing cross-border business opportunities and to meet changing customer demands in the Greater China region. We are well-positioned to benefit from potential cross-selling opportunities among our PRC and overseas customer bases. For example:

- we have successfully referred large PRC institutional and QDII brokerage clients, as well as corporate clients who intend to raise capital overseas to Haitong International Securities;
- with the potential launch of the International Board, Haitong International Securities is positioned to refer overseas clients who intend to raise capital in the PRC to our investment banking business; and



- we are well-positioned to develop RQFII and QDII businesses through our PRC and Hong Kong platforms. In addition, our Hong Kong platform allows us to capture business opportunities arising from the on-going internationalization of the Renminbi. A subsidiary of Haitong International Securities launched the first SFC-authorized public offshore Renminbi fund in Hong Kong in August 2010.

The overseas platform of Haitong International Securities enables us to enhance our brand recognition overseas. The successful acquisition and integration of Haitong International Securities have helped us realize our business strategy of capitalizing on growing cross-border business opportunities. It also provided us with a solid foundation for pursuing overseas acquisitions in the future.

### ***Prudent corporate governance and effective risk management and internal control systems***

We have navigated through various market and business cycles, regulatory reforms and industry developments over our 23 years of operating history, including the most recent global financial crisis in 2008. We have established prudent corporate governance, effective risk management and internal control systems to reduce our exposure to various risks in the securities markets. We are the only major PRC securities firm founded in the 1980s that remains in operation under the same brand without receiving government-backed capital or being the target of a successful acquisition.

Since our listing on the Shanghai Stock Exchange, we have maintained effective and transparent corporate governance measures as required by the Shanghai Stock Exchange and the CSRC. We have developed a comprehensive, firm-wide risk control system that effectively manages market risk, credit risk, liquidity risk and operational risk, and have received an “AA” regulatory rating from the CSRC for the past four consecutive years, the highest rating given to a PRC securities firm to date. We have also established effective Chinese walls and precautionary mechanisms across our business lines to prevent potential conflicts of interests. In addition, we have established an independent and centralized internal audit and compliance system, which effectively monitors our operations and transactions. In June 2008, our A Shares became one of the constituent stocks of the SSE Corporate Governance Index in recognition of our sound corporate governance.

In addition, we have no single shareholder owning more than 6.0% of our total outstanding A Shares as of September 30, 2011. Such shareholding structure allows our Board of Directors and senior management team to exercise independent judgment and a high level of professionalism, with a view to maximizing our corporate value in the best interest of all shareholders.

### ***Experienced and stable management team with a highly proficient professional workforce***

Our success is attributable to the sound leadership of our Directors and senior management. The majority of our Directors, including our Chairman and Vice Chairman, and members of our senior management, including our General Manager, Deputy General Manager, Chief Financial Officer and General Compliance Officer, have an average of 20 years of experience in the PRC financial and securities industries. Most of them have served us for over ten years.



We believe that the strategic vision of our senior management team has distinguished us from our competitors and has allowed us to capture business opportunities arising from product innovation and globalization of the PRC securities industry. In recognition of the achievements of our senior management team, our Board of Directors was awarded as “Excellent Board of Directors” by the “Directors and Boards” magazine for the past three consecutive years. Our Chairman, Mr. Wang Kaiguo, was awarded “The Most Visionary Chairman of the Board” by “Directors and Boards” magazine in 2010. Our General Manager, Mr. Li Mingshan, was awarded “The Most Respected Chief Executive Officer of a PRC Securities Firm” by “Directors and Boards” magazine in 2011.

We have a highly proficient professional workforce. As of September 30, 2011, 5,391 of our employees held a bachelor’s or more advanced degree, representing 67.7% of the total number of our employees. Our Directors believe that the retention of key employees is attributable to our well-recognized brand name, business prospects and successful recruitment and customized professional training programs.

### **BUSINESS STRATEGIES**

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

#### ***Further enhance our leading market position and profitability in the securities and futures brokerage business***

The securities and futures brokerage business is one of our core businesses with stable revenue streams and considerable growth potential. We believe our securities and futures brokerage business will continue to be a major source of revenue. We will continue to focus on serving retail customers, institutional clients and high net worth customers and expanding our futures and cross-border brokerage businesses. We plan to enhance our leading market position and profitability in the securities and futures brokerage business by improving our market share, increasing customer loyalty and enhancing pricing power through the implementation of the following strategies:

- further improving customer segmentation by offering customized investment solutions and differentiated products and services, such as investment advisory services, wealth management services, futures IB services and research reports support, to our high-end retail customers, institutional clients and high net worth customers;

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## BUSINESS

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- actively promoting new businesses and products, such as margin financing and securities lending and stock index futures trading, and enhancing cross-selling capabilities by leveraging our integrated business platform in order to diversify the revenue composition and optimize the profit-making model of our brokerage business;
- organically broadening our coverage and optimizing operating efficiency by strategically positioning our branches, such as establishing, subject to the PRC regulatory approvals, a number of new branches each year in central and western regions and second and third-tier cities of the PRC, which we believe are less penetrated and offer significant growth potential, and introducing flagship branches as permitted by the CSRC that are established to offer financial products, investment advisory, wealth management and other value-added services, as well as improving the quality and training of our brokers who support our branch network expansion;
- capturing market consolidation and acquisition opportunities of selected securities firms in the PRC to enhance our geographic reach and market share; and
- leveraging Haitong International Securities' presence in Hong Kong to develop cross-border brokerage businesses in the PRC and overseas markets by offering comprehensive financial products and services to overseas customers to further expand our customer base while providing our domestic customers with access to international markets to further strengthen our competitiveness.

***Maintain the growth momentum of our investment banking business and further integrate our business platform***

Our investment banking business grew rapidly in recent years, and we believe it has significant growth potential. In addition, the rapid growth of our investment banking business will substantially enhance our brand name and provide cross-selling opportunities across different business lines. We plan to strengthen our market leadership in our investment banking business by implementing the following strategies:

- enhancing our customized investment banking solutions to clients, in particular those in the PRC financial, technology and cultural industries, while strengthening our coverage of both large corporations and SMEs. We cover large corporations by industry sectors and provide localized services to SMEs, including private enterprises;
- focusing on SMEs, in particular private enterprises, to better capture business opportunities arising from the fast growing ChiNext Board and SME Board, as well as the potential launch of the New OTC Board in the PRC;

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## BUSINESS

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- maximizing synergies between our PRC and overseas business platforms to capture new business opportunities, such as the increasing demand for overseas fundraising by PRC enterprises and the potential launch of the International Board in the PRC, and to capitalize on potential cross-selling opportunities;
- strengthening our debt underwriting capabilities and financial advisory services to capture the growth potential of debt financing and M&A activities in the PRC capital markets, and increase their revenue contribution;
- further developing our equity and debt capital markets divisions to enhance our pricing and distribution capabilities; and
- integrating the back office operations of equity underwriting, debt underwriting and financial advisory services to improve operating efficiency.

***Strategically expand our asset management business to provide comprehensive product offerings to meet increasing and diversifying customer demands***

We believe our asset management business is a strategically important business with long-term growth potential and will allow us to improve our revenue composition and effectively serve our retail and institutional clients with sizable investment assets.

We will leverage our extensive branch network and substantial customer base to capture potential cross-selling opportunities between our asset management business and other business lines and to further develop our asset management products and services in order to increase the range of our product suites, our AUM and operating income.

For our traditional asset management business, we plan to implement the following to broaden our product and service offerings, enhance our ability to design new and customized products, integrate our distribution channels and improve the quality of customer service:

- building on HFT Investment Management's platform of mutual fund products that are primarily offered to retail customers, we intend to actively expand asset management services for institutional clients, such as enterprise annuity and investment advisory services for QFII;
- continuing to expand Fullgoal Fund Management's mutual fund products that are primarily offered to retail customers, further enhancing its brand name and expediting the development of product distribution channels; and
- establishing a wholly-owned asset management subsidiary to serve mid to high-end retail customers and high net worth individual customers. Such subsidiary will adopt an optimized investment decision-making process and an enhanced performance appraisal system with market-driven incentive schemes to attract and retain professionals.

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## BUSINESS

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For our alternative asset management business, we intend to continue to focus on private equity asset management and other relevant businesses by implementing the following:

- leveraging our competitive advantages in the direct investment business to establish a leading franchise in private equity asset management; and
- expanding our alternative asset management services and providing new products such as real estate investment trusts and commodity trading advisory services to meet the diversified demand of our customers.

***Continue to expand and promote new businesses and products with high growth potential***

The development of new businesses is key to our continued growth and successful transformation. These new businesses will enhance our service quality and customer loyalty, strengthen our competitive advantage in traditional businesses and contribute to additional revenue growth. We will keep abreast of market dynamics and continue to expand and compete through new and differentiated products and services with high growth potential.

We intend to further enhance our existing new businesses by implementing the following strategies:

- *Margin financing and securities lending:* Our margin financing and securities lending service is a value-adding service, which allows our securities brokerage customers to diversify their trading strategies while promoting customer loyalty. We believe margin financing and securities lending will not only help maintain our market leading position in securities brokerage but also expand our revenue streams. On October 26, 2011, the CSRC converted margin financing and securities lending from a pilot program conducted by CSRC-designated PRC securities firms to a regular business operation available to all the PRC securities firms that meet certain requirements. On November 25, 2011, the Shanghai Stock Exchange and the Shenzhen Stock Exchange announced new notices to expand the scope of securities eligible for the margin financing and securities lending business from the current 90 stocks to 278 stocks and 7 ETFs. The new notices will become effective on December 5, 2011 which we believe provide great potential for our fast growing margin financing and securities lending business. In addition, we expect a pilot program for the margin and securities refinancing to be launched in the PRC. Please see “– Our Business and Operations – Securities and Futures Brokerage – Margin financing and securities lending.” We aim to expand our margin financing and securities lending business by (i) deploying additional capital to expand the scale of such business; (ii) promoting cross-selling strategies in order to increase customer penetration; and (iii) developing our margin and securities refinancing business in order to enhance our financial leverage and, as a result, the profitability of our margin financing and securities lending business.

- *Direct investment:* Our direct investment business allows us to further expand our private equity asset management business and positions our investment banking business to capture future opportunities in securities underwriting for our SME customers. We intend to increase capital contributions in Haitong Capital Investment and to continue to establish, invest in, and manage a variety of private equity funds to further develop our private equity asset management business. For example, we invested in Jilin Modern Agricultural and Emerging Industrial Investment Fund (吉林省現代農業和新興產業投資基金) and Xi'an Aerospace and New Energy Industry Fund (西安航天新能源產業基金), which are managed by Haitong Jihe Management and Haitong Chuangxin Management, respectively, both of which are subsidiaries of Haitong Capital Investment. In addition, we have gained approval from the Shanghai municipal government to establish the Shanghai Cultural Industry Fund.
- *Financial futures and other derivatives business:* The development of financial futures and other derivatives products such as stock index futures which was launched in February 2010 enables us to offer our brokerage and asset management customers comprehensive investment solutions and to reduce volatility in our proprietary trading business. We plan to increase capital contributions to expand our financial futures and other derivatives business, including, but not limited to, stock index futures trading and other financial derivative products, such as interest rate futures and options and foreign currency futures and options, when they are introduced to the market. Meanwhile, we will adhere to our stringent risk management procedures as we grow this business.

In addition, we also intend to promote the following newly-introduced securities businesses:

- *Alternative financial product investment:* We plan to invest in alternative financial products to enhance the diversity and stability of our proprietary trading business while developing a market-making business to facilitate securities trading and issuance activities. According to regulations promulgated by the CSRC in April 2011, in addition to the three categories of investment products that have been approved for trading, PRC securities firms can also establish subsidiaries to engage in investment activities involving alternative financial products, such as derivative investment, trust and inter-bank wealth management products. We became the first PRC securities firm to apply to the CSRC in July 2007 for establishing such a subsidiary to diversify our investment product suite, such as developing our market making business and broadening our revenue streams. Please see “– Our Business and Operations – Proprietary Trading.” We plan to contribute RMB3.0 billion to our proposed subsidiary for alternative financial product investments as initial registered capital. We expect to build a team of professional staff with two to five years of experience in derivative and alternative financial product investments. We intend to independently operate this business through our designated subsidiary and establish a risk control management system through which we can designate its directors, impose investment limitations, formulate risk control indicators, establish

an effective reporting structuring and perform regular inspections and reviews. We have also conducted a feasibility study with respect to the alternative financial product investment business, which was presented to our Board of Directors for consideration and was subsequently approved.

Going forward, we will continue to seek opportunities in new businesses in response to changes in PRC regulatory requirements, market trends and customer demands, and to capture new business opportunities, such as the potential launch of the International Board, the New OTC Board, margin and securities refinancing and financial derivatives in the PRC by capitalizing on our strong capital position, integrated business platform and innovation, execution and risk management capabilities.

***Actively pursue our internationalization strategy to capture cross-border opportunities***

Our internationalization strategy forms an important part of our overall business strategy. We aim to implement a customer-focused strategy to satisfy our customers' increasing demands for cross-border financial services and further enhance our ability to service our customers in the PRC and overseas, optimize our revenue composition and enhance our brand recognition overseas.

By leveraging Haitong International Holdings as the flagship of our overseas business, we plan to expand the scale of our overseas operations and business platform through organic growth or acquisitions. Our criteria for overseas acquisition targets include: (i) meaningful presence in local markets; (ii) complementary business and synergies with our business; (iii) ability for us to exercise control in the target; and (iv) likelihood to strengthen our existing customer base, distribution network and professional expertise. As of the Latest Practicable Date, we have not identified any specific acquisition targets.

We also intend to implement the following strategies with respect to our existing international platform:

- strengthening Haitong International Securities' market leading position in Hong Kong and taking advantage of its proximity to overseas markets, sales network and international customer base;
- expanding cross-selling opportunities among PRC and overseas customers and developing new businesses by capitalizing on Hong Kong's position at the forefront of the internationalization of RMB. We intend to offer more RMB-related products and services, such as RMB funds, RMB-denominated IPOs, RMB bond underwriting and RQFII products; and
- developing cross-border business and realizing synergies between our PRC and overseas businesses, especially in the areas of investment banking, asset management, securities brokerage and research. For example, our PRC and overseas businesses can refer investment banking, assets management and securities brokerage customers to each other and share research resources.

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## BUSINESS

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***Strengthen our risk management systems, internal controls, IT capabilities, research capacities and human resource management to support our business operations***

We believe an effective risk management system, internal controls, research and IT capabilities and human resource management are essential to developing a sustainable business and maintaining our market leadership. We plan to strengthen our overall risk management and regulatory compliance by implementing the following strategies:

- enhancing our internal control and risk management framework;
- strengthening our risk management capabilities through classification of risk profile;
- enhancing the monitoring system of the Net Capital-based risk control indicators and optimizing capital allocation efficiency among different business lines; and
- strengthening the Chinese walls across various business divisions.

We recognize the importance of a strong research team to the development of our principal business lines. We will continue to enhance our research capability to support our business development by:

- expanding our research team and enhancing its market recognition;
- upgrading our research knowledge management and database infrastructure; and
- increasing our research coverage for listed companies in the PRC and developing our overseas research capabilities in a focused manner.

We also plan to devote more resources to enhance our IT systems in order to provide efficient, secure and stable technology services to support our business operations. We plan to strengthen our IT systems by implementing the following strategies:

- conducting a full review of our IT infrastructure and strengthening our IT administration and risk management capabilities;
- further strengthening the development of our IT infrastructure; and
- upgrading critical IT applications relating to our operational and management functions.

Our success, to a large extent, depends on our ability to attract, motivate and retain professional and experienced personnel. In order to maintain our competitive advantage in the marketplace, we intend to:

- continue to attract and retain qualified professionals, such as senior management, licensed sponsor representatives and experienced investment managers with international vision;



## BUSINESS

- offer professional training to our employees and provide clear career advancement and comprehensive development opportunities; and
- promote a merit-based compensation system across all business lines and continue to support and recognize the importance of a market-driven compensation system that rewards performance and results.

### OUR BUSINESS AND OPERATIONS

Our five principal business lines in the PRC comprise securities and futures brokerage (including margin financing and securities lending), investment banking, asset management, proprietary trading and direct investment. In addition, we conduct our overseas business primarily through our Hong Kong-based subsidiary, Haitong International Holdings.

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

	Year ended December 31,						Six months ended June 30,				Nine months ended September 30,			
	2008		2009		2010		2010		2011		2010		2011	
	(RMB in millions)	%	(RMB in millions)	%	(RMB in millions)	%	(Unaudited) (RMB in millions)	%	(RMB in millions)	%	(Unaudited) (RMB in millions)	%	(Unaudited) (RMB in millions)	%
<b>PRC business</b>														
Securities and futures														
brokerage . . . . .	4,529.5	57.0	7,284.0	64.4	5,774.8	51.1	2,486.5	50.0	2,297.2	38.6	3,800.6	49.4	3,295.9	41.0
Investment banking . . . . .	267.6	3.4	496.8	4.4	1,091.7	9.7	613.1	12.3	622.0	10.5	714.5	9.3	852.6	10.6
Asset management . . . . .	633.8	8.0	878.9	7.8	868.5	7.7	376.4	7.6	514.8	8.6	591.7	7.7	835.1	10.4
Proprietary trading . . . . .	685.0	8.6	804.8	7.1	779.8	6.9	191.1	3.8	802.7	13.5	680.3	8.9	499.6	6.2
Direct investment . . . . .	4.9	0.1	52.1	0.5	106.0	0.9	16.3	0.3	23.4	0.4	36.0	0.5	31.6	0.4
Headquarters and others <sup>(1)</sup> . . . . .	1,817.6	22.8	1,602.0	14.1	1,779.1	15.7	927.2	18.7	1,168.1	19.6	1,278.0	16.6	1,781.3	22.2
<b>Overseas business . . . . .</b>	<b>9.8</b>	<b>0.1</b>	<b>197.2</b>	<b>1.7</b>	<b>905.0</b>	<b>8.0</b>	<b>362.2</b>	<b>7.3</b>	<b>524.9</b>	<b>8.8</b>	<b>586.2</b>	<b>7.6</b>	<b>740.0</b>	<b>9.2</b>
<b>Total . . . . .</b>	<b>7,948.2</b>	<b>100.0</b>	<b>11,315.8</b>	<b>100.0</b>	<b>11,304.9</b>	<b>100.0</b>	<b>4,972.8</b>	<b>100.0</b>	<b>5,953.1</b>	<b>100.0</b>	<b>7,687.3</b>	<b>100.0</b>	<b>8,036.1</b>	<b>100.0</b>

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

### Securities and Futures Brokerage

#### Overview

Our securities and futures brokerage business primarily engages in the following activities:

- securities brokerage;
- futures brokerage;

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## BUSINESS

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- margin financing and securities lending; and
- investment advisory services.

As of September 30, 2011, through our 210 securities and futures brokerage branches located in 27 provinces and 113 cities across the PRC and utilizing over 6,000 sales and marketing personnel, we provide securities brokerage services to over 4.0 million retail customers (including approximately 2.1 million active customers) and over 12,000 institutional and high net worth customers, as well as futures brokerage services to nearly 40,000 customers.

Historically, revenue from our securities and futures brokerage business has represented the largest source of our revenue. For the years ended December 31, 2008, 2009 and 2010 and nine months ended September 30, 2011, segment revenue and other income from our securities and futures brokerage business amounted to RMB4,529.5 million, RMB7,284.0 million, RMB5,774.8 million and RMB3,295.9 million, respectively, representing 57.0%, 64.4%, 51.1% and 41.0% of our total revenue and other income, respectively.

According to the SAC, from 2008 to 2010, we ranked among the top five PRC securities firms in terms of securities brokerage net revenue. According to the data from the Shanghai Stock Exchange and the Shenzhen Stock Exchange, for the nine months ended September 30, 2011, we ranked fourth by securities trading volume and first by margin trading volume among PRC securities firms. As of September 30, 2011, we ranked first by margin loan balance and market value of securities lent among PRC securities firms. In addition, according to the China Financial Futures Exchange, we ranked first among PRC securities firms in terms of stock index futures trading volume for the nine months ended September 30, 2011.

In recent years, we received the following major awards in recognition of our securities and futures brokerage business:

- “2011 Best PRC Securities Firm” by Moneyweek;
- “2010 Best Securities firm in the PRC” by the 21st Century Business Herald;
- “2009 Best PRC Securities Broker” by Securities Times; and
- “2009 Best Corporate Brand in the PRC Futures Market Award” by Shanghai Securities News.

### *Securities brokerage*

We engage in the trading of a wide range of financial products on behalf of our customers, including:

- *Stocks* – primarily shares of listed companies on the Shanghai Stock Exchange, the Shenzhen Stock Exchange and the OTC markets in the PRC;

## BUSINESS

- *Funds* – listed funds, including open-end funds, closed-end funds and ETFs;
- *Bonds* – enterprise bonds (bonds issued by private companies), corporate bonds (bonds issued by listed companies), financial bonds (bonds issued by financial institutions), government bonds and convertible bonds; and
- *Derivatives* – derivative products listed on the Shanghai Stock Exchange and the Shenzhen Stock Exchange, such as warrants.

The following table sets forth the breakdown by product type of our securities brokerage business in terms of trading volume and market share for the periods indicated:

	Year ended December 31,			Six months ended June 30,		Nine months ended September 30,	
	2008	2009	2010	2010	2011	2010	2011
<b>Trading volume (RMB in billions)</b>							
Stocks . . . . .	2,282.8	4,448.2	4,419.6	1,842.6	1,912.3	2,839.9	2,844.8
Funds . . . . .	36.5	45.5	57.2	19.4	23.9	33.2	40.8
Bonds . . . . .	350.0	575.1	846.0	381.8	699.3	609.3	1,394.7
Warrants. . . . .	664.8	342.7	75.9	49.3	13.3	72.0	17.1
<b>Total . . . . .</b>	<b>3,334.1</b>	<b>5,411.5</b>	<b>5,398.7</b>	<b>2,293.1</b>	<b>2,648.8</b>	<b>3,554.3</b>	<b>4,297.4</b>
<b>Market share (%)<sup>(1)</sup></b>							
Stocks . . . . .	4.3	4.2	4.1	4.1	4.1	4.1	4.1
Funds . . . . .	3.3	2.3	3.4	2.6	4.1	3.1	4.6
Bonds . . . . .	7.3	8.2	6.9	7.8	5.4	7.4	5.5
Warrants. . . . .	4.8	3.2	2.5	2.7	2.6	2.5	2.5
<b>Total . . . . .</b>	<b>4.6</b>	<b>4.3</b>	<b>4.3</b>	<b>4.4</b>	<b>4.4</b>	<b>4.3</b>	<b>4.5</b>

(1) Market share is calculated based on trading volume.

Source: Shanghai Stock Exchange and Shenzhen Stock Exchange

We classify our securities brokerage business into two categories based on customer types: (i) retail brokerage business and (ii) brokerage business for institutional and high net worth customers.

### *Retail brokerage business*

Our retail brokerage business is the foundation of our brokerage business. It serves individual customers with less than RMB10 million of assets in their accounts held with us. We provide standard brokerage trading services, investment advisory and other value-added services to our retail customers. We also establish the “Rainbow Treasure Club,” a loyalty program that is dedicated to providing our retail customers with active trading and sizable assets, through which we offer customized and differentiated services. Please see “– Customer

Services.” In addition, we distribute asset management products and introduce futures products to customers through our sales and marketing team, which enable us to diversify our product and service offerings while promoting cross-selling across multiple business lines.

As of September 30, 2011, we had over 4.0 million retail brokerage customers (including approximately 2.1 million active customers), one of the largest customer bases among PRC securities firms. Of our retail customer base, approximately 76% have opened accounts with us for over three years and approximately 38% have over ten years of business relationship with us. We believe that a sizeable and stable retail customer base provides a solid foundation for our future business growth.

### *Brokerage business for institutional and high net worth customers*

We provide securities brokerage services for institutional and high net worth customers. Our institutional brokerage customers primarily include fund management companies, commercial banks, trust companies and other large corporations. As of September 30, 2011, we had over 12,000 institutional and high net worth customers.

In addition to traditional brokerage trading services, we also provide other value-added products and services to our institutional and high net worth customers, such as customized research, block trades, financial advisory, mutual funds distribution, securities custodian, wealth management and tax planning services.

We also provide trading, research and investment advisory services to QFII clients. We are an authorized broker in the PRC for a number of large QFIIs, including investment banks, commercial banks and asset management firms. The total assets our QFII clients entrusted to us amounted to approximately RMB22.1 billion as of September 30, 2011, with QFII brokerage trading volume exceeding RMB79.6 billion in 2010.

### *Futures brokerage*

We provide futures brokerage services through our subsidiary, Haitong Futures. As of September 30, 2011, our futures products included all 26 commodities and stock index futures that are listed and traded on the PRC futures exchanges.

We became one of the first PRC securities firms to launch a futures brokerage business after we acquired a controlling interest in Huanghai Futures (renamed as Haitong Futures) in October 2005. As of September 30, 2011, among the 163 PRC futures brokerage firms, we had a market share of 4.5% in terms of futures brokerage trading volume.

We are one of the founding members of the Shanghai Futures Exchange, the Dalian Commodity Exchange and the Zhengzhou Commodity Exchange. We are also one of the first clearing members of the China Financial Futures Exchange since December 2007. In addition, we were among the first group of futures companies to be certified for ISO9001:2008 Quality Management System Certification in recognition of our effective risk management system. In March 2010, we were one of the first futures companies to be licensed to conduct the stock

## BUSINESS

index futures trading business. According to the China Financial Futures Exchange and the China Futures Association, for the nine months ended September 30, 2011, we ranked first among PRC futures companies in terms of trading volume of stock index futures, representing approximately 8.7% of the total market share.

The following table sets forth the total trading volume and market share of our futures brokerage business for the periods indicated:

	Year ended December 31,			Six months ended June 30,		Nine months ended September 30,	
	2008	2009	2010	2010	2011	2010	2011
Trading volume (RMB in billions) . . . .	755.7	1,866.8	10,517.5	2,906.0	6,088.1 <sup>(1)</sup>	6,451.8	9,195.4 <sup>(1)</sup>
Market share (%) <sup>(2)</sup> . . . .	1.1	1.4	3.4	2.5	4.5	3.1	4.5

(1) The trading volume of the PRC futures market before 2011 includes both sides of the trades. Since 2011, the trading volume of the PRC futures market includes only one side of the trades. For the purpose of comparison in this prospectus, futures trading volume for the six months ended June 30, 2011 and the nine months ended September 30, 2011 is adjusted to include both sides of the trades.

(2) Market share is based on the total trading volume disclosed by the China Futures Association.

As of September 30, 2011, we had 22 futures brokerage branches in 21 cities in the PRC. Furthermore, 71 of our 188 securities brokerage branches are qualified for futures IB business, which allows those branches to refer their securities brokerage customers to Haitong Futures.

As of September 30, 2011, our futures brokerage business had near 40,000 customers. From 2008 to 2010, the number of our futures brokerage customers increased at a CAGR of approximately 64.0% and the trading volume of our futures brokerage increased at a CAGR of approximately 273.0%.

### *Margin financing and securities lending*

In March 2010, we were authorized by the CSRC as one of the first six PRC securities firms to pilot-run a margin financing and securities lending business. Our margin financing service involves offering securities-backed loans to brokerage customers who wish to finance their securities purchases. Margin financing offers funding flexibility to our brokerage customers and assists them in maximizing investment returns through leverage. Our securities lending service involves the lending of securities held on our own account to customers. Securities lending allows our brokerage customers to borrow securities to take advantage of potential short selling opportunities in the markets. Our agreements with customers typically include terms such as margin loan or securities lending amount, maturity date and interest rate, which represents a percentage of our customers' margin loan balance and the market value of the securities we lent. Currently, we charge an annualized interest rate on margin financing and securities lending of 3% above the PBOC benchmark interest rate for a six-month RMB loan to financial institutions, which was approximately 9.1% as of September 30, 2011. In addition, we charge brokerage commission on margin trading and short selling.

## BUSINESS

Benefiting from our substantial securities brokerage customer base, distribution network, capital strength, proprietary business capabilities and brand recognition, our margin financing and securities lending business has grown rapidly since its launch in March 2010. We ranked first among PRC securities firms in terms of margin trading volume for the nine months ended September 30, 2011 and margin loan balance and the market value of securities lent as of September 30, 2011. As of September 30, 2011, 170 of our 188 securities branches in the PRC were allowed to provide margin financing and securities lending services. At the same time, we had 87,778 customers who were eligible for margin financing and securities lending services, among which 11,307 customers had opened margin financing and securities lending accounts with us and 4,556 had executed transactions, representing 12.9% and 5.2%, respectively, of our eligible customer pool. As such, we believe there is significant growth potential in our margin financing and securities lending business.

For the nine months ended September 30, 2011, interest income from our margin financing and securities lending business in the PRC amounted to RMB181.2 million. According to the data from the Shanghai Stock Exchange and the Shenzhen Stock Exchange, we had a margin loan balance of approximately RMB3.6 billion as of September 30, 2011, representing 10.8% of total market share in the PRC. We had margin trading volume of approximately RMB36.8 billion for the nine months ended September 30, 2011, representing 17.3% of total market share in the PRC. As of September 30, 2011, there were 90 stocks eligible for margin financing and securities lending in the PRC, of which we offered 88 stocks to customers for securities lending and we deemed 89 stocks eligible for margin financing. In addition, according to data from the Shanghai Stock Exchange and the Shenzhen Stock Exchange, as of September 30, 2011, the market value of securities we lent was approximately RMB92.8 million, representing 45.3% of total market share in the PRC.

The following table sets forth a summary of the operating and financial information of our margin financing and securities lending business:

	As of and for the year ended December 31, 2010	As of and for the six months ended June 30, 2011	As of and for the nine months ended September 30, 2011
Number of our customers who are eligible for margin financing and securities lending services . . . . .	88,031	94,004	87,778
Percentage of total number of brokerage customers (%): . . . . .	2.3%	2.4%	2.2%
Number of customers with margin financing and securities lending accounts . . . . .	5,068	8,802	11,307
Percentage of total number of brokerage customers (%): . . . . .	0.1%	0.2%	0.3%
Margin trading volume (RMB in billions) . . . . .	19.2	22.9	36.8
Market share of margin trading volume . . . . .	27.5%	17.5%	17.3%
Margin loan balance (RMB in millions) . . . . .	2,089	2,640	3,614
Market share of margin loan balance . . . . .	16.4%	9.7%	10.8%
Market value of securities lent (RMB in millions) . . . . .	0.3	131.4	92.8
Market share of market value of securities lent.	2.5%	49.4%	45.3%

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## BUSINESS

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While margin financing and securities lending is an established business in many mature securities markets in the world, it is still an emerging business in the PRC. The CSRC imposed stringent entry requirements regarding a securities firm's Net Capital, risk management capabilities and regulatory ratings. In addition, the CSRC imposed specific restrictions on the margin financing and securities lending business in the PRC. For example:

- a securities firm can only use its own funds for margin financing service and its own securities for securities lending service; and
- potential customers must have maintained a brokerage account with the same securities firm for at least 18 months in order to open a margin financing and securities lending account.

In addition, according to applicable rules of the Shanghai Stock Exchange and the Shenzhen Stock Exchange, all 90 stocks currently eligible for the margin financing and securities lending business are the constituent stocks of the SSE 50 Index and SZSE Component Index, representing 3.8% of the total number of stocks listed on these two exchanges as of September 30, 2011.

We established strict criteria for acquiring new customers and a rigorous risk management system in our margin financing and securities lending business. In compliance with the CSRC's guidance, we require our customers to maintain a brokerage account with us for at least 18 months before they become eligible for margin financing and securities lending services. In addition, we require our customers to maintain a minimum balance of RMB500,000 in their brokerage accounts upon their applications for margin financing and securities lending accounts. Furthermore, we require our customers to have sound credit history and strong risk tolerance. We require our customers to deposit with us a portion of the cash or securities in their accounts. We also hold the securities acquired from margin financing or the funds received from short selling by our customers as collateral. We determine the credit limit we extend to our customers based on various factors, such as the value of their total assets maintained with us and their creditworthiness. We determine a customer's eligibility for a new transaction based on the credit line available to the client and the balance of the client's deposits. We have also established a margin call risk control mechanism through which we monitor the value of our customers' collateral on a real-time basis.

On October 26, 2011, the CSRC revised the Management Measures on Securities Companies Margin Financing and Securities Lending Trials (證券公司融資融券業務試點管理辦法) and Guidelines on Internal Control of Margin Financing and Securities Lending Trials of Securities Companies (證券公司融資融券業務試點內部控制指引), and converted margin financing and securities lending from a pilot program conducted by CSRC-designated PRC securities firms to a regular business available to all the PRC securities firms that meet certain requirements. In addition, on the same day, the CSRC promulgated the Trial Supervision and Management Measures on Margin and Securities Refinancing Business (轉融通業務監督管理試行辦法) pursuant to which we expect a pilot program for the margin and securities refinancing to be launched in the PRC. On November 25, 2011, the Shanghai Stock Exchange and the Shenzhen Stock Exchange announced new notices to expand the scope of securities eligible for the margin financing and securities lending business from the current 90 stocks to 278 stocks and 7 ETFs.



## BUSINESS

With the lifting of restrictions on the use of external funding and securities borrowing, the expansion of the scope of securities eligible for margin trading and short selling, the relaxation of account opening requirements and the conversion of margin financing and securities lending business from a pilot program to a regular business, we believe the margin financing and securities lending business has great potential for further development. We aim to expand our margin financing and securities lending business by (i) deploying additional capital to expand the scale of such business; (ii) promoting cross-selling strategies in order to increase customer penetration; and (iii) developing the margin and securities refinancing business in order to enhance our financial leverage and, as a result, the profitability of our margin financing and securities lending business.

### *Customers*

We develop and maintain our brokerage customer base through various channels:

- *Retail brokerage customers* – we primarily source and serve retail customers through our nationwide securities branch network and over 6,000 marketing and sales personnel;
- *Institutional and high net worth customers* – we primarily originate such customers through our headquarters and nationwide branch network, as well as internal referrals by other business lines. To expand our customer base, we also maintain good relationships with major custodian banks and global financial institutions.

As of September 30, 2011, we provided securities brokerage services to over 4.0 million retail customers (including approximately 2.1 million active customers) and over 12,000 institutional and high net worth customers, as well as futures brokerage services to nearly 40,000 customers. The following table sets forth the breakdown of our customers of securities brokerage business for the periods indicated:

	As of December 31,			As of
	2008	2009	2010	September 30, 2011
Retail brokerage customers . . . . .	3,609,805	3,721,430	3,746,659	4,051,437
Institutional and high net worth customers . . . . .	9,989	11,742	12,078	12,157
<b>Total customers . . . . .</b>	<b>3,619,794</b>	<b>3,733,172</b>	<b>3,758,737</b>	<b>4,063,594</b>

## BUSINESS

We maintain long-term and stable relationships with our customers. The following table sets forth the breakdown of our brokerage customers in terms of account holding period for the periods indicated:

	As of December 31,						As of September 30,	
	2008		2009		2010		2011	
		(%)		(%)		(%)		(%)
<b>Account holding period</b>								
not less than ten years . . . . .	1,009,013	27.9	1,082,650	29.0	1,320,641	35.1	1,551,358	38.2
five to ten years (excluding five and ten years). . . . .	920,262	25.4	719,482	19.3	429,235	11.4	288,024	7.1
three to five years (excluding three and five years). . . . .	113,318	3.1	120,643	3.2	1,024,823	27.3	1,263,327	31.1
less than three years . . . . .	1,577,201	43.6	1,810,397	48.5	984,038	26.2	960,885	23.6
<b>Total . . . . .</b>	<b>3,619,794</b>	<b>100.0%</b>	<b>3,733,172</b>	<b>100.0%</b>	<b>3,758,737</b>	<b>100.0%</b>	<b>4,063,594</b>	<b>100.0%</b>

We believe we have successfully maintained our customers' loyalty as a result of our well-established brand, comprehensive customer services, strong capital base and stable operations. As of September 30, 2011, approximately 76% of our brokerage customers had opened accounts with us for over three years and approximately 38% had a business relationship of over ten years with us. We believe that a sizeable and stable customer base provides a solid foundation for our future business growth.

Our retail customers, representing the majority of our brokerage customers, are the foundation of our brokerage business. We intend to diversify our retail brokerage business by expanding our wealth management services for retail customers in the first-tier cities and by originating new customers in the second and third-tier cities, where we believe brokerage business has lower market penetration and less competition.

We are committed to developing our base of institutional and high net worth customers and expanding cross-selling opportunities by leveraging our full-service integrated platform.

### ***Brokerage commission and fee income***

We receive commission and fee income from customers who trade securities and futures through our trading platforms. For the years ended December 31, 2008, 2009 and 2010 and the nine months ended September 30, 2011, segment revenue and other income from our securities and futures brokerage business in the PRC accounted for 57.0%, 64.4%, 51.1% and 41.0% of our total revenue and other income, respectively. The following tables set forth the total trading

## BUSINESS

volume and commission and fee income of our securities and futures brokerage business and the average commission rate for stocks and funds for the period indicated:

	Year ended December 31,			Six months ended June 30,		Nine months ended September 30,	
	2008	2009	2010	2010	2011	2010	2011
<b>Securities Business</b>							
Trading volume <sup>(1)</sup> (RMB in billions) . . . . .	3,011	4,866	4,562	1,924	2,105	2,981	3,087
Commission and fee income <sup>(2)</sup> (RMB in millions) . . . . .	4,366	6,777	5,242	2,397	2,057	3,550	2,860
<b>Futures Business</b>							
Trading volume <sup>(1)</sup> (RMB in billions) . . . . .	756	1,867	10,518	2,906	6,088 <sup>(3)</sup>	6,452	9,195 <sup>(3)</sup>
Commission and fee income (RMB in millions) . . . . .	60	143	273	98	120	184	182
<b>Total commission income (RMB in millions) . . . . .</b>	<b>4,426</b>	<b>6,920</b>	<b>5,515</b>	<b>2,495</b>	<b>2,177</b>	<b>3,734</b>	<b>3,042</b>
<b>Average securities brokerage commission rate . . . . .</b>							
	0.169%	0.147%	0.118%	0.128%	0.103%	0.123%	0.102%

(1) Sourced from our internal data.

(2) Commission and fee income includes commission and fee income from our securities brokerage business and other fee income from fund management firms, our margin financing and securities lending and QFII clients.

(3) According to the practice adopted by the China Financial Futures Exchange, the trading volume of the PRC futures market before 2011 included both sides of each trade. Since 2011, the trading volume of the PRC futures market has only included one side of the trade. For the purpose of comparison in this prospectus, futures trading volume for the six months ended June 30, 2011 and the nine months ended September 30, 2011 is adjusted to include both sides of each trade.

In recent years, intense competition in the PRC securities brokerage business has lowered commission rates for the securities brokerage business. Please see “Risk Factors – Risks Relating to Our Business and Industry – Our securities and futures brokerage business is subject to various risks and we cannot assure you that our brokerage commission and fee income can be sustained.”

In order to mitigate the impact of price competition, we have implemented the following measures:

- further developing and expanding the scope of our products and services, including margin financing and securities lending, stock index futures trading and futures IB businesses. Moreover, we offer differentiated products and services to our customers to avoid homogeneous competition, as well as to diversify our revenue streams;

- further improving the quality of our customer service and providing customized and comprehensive investment solutions for our customers. We aim to implement a vertically integrated service platform and to enhance our customers' loyalty, especially those customers with sizable assets, by providing customized wealth management services;
- expanding our branch network with strategic coverage and improving our operating efficiency to further expand our customer coverage. Please see “– Business Network;” and
- further enhancing our research capabilities and expanding our professional research team to provide better securities brokerage services for our customers.

We monitor and adjust the structure and the level of our brokerage commission rates on a regular basis based on geographic location, asset size, trading pattern and loyalty of our customers. We charge different commission rates for different services in accordance with our internal rating and classification system. Nonetheless, we adhere to the principle of equal treatment of clients in terms of services provided and fees charged in accordance with the Circular on Further Reinforcing the Management of Securities Firms' Client Service and Commission Income of Securities Transactions (關於進一步加強證券公司客戶服務和證券交易佣金管理工作的通知) promulgated by the SAC.

### **Investment Banking**

#### *Overview*

We provide corporate finance services, including equity underwriting, debt underwriting and financial advisory services to our institutional clients. We are committed to offering our clients customized corporate finance services and expanding cross-selling opportunities across multiple business lines through our integrated investment banking platform.

We have gained a leading position in the PRC investment banking industry and aim to continue to improve such position. According to the SAC, we ranked fourth in terms of the value of equity securities underwritten in 2010 among PRC securities firms. In addition, we ranked ninth in 2010 in terms of the total value of equity and debt securities underwritten, compared to 18th in 2009. According to the CSRC, as measured by the number of major asset restructuring transactions we advised for A share listed companies, we ranked in the top two PRC securities firms for the past three consecutive years.

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## BUSINESS

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In recent years, we have received the following major awards in recognition of our investment banking business:

- “2011 Best PRC Investment Bank” by Moneyweek;
- “2011 Best PRC Investment Bank For Equity Refinancing” by Moneyweek;
- “Best M&A Team” by Shanghai Securities News for four consecutive years from 2007 to 2010;
- “Top 10 Best PRC Investment Banks” by Moneyweek in 2010;
- “The Best and the Most Respected PRC Investment Bank” by New Fortune in 2009;
- “2008 Best Sales Investment Bank,” “2008 Best Investment Banking Service” and “2008 Most Influential Project (IPO of Xinjiang Goldwind Science & Tech Co., Ltd)” by Securities Times; and
- “2007 Outstanding Sponsors for the SME Board” by Securities Times in 2007.

### *Equity underwriting*

Equity underwriting is the core strength of our investment banking business in the PRC. We sponsor and underwrite IPOs, follow-on offerings and rights issues on the A share market to assist our clients’ equity financing activities. Up to September 30, 2011, we had acted as the lead underwriter for equity offerings of over 220 institutional clients. During the Track Record Period and up to September 30, 2011, we acted as the lead underwriter for equity offerings with an aggregate amount of RMB78.0 billion, including RMB39.8 billion from 33 IPOs, RMB31.0 billion from 26 follow-on offerings and RMB7.3 billion from five rights issues.

According to the Measures for the Administration of the Sponsorship of the Offering and Listing of Securities promulgated by the CSRC (證券發行上市保薦業務管理辦法), the CSRC only allows a qualified securities firm to underwrite equity offerings on the A share market, and such firm is required to designate two sponsor representatives to be principally responsible for each offering. As a result, the number of sponsor representatives is key to the scale of a securities firm’s equity underwriting business. As of September 30, 2011, we had 68 qualified sponsor representatives and an additional 27 sponsor representative candidates who are in the process of applying for qualification. The number of sponsor representatives we have ranks among the top in the PRC securities industry.

## BUSINESS

The following table sets forth a breakdown of equity offerings for which we acted as the lead underwriter in terms of listing venues for the periods indicated:

	Year ended December 31,			Six months ended June 30,		Nine months ended September 30,	
	2008	2009	2010	2010	2011	2010	2011
<b>Number of equity offerings</b>	11	10	26	13	11	15	17
Main board . . . . .	6	5	11	5	3	5	5
SME Board . . . . .	5	2	11	6	6	8	9
ChiNext Board . . . . .	–	3	4	2	2	2	3
<b>Total amount underwritten (RMB in millions) . . . . .</b>	7,441.4	7,530.4	49,657.7	31,779.1	8,290.2	33,292.9	13,383.7
Main board . . . . .	6,121.4	4,366.7	37,771.5	25,063.4	1,951.0	25,063.4	5,257.5
SME Board . . . . .	1,320.0	1,618.8	8,716.2	4,761.4	5,512.8	6,275.1	6,883.7
ChiNext Board . . . . .	–	1,544.9	3,170.0	1,954.3	826.4	1,954.3	1,242.5

We have successfully completed several landmark equity offerings in the PRC, including acting as:

- the lead underwriter for A share follow-on offering of Shanghai Shangling Electric Appliances in 1999. This transaction was the first in the PRC to apply a market price discount method that followed the international general pricing standard, which is now widely adopted by listed companies in the PRC for their follow-on offerings;
- the lead underwriter for the first IPO of a commercial bank, Shanghai Pudong Development Bank, after the removal of restrictions on the listing of PRC financial institutions in 1999; and
- the lead underwriter for the first IPO of a non state-owned commercial bank, Minsheng Bank, in 2000.

We divide our institutional clients into large corporate clients and SME clients based on their business scale. We provide customized coverage and equity underwriting services based on prevailing market conditions and customer needs. We have established sector-focused groups to provide specific coverage for large corporate clients through designated relationship managers. We cover our SME clients through our local relationship managers deployed in strategically important markets in the PRC.

We have participated in a number of landmark equity offerings involving large corporate clients in the PRC and established long-term business relationships with them. For example, in 2010, we acted as:

- the joint sponsor and the joint lead underwriter for China Construction Bank in its rights offering;
- the joint lead underwriter for SAIC Motor in its private placement; and

- the sponsor and the lead underwriter for Fosun Pharma in its private placement.

In addition, we participated in various financing activities for Minsheng Bank, including its IPO, follow-on offerings, subordinated bond issuance and hybrid capital bond issuance in the PRC. We also participated in at least three financing activities for each of the Bank of Communications, Shenzhen Development Bank and Shanghai Shimao Co., Ltd.

We are also focused on providing equity underwriting services to SMEs, especially non-state owned companies, which have contributed significantly to our fast-growing investment banking business. From 2008 to 2010, we acted as the lead underwriter for 25 equity offerings on the SME Board and the ChiNext Board. The total proceeds raised from these equity offerings increased from RMB1.3 billion in 2008 to RMB11.9 billion in 2010, representing a CAGR of 200.1%. For the nine months ended September 30, 2011, we acted as the lead underwriter for 12 equity offerings on the SME Board and the ChiNext Board. The revenue contribution from our equity underwriting on the SME Board and the ChiNext Board increased from approximately 38% in 2008 to 60% in 2010 of our total revenue from equity underwriting in those years, and further increased to approximately 79% for the nine months ended September 30, 2011. In addition, based on the equity offerings in which we participated in the past, underwriting fee rates of the SME Board and the ChiNext Board are generally higher than those of the main board in the PRC.

### ***Debt underwriting***

We underwrite enterprise bonds, corporate bonds, financial bonds, medium-term notes, short-term commercial papers and asset-backed securities to assist our clients' debt financing activities.

Our debt underwriting business primarily serves large corporate clients. In recent years, our debt underwriting business expanded rapidly. For the years ended December 31, 2008, 2009 and 2010 and the nine months ended September 30, 2011, the total amount of bonds we underwrote as the lead underwriter was RMB0.4 billion, RMB10.6 billion, RMB12.3 billion and RMB13.5 billion, respectively, representing a CAGR of 441.6% from 2008 to 2010. We have increased the employee headcount in our debt underwriting business from 11 as of December 31, 2008 to 65 as of September 30, 2011 in order to better capture the strategic opportunities in, and to meet increasing demands from, the fast-developing debt underwriting market in the PRC.



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## BUSINESS

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The following table sets forth our performance as lead underwriter in debt underwriting business for the periods indicated:

	Year ended December 31,			Six months ended June 30,		Nine months ended September 30,	
	2008	2009	2010	2010	2011	2010	2011
Number of debt offerings. . .	1	8	10	3	9	4	9
Total amount underwritten (RMB in millions) . . . . .	420.0	10,640.0	12,320.0	6,670.0	13,458.0	7,320.0	13,458.0

We believe that we have established a competitive advantage in the marketing and innovation capabilities of our debt underwriting business. We have established a distribution network for fixed income products that covers major investors such as large commercial banks, insurance companies, fund management companies and rural credit cooperation associations. We divide our sales and marketing personnel by geographic regions and maintain nationwide sales coverage. We are a pioneer in product innovation and are committed to assisting our clients to achieve lower financing costs. For example, according to China Central Depository & Clearing Co., Ltd., the bond issuance by Shanghai Huayi (Group) Company, underwritten by us in 2007, was the first floating rate notes benchmarking Shibor, which represented a milestone of the PBOC's efforts to promote Shibor.

### *Financial advisory services*

We provide financial advisory services on M&A, restructuring, stock option schemes of listed companies and private financing transactions. During the Track Record Period, we mainly provided financial advisory services to listed companies across different industry sectors in the PRC. We provide localized customer coverage through our branch network nationwide in order to develop an in-depth understanding of our customers' needs and provide customized financial advisory services.

According to the CSRC, for each of the years ended December 31, 2008, 2009 and 2010, we were among the top two financial advisors in the PRC in terms of the number of major asset restructuring transactions we advised for domestic listed PRC companies. From 2008 to 2010, we advised on 14 major asset restructuring transactions with a total transaction value of RMB70.2 billion. For the nine months ended September 30, 2011, we further advised on six major asset restructuring transactions with a total transaction value of RMB9.0 billion. In addition, we have strong innovation capability. For example, we advised on the first listing of a publication group through reverse takeover in the PRC. In terms of financial advisory services relating to non-tradable shares reform in the PRC, we have advised 133 companies since the launch of such reform in 2005, representing approximately 10.0% of total market share in terms of the number of transactions, and ranked first in the PRC securities industry.

### **Asset Management**

#### ***Overview***

We offer traditional asset management products and services through our Company and our subsidiary, HFT Investment Management and our affiliate, Fullgoal Fund Management. In addition, we operate our private equity asset management business through Haitong-Fortis PE Management, Haitong Jihe Management and Haitong Chuangxin Management.

In recent years, we have received the following major awards in recognition of our achievements in the asset management business, including:

- HFT Investment Management was awarded the “Top Ten Fund Companies” by Securities Times in 2010 and was rated “M2+” by Fitch Ratings from 2008 to 2010 in recognition of our accomplishments;
- “Best Collective Asset Manager among PRC Securities Firms” by Thomson Reuters and Sinolink Securities in 2008, “Continued Excellence Award for Private Equity Funds in the PRC” by Sinolink Securities in 2009, and our Haitong Stable Growth Collective Asset Management Scheme was awarded “Best Collective Asset Management Product of PRC Securities Firms” sponsored by Thomson Reuters and Sinolink Securities in 2008; and
- In 2008 and 2009, the president of Haitong-Fortis PE Management was awarded by Forbes as the “Best China Venture Capitalists.” Haitong-Fortis PE Management was also awarded “Top Ten Chinese Private Equity Investment Institution” by China Venture in 2007, 2008, 2009 and 2010, and “PE Exit Winner of the Year 2010” by Zero2IPO in December 2010.

#### ***Traditional asset management products and services***

We develop asset management products and services based on asset size and customer demands, which mainly include collective asset management schemes and targeted asset management schemes. As of September 30, 2011, we had six collective asset management schemes and seven targeted asset management schemes. The total AUM at our Company level

## BUSINESS

amounted to approximately RMB13.8 billion as of September 30, 2011. The table below sets forth the total AUM of our different asset management schemes for the periods indicated:

	As of December 31,			As of	As of
	2008	2009	2010	June 30, 2011	September 30, 2011
	(RMB in millions)				
Collective asset management schemes . . . . .	1,364.2	1,102.7	1,054.7	1,979.1	2,423.2
Targeted asset management schemes . . . . .	7,585.6	2,944.2	7,644.6	11,789.2	11,390.0
<b>Total . . . . .</b>	<b>8,949.8</b>	<b>4,046.9</b>	<b>8,699.3</b>	<b>13,768.3</b>	<b>13,813.2</b>

Collective asset management schemes include large and small collective asset management schemes. As of September 30, 2011, all of our collective asset management schemes were large collective asset management schemes. We are also in the planning stage to launch small collective asset management schemes. Large collective asset management schemes, designed mainly for retail customers and certain institutional customers, typically have a minimum subscription amount of RMB50,000 to RMB100,000 per customer. We charge a management fee of 0.6% to 1.5% of the total AUM of such schemes, plus, a pre-agreed performance fee for certain schemes. In order to meet investor demands with different risk profiles, we provide diversified products, such as equity funds, balanced funds, bond funds, FOF and money market funds. Small collective asset management schemes, designed mainly for up to 200 institutional and high net worth customers, typically have a total AUM of up to RMB1 billion with a minimum subscription amount of RMB1 million per customer. We plan to charge a management fee of up to 1.5% of the total AUM of such schemes, plus a pre-agreed performance fee for certain schemes.

We also provide targeted asset management schemes, which are customized wealth management plans designed for a single customer and typically have a minimum subscription amount of RMB10 million. We charge a management fee of up to 2.0% of the total AUM of such schemes, plus a pre-agreed performance fee. Through our targeted asset management schemes, we provide customized investment plans to our customers based on their characteristics and investment needs, as well as the most suitable financial products available in the market, such as fixed income funds, balanced funds, selected FOF, selected equity funds and stock index futures.

We have formulated different marketing strategies and established various sales channels for our products. Our collective asset management products are promoted through our branches nationwide or through agency banks. We cross-sell our diversified asset management products and services to our brokerage customers through our nationwide sales network. Our customer managers analyze our customers' needs in order to identify suitable candidates for us to promote our targeted asset management products. We also have institutional clients referred by our investment banking business and securities brokerage business.

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## BUSINESS

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### HFT Investment Management

HFT Investment Management is our fund management subsidiary in which we own a 51.0% equity interest. Please see “History and Corporate Structure”. HFT Investment Management offers a full range of asset management products and services, including mutual funds, enterprise annuities, segregated account management service and QFII investment advisory service. As of September 30, 2011, HFT Investment Management managed mutual funds, including 19 open-end funds, which had total AUM of over RMB35.1 billion. Meanwhile, HFT Investment Management acted as the investment manager for more than 60 enterprise annuity funds, which had total AUM of over RMB16.9 billion. Total AUM under HFT Investment Management’s segregated account management reached over RMB2.9 billion as of September 30, 2011. Since the end of 2004, HFT Investment Management has been offering investment advisory and sub-management services to QFIIs and other domestic and overseas investment portfolios. As of September 30, 2011, the asset size managed by our customers to whom HFT Investment Management provides investment advisory services amounted to approximately RMB20.6 billion. During the Track Record Period, the management fee rate charged by HFT Investment Management ranged from 0.33% to 2.0%, subject to adjustments, according to different asset sizes and types of funds and investment portfolios. During the same period, the management fee rate of mutual funds ranged from 0.33% to 1.8%, and varied by different product types such as stocks and bonds. The management fee rate of segregated account management service ranged from 0.4% to 2.0%, plus a performance fee if certain conditions are satisfied.

The following table sets forth the total AUM of our different types of asset management products as of the dates indicated:

	As of December 31,			As of	As of
	2008	2009	2010	June 30, 2011	September 30, 2011
	(RMB in millions)				
<b>Product</b>					
Mutual funds . . . . .	38,497.3	45,818.9	46,898.4	39,264.9	35,129.3
Enterprise annuities . . . . .	4,816.6	10,096.8	13,607.1	16,094.3	16,946.5
Segregated account management . . . . .	–	1,039.4	2,553.6	2,507.8	2,915.2

HFT Investment Management, with its diversified product offerings, attracts a wide spectrum of customers. Its customer base ranges from retail individuals to high net worth and institutional customers. The minimum subscription amount of the products offered by HFT Investment Management is RMB1,000. As of September 30, 2011, HFT Investment Management had approximately 1.3 million retail customers and over 730 institutional clients. In December 2010, HFT Investment Management was designated by the NSSF as its entrusted domestic investment manager. Thus, HFT Investment Management became a fully-licensed fund management company offering asset management products such as mutual funds, segregated account management service and enterprise annuity plans. We are also licensed to provide asset management services to QDIIs.

### ***Fullgoal Fund Management***

Fullgoal Fund Management is our affiliate fund management company in which we own an equity interest of approximately 28%. Please see “History and Corporate Structure”. As of September 30, 2011, Fullgoal Fund Management managed and operated 25 mutual funds, segregated account management service and enterprise annuities, with a total AUM of over RMB73.8 billion. Fullgoal Fund Management primarily distributes investment management products for retail and institutional customers nationwide through banks, securities firms and our branches. In December 2010, Fullgoal Fund Management was designated by the NSSF to be its entrusted domestic investment manager. Thus, Fullgoal Fund Management became a fully-licensed fund management company offering asset management products such as mutual funds, segregated account management service and enterprise annuity plans. We are also licensed to provide asset management services to QDIIs.

### ***Private equity asset management business***

In addition to our traditional asset management business, by leveraging our experience and advantages in our direct investment business, we have developed our private equity asset management business and therefore broadened our revenue streams of our asset management business through management fees and performance fees received from private equity funds we manage.

We established Haitong-Fortis PE Management in 2004 to manage the assets of the China-Belgium Fund. Please see “– Our Business and Operations – Direct Investment – China-Belgium Fund.” Haitong-Fortis Private Equity Fund Management was the first industry investment fund management company in the PRC, approved by the NDRC. As of September 30, 2011, Haitong-Fortis Private Equity Fund Management is a joint venture fund management company in which we and BNPP IP BE Holding (formerly known as “Fortis Investment Management SA/NV”) hold an equity interest of 67.0% and 33.0%, respectively. In addition, we manage several private equity funds through Haitong Jihe Management and Haitong Chuangxin Management, which are subsidiaries of Haitong Capital Investment. These private equity funds include Jilin Modern Agriculture and Emerging Industry Investment Fund and Xi’an Aerospace New Energy Fund. Please see “– Direct Investment” for details of these private equity funds.

### **Proprietary Trading**

#### ***Overview***

We engage in the trading of equities, bonds, funds, derivatives and other financial products for our own account. For the years ended December 31, 2008, 2009 and 2010 and the nine months ended September 30, 2011, segment revenue and other income from our proprietary trading business in the PRC was RMB685.0 million, RMB804.8 million, RMB779.8 million and RMB499.6 million, respectively, accounting for 8.6%, 7.1%, 6.9% and 6.2% of our total revenue and other income, respectively.

## BUSINESS

According to the Regulations on Investment Scopes of the Proprietary Trading Business of Securities Companies and the Relevant Matters (關於證券公司自營業務投資範圍及有關事項的規定) promulgated in April 2011, PRC securities firms can invest in three categories of investment products, including (i) the securities listed on the domestic stock exchanges; (ii) the securities traded in the domestic inter-bank market (including government bonds, RMB denominated bonds issued by international development agencies, instruments of central banks, financial bonds, short-term financing bonds, corporate bonds, medium-term notes and enterprise bonds); and (iii) the securities approved by or filed with the CSRC that are issued and traded over the counters of the domestic financial institutions. In addition, the CSRC allows PRC securities firms to set up special purpose subsidiaries in the PRC for trading certain alternative financial products in addition to the above three categories with its own capital. In June 2011, we became the first PRC securities firm to apply to the CSRC for establishing a subsidiary for investments in alternative financial products. With the ability to invest in an additional array of financial products, we are well-positioned to diversify our investment product suite, such as developing our market making business and broadening future revenue streams.

### *Investment portfolio*

We invest in a diversified suite of financial products, including debt securities, equity securities, funds and derivatives for our own account. The table below sets forth our investment portfolio of financial instruments held for trading in our proprietary trading business as of the dates indicated:

	As of December 31,						As of June 30,		As of September 30,	
	2008		2009		2010		2011		2011	
	(RMB in millions)	%	(RMB in millions)	%	(RMB in millions)	%	(RMB in millions)	%	(RMB in millions)	%
Debt securities . . .	6,367.7	98.2	5,539.1	45.8	7,508.9	67.4	9,104.5	70.7	12,512.8	79.2
Equity securities . . .	1.8	–	2,038.6	16.9	2,851.4	25.6	2,979.2	23.2	2,113.7	13.4
Funds . . . . .	115.8	1.8	4,278.1	35.4	785.7	7.0	789.8	6.1	976.7	6.2
Derivatives . . . . .	–	–	230.6	1.9	–	–	–	–	184.0	1.2
<b>Total . . . . .</b>	<b>6,485.3</b>	<b>100.0%</b>	<b>12,086.4</b>	<b>100.0%</b>	<b>11,146.0</b>	<b>100.0%</b>	<b>12,873.5</b>	<b>100.0%</b>	<b>15,787.2</b>	<b>100.0%</b>

The table below sets forth our investment portfolio of available-for-sale investments in our proprietary trading business as of the dates indicated:

	As of December 31,						As of June 30,		As of September 30,	
	2008		2009		2010		2011		2011	
	(RMB in millions)	%	(RMB in millions)	%	(RMB in millions)	%	(RMB in millions)	%	(RMB in millions)	%
Debt securities . . . .	–	–	40.7	0.9	201.1	5.0	142.6	4.1	133.4	2.7
Equity securities . . .	434.1	100.0	4,256.9	99.1	3,774.2	94.8	3,338.7	95.9	4,847.1	97.3
Funds . . . . .	–	–	–	–	6.4	0.2	–	–	–	–
<b>Total . . . . .</b>	<b>434.1</b>	<b>100.0%</b>	<b>4,297.6</b>	<b>100.0%</b>	<b>3,981.7</b>	<b>100.0%</b>	<b>3,481.3</b>	<b>100.0%</b>	<b>4,980.5</b>	<b>100.0%</b>

### *Investment strategies*

For our investment in equity securities, we adhere to value-investing strategy with an aim to achieve stable returns. We make equity investment decisions based on our research, which covers macroeconomics, industry sectors and individual stocks. We have an equity securities investment product selection pool consisting of approximately 200 stocks listed on the domestic stock exchanges. Before reaching an investment decision, our investment managers select different types of stocks for investments from the selection pool based on our research, discussions with research analysts and the prevailing market conditions. After our investment decision committee approves an investment decision, our investment managers seek final authorizations from different levels of management based on the value of each investment, and subsequently place orders with our traders.

For our investments in debt securities, we adopted a stringent risk management system to keep our investment risks within a reasonable level. We strictly control our investment periods to minimize the risk of default. Currently, most of our debt securities comprise short-term and mid-term bonds which mature within five years. Based on prevailing market conditions, we actively adjust our investment strategies and asset allocation between aggressive and conservative approaches to minimize risks and capture gains. In addition, to manage our credit risks in investing in debt securities, we adopt the following measures:

- primarily purchasing investment products with high credit ratings issued by major state-owned enterprises in the PRC. We invest in long-term debt securities that are rated AA or higher, and short-term debt securities that are rated A-1 or higher in the PRC;
- diversifying our investment portfolio and closely monitoring the business operations and credit rating of the issuers of our debt securities; and
- classifying our counterparties based on their credit ratings and setting our settlement methods and trading scope accordingly.

We conduct derivative trading activities primarily through the trading of ETFs and stock index futures. Our traders and analysts select suitable derivative products for investment based on internal research and analysis and our special investment decision committee will review and finally approve such investment decisions.



## BUSINESS

### Direct Investment

#### Overview

We classify our direct investment activities into the following two categories:

- making direct equity investments in private companies and earning capital gains by exiting from these private equity investments through IPOs or share sales, or receiving dividends from these portfolio companies; and
- investing in private equity funds with our own capital.

The following table sets forth a summary of our direct investments as of September 30, 2011:

Fund Investment Company	Date (year/month) of establishment	Management company	Focused industries	Size of funds	Haitong's share of interest in the funds	Number of investment projects as of September 30, 2011	Amounts invested as of June 30, 2011 (RMB in millions) <sup>(1)</sup>	Amounts invested as of September 30, 2011 (RMB in millions) <sup>(1)</sup>
Haitong Capital Investment	2008/10	–	Renewable and clean energy, new materials, consumer goods, biomedicine, IT, communications and advanced manufacturing	RMB4,000 million	100.0%	34	1,560	1,706
Jilin Modern Agricultural and Emerging Industrial Investment Fund	2010/12	Haitong Jihe Management	Emerging industries, such as modern agriculture and biotechnology	RMB800 million	37.5%	5	20	228
Xi'an Aerospace and New Energy Industry Fund	2011/1	Haitong Chuangxin Management	Emerging industries, such as aerospace, green energy, clean technology and new materials	RMB1,000 million	37.0%	5	29	230
China-Belgium Fund	2004/11	Haitong-Fortis PE Management	All industries (excluding real estate)	EUR100 million	10.0%	33	1,250	1,250

(1) Invested amounts include re-investments after we exit our previous investment projects.

### *Haitong Capital Investment*

We were among the first PRC securities firms to engage in the direct investment business after the CSRC launched a pilot program to allow securities firms to engage in direct investment business in September 2007. We established a wholly-owned subsidiary, Haitong Capital Investment, to engage in the direct investment business after we received the approval from the CSRC in 2008. The CSRC requires PRC securities firms to conduct direct investment activities through their subsidiaries and limit the capital dedicated to their direct investment business to 15% of its Net Capital. As of the Latest Practicable Date, Haitong Capital Investment had a registered capital of RMB4.0 billion, which was the second largest direct investment subsidiary of PRC securities firms. Haitong Capital Investment mainly invests in industries with steady growth potential, which include renewable and clean energy, new materials, consumer products, biomedicine, IT, telecommunications and advanced manufacturing. According to our investment policy, Haitong Capital Investment cannot hold more than 20% equity interest in a target company. In addition, we generally invest in companies with the following characteristics; a clean corporate history, clear shareholding structure, operating in a sector with viable growth potential, being profitable, and having the potential for IPO within three years. Haitong Capital Investment generally imposes an investment period of four to six years.

Haitong Capital Investment successfully completed its first exit from a private equity investment in 2010. From its inception in 2008 through September 30, 2011, Haitong Capital Investment had invested in 34 companies with a total investment amount of approximately RMB1.7 billion, and among these companies, four have been listed in the PRC. Major awards that Haitong Capital Investment has received include:

- the “Distinguished Securities Firms for Direct Investment Business” by Securities Times in May 2011;
- the “Best Securities firm for Direct Investment Business” by 21st Century Business Herald in 2010; and
- the “Outstanding Investment Institution Award” by Shanghai Securities News in May 2010.

With the rapid development of emerging industries in the PRC, we will continue to broaden the scope of our direct investment business. In 2010, Haitong Capital Investment established Jilin Modern Agricultural and Emerging Industrial Investment Fund and Xi’an Aerospace and New Energy Resources Industry Fund. Jilin Modern Agricultural and Emerging Industrial Investment Fund is managed by Haitong Jihe Management, a subsidiary of Haitong Capital Investment, and mainly invests in emerging industries such as modern agriculture and biotechnology. As of September 30, 2011, such investment fund has invested in five projects. Xi’an Aerospace and New Energy Resources Industry Fund is managed by Haitong Chuangxin Management, a subsidiary of Haitong Capital Investment, and mainly invests in emerging industries such as aerospace, new energy, green technology and new materials. As of September 30, 2011, such industry fund has invested in five projects. Moreover, we are in the process of establishing a Shanghai Cultural Industry Fund.

### ***China-Belgium Fund***

Before the CSRC allowed PRC securities firms to conduct the direct investment business, we co-founded the China-Belgium Fund with the Ministry of Finance of the PRC, the National Council for Social Security Fund Committee, China Development Bank and Fortis Bank in November 2004 with an initial capital of EUR100 million. We have also established and owned a controlling interest in Haitong-Fortis Private Equity Fund Management to manage the China-Belgium Fund which principally invests in domestic high-tech SMEs that are at high-growth stage with a clear path to IPO, adhering to its prudent investment strategy. As of September 30, 2011, the China-Belgium Fund invested in 33 portfolio companies, 11 of which were completely or partially exited.

In July 2011, the CSRC promulgated guidelines that allow a PRC securities firm's direct investment subsidiary to raise funds through private placement and to use its proceeds, in addition to its own capital, to make direct investments. As such, we believe that there is great potential for our direct investment business in the PRC, and we will continue to expand our direct investment business under active and prudent management strategies. We believe that Haitong Capital Investment and China-Belgium Fund will continue to exit from existing direct investment projects. In addition, in order to further strengthen our direct investment business and capture market opportunities, we intend to increase the capital of Haitong Capital Investment and invest in more PRC industry funds.

### **Overseas Business**

#### ***Overview***

In addition to our PRC business operations, we are also actively developing our business overseas. In July 2007, we established Haitong International Holdings in Hong Kong. In December 2009, we acquired a controlling interest in Taifook Securities and, through acquisition, became among the first group of PRC securities firms to own a full-service overseas securities platform. Please see "History and Corporate Structure" for more information. Established in 1973 and listed on the Hong Kong Stock Exchange in August 1996, Taifook Securities was a leading local full-service securities firm in Hong Kong. In November 2010, we renamed Taifook Securities as Haitong International Securities. As of June 30, 2011, Haitong International Securities had total assets of RMB10.0 billion and was the largest listed securities firm in Hong Kong with a PRC background in terms of total assets.

Through Haitong International Securities, we provide securities and futures brokerage (including margin financing and securities lending), corporate finance and financial advisory, wealth management and other financial services overseas. As of September 30, 2011, we had 13 branches located in Hong Kong and Macau with approximately 171 account executives, two representative offices located in Beijing and Shanghai and six investment advisory centers located in Beijing, Shanghai, Guangzhou, Shenzhen, Hangzhou and Xiamen. Our high-quality service is well-recognized in the securities industry, and we have been awarded the best equity house in Hong Kong for over ten consecutive years by internationally renowned financial

media, such as by FinanceAsia, Asiamoney and Euromoney. In 1999, we obtained the ISO9002 Quality Control System Certification and were among the first group of Hong Kong securities firms to obtain such certification. We have established an outstanding track record in fund management. We were awarded by Lipper Fund Award the “Best Pension Fund Over Five Years, Equity Hong Kong” for three consecutive years from 2008 to 2010 and “Best Fund Over Three Years, Equity China” in 2011.

The number of our overseas brokerage customers increased from approximately 100,000 as of June 30, 2008 to approximately 140,000 as of September 30, 2011. Apart from retail customers, we also have a large institutional and QDII customer base, including renowned large PRC-based institutional investors, such as China Asset Management Corporation, China Southern Fund and China Merchants Fund.

For the years ended December 31, 2008, 2009 and 2010 and nine months ended September 30, 2011, revenue and other income generated from our overseas business was RMB9.8 million, RMB197.3 million, RMB905.0 million and RMB740.0 million, respectively, representing 0.1%, 1.7%, 8.0% and 9.2% of our total revenue and other income, respectively. In addition, our overseas business recorded a loss of RMB28.6 million in 2008, and our segment results from our overseas business amounted to RMB109.6 million, RMB178.8 million and RMB155.9 million for the years ended December 31, 2009 and 2010 and for the nine months ended September 30, 2011, respectively, representing 1.8%, 3.6% and 4.2% of our profit before income tax during those periods, respectively.

### ***Brokerage services***

We provide innovative and flexible securities trading and investment services to our global institutional, corporate and retail customers, such as trading of securities and derivatives, futures and options, bonds, bullion and forex, margin financing, wealth management, nominees and custodian services and research.

### ***Corporate finance and financial advisory services***

We provide corporate finance and financial advisory services to companies listed in Hong Kong, the PRC and other global exchanges, as well as private enterprises. Our services include IPO sponsorship, underwriting and pre-IPO financing, financial advisory services and compliance advisory services. During the Track Record Period and up to September 30, 2011, we sponsored eight IPOs, underwrote 51 IPOs and completed 20 private placements and rights issues, raising total proceeds of approximately HKD233.5 billion in Hong Kong.

In 1999, we became one of the first batch of GEM sponsors approved by the SFC and sponsored the first H share IPO of a PRC state-owned enterprise on GEM. Our landmark corporate finance transactions include acting as:

- the joint bookrunner and joint lead manager for the offshore RMB bonds offering of RMB1.25 billion issued by Zhongsheng Group Holdings Limited in April 2011;

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## BUSINESS

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- the joint sponsor, joint bookrunner and joint lead manager for the listing of the H shares of Goldwind Science & Technology Co., Ltd. in 2010, raising approximately HK\$8.2 billion, which was the fourth largest H share IPO in 2010; and
- the joint bookrunner and joint lead manager for the listing of the H shares of China Minsheng Banking Corp., Ltd. in 2009, raising approximately HK\$31 billion, which was the largest Hong Kong IPO in 2009.

### *Asset management and wealth management*

We provide our institutional and retail customers with a wide range of fund management services. We are also one of the service providers for the Hong Kong mandatory provident funds.

Capitalizing on the opportunities arising from the RMB appreciation and internationalization and the fast growing offshore RMB deposits, we issued the first SFC-authorized public offshore RMB fund in August 2010. We also intend to raise other types of RMB-denominated funds, such as RMB money-market funds and high-yield RMB-funds. We are well-positioned to provide RQFII-related services after the regulatory authorities approve such services.

### *Synergies*

Hong Kong is a major international financial center which connects the PRC's capital markets to the international capital markets. As such, we believe that our service platform in Hong Kong and our ability to attract international customers could enable us to capture the fast-growing cross-border opportunities for expanding our overseas business, gain brand recognition overseas and benefit from synergies between our PRC and overseas operations.

Major examples of cross-selling opportunities between Haitong International Securities and our PRC operations are as follows:

- for securities brokerage, we have introduced a number of large institutional and QDII customers to Haitong International Securities;
- for corporate finance, we have referred large PRC corporate clients to Haitong International Securities for their fund raising activities in Hong Kong. These clients include, among others, Minsheng Bank, China Pacific Insurance (Group) Co., Ltd. and Goldwind Science & Technology Co., Ltd;
- Haitong International Securities can benefit from the comprehensive coverage and in-depth understanding of the PRC economy and enterprises of our research team; and

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## BUSINESS

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- our operations in the PRC can benefit from Haitong International Securities' experience and best practices in the international capital markets to gain understanding on the development of international securities markets and new businesses.

### *Delineation of businesses*

Currently, we principally conduct all our business in Hong Kong and Macau through Haitong International Securities, which is controlled by Haitong International Holdings, one of our wholly-owned subsidiaries. Haitong International Holdings is the holding company of our operating subsidiaries in Hong Kong and Macau and does not itself conduct any other material business operations. Haitong International Securities and its subsidiaries have licenses to conduct securities-related business in Hong Kong and Macau. As of the Latest Practicable Date, apart from our operations in Hong Kong and Macau, Haitong International Securities had six investment advisory centers and two representative offices in the PRC to promote its overseas business and provide assistance to customers with respect to their investments outside the PRC.

Following the Listing, Haitong International Holdings will continue to be our overseas platform, while Haitong International Securities will continue to be our flagship company in Hong Kong and Macau through which we conduct our business in Hong Kong and Macau and cross-border business between the PRC and Hong Kong and Macau. If we decide to pursue any new business opportunities in the future, we intend to continue to follow such strategies in assigning different businesses to different members of our Group to avoid any potential conflicts of interest.

Given the cooperative nature of the business relationship and the clear delineation of business between Haitong International Securities and the rest of our Group, and as both Haitong International Securities and the rest of our Group are under the supervision of a number of regulators, we believe that minority shareholders of our Company and Haitong International Securities are adequately protected when new business opportunities arise in the future.

## RESEARCH

Our research capability is one of our core competencies and plays a key role in the development of our principal business lines. In recent years, we have increased our resource allocation to strengthen our research capability. The number of employees in our research team has increased from 80 at the beginning of 2010 to 113 as of September 30, 2011. Over 90% of our research analysts hold master's degrees and a number of our research analysts hold professional qualifications, such as CFA, FRM and CIIA. We encourage our research analysts to participate in training to enhance their professional expertise. Our research team provides research reports and regular company updates to external customers, including domestic fund management companies, insurance companies and institutional investors, which assist them in identifying and evaluating investment opportunities. In addition, our research team also provides support to our other business lines, such as our investment banking, asset management and proprietary trading businesses.

We have a broad research coverage, which includes macroeconomic analysis, investment strategies, industry sector and company research, fixed income products, derivatives, financial engineering and policy studies. Our equity research covers 28 industry sectors and over 850 listed companies in the PRC. As of September 30, 2011, the total market capitalization of the listed companies under our coverage accounted for over 68% of the aggregate market capitalization of the Shanghai Stock Exchange and the Shenzhen Stock Exchange. In May 2010, we were among the first securities firms in the PRC to obtain the qualification from the CSRC to evaluate PRC mutual funds. As of the Latest Practicable Date, there were only four securities firms in the PRC with such qualifications.

In addition to our research department, our subsidiary, Haitong Futures, also established a dedicated research team focusing on technical analysis of futures products and providing recommendations to its customers to maximize their returns while minimizing investment risks. As of September 30, 2011, our Haitong Futures research team consists of 16 research analysts, covering commodities futures, financial futures, financial engineering and investment strategies.

In addition, our Hong Kong-based research team under Haitong International Securities also provides research coverage on Hong Kong-listed companies, which serves to complement our research coverage on domestic listed companies. As of September 30, 2011, the research team of Haitong International Securities consisted of 15 research analysts, covering 13 sectors and over 130 listed companies in Hong Kong since 2008.

In recent years, we have received a number of awards in recognition of our research capabilities, including:

- No. 1 in wholesale and retail sector by New Fortune Magazine in 2008, 2009 and 2010;
- No. 2 in transportation and logistics sector by Financial Times in 2008 and 2010;
- No. 1 in power equipment sector in the Crystal Ball Award by Capital Week in 2007 and 2008;
- Five awards for outstanding analysts and research teams in our Haitong Futures research department from the Shanghai Futures Exchange in 2010; and
- No. 3 in Hang Seng Index Recommendation, No. 4 in SME Stock Recommendation and No. 7 in HSCEI Recommendation for our Haitong International Securities research department from South China Morning Post/StarMine in 2010.



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## BUSINESS

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### TREASURY MANAGEMENT

We believe the management of our liquidity and capital resources is critical to our success. Our planning and finance department actively monitors our capital structure, source of financing and liquidity, and is responsible for ensuring the liquidity and safety of our capital while improving yields on surplus cash.

We have a comprehensive budgeting system that forecasts our cash inflow, cash outflow, and cash balance and estimates our liquidity needs for business expansion and other investments. We have also established stringent treasury management measures based on our Net Capital, which require stress tests on overall liquidity and other financial indicators before we make any capital investments.

To manage our liquidity while improving yields on surplus cash, in addition to bank deposits and inter-bank borrowings, we also actively manage our liquid assets through money market and bond market operations by investing in liquid financial instruments with low risk, such as fixed income securities and financial assets held under resale agreements.

We seek to diversify our source and type of financing to meet various liquidity needs in our operations. Currently, we derive short-term financing for our PRC operations primarily from bond repurchase transactions in the interbank market or through stock exchanges.

Income from our treasury management activities is included in the revenue and other income of headquarters and others. Please see “Financial Information – Summary Segment Results” and “Appendix I – Accountants’ Report”.

### BUSINESS NETWORK

As of September 30, 2011, we had 210 brokerage branches, including 188 securities brokerage branches and 22 futures brokerage branches in the PRC, as well as 13 securities brokerage branches in Hong Kong and Macau. According to the data from the Shanghai Stock Exchange and the China Futures Association, we ranked third among all PRC securities firms in terms of branch network coverage in the PRC as of September 30, 2011.

The table below sets forth the total numbers of our securities and futures brokerage branches in the PRC as of the indicated dates.

	As of December 31,			As of
	2008	2009	2010	September 30, 2011
Securities brokerage . . . . .	122	180	183	188
Futures brokerage . . . . .	10	14	18	22
<b>Total . . . . .</b>	<b>132</b>	<b>194</b>	<b>201</b>	<b>210</b>

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## BUSINESS

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Our business network in the PRC covers 27 provinces (excluding Tibet, Qinghai, Inner Mongolia and Ningxia in the PRC) and 113 cities, as well as Hong Kong and Macau. In addition, we have ten branch offices in Beijing, Shanghai and seven other provinces and plan to establish ten additional branch offices to manage our brokerage branches locally, which could contribute to greater operating efficiency and more effective resource allocation.

In expanding our branch network, we also consider the differences in securities market developments and the regulatory requirements of different regions. Our branches are strategically located in the economically well-developed coastal regions in Eastern China and Southern China with high concentrations of affluent individuals and SME clients, such as Shanghai, Zhejiang, Shandong, Jiangsu and Guangdong. We also set up branches in less penetrated regions with high growth potential but less price competition, such as Heilongjiang, Gansu, Jiangxi and Anhui. As such, we have developed a strategically located branch network, with coverage spanning from first-tier cities to third-tier cities. As of September 30, 2011, approximately half of our securities branches were located in developed areas including the Yangtze River Delta, the Bohai Rim and the Pearl River Delta and the remaining half were located in the PRC's central, western and northeastern regions.

The following table sets forth the coverage of our securities brokerage branches in the PRC by region as of September 30, 2011:

Location	Number	Percentage
Yangtze River Delta . . . . .	54	28.7%
Central and western region . . . . .	50	26.6%
Northeastern region . . . . .	43	22.9%
Bohai Rim . . . . .	26	13.8%
Pearl River Delta . . . . .	12	6.4%
Hainan and Fujian provinces . . . . .	3	1.6%
<b>Total . . . . .</b>	<b>188</b>	<b>100.0%</b>

In terms of staff structure at the branches, each branch has its sales and marketing teams, customer service centers and back-office operations. Our sales and marketing team is typically composed of marketing managers and licensed brokers, primarily engaging in business development and product promotion. Our customer service centers engage in the provision of customer service, customer management and investment advisory services, as well as the provision of sales and trading-related services. Our back-office team provides comprehensive support to other teams, including finance, accounting and IT functional support.

We have established a top-down management structure governing our local branches based on our business management model, with the aim of forming a comprehensive local platform. We intend to extend the service we provide through our branch network from local brokerage services to one-stop customer solutions.

Our extensive network and market presence in strategic locations in the PRC has enabled us to provide regionally focused customer service and coverage. In addition, through our branch network and together with our substantial customer base, we believe we can maximize

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## BUSINESS

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cross-selling opportunities across our business segments. For example, products such as margin financing and securities lending, asset management and stock index futures may be cross-sold to retail customers, while business opportunities with investment banking and customized financial products may be developed among institutional customers.

We believe, to some extent, the extensive coverage of branches will play a more important role in the competition among securities firms, especially if current regulations set limitations to mitigate commission competition among securities firms in the PRC. In addition, given the CSRC's regulatory requirements governing the opening of securities brokerage branches, the size of branch networks of securities firms has become an important factor for gaining competitive edge. Therefore, we have been actively developing and expanding our branch network and we strive to achieve a balance between branch network expansion and profitability at individual branch. Specifically, our criteria for opening a brokerage branch in a particular location typically take into consideration the size of the local brokerage market as compared to the overall PRC brokerage market, as well as its growth potential.

We have been actively adjusting and optimizing our existing network coverage. Since 2009, we have been establishing new branches in fast-growing second and third-tier cities and relocating branches from highly competitive and concentrated regions to regions with relatively low penetration, moderate competition and high growth potential. We will continue to establish new branches in order to expand our brokerage network coverage to increase our revenue.

Development of our futures business network has always been one of our business focus. We increased our futures brokerage branches to 22 as of September 30, 2011 compared to 10 as of December 31, 2008. Our futures brokerage branches and securities brokerage branches are complementary to each other. In regions where our securities brokerage business has less customer penetration, we intend to devote more resources to develop our futures business platform in order to capture a larger market share. We intend to allocate resources towards developing our futures business network to capture a dominant market position.

## SALES AND MARKETING

Our sales and marketing team not only has extensive sales and marketing experience in the financial and securities industries, but also possesses a broad knowledge of financial products. In order to maintain our competitive advantage, we require our sales and marketing professional staff to complete rigorous training and examinations. In addition, we have implemented a competitive incentive scheme to reward sales and marketing personnel who demonstrate outstanding performance.

To support local sales and marketing teams, our branches have established service centers to handle customers' enquiries, account opening procedures and the offering of after-sales services and technical support. As of September 30, 2011, we had over 1,400 customer service staff members serving at our service centers.

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## BUSINESS

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The stability of our sales and marketing teams is crucial to the ongoing development of our new businesses and serving of our existing customers. The size of our sales and marketing team increased from 3,000 to over 6,000 from the end of 2008 to September 30, 2011, including approximately 4,600 licensed brokers who have an exclusive agent contract with us. Given their independent nature, these licensed brokers are not considered our employees. The remuneration of our brokers primarily depends on the brokerage commissions contributed by their respective clients, their compensation index and the results of our monthly broker performance appraisal. Among these factors, the compensation index depends on the rank and seniority of each broker, and the results of our monthly broker performance appraisal are based on a grading system that factors in the broker's personal performance and compliance history. We conduct monthly reviews of our brokers' compliance and have established a detailed point deduction system for any non-compliance.

The licensed brokers system was amended in accordance with Provisional Measures on Management of Securities Brokers (證券經紀人管理暫行規定) promulgated by the CSRC in March 2009 pursuant to which securities brokers are required to pass a qualifying exam, complete certain professional training and register their qualification status with the SAC. For details, please see "Regulatory Environment – Regulation on the PRC Securities Industry – Regulation on Operations – Securities – Securities brokerage." To comply with these provisions, we require our brokers to engage in securities brokerage activities only after they have passed the qualification exam, completed required professional training and registered their qualification status with the SAC. Through the implementation of these measures, the number of our licensed brokers increased significantly from 349 as of December 31, 2009 to 3,762 as of December 31, 2010 and further to 4,644 as of September 30, 2011. The table below sets forth the total number of our licensed brokers as of the dates indicated:

	As of December 31,		As of
	2009	2010	September 30, 2011
Number of licensed brokers . . . . .	349	3,762	4,644

As of September 30, 2011, we ranked first in the PRC securities industry in terms of the total number of licensed brokers we contracted with.

To maximize our sales and marketing efforts, we leverage cross-selling opportunities among our various business operations, as well as between our PRC and overseas platforms. For example, our investment banking business may refer high net worth customers and institutional clients to our securities and futures brokerage business, while our securities and futures business may refer potential institutional clients to our direct investment business. In addition, our brokerage business may also refer customers to our asset management business.

To enhance brand awareness, our sales and marketing team conducts face-to-face meetings with prospective customers, hosts public relations and investor education events and attends industry conferences. Our sales and marketing team also distributes our featured research reports and provides other value-added financial advisory services to our customers in order to enhance customers' loyalty.

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## BUSINESS

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### CUSTOMER SERVICES

We operate a customer service network that provides a full range of services through different channels, including our nationwide branch network, customer service hotline, Rainbow Treasure Club and online platform. Our customer services principally include:

- *Branches:* We offer customized services at our branches. Many of our branches in the PRC have different service zones to provide specific types of services to our customers.
- *Customer service hotline:* Our customer service hotline is a comprehensive platform that combines trading, information, consultation and marketing functions. Our customer service hotline was awarded five-star head office level accreditation under the Customer Contact Center Standard in 2009, making us the first PRC securities firm to receive such an accreditation.
- *Rainbow Treasure Club:* Our Rainbow Treasure Club is a loyalty program dedicated to our active retail customers with sizable assets. Under this program, we designate our investment advisors to provide customized and value-added services, including investment advice on securities and other financial products, to our members.
- *Online platform:* Our online platform allows our customers to execute real-time trades, record trading status and records, and check position and account information. We also offer stock quotes, financial news, global market updates and financial commentaries, as well as research reports on stocks through our online platform. In 2010, online trading accounted for more than 80% of our total securities and futures trading volume. Please see “Risk Factors – Risks Relating to Our Business and Industry – We rely heavily on IT systems to process and record our transactions and offer online products and services” for risks associated with our online platform.

In addition, we actively provide customized and value-added services to institutional clients to satisfy their demands through our nationwide branch network and comprehensive services, such as product recommendations, advice on asset allocation and distribution of featured research reports.

### INTERNAL CONTROL AND RISK MANAGEMENT

#### Governance Structure

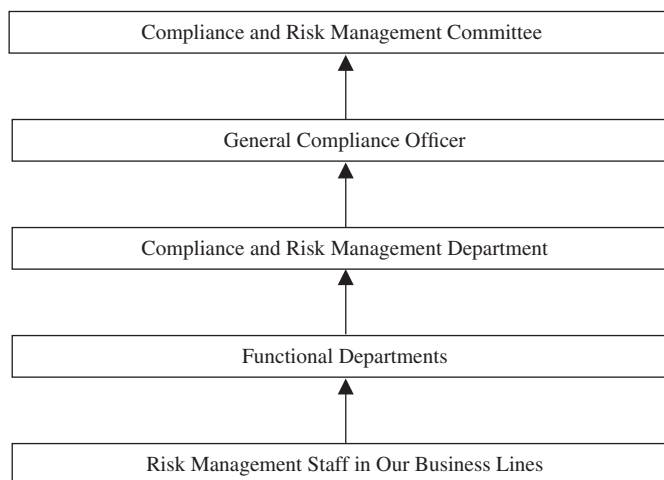
We believe effective risk management and internal controls are key to our success. We have established an effective and comprehensive risk management and internal control system to identify, evaluate and manage the risks we face in our business operations. As a result of our sound internal controls and risk management capabilities, we have received an “AA” regulatory rating from the CSRC for the past four consecutive years, the highest rating given to a PRC securities firm to date. In 2007, we were selected by the CSRC as one of the first six PRC securities firms to participate in the pilot compliance management program.

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## BUSINESS

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We have established a five-level risk management and internal control governance structure, which includes: (i) the Compliance and Risk Management Committee; (ii) the General Compliance Officer; (iii) the Compliance and Risk Management Department; (iv) the functional departments; and (v) the risk management staff in our business lines. The following chart sets forth a brief overview of our five-level governance structure:



### Compliance and Risk Management Committee

The Compliance and Risk Management Committee is the highest level of our risk management and internal control structure. Organized under our Board, the Compliance and Risk Management Committee is a special committee that is designed to assist our Board in overseeing our compliance measures with respect to compliance with the laws and regulations applicable to our business operations. The Compliance and Risk Management Committee is mainly responsible for:

- overseeing our general risk management and internal control systems;
- reviewing and modifying our internal control policies; and
- ensuring all risks associated with our business activities are identified and controlled.

As of September 30, 2011, the Compliance and Risk Management Committee consisted of five members of our Board, including Mr. Li Mingshan, Mr. Zhou Donghui, Mr. Feng Huang, Mr. Zhang Huiquan and Mr. Dai Genyou. They have long-term professional experience in the PRC securities, financial management, investment and/or legal industries. For more details about their background, please see “Directors, Supervisors and Senior Management.”

### ***General Compliance Officer***

The General Compliance Officer appointed by our Board is independent from our management and reports directly to our Board and other PRC regulatory authorities. Our General Compliance Officer serves as the counsel to the Compliance and Risk Management Committee and advises our Board and the Compliance and Risk Management Committee on a regular basis of the following major areas:

- implementing our risk management and internal control policies;
- overseeing and identifying risks management issues in our material corporate decisions and business activities;
- conducting independent investigations into potential non-compliance incidents; and
- engaging external counsels or third parties, at its discretion, to conduct independent assessments of major corporate activities, such as mergers and acquisitions.

Our General Compliance Officer, Mr. Wang Jianye, who is also our Chief Risk Control Executive, has over 25 years of working experience in the PRC banking and securities industries, including 15 years of management experience. For more details about Mr. Wang's background, please see "Directors, Supervisors and Senior Management."

### ***Compliance and Risk Management Department***

The Compliance and Risk Management Department reports directly to our Board and our General Compliance Officer on a regular basis and plays a critical role in implementing our internal control policies because this department assists our General Compliance Officer in:

- designing our internal compliance protocols relating to our business, employees and subsidiaries;
- preparing our internal control reports, manuals and training materials;
- monitoring our compliance risks;
- evaluating whether each of our business operations, branch offices and subsidiaries adhere to our internal control policies; and
- implementing Chinese wall policies and managing our anti-money laundering and foreign exchange risks.



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## BUSINESS

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As of September 30, 2011, our Compliance and Risk Management Department consisted of 41 professional staff, among which approximately 20 had over five years of professional risk management experience. Our Compliance and Risk Management Department currently has eight different operating units, including (i) compliance monitoring unit; (ii) trading risk management unit; (iii) operation risk management unit; (iv) investment banking risk management unit; (v) compliance and review unit; (vi) inspection and audit unit; (vii) legal and litigation unit; and (viii) regulatory liaison unit. In addition to our risk management staff at our head office, we also recruit additional staff at our branch offices, brokerage branches and subsidiaries to assist us in monitoring and managing our risk management and internal control systems on-site.

### ***Functional Departments***

Our functional departments primarily include our brokerage operation center, finance and planning department and IT department. Our functional departments cooperate with the Compliance and Risk Management Department to manage our risk exposure arising from the securities trading, capital deployment and asset allocation, financial, accounting and IT systems, as well as to implement department-specific risk management procedures.

As of September 30, 2011, our functional departments consisted of 131 professional staff, among which approximately 110 had over five years of working experience in the industry.

### ***Risk Management Staff in Our Business Lines***

We have risk management staff in our principal business lines to monitor and manage risks specific to our business activities and these staff work closely with our Compliance and Risk Management Department.

As of September 30, 2011, we had 207 risk management staff, among which approximately 160 had over five years of working experience in the industry.

### **Risk Management and Internal Control Policies and Procedures**

We have implemented a series of risk management and internal control procedures to manage risks that are specific to our business activities.

### ***Brokerage Business***

To ensure our brokerage business and branch network's compliance with the applicable laws and regulations and standardize our brokerage business practice, we have established comprehensive internal rules and guidelines for our brokerage business. We manage our brokerage branch network based on a three-level governance structure: (i) head office; (ii) branch offices; and (iii) brokerage branches.

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## BUSINESS

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We manage our risks associated with our brokerage business through the following major risk management measures:

**Account opening procedures**

Our account opening procedures are designed to ensure that our customers' account opening information is accurate, sufficient and in compliance with the applicable PRC regulations and our internal control policies. For example, our account executives are required to obtain the original IDs of our brokerage customers before opening accounts for them.

**Customer risk profiling**

To assess our customers' risk tolerance on a particular type of financial product, we evaluate our customers' risk profiles based on a combination of factors, such as financial strength, knowledge of financial products and investment experience, as well as educational background.

**Segregation of customer deposits**

According to the relevant laws and regulations that govern cash held on behalf of customers, we require our brokerage branches to maintain trust accounts with qualified commercial banks and authorized financial institutions to hold customer deposits. We also require our sales and marketing personnel not to manage customer accounts or handle customer deposits to minimize the occurrence of improper trading.

**Real-time monitoring system**

Through our IT system, we are able to monitor our customers' transactions on a real-time basis and detect unusual transactions and irregular trading patterns.

**Centralized brokerage trading**

To prevent our customers' funds from misappropriation, we have established and implemented standardized procedures for brokerage deposit, account management, contract execution, fund transfers, liquidation and transfer of customers' assets. Our brokerage operation center conducts account liquidation, registration, deposit and settlement of our customers' securities and funds on a centralized and independent basis.

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## BUSINESS

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### **Segregation of front and back offices**

We also have segregated supervision and management of our branch network's front and back offices. We have a dedicated internal control team to manage access controls and segregation of duties among our employees. We require our back office's operational and risk management personnel not to participate in sales and marketing activities, manage customer accounts or handle customer deposits.

### **Regular and special audit**

Our internal audit department and the Compliance and Risk Management Department schedule regular and special audits on our brokerage business department and branch network with respect to their internal controls, ordinary business operations, financial and accounting management and operational performance.

In response to the increasing risks associated with the margin financing and securities lending business, we:

- have established a monitoring system based on Net Capital requirements to strictly control the scale of our margin financing and securities lending business and to prevent concentration of business on a single customer or single kind of stock;
- perform credit check on each margin financing and securities lending customer, assign different credit rating to different customers based on standardized customer selections and rating systems and grant credit to customers based on decisions made by our margin financing and securities lending credit granting management committee;
- determine different financing limits for different customers and set warning notices, margin calls notices and closing notices to ensure that we hold an adequate amount of collateral against each customer; and
- use a mark-to-market system to monitor customer transactions on a real-time basis which issue margin call notices and closing notices, or impose compulsory liquidation if our customers fail to cover shortfalls on collaterals or repay the financing granted after we issue warning notices.

We also have stringent internal control measures that monitor and control the size of our margin financing and securities lending business. We generally perform the following steps to determine and control the size of our margin financing and securities lending business:

- conducting surveys on customers demands and the value of their applicable assets in accounts with us in order to estimate the potential size of our margin financing and securities lending business;

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## BUSINESS

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- conducting stress tests to assess whether our proposed business size would comply with the applicable PRC regulatory requirements, especially Net Capital requirements;
- determining the size and required funding for our margin finance and securities lending business;
- submitting the proposed size of our business to our Board for approval; and
- monitoring and controlling the size of our margin financing and securities lending business based on our margin loan balance and the value of securities we lend on a daily basis.

We also have pre-determined parameters in our operating systems when conducting margin financing and securities lending business to ensure compliance with the PRC regulations: (i) the business scale of margin financing business for a single customer should not exceed 5% of our Net Capital; (ii) the business scale of securities lending business for a single customer should not exceed 5% of our Net Capital; and (iii) the market value we hold for a single kind of securities should not exceed 20% of its total market value.

### ***Investment Banking Business***

We control and manage our risk exposures associated with the investment banking business through the Internal Review Group, the Quality Control Group and the Compliance and Risk Management Department, which are generally involved in project approval, on-site due diligence, documents review, internal review meetings and continuous supervision.

#### **Project approval**

An internal committee of our investment banking business holds meetings to discuss whether to proceed with an underwriting mandate based on its independent business judgment and submits its recommendation to our Internal Review Group for further action.

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## BUSINESS

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### **On-site due diligence**

Our Quality Control Group, together with our Compliance and Risk Management Department, conducts on-site reviews in connection with each transaction, which primarily includes the following procedures:

- reviewing due diligence documents and gathering and analysing data;
- visiting manufacturing facilities and office buildings; and
- attending meetings and interviews with issuer's management and employees, customers and suppliers.

### **Documents review**

Our Compliance and Risk Management Department conducts preliminary reviews of the major transaction documents. Our Internal Review Group then conducts a thorough review of the issuer's corporate, legal and financial matters to ensure that these transaction documents are accurate and complete without any material misstatements or omissions and comply with the relevant listing requirements. After receiving the review opinion, we require our investment banking team in charge of the particular transaction to examine and address any queries or recommendations raised by our Compliance and Risk Management Department and Internal Review Group.

### **Internal review meeting**

Our Internal Review Groups holds meetings to give opinions and decide whether to approve an underwriting transaction based on their professional independent business judgment.

Two of our sponsor representatives in charge of the transaction will sign the transaction mandate to bear personal responsibility for our role as sponsor.

**Continuous supervision**

Based on the PRC regulations on the continuous supervision of listed companies, we are responsible for overseeing our listed clients' compliance with the CSRC's requirements, internal controls, corporate governance, disclosure matters and other obligations during a post-listing continuous supervision period. We have established detailed internal guidelines on the continuous supervision of our listed investment banking clients. To ensure strict compliance with the applicable PRC regulations and our internal guidelines, we prepared various documentation templates to standardize our supervision practices. If any particular issue is identified during the continuous supervision period, our internal control teams will submit a report to our investment banking department for further action.

***Asset Management Business***

Our Compliance and Risk Management Department monitors and evaluates our exposure to potential market risks, operational risks, credit risks and regulatory risks arising from our asset management business. It cooperates with our risk management staff working for our asset management business to monitor market risks, operational risks, credit risks and regulatory risks to ensure our effective implementation of our entrusted responsibilities, the accuracy of our disclosure of risk-related information, prudence to develop our business and the protection of our legal interests and the rights of our investors.

The primary internal control and risk management measures of our asset management business include:

- maintaining segregated asset management accounts at qualified commercial banks and authorized financial institutions to hold customer funds;
- monitoring our daily asset management activities to ensure that the investment strategy and scope, asset allocation, selection of asset class and concentration level of each asset management product matches its product descriptions and disclosure in marketing materials;
- maintaining a carefully selected "securities pool" for our investments based on research recommendations; and
- scheduling a quarterly on-site review of our overall asset management activities and engaging independent accountants to perform special audits.

In addition, we manage the risks associated with our asset management business by the following three steps:

**Risk control indicators  
formulation**

Our asset management department formulates compliance indices to each product in accordance with the contracts entered into with our clients and relevant laws and regulations and implements measures to prevent losses in the process of making investments.

**Risk control indicators  
monitoring**

Our risk management staff set thresholds for the compliance indicators in the investment and trading risk management system. We rely on technical methods to set such thresholds in our system. Our risk management staff monitors our compliance indicators on a real-time basis to ensure that non-compliance incidents are discovered in time.

**Risk control indicators  
evaluation**

Our risk management staff within our asset management business and our Compliance and Risk Management Department are responsible for reporting circumstances where the value of relevant indicators exceed their respective predetermined thresholds and monitoring the adjustments conducted by our investment managers.

At the subsidiary level, we have appointed directors, supervisors and senior management to supervise and monitor the risk management and internal control measures of our asset management subsidiaries. We require our asset management subsidiaries to establish their own risk management and internal control systems based on applicable PRC regulations and our internal policies. We oversee and monitor these subsidiaries' implementation of our internal policies and review the effectiveness of their risk management and internal control systems on a regular basis. We also have a reporting system which requires the compliance officer of each subsidiary to report its overall risk management and internal controls to us at least twice a year and to timely notify us of any material risk management issues.



### *Proprietary Trading Business*

We have established a four-level risk management governance structure to manage the risks associated with our proprietary trading business, which includes: the Board of Directors, the investment decision committee, the Compliance and Risk Management Department and the proprietary trading department.

#### **The Board of Directors**

Our Board determines the size of our proprietary trading activities based on the PRC regulatory requirements such as Net Capital requirements, and the size of our assets, liabilities, income, capital adequacy as well as our business strategy.

Any subsequent increase to the size of our proprietary trading activities must be approved by our Board.

#### **Investment decision committee**

Our investment decision committee:

- determines our business strategy with respect to proprietary trading activities, adjusts our decision-making procedures and risk management system;
- determines the size and allocation of our investments in different asset classes or underlying industries; and
- researches on major factors affecting our proprietary trading business, including but not limited to, adverse changes to the securities markets and our response.

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## BUSINESS

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### **Compliance and Risk Management Department**

Our Compliance and Risk Management Department:

- collects trading position data through trading and settlement systems;
- uses a market risk monitoring system based on risk control indicators, such as VaR, basis point value and portfolio beta;
- monitors the size of our proprietary trading activities and our risk exposures and ensures that they are within the limits prescribed by our Board;
- implements a “stop-loss” policy and monitors our investment portfolio on a daily basis to limit our potential loss, especially with respect to high-risk financial products, such as stock index futures; and
- monitors and evaluates our hedging activities to ensure our risk exposure and losses do not exceed the predetermined limits.

### **Proprietary trading department**

Our proprietary trading department:

- manages and adjusts our risk exposure range within its authorized limits;
- closes out a position when the losses incurred exceeds the predetermined maximum loss limit;
- establishes the counterparty credit approval policy and adopts different settlement methods with counterparties with different credit rating to manage counterparty risk; and
- develops investment restrictions based on the rating of credit products.

In addition, our internal audit department and the Compliance and Risk Management Department schedule quarterly on-site reviews and special audits on our overall proprietary trading business with respect to its internal controls, ordinary business operations, financial and accounting management and the operational performance of our proprietary trading business.

### ***Direct Investment Business***

We engage our direct investment business primarily through Haitong Capital Investment, which has established its own investment decision committee to review and approve its investment decisions. We have appointed several directors, supervisors and senior management of Haitong Capital Investment to supervise and monitor its risk management and internal control systems. We oversee and monitor Haitong Capital Investment's implementation of our internal policies and review the effectiveness of its risk management and internal control systems on a regular basis. We also have a reporting system which requires Haitong Capital Investment to report its overall risk management and internal controls to us at least twice a year and to notify us on a timely basis of any material risk management issues.

Haitong Capital Investment has established stringent risk management and internal control systems based on applicable PRC regulations and our general internal policies, covering investment target selection, negotiation, due diligence review, investment strategy, contract execution, post-investment management and project exits. For example, Haitong Capital Investment requires its internal audit managers and compliance officers to participate in all project approval meetings and financial due diligence interviews as well as to attend the target company's board and shareholder meetings in order to closely monitor the target's business operations.

The investment decision committee of Haitong Capital Investment manages our risks associated with direct investment activities by keeping the size of our investments within the limits authorized by our Board. The investment decision committee is responsible for reviewing investment plans and strategies relating to medium and long-term investments and approving decisions for investments valued less than RMB80 million. For any investment valued over RMB80 million, the investment decision committee recommends such investments to our Board for approval.

The investment decision committee consists of Haitong Capital Investment's chairman of the board, Ms. Zhang Saimei, general manager, Mr. Zhang Xiangyang, and chief investment officer, Ms. Xiong Xumin, all of whom have over ten years of experience in the PRC securities industry. Among them, the chairman is qualified as a senior economist and served as the general manager of our derivative products department, strategies department and investment banking department; the general manager served as the general manager of our Compliance and Risk Management Department; and the chief investment officer is qualified as a sponsor representative and served in our derivative products department and investment banking department.

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## BUSINESS

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### *Overseas business*

Currently, we principally conduct our businesses in Hong Kong and Macau through Haitong International Securities. The board of directors of Haitong International Securities has the ultimate responsibility for Haitong International Securities' internal controls and, through the audit committee, the board of directors of Haitong International Securities is responsible for reviewing the effectiveness of its internal control systems.

The audit committee currently comprises three independent non-executive directors of Haitong International Securities, namely Mr. Man Mo Leung (Chairman of the committee), Mr. Tsui Hing Chuen, William and Mr. Lau Wai Piu, Bill and one non-executive director, Mr. Ji Yuguang. The chairman of the audit committee has appropriate professional qualifications and experience in financial matters. The audit committee meets not less than twice a year to review the following:

- business affairs managed by the executive directors, particularly in relation to connected transactions and continuing connected transactions, if any;
- the interim and annual financial statements before their submission to the board of directors and the annual general meeting for approval; and
- the effectiveness of the internal control and risk management system.

In addition to the audit committee, Haitong International Securities also has an independent internal audit team which plays a major role in monitoring the corporate governance of Haitong International Securities and providing objective assurance to the board of directors of Haitong International Securities that sound internal control systems are maintained and operated by management. The head of the internal audit team directly reports to the board of directors of Haitong International Securities and the audit committee on audit matters.

Haitong International Securities adopts a risk-based approach to evaluate risk levels in controlled environment and maintains up-to-date operation manuals with ISO certification. Haitong International Securities also adopts specific risk management policies and monitoring systems to manage its risk exposure associated with credit, liquidity, market and IT in its business operations:

**Credit risk**

Members of the credit committee currently comprise some of the executive directors and senior executives of Haitong International Securities and its subsidiaries. The main responsibility of this committee is to formulate credit policies and to manage the asset quality of Haitong International Securities and its subsidiaries.

The credit control department is responsible for monitoring and making margin calls to customers whose trades exceed their respective limits. Any such excess is required to be covered within two days for securities and the next day for futures from the date of the deficiency report. The deficiency report is monitored daily by Haitong International Securities' finance director and responsible officers.

**Liquidity risk**

Haitong International Securities' operating units are subject to various statutory liquidity requirements as prescribed by the relevant regulatory authorities in Hong Kong. Haitong International Securities has established a monitoring system to ensure that it maintains adequate liquidity to fund its business commitments and to comply with the relevant rules and regulations. Haitong International Securities also maintains long-term and other stand-by banking facilities with banks to meet any contingencies in its operations.

**Market risk**

Haitong International Securities has adopted detailed investment policies to limit its proprietary trading, exposed underwriting commitments and position exposures.

**IT risk**

Haitong International Securities is able to effectively monitor the availability and performance of various IT systems. A vigilant team acts and reports to the senior management in the event of disruption or other crisis that affect its IT systems.

### **Chinese walls**

As a securities firm with a diversified range of businesses, we inevitably face situations where two or more interests are conflicting in nature. We recognize the importance of managing such conflicts of interests in order to protect the interests of our customers and staff. Therefore, we have established Chinese walls in different business lines to prevent and minimize potential conflicts of interest by controlling the flow of material non-public information, hence ensuring compliance with relevant rules and regulations.

A Chinese wall is a barrier to ensure that material non-public information regarding listed companies, which is obtained by one division of our business, is not released to our other divisions. A Chinese wall aims to isolate those persons who make investment decisions from those who are privy to material non-public information which may influence those decisions.

We have developed and implemented reasonable policies and procedures to safeguard insider information and to prevent improper trading activities. To enforce the Chinese wall policy, we have established physical segregation and password-protected access between departments and operational units, including the following:

- Brokerage;
- Investment banking;
- Asset management;
- Proprietary trading;
- Equity research; and
- Legal and compliance.

Our staff engaged in a particular operational activity should not enter the premises or office area used to undertake any other operational activities on the other side of a Chinese wall without prior permission from our senior management.

### **Segregation of Duties**

To minimize the opportunity for collusion and the occurrence of improper trading, duties and functions within each of our business operations are assigned to and discharged by different teams of employees. The following is an overview of the allocation of duties within our brokerage division, our largest business line:

- Customer service: We employ a team of customer service personnel responsible for handling account opening applications and customer enquiries. Policies governing the opening of customer trading accounts are governed by our internal guidelines;

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## BUSINESS

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- Taking trade orders: PRC brokerage customers can place orders by phone, internet and counter trading systems;
- Dealing and broking in securities: Dealing orders placed by brokerage customers are processed via a direct dealing system, which interfaces with stock exchanges' trading system. Hong Kong brokerage customers may also issue deal orders to be processed by our licensed account executives through our trading system;
- Account management: Printing and mailing of customer statements are handled by staff members of the settlement department. Customers can also obtain a summary of orders via the Internet. Normally we will mail a summary of orders to our customers on a regular basis (monthly or yearly). The process is computerized to minimize time and costs and to maintain customer confidentiality;
- Custody of customer assets: We ensure that our customers' assets are adequately safeguarded and properly accounted for. We have established procedural guidelines in accordance with relevant PRC regulations. For example, PRC customers' money must be deposited into trust accounts at an authorized financial institution after our receipt of such monies and no account executive is allowed to handle customer fund deposits or transfers;
- Customer complaints: Complaints from customers are reported to and handled by our General Compliance Officer and our legal and compliance department. According to our internal policy, no staff should handle customer complaints without first notifying our General Compliance Officer. Upon receipt of a complaint, the legal and compliance team would gather information and conduct independent investigations. Investigation reports are promptly presented to our Board of Directors for consideration; and
- Our General Compliance Officer would ultimately revert to the customer with investigation results and takes remedial measures as directed by our Board of Directors.

### **Conflicts of Interest**

Conflicts of interest arise in situations where two or more interests within our business legitimately exist but which are in competition or conflict. Conflict may arise between (i) interests of our different operating units; (ii) our interests and those of our customers; (iii) interests of different customers; (iv) our interests and the interests of our staff's personal activities; or (v) interests of our staff's personal activities and those of our customers.



Our employees' personal activities include any personal trading, outside directorships and businesses. The Securities Law promulgates that PRC securities professionals are prohibited from engaging in personal stock transactions. Our internal policies require that there is an adequate level of awareness by our staff of the issues relating to conflicts of interests and that our staff understand the basic principles relating to customer priority, insider dealing, confidentiality, staff dealing and Chinese walls. In addition, policies also emphasize avoidance or minimization of conflicts of interests. Under these policies, where a conflict cannot be reasonably avoided, staff must ensure that the conflict is properly disclosed to relevant parties and that approval is sought from management before any action can be taken. Under all circumstances, staff must ensure customers are fairly treated and the interests of staff should be subordinated to those of our customers where any conflict arises between our staff and customers.

### **Anti-Money Laundering**

We are fully committed to establishing and enforcing appropriate policies and procedures to prevent money laundering and terrorist financing and are compliant with all relevant legal and regulatory requirements. Money laundering covers a wide range of activities intended to mask or alter the source of illegally obtained money. Our staff are required to comply with PRC laws and regulations. When new customers apply to open trading accounts, our staff must manually check their identities and backgrounds. Staff members who know, suspect or have reasonable grounds to believe that a customer might have engaged in money laundering activities must immediately report the details to the General Compliance Officer and our Compliance and Risk Management Department.

In addition, we have established a risk-based approach in our customer acceptance policy which aims to identify those types of customers that are likely to pose a higher than average risk of money laundering and terrorist financing. Such approach is based on a customer due diligence process, which takes into account factors such as the customer's background, nature of its business, its origin or residence, associated persons or entities, structure of ownership and any other information that may suggest that the customer is of any risk in respect of money laundering and terrorist financing.

We have never engaged in or knowingly assisted any money laundering activities. For risks associated with money laundering activities, please see "Risk Factors – Risks Relating to Our Business and Industry – We may not be able to fully detect money laundering and other illegal or improper activities in our business operations on a timely basis."

### **Risk Management**

We have historically been focused on risk prevention and control in line with our prudent and conservative investment policies. We have developed dedicated systems for our securities brokerage, investment banking, asset management and proprietary trading businesses. We have also built sophisticated risk monitoring systems for developing new businesses.

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## BUSINESS

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Principal types of risks inherent to our business include market risk, credit risk, liquidity risk and operational risk. Market risk includes the risk of price volatility, foreign exchange risk and interest rate risk, and is associated with the possibility of loss or reduction in income due to partial or overall changes in the securities market. Credit risk occurs when a borrower or financing counterparty fails to perform its duties. Liquidity risk relates to whether our assets in the foreseeable future could repay debt without any loss of value. Operational risk includes risks involving errors, omissions, imperfect internal processes, incomplete information systems and transaction failure and fraud, all of which can occur in our businesses.

In accordance with the five-level internal control and risk management structure set forth above, the Compliance and Risk Management Committee, our General Compliance Officer and our Compliance and Risk Management Department work together in managing and monitoring these exposures to ensure appropriate measures are implemented in a timely and efficient manner.

### LEGAL AND REGULATORY

#### Licensing requirements

We conduct our securities business mainly in the PRC and Hong Kong and are, therefore, subject to restrictions of the regulatory requirements of the PRC and Hong Kong. Our Directors and PRC legal advisors, Grandall Law Firm (Shanghai), confirmed that, during the Track Record Period and up to the Latest Practicable Date, we have complied with the relevant PRC regulatory requirements and guidelines in all material respects and obtained all the important consents and licences necessary for our operations in accordance with the PRC laws and regulations. To the best knowledge of our Directors after due inquiry, our Directors confirm that as of the Latest Practicable Date all of our employees and brokers have obtained the relevant licenses as required for their business activities. Since our A Share offering in July 2007 and up to the Latest Practicable Date, neither our Company nor any of our Directors have been subject to auditing or administrative penalty by the CSRC, or been criticized or publicly reprimanded by the Shanghai Stock Exchange for violations of any listing rules or other relevant applicable rules.

Due to the licensing regimes of the SFC, some of our Hong Kong subsidiaries must obtain necessary licenses to conduct their businesses in Hong Kong. Such subsidiaries have obtained the relevant licenses and have been in compliance with the relevant regulatory requirements.

## BUSINESS

The following table sets forth a summary of the relevant licenses currently held by our licensed subsidiaries in Hong Kong:

Name of the licensed subsidiaries	Type 1 Dealing in securities	Type 2 Dealing in futures contracts	Type 3 Leveraged foreign exchange trading	Type 4 Advising on securities	Type 5 Advising on futures contracts	Type 6 Advising on corporate finance	Type 9 Asset management
HFT Investment Management (HK) Limited				✓			✓
Hai Tong Asset Management (HK) Limited				✓	✓		✓
Hai Tong Capital (HK) Limited						✓	
Haitong International Asset Management Limited				✓	✓		✓
Haitong International Capital Limited						✓	
Haitong International Consultants Limited	✓			✓			✓
Haitong International Futures Limited		✓			✓		
Haitong International Investment Managers Limited	✓			✓			✓
Haitong International Investment Services Limited	✓						
Haitong International Research Limited				✓			
Haitong International Securities Company Limited	✓		✓	✓			

Our Directors confirmed that, during the Track Record Period and up to the Latest Practicable Date, we had complied with the relevant Hong Kong regulatory requirements and guidelines in all material respects and obtained the permits and licenses necessary for our operations in accordance with Hong Kong's laws and regulations.

### Legal proceedings

We are a party to a number of legal proceedings arising in the ordinary course of our business. As of the Latest Practical Date, we had four interrelated pending legal proceedings, each with a potential claim amount of RMB5 million or above, and as far as our Directors are aware, the potential maximum claim amount of these four interrelated proceedings was approximately RMB26.8 million (excluding interest) in the aggregate. We summarize these four interrelated pending proceedings below:

Our former branch office in Hubei Province and our Zhongbei Road and Jiangda Road brokerage branches were defendants in four interrelated legal proceedings in connection with tort claims arising from a stock trading dispute with an aggregate claim amount of approximately RMB53.1 million (excluding interest). In March 2009, the Higher People's Court of Hubei delivered a final judgment in favor of the plaintiffs and ordered us to pay approximately RMB26.3 million (excluding interest) to the plaintiffs. We have fulfilled the court judgment and reflected the claim expenses in our financial statements accordingly.

Recently, the PRC Supreme People's Court received a formal protest filed by the PRC Supreme People's Procuratorate against the final judgment delivered by the Higher People's Court of Hubei in connection with these four interrelated proceedings, citing erroneous application of the law. After reviewing the merits of the protest, the PRC Supreme People's Court issued a summons in November 2011 to the original defendants requiring them to appear in the PRC Supreme People's Court. In the event the PRC Supreme People's Court issues an adverse judgment against us, we may face an aggregate maximum claim amount of approximately RMB26.8 million (excluding interest).

As of the Latest Practicable Date, the aggregate outstanding claim or judgement amount of our pending legal proceedings (including the four material pending proceedings discussed above and other immaterial proceedings) amounted to approximately RMB35.0 million, which is less than 1% of the profit attributable to the owners of the Company for the year ended December 31, 2010. Our Directors and PRC legal advisers confirmed that, as of the Latest Practical Date, none of the legal proceedings to which we were a party, individually or in the aggregate, would have a material effect on our business, financial condition or results of operations.

### **Regulatory non-compliances**

We are subject to a number of regulatory requirements and guidelines issued by the regulatory authorities in the PRC, Hong Kong and Macau (including but not limited to the CSRC, the Shanghai Stock Exchange, the Hong Kong Stock Exchange, the SFC and their respective local branches and offices (if applicable)).

We or our employees have, from time to time, been involved in incidents of regulatory non-compliance and received related notices or warnings from the relevant regulatory authorities. Based on the nature of the cases, we classify the incidents of regulatory non-compliance committed by us and our employees into the following three categories: (i) non-compliance incidents that led to administrative penalties; (ii) non-compliance incidents that led to regulatory measures and the deduction of regulatory points; and (iii) employee non-compliance incidents.

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

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## BUSINESS

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### *Non-compliance incident that led to administrative penalties*

We set out below the details of our non-compliance incident that led to the administrative penalties during the Track Record Period and up to the Latest Practicable Date and the primary remedial measures we adopted:

<b>Non-compliance incident</b>	<b>Brief explanation and our primary remedial measures</b>
<p>In December 2008, the PBOC Taiyuan Branch imposed an administrative penalty on our Xinjianlu Branch in Taiyuan, Shanxi for its failure to obtain customer identity information (such as occupation) in relation to agency agreements entered into for our securities brokerage business. This failure required prompt remediation and payment of a fine of RMB50,000. Two responsible officers were also fined a total of RMB8,000.</p>	<p>After our investigation, we found that this incident was caused by the introduction of a new PBOC regulation that became effective in 2007 and required the collection of customer identification information in account opening procedures which was not otherwise required by the SAC prior to 2007. We promptly revised our account opening procedures and handled our customer account opening in accordance with this new regulation after 2007. For our customers who opened their brokerage accounts before the new regulation, we attempted to collect all their missing identification information. However, due to our failure to reach some of our existing customers, or the inability of them to provide necessary information in a timely manner, some customers' identification information was still missing by the time the regulator conducted its regulatory investigation on us.</p> <p>Immediately after the incident, we reviewed our account opening policies to ensure they are fully compliant with the PBOC requirements. We have also adopted the following remedial measures: (i) proactively contacted our customers to obtain missing information through various channels, including mailing notices and publishing notices in the local newspapers; and (ii) suspended all fund transfers from customers' securities accounts to bank accounts if we found that the account holder's ID card recorded in our system had expired for more than three months.</p> <p>We did not receive any follow-up comments from the regulator in connection with this incident. As of the Latest Practicable Date, we have collected the identification information from substantially all of our retail brokerage customers and are currently chasing the missing information from the remaining customers.</p>

Our PRC advisors confirmed that, apart from the non-compliance incident disclosed above, there were no other regulatory non-compliance incidents that led to monetary fines or administrative penalties during the Track Record Period and up to the Latest Practicable Date.

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## BUSINESS

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### *Non-compliance incidents that led to regulatory measures and the deduction of regulatory points*

We set out below the details of our non-compliance incidents that led to regulatory measures and the deduction of regulatory points imposed by the CSRC during the Track Record Period and up to the Latest Practicable Date and the primary remedial measures we adopted in response to these incidents:

<b>Non-compliance incidents</b>	<b>Brief explanation and our primary remedial measures</b>
<p>In March 2006, our Youhaobei Road Branch in Urumqi opened a sub-branch to conduct securities brokerage business in Karamay City, Xinjiang prior to receiving authorization from the CSRC. We received a warning letter from the Xinjiang Securities Regulatory Bureau in 2008 in relation to our unauthorized branch-opening incident in 2006.</p>	<p>We closed this unauthorized sub-branch when the PRC securities market was at the early stage of comprehensive regulation and supervision and the CSRC required unauthorized securities brokerage branches of all PRC securities firms to be closed. In addition, we made proper arrangements with our customers affected by the closure of this sub-branch.</p> <p>We reviewed our internal control procedures on branch opening and strengthened our internal measures for the administration of brokerage branches in September 2006 and 2009. Our revised measures require, among other things, our internal committee to conduct a more comprehensive approval process and review all necessary approvals and permits before we open a brokerage branch to ensure our compliance with the relevant regulations in the PRC.</p> <p>Since this incident, we have found no occurrence of similar incidents nor have we received any similar warning letter from the regulators. According to our PRC legal advisors, all the securities brokerage branches we opened have received the relevant approvals and permits as of the Latest Practicable Date.</p>

**Non-compliance incidents**

In December 2008, the Zhejiang Securities Regulatory Bureau found our Baiguan Branch in Shangyu to have violated the applicable CSRC rules by (i) having opened brokerage accounts without funds or securities; (ii) acquiring customers from third-party agents and sharing commission received with those institutions; and (iii) recruiting over 20 college students without appropriate qualifications to engage in sales.

**Brief explanation and our primary remedial measures**

After we were notified by the regulator about this incident, we reviewed our existing internal control procedures that are designed to (i) prevent our brokerage branches from outsourcing their customer acquisition function to third-party agents; and (ii) require regular reviews of brokerage accounts and timely liquidation. Also, we have existing internal policies regulating the qualifications of our sales personnel. We have found these internal control procedures to be adequate. After our internal investigation, we concluded that this incident was caused by this brokerage branch's negligence in breaching our internal policies.

In addition, as part of our on-going compliance practice, we also regularly publicize the qualification of our securities brokers online to increase transparency and promote public awareness of our qualified sales personnel and require our securities brokers to attend 60 hours of training before they join our sales team.

We adopted the following remedial measures immediately after this incident: (i) terminated our relationship with our third-party sourcing agents; (ii) dismissed unqualified sales personnel and only allowed our head office to select and approve internships for sales personnel; (iii) designated a special team to continuously monitor and liquidate dormant brokerage accounts without funds or securities; (iv) improved our compliance review system for our brokerage branches; and (v) degraded the internal rating of Baiguan Branch and publicized this decision among our Group according to our disciplinary policy.

We also submitted a report to the Zhejiang Securities Regulatory Bureau to explain those remedial measures we adopted.

**Non-compliance incidents**

In December 2009, our Youhaobei Road Branch in Urumqi received a warning letter from the Xinjiang Securities Regulatory Bureau in connection with the content in its fund marketing advertisement published in local newspapers, which was found to be non-compliant with relevant fund marketing regulations in the PRC.

**Brief explanation and our primary remedial measures**

After we were notified by the regulator about this incident, we reviewed our internal control procedures and found that they were adequate. After internal investigations, we concluded that this incident was caused by this brokerage branch's negligent breach of our internal policies on publishing marketing materials, which require a branch manager to draft an advertisement and then submit it to the branch director for approval.

We took the following remedial measures immediately after this incident: (i) published a correction announcement before the actual fund sale, which did not negatively affect our customers; and (ii) provided a special training session to all sales personnel at Youhaobei Road Branch on the marketing of fund products.

Since this incident and up to the Latest Practicable Date, we have found no occurrence of similar incidents nor have we received any similar warning letters from regulators.



**Non-compliance incidents**

In April 2010, the Shenzhen Securities Regulatory Bureau found our Shenzhen Honglingnan Road Branch to have sold customers' stocks without proper customer consent in connection with closing inactive accounts and failure to keep certain trading records, which violated relevant regulations in the PRC. The Shenzhen Securities Regulatory Bureau met our responsible officers and urged them to rectify the situation. We received a regulatory notice in May 2010.

**Brief explanation and our primary remedial measures**

After we were notified by the regulator about this incident, we reviewed our internal control procedures in relation to the administration of non-compliance and dormant accounts and the monitoring of over-the-counter brokerage transactions and found that they were adequate. After internal investigations, we concluded that this incident was caused by this brokerage branch's unauthorized liquidation of approximately 450 accounts with inactive trading records for more than three years, which was worth approximately RMB0.5 million in total. We recorded the liquidated funds as account payables and made appropriate provisions. According to the policies adopted by Shenzhen Honglingnan Road Branch, once our staff at this branch gets into contact with those inactive account holders, those customers are entitled to receive the liquidated value or the current market value, whichever is higher.

Immediately after this incident, we conducted a comprehensive review of our brokerage accounts and adopted a series of measures to further strengthen our supervision over the business activities of our brokerage branches. In addition, we also enhanced our internal accountability systems. In response to the liquidation of dormant accounts, we have reserved a special fund to cover potential customer claims.

Since this incident, this branch has not encountered any customer dispute over the liquidation of dormant customers' accounts up to the Latest Practicable Date.

<b>Non-compliance incidents</b>	<b>Brief explanation and our primary remedial measures</b>
<p>In October 2010, the Shenzhen Securities Regulatory Bureau issued a regulatory letter to our Huafu Road Branch in Shenzhen which identified that we improperly operated customers' accounts and employed unqualified personnel to engage in sales and marketing, and required this branch to rectify the situation.</p>	<p>After our investigation, we found this incident to be caused by the fact that some of our brokerage customers have, against our prior warnings, voluntarily disclosed their transaction passwords to their relationship managers and further requested the managers to execute transactions on their behalf.</p> <p>After we were notified by the regulator about this incident, we reviewed our internal control procedures and found them to be adequate. We reminded our brokerage customers of the risks of releasing their account passwords to third parties when they opened their accounts with us. We have an IT monitoring system that tracks any multi-account brokerage transactions executed on the same IP address. Once the system detects such transactions, our system will send a confirmation notice to our customers for their due authorization. In addition, as part of our on-going compliance practices, we regularly publicize the qualification of our securities brokers online to increase transparency and promote public awareness of our qualified sales personnel and require our securities brokers to attend 60 hours of training before they join our sales team.</p> <p>Immediately after the incident, we have adopted the following remedial measures: (i) promptly formed a rectification team and a cross-department supervision team to conduct a thorough review of our branch network's operating systems and to improve our compliance practices; and (ii) prohibited the installation of any trading software on employees' work stations at this branch.</p>

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## BUSINESS

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<b>Non-compliance incidents</b>	<b>Brief explanation and our primary remedial measures</b>
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	We submitted a report to the Shenzhen Securities Regulatory Bureau to explain those remedial measures we adopted.
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	According to our disciplinary policy, we degraded the internal rating of Huafu Road Branch and announced this decision within our Group.
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Other than the primary remedial actions we adopted immediately after each incident was reported, we have also implemented other general remedial and rectification measures to prevent future occurrence of such incidents and received no follow-up comments from the relevant regulatory authorities. These measures include, among other things:

- prompt revision of our internal policies and procedures;
- strict internal inspection and examination; and
- enhanced staff training and a strict internal sanction mechanism.

*Employee non-compliance incidents*

We set out below the details of our employee non-compliance incidents in which our employees received formal warning letters from the regulatory authorities during the Track Record Period and up to the Latest Practicable Date and the primary remedial measures we adopted:

<b>Non-compliance incidents</b>	<b>Brief explanation and our primary remedial measures</b>
<p>In June 2009, the Shenzhen Stock Exchange publicly reprimanded our two sponsor representatives for not advising Zhejiang Dadongnan Packaging Co., Ltd. to fulfill its ongoing compliance obligations in connection with the misappropriation of funds by the controlling shareholders of Zhejiang Dadongnan Packaging Co., Ltd. and its failure to comply with proper vetting procedures and disclosure obligations.</p>	<p>The responsible sponsor representatives involved in these two incidents carefully considered the issues raised in the reprimand and submitted written reports to the Shenzhen Stock Exchange.</p> <p>Although the Shenzhen Stock Exchange's reprimand only applied to the sponsor representatives themselves, we adopted a series of remedial measures to improve our internal control systems for our sponsorship and other investment banking activities. These measures include the following: (i) in August 2011, we issued detailed internal guidance on the continuous supervision for our listed clients. We also prepared various types of documentation templates for our sponsorship and other investment banking activities; (ii) required our employees to carefully study and comply with our internal guidance on continuous supervision for listed clients; and (iii) prepared comprehensive training materials for our listed clients during their two-year supervision periods.</p>
<p>In September 2010, the Shenzhen Stock Exchange publicly reprimanded our two sponsor representatives for not advising Shandong Jining Ruyi Woolen Textile Co., Ltd. to fulfill its ongoing compliance obligations in connection with the non-compliance with relevant vetting procedures and disclosure obligations of daily connected transactions by Shandong Jining Ruyi Woolen Textile Co., Ltd.</p>	

**Non-compliance incidents**

In June 2011, in connection with the follow-on offering of Shanghai Shyndec Pharmaceutical Co., Ltd., the CSRC issued a warning letter to our two sponsor representatives for their failure to conduct adequate due diligence on the issuer's financial and accounting matters.

**Brief explanation and our primary remedial measures**

The responsible sponsor representatives carefully considered the issues raised in the warning letter and submitted explanatory reports to the CSRC.

After we were notified by the regulator about this incident, we promptly conducted an internal review. In March 2011, we withdrew our sponsorship in connection with the follow-on offering of Shanghai Shyndec Pharmaceutical Co. Ltd.

Although the CSRC's warning only applied to the sponsor representatives themselves, we adopted a series of remedial measures to improve our internal control system for our sponsorship and investment banking activities. These measures include the following: (i) in addition to requiring all of our sponsor representatives to attend professional training organized by the SAC, we also provided internal training to all of our investment banking employees regarding key issues arising from the sponsorship and other investment banking activities in August 2011; (ii) required our sponsor representatives to strictly comply with relevant PRC regulations and our internal rules on sponsorship and other investment banking activities, particularly those related to due diligence investigation on the issuer's financial and accounting matters; and (iii) designated a special team to review for the second time the documentation prepared by our sponsor representatives for regulatory approvals, perform substantive analysis and suggest remedial plans on existing matters in our sponsorship activities and conduct on-site inspections, if necessary.

As part of our on-going practice, we review the performance of our sponsor representatives on a regular basis. We downgraded the performance rating of the responsible sponsor representatives involved in these incidents and submitted the results to the CSRC. As of the Latest Practicable Date, we and the relevant sponsor representatives have not received any follow-up comments from the relevant regulatory authorities in connection with these incidents.

### *Regulatory inspections*

The regulatory authorities, such as the CSRC and the SFC, carry out periodic or *ad hoc* inspections, examinations and inquiries in respect of our compliance with the laws, regulations, guidelines and regulatory requirements applicable to us and our business.

During the Track Record Period and up to the Latest Practicable Date, the CSRC and its local offices and bureaus carried out routine or *ad hoc* inspections of our Group covering, among other things, our risk management and internal controls, corporate governance and business line specific areas, including our securities brokerage business (including the practice and management of our brokerage branches), futures brokerage business, futures IB business, margin financing and securities lending business and direct investment business. Certain inspections, although not resulting in fines or other penalties imposed on us, have revealed certain deficiencies and weaknesses in our business operations, risk management and internal controls, and we took immediate remedial measures and enhanced our risk management and internal control systems in response to the CSRC's recommendations. Below we set forth two recent examples of these inspections:

- In August 2011, the Shanghai Securities Regulatory Bureau conducted an on-site inspection of our direct investment business. Such bureau did not find any instances of material regulatory non-compliance but provided some recommendations in its regulatory opinion to address the internal control weaknesses in our direct investment business with respect to (i) management of conflicts of interest; (ii) information disclosure practices; and (iii) management of investment risks. We took immediate remedial measures by (i) reinforcing our internal compliance manual on conflicts of interest which we required our relevant staff to endorse; (ii) updating the information on our corporate website with respect to (a) our various management systems for our direct investment business; (b) our arrangements for preventing conflicts of interest between Haitong Capital Investment and our Company; and (c) our complaint and reporting procedures; and (iii) requiring Haitong Capital Investment to cease its online subscription for IPO and liquidate all shares it bought immediately and preventing Haitong Capital Investment from conducting similar transactions in the future. Subsequent to this inspection, we submitted a rectification report to the Shanghai Securities Regulatory Bureau, which did not raise any follow-up comments on our remedial measures nor the rectification report.
- In September 2011, the Shandong Securities Regulatory Bureau conducted an *ad hoc* onsite inspection of our Tai'an securities brokerage branch and issued a regulatory opinion, which provided that (i) our customer notice on accounts transfer and liquidation procedures placed at the branch were not standardized and appeared small and obscure to customers; (ii) there was a failure to implement adequate security measures on our office computers to monitor brokerage trading; and (iii) certain information regarding the legal representative of an institutional client was inaccurate. We took immediate remedial measures by (i) standardizing the format of our customer notice and placing such notice in more visible locations at our branch;

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## BUSINESS

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(ii) creating administrator accounts for our IT staff and general accounts for our brokerage employees, and requiring our brokerage employees to strictly operate on pre-installed software and prohibiting them from installing other softwares such as those that are securities trading-related; and (iii) immediately updating the inaccurate information on the legal representative. Subsequent to this inspection, we submitted a rectification report to the Shandong Securities Regulatory Bureau, which did not raise any follow-up comments on our remedial measures nor the rectification report.

In 2010 and 2011, the SFC conducted inspections of Haitong International Capital Limited, Haitong International Consultants Limited, Hai Tong Capital (HK) Limited and Hai Tong Asset Management (HK) Limited. For the inspection of Haitong International Capital Limited, no exceptions were noted. For the inspection of Haitong International Consultants Limited, the SFC raised queries regarding its selling practices and this subsidiary satisfactorily responded to the queries. For the inspection of Hai Tong Capital (HK) Limited and Hai Tong Asset Management (HK) Limited, the SFC raised several recommendations regarding their internal policies and systems, and they have implemented improvements and remedial measures in accordance with the SFC's recommendations. The SFC did not raise any follow-up comments on these remedial measures adopted by these subsidiaries in Hong Kong.

Our Directors confirm that, except as disclosed in the section entitled “– Legal and Regulatory – Regulatory non-compliance,” there were no other material regulatory examination findings or material incidents of regulatory non-compliance during the Track Record Period and up to the Latest Practicable Date.

### MAJOR CLIENTS

We serve a diverse base of institutional and retail clients across a spectrum of sectors. Our key clients range from large corporations and SME clients to high net worth individuals and retail customers. Our clients are primarily located in the PRC. We expect to serve more overseas clients as we seek to further expand our overseas operations.

For each of years ended December 31, 2008, 2009 and 2010 and the nine months ended September 30, 2011, our revenue attributable to our five largest clients accounted for less than 30% of our total revenue and other income.

To the knowledge of our Directors, none of our directors, supervisors, their respective associates or any shareholders holding more than 5% of our issued share capital has any interests in any of our five largest clients as of the Latest Practicable Date.

We have no major suppliers due to the nature of our business.

### INFORMATION TECHNOLOGY

Our IT system has been an integral part of our operations since our inception. Our IT system consists of three key components: front office, middle office and back office systems that generally cover transaction management, customer service and internal management. Our IT system serves not only as an integral part of our operations, but also our business development platform. Our IT system utilizes products provided by IBM, HP, CISCO and other leading IT system providers. We incur IT-related capital expenditures mainly for the purchase of systems and software. For the years ended December 31, 2008, 2009 and 2010 and the six months ended June 30, 2011, such expenditures amounted to RMB157.2 million, 132.5 million, 192.5 million and 87.3 million, respectively. We believe our well-developed IT system will improve our operational efficiency and transaction management, customer service and quality of internal management.

Our IT system has three key features that distinguish us from our competitors. On transaction management, our system is among the best in terms of processing capacity. Our IT system can process the transactions on a real-time basis in a timely and cost-efficient manner, which facilitates new businesses development and promotion. In addition, our IT system assists management to gain a better understanding of our products' profitability. On customer service, we are committed to meeting our customer needs through diversified channels, including but not limited to online transactions, mobile transactions and SMS platforms. Our system is able to accommodate over 400,000 customers trading online and provide all the necessary transactions and related information at the same time to support the trading process operating at full capacity. In addition, the internal risk management modules of our system can identify risks promptly and obtain detailed risk-related data in order to respond to the risks imposed in a timely and succinct fashion. Meanwhile, our IT system allows us to standardize our internal procedures. As such, it facilitates our record-keeping, improves our reliability and enhances our communication and operational efficiency. Our system also allows us to have a better understanding of our financial position. We adopt multiple layers of security measures, including firewalls and digitalized verification and intrusion prevention systems, in order to achieve our network security. During the Track Record Period, we did not experience any material malfunctions in our IT system.

### COMPETITION

The PRC securities industry is highly competitive. We believe that competition in the PRC securities industry is based on the following principal factors:

- the range of products and services offered;
- pricing;
- customer service;
- network coverage;



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## BUSINESS

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- marketing and distributing capacities;
- perceived financial strength; and
- brand recognition.

For our securities brokerage business, we compete primarily with other PRC securities firms, including CITIC Securities International Company Limited, China Galaxy Securities Co., Ltd., the Guotai Junan Securities Co., Ltd, Guosen Securities Co., Ltd., China Merchants Securities Company Limited, Everbright Securities Company Limited, and Guangfa Securities Company Limited, in terms of pricing and the range of products and services offered. Currently, there are more than 100 registered securities firms in the PRC and intense price competition in recent years has lowered commission rates for our securities brokerage business.

For our investment banking business, we compete primarily with other PRC and Sino-foreign joint venture securities firms as well as PRC commercial banks in terms of brand recognition, marketing and distribution capacity, service quality, execution capacity, financial strength and pricing.

For our asset management business, we compete primarily with fund management companies, banks, insurance companies and other financial institutions in the PRC in terms of the range of products and services offered, pricing and quality of customer service.

For our direct investment business, we compete primarily with other PRC securities firms that are qualified to conduct direct investment business, as well as private equity investment companies qualified for direct investment business.

Some of our competitors may enjoy certain competitive advantages, including greater financial resources, more sophisticated management experience and advanced IT systems, wider geographic coverage and the ability to offer more financial products and services than us.

In addition, with regulatory changes and other factors that contribute to the gradual relaxation of the PRC securities regulations, more competitors are seeking to enter or expand in the market. We believe that the securities industry in China is becoming increasingly competitive. Our failure to maintain a competitive position to compete successfully against our competitors may materially and adversely affect our business, financial position, results of operations and prospects.

Please see “Risk Factors – Risks Relating to Our Business and Industry – We face intense competition and our business could be materially and adversely affected if we are unable to compete effectively.”

## BUSINESS

### EMPLOYEES

As of December 31, 2008, 2009 and 2010 and September 30, 2011, we had 4,037, 8,050, 7,638 and 7,959 employees who entered into labor contracts (excluding securities brokers and part-time employees), respectively. The following table sets forth a breakdown of all our employees with labor contracts as of September 30, 2011:

	Number	Percentage
Securities and futures brokerage . . . . .	5,637	70.8%
Investment banking . . . . .	350	4.4%
Asset management . . . . .	235	3.0%
Proprietary trading . . . . .	37	0.5%
Direct investment . . . . .	21	0.3%
Overseas business . . . . .	723	9.1%
Other . . . . .	956	12.0%
<b>Total . . . . .</b>	<b>7,959</b>	<b>100.0%</b>

Our core staff are generally young and well-educated. As of September 30, 2011, most of our employees are 35 years old or younger, accounting for approximately 61.1% of the total number of employees. At the same date, we have 5,391 employees holding bachelor's degrees or above, accounting for approximately 67.7% of the total number of employees. The performance of our employees is key to our success. In order to ensure their sustainable contribution to our business, we offer professional training to our employees on a regular basis.

The table below sets forth the breakdown of educational backgrounds and ages of our employees as of September 30, 2011:

	Item	Number	Percentage
Educational background . . . . .	Doctor's degree	98	1.2%
	Master's degree	1,145	14.4%
	Bachelor's degree	4,142	52.1%
	Junior college graduate and below	2,574	32.3%
	<b>Total</b>	<b>7,959</b>	<b>100.0%</b>
Age distribution . . . . .	35 or below	4,864	61.1%
	36 to 50	2,786	35.0%
	51 or above	309	3.9%
	<b>Total</b>	<b>7,959</b>	<b>100.0%</b>

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## BUSINESS

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We have not experienced any strikes or other material labor disturbances that have interfered with our operations to date and we believe that our management, the labor union and employees have maintained good relationships with each other. On January 18, 2011, we entered into a collective labor contract with the labor union representing our employees, which has an initial term of six months, subject to automatic renewals. The labor contract provides, among other things, that:

- our employees shall in general work not more than eight hours per day and not more than 40 hours per week, subject to limited circumstances where such restriction is not suitable due to the nature of an employee's work;
- we will provide our employees paid annual vacation days based on the length of their employment;
- our employees are entitled to receive fixed monthly salaries and performance-based bonuses;
- we are obligated to contribute to employee housing fund and pay for basic social insurance premiums on a monthly basis;
- our employees are entitled to receive additional welfare treatments, such as supplementary medical insurance and housing subsidies, subject to our annual economic performance; and
- we will provide no less than 40 hours of training annually, which shall include 15 hours of advanced training for securities professionals.

## PROPERTIES

### Owned Properties

As of September 30, 2011, we owned 96 properties in the PRC with an aggregate gross floor area of approximately 137,603 square meters, and two properties in Hong Kong with an aggregate gross floor area of approximately 656 square meters. Our owned properties are primarily used for business and office purposes, with a range of gross floor area from approximately 39 square meters to 10,360 square meters. In addition, we have a small number of owned properties being used for residential and warehouse purposes, with a range of gross floor areas from approximately 84 square meters to 135 square meters and a range of gross floor area from approximately 97 square meters to 559 square meters, respectively.

As of September 30, 2011, among the properties we owned, we have not obtained proper building ownership certificates and/or land use certificates for 33 properties in the PRC with a gross floor area of approximately 34,226 square meters, representing 24.9% of the aggregate gross floor area of our owned properties. Among these properties:

- We have obtained the relevant building ownership certificates and administrative allocated land use rights certificates in respect of ten properties with a gross floor

area of approximately 7,321 square meters, representing 5.3% of the aggregate gross floor area of the properties that we owned. We have been advised by Grandall Law Firm (Shanghai), our PRC legal advisors, that we can legally occupy and use the above properties, but our rights to transfer, lease, mortgage or dispose of such properties are restricted unless we obtain the granted land use rights certificates by paying the relevant land use premiums. We currently have not entered any definitive agreements to transfer, lease, mortgage or dispose of these properties and, accordingly, we are not required to pay the relevant land use premiums in the near term. We are unable to ascertain the relevant land use premiums until, and if, we apply for rights to transfer, lease, mortgage or dispose of the above properties. However, we believe that the payment of any such land use premiums, if required, will not have a material effect on our business or financial condition.

- We have obtained the building ownership certificates, but have not obtained the land use rights certificates in respect of 19 properties with a gross floor area of approximately 19,922 square meters, representing 14.5% of the aggregate gross floor area of the properties that we owned. We have been advised by our PRC legal advisors that we can legally occupy, use and lease the above properties, but our rights to transfer, mortgage or dispose of such properties are restricted unless we obtain the relevant land use rights certificates or the approval of the third parties holding such land use rights certificates. We currently have not entered any definitive agreements to transfer, mortgage or dispose of these properties and, accordingly, we are not required to pay the relevant land use premiums in the near term. We are unable to ascertain the relevant land use premiums until, and if, we apply for rights to transfer, lease, mortgage or dispose of the above properties. However, we believe that the payment of any such land use premiums, if required, will not have a material effect on our business or financial condition. We are in the process of applying for the relevant land use rights certificates.
- We have not obtained the building ownership certificates and land use rights certificates in respect of four properties with a gross floor area of approximately 6,983 square meters, representing 5.1% of the aggregate gross floor area of the properties that we owned. While we are unable to ascertain when the relevant land and property management authorities will grant us the relevant title certificates, we are using our commercially reasonable efforts to obtain the relevant title certificates for all of such properties. In the event we are unable to obtain such title certificates and are required to relocate, we may incur additional relocation costs, which we believe would not have a material impact on our business or financial condition.

Our Directors believe that the above 33 owned properties with defective titles are not crucial to, and will not have a material impact on our operations because (i) we have obtained the relevant valid building ownership certificates and/or land use rights certificates for a majority of our owned properties, representing 75.1% of the aggregate gross floor area of our owned properties; (ii) for 29 of the defective owned properties, we have been advised by our PRC legal advisors that we can legally occupy, use and/or lease the properties and, therefore,

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## BUSINESS

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there is no impact on our business or financial condition; (iii) with respect to the remaining four defective owned properties, if necessary, we would be able to replace such properties with comparable alternative buildings without any material adverse effect on our operations; and (iv) a majority of our securities and futures brokerage branches are located on leased properties.

### Leased Properties

As of September 30, 2011, we leased 287 properties in the PRC with an aggregate gross floor area of approximately 259,582 square meters, and 29 properties in Hong Kong and two properties in Macau with an aggregate gross floor area of approximately 13,772 square meters. Our leased properties are primarily used for business and office purposes, with a range of gross floor area from approximately 12 square meters to 5,512 square meters. In addition, we have a small number of leased properties being used for residential and warehouse purposes, with a range of gross floor area of approximately 47 square meters to 583 square meters and a range of gross floor area from approximately 23 square meters to 45 square meters, respectively.

The following table sets forth the information relating to our total rental expenses and average monthly rental expenses for each of the periods indicated:

	Year ended December 31,			Nine months ended
	2008	2009	2010	September 30,
	(RMB in millions)			2011
				(RMB in millions)
Total rental expenses . . . . .	97.2	125.0	194.4	158.3
Average monthly rental expenses	8.1	10.4	16.2	17.6

For our leased properties in the PRC, as of September 30, 2011, our landlords had not obtained proper ownership certificates for 37 buildings with a gross floor area of approximately 37,790 square meters, representing 14.6% of the aggregate gross floor area of the buildings we leased. Of these 37 buildings, our landlords of 12 buildings, accounting for 3.4% of the aggregate gross floor area of the buildings we leased, had not agreed to indemnify us for any potential liabilities we would incur as a result of the title defects. However, we have been advised by our PRC legal advisors that we will have the right to seek compensation from the lessors pursuant to the relevant lease agreements or confirmation letters from relevant lessors. We are of the view that most of these leased properties we occupy can, if necessary, be replaced by other comparable alternative premises without any material adverse effect on our business or financial condition.

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## BUSINESS

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As of September 30, 2011, the percentage of our property interests, including “Land and buildings,” represented approximately 0.7% of our total assets. Our Directors confirm that none of our property interests is individually material to us in terms of income contribution or rental expense. The carrying amount of the value of the most valuable single property interest we own is approximately RMB74.8 million, accounting for less than 0.1% of our total assets.

### **Exemptions/Waivers**

Please see “Waivers and Exemption from Compliance with the Hong Kong Listing Rules and the Companies Ordinance” in this prospectus in relation to a waiver we obtained from strict compliance with the Listing Rules and the certificate of exemption from the requirements of the Hong Kong Companies Ordinance regarding the requirement to obtain a property valuation report.