The following discussion and analysis should be read in conjunction with our consolidated financial statements included in "Appendix I – Accountants' Report," together with the accompanying notes. The consolidated financial statements have been prepared in accordance with IFRS.

The following discussion and analysis contains forward-looking statements that involve risks and uncertainties. These statements are based on assumptions and analysis made by us in light of our experience and perception of historical trends, current conditions and expected future developments, as well as other factors we believe are appropriate under the circumstances. However, our actual results may differ significantly from those projected in the forward-looking statements. Factors that might cause future results to differ significantly from those projected in the forward-looking statements include, but are not limited to, those discussed and elsewhere in this prospectus, particularly in "Risk Factors," and "Forward Looking Statements."

OVERVIEW

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

Our five principal business lines in the PRC include:

- *Securities and futures brokerage.* We engage in the trading of equities, bonds, funds and warrants, as well as futures on behalf of our customers, and also provide margin financing and securities lending services.

- *Investment banking.* We provide corporate finance services, including equity underwriting, debt underwriting and financial advisory services to our institutional clients.

- *Asset management.* We offer traditional asset management products and services through our Company and HFT Investment Management. We operate our private equity asset management business through Haitong-Fortis PE Management, Haitong Jihe Management and Haitong Chuangxin Management.

- *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, and receive 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.

As of December 31, 2008, 2009 and 2010 and June 30, 2011, we had total assets of RMB74,686.0 million, RMB120,730.2 million, RMB115,413.1 million and RMB106,057.8 million, respectively, and total equity of RMB38,637.0 million, RMB44,518.6 million, RMB45,616.8 million and RMB46,299.8 million, respectively. For the years ended December 31, 2008, 2009 and 2010 and the six months ended June 30, 2011, our total revenue and other income was RMB7,948.2 million, RMB11,315.8 million, RMB11,304.9 million and RMB5,953.1 million, respectively, and our profit for the year or period was RMB3,385.0 million, RMB4,661.7 million, RMB3,868.2 million and RMB2,339.1 million, respectively.

BASIS OF PRESENTATION

The financial information has been prepared in accordance with IFRS and includes applicable disclosures required by the Rules Governing the Listing of Securities in the Stock Exchange and the Hong Kong Companies Ordinance. The financial information has been prepared on a historical cost basis except for certain financial instruments which are measured at fair values, as explained in the accounting policies set out below. Historical cost is generally based on the fair value of the consideration given in exchange for goods.

The financial information incorporates our financial statements and financial statements of entities controlled by us or our subsidiaries. Control is achieved where we have the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. Where necessary, we make adjustments to the financial statements of our subsidiaries to bring their accounting policies in line with those used by our other members. All intra-group transactions, balances, income and expenses are eliminated in full on consolidation. We acquired Taifook Securities (currently renamed as Haitong International Securities) in December 2009 and have consolidated its income statements into our consolidated income statements since January 1, 2010 and its statements of financial position into our consolidated statements of financial position since December 31, 2009.

FACTORS AFFECTING OUR RESULTS OF OPERATIONS

The following factors are the principal factors that have affected, and we expect will continue to affect, our business, financial condition, results of operations and prospects.

Economic and Market Conditions

Our financial performance is highly dependent on the business environment in which we operate. A favorable business environment is generally characterized by, among other factors, high GDP growth, liquid and efficient capital markets, reasonable levels of inflation, high investor confidence, stable geopolitical conditions and strong business earnings. Unfavorable or uncertain economic and market conditions can be characterized by:

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

For example, largely due to the global financial crisis in 2008, securities markets in the PRC and overseas experienced a substantial downturn and the business environment was adverse, which have had an adverse effect on our principal business lines in 2008. The recent tightening monetary policy and high inflation in the PRC, global economic uncertainties and the euro zone sovereign debt crisis have resulted in adverse market conditions and increased volatility in the PRC and overseas securities markets during the third quarter of 2011. For example, the Shanghai Stock Exchange Composite Index decreased from 2,762.1 as of June 30, 2011 to 2,359.2 as of September 30, 2011, representing a decline of approximately 14.6%. As a result, we recorded a net investment loss of RMB303.1 million in our proprietary trading business in the PRC during the third quarter of 2011 compared to a net investment gain of RMB802.7 million during the first half of 2011.

Our businesses and profitability have been and may continue to become adversely affected by market conditions in many ways, including the following:

- Our securities and futures brokerage business depends heavily on trading volume. Unfavorable market conditions can adversely affect investor sentiment and trading volume, resulting in reduced brokerage commission and fee income.

- Our investment banking business depends on the size and number of capital raising and financial advisory transactions in which we participate. Unfavorable economic conditions and other adverse geopolitical conditions may negatively impact investor confidence and corporate finance activities, resulting in significant declines in the size and number of capital raising and financial advisory transactions, which could have an adverse effect on the revenue and profitability of our investment banking business.

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

- We have net long trading positions in equity securities, fixed income securities and derivatives as part of our proprietary trading business. Because nearly all of these investing and trading positions are marked-to-market, declines in fair values directly impact our earnings and/or capital position, unless we have effectively hedged our exposure to such declines. In certain cases, it may not be possible or economical for us to completely hedge such exposures. Sudden declines and significant volatility in the asset prices may substantially curtail market trading. The inability to value or sell our trading assets reduces our ability to limit losses in such positions, which may require us to maintain additional capital and increase our funding costs.

Competition

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

- For our securities brokerage business, we compete primarily with other PRC securities firms in terms of pricing and the range of products and services offered. Currently, there are more than 100 registered securities firms in the PRC and intense price competition in recent years has lowered commission rates for our securities brokerage business.

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

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

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

In addition, with regulatory changes and other factors that contribute to the gradual relaxation of the PRC securities regulations, more competitors are seeking to enter or expand in the market.

Market share

We believe that our business volume, a major factor affecting our revenue, depends in part on our ability to maintain or increase our current market share in each of our principal business lines.

To differentiate ourselves from our competitors and maintain or increase our market share, we have to maintain our competitive strengths, such as our leading market positions across multiple business lines, strategically located branch network, substantial and stable customer base, reputation as a pioneer in the PRC securities industry for offering new businesses, effective risk management and internal control systems, as well as our experienced and stable management team. Our ability to maintain these strengths will allow us to offer customized, comprehensive and differentiated financial products and services to our customers. If we fail to maintain our competitive strengths, we may lose our current market share in our principal business lines and our revenue may decrease, which may have a negative impact on our business, financial condition and results of operations.

Pricing

The pricing of our products and services has been a principal factor affecting our business, financial condition and results of operations. In the PRC securities market, the pricing of our products and services, particularly in our securities brokerage business, has been largely driven by market competition.

Our brokerage commission and fee income from stocks and funds accounted for a substantial portion of our revenue and other income and is primarily influenced by brokerage commission rates and trading volume. For the years ended December 31, 2008, 2009 and 2010 and the nine months ended September 30, 2011, our average securities brokerage commission rate in the PRC was 0.169%, 0.147%, 0.118% and 0.102%, respectively. Consistent with industry trends, intensified price competition in the securities brokerage business with other PRC securities firms has resulted in reduced brokerage commission rates in the PRC and may force us to charge a lower rate in order to stay competitive going forward. Please see "Risk Factors – Risks Relating to Our Business and Industry – We face intense competition and our business could be materially and adversely affected if we are unable to compete effectively."

We will continue to monitor the pricing of our products and services in relation to our competitors and adjust our commission rates and fee structures to enhance our competitive position while maintaining profitability.

Product Mix and Offering

We are a full-service securities firm with five principal business lines in the PRC, which include securities and futures brokerage, investment banking, asset management, proprietary trading and direct investment. Our operating margins vary across different business segments as well as different products and services in the same business segment. Our product mix and changes to such mix due to our business strategy, market conditions, customer demand and other factors may affect our revenue and profitability over time.

Our commission and fee income from the securities and futures brokerage business in the PRC accounted for a substantial portion of our total revenue and other income, and as a result, our profitability depends largely on the operating margin and profit contribution from this segment. While we expect our commission and fee income from the securities and futures brokerage business to increase and continue to be a major source of our revenue in the future, we also expect to increase the revenue contribution from other businesses with relatively higher profit margins, such as margin financing and securities lending, as well as direct investment, all of which we believe have high growth potential due to the gradual relaxation of the PRC securities regulations.

With a view to maximizing our revenue and profitability, we intend to regularly monitor and adjust our product mix across our principal business lines and further expand our product offerings. We believe that our comprehensive offering of financial products and services and our first-mover advantage in offering new products and services have allowed us to respond to changes in market conditions, regulatory regimes and customer demand in a timely manner.

Regulatory Environment

Our results of operations, financial condition and prospects are subject to regulatory developments in the PRC and economic measures undertaken by the PRC government. In particular, we believe that our ability to expand our business and broaden the scope of our product and service offerings in the PRC has been, and will continue to be materially affected by changes in the policies, laws and regulations governing the PRC securities industry, including the extent to which we can engage in certain businesses or adopt certain business models and fee structures.

The regulatory regime of the PRC securities industry has been evolving, and the CSRC and other regulatory authorities are committed to the gradual relaxation of the PRC securities regulations and broadening the scope of new products and services that securities firms can offer. For example, the CSRC launched the pilot program for the margin financing and securities lending business in early 2010, which has significantly benefited our securities brokerage business. We believe other developments in the PRC securities industry, such as the growth of stock index futures and potential launch of the International Board and New OTC Board, will allow us to further expand and diversify our business and revenue streams as well as maximize our profitability.

In addition, new legislation, changes in rules, or changes in the interpretation or enforcement of existing rules and regulations may also limit the scope of our businesses, affect our business practices, increase our capital requirements and impose additional costs on our operations, which could directly affect our future operations and profitability.

SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES

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

Some of our accounting policies involve subjective assumptions, estimates and judgments that are discussed in note 4 of the Accountants' Report in Appendix I to this prospectus. In the application of our accounting policies, our management is required to make estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. Our estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates. Our estimates and underlying assumptions are reviewed by our management on an ongoing basis.

Our management has identified below the accounting policies, estimates and judgments that they believe are critical to the preparation of the financial information.

Significant Accounting Policies

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for services provided in the normal course of business. Revenue is recognized when it is probable that the economic benefits will flow to us and when revenue can be measured reliably, on the following basis:

- Commission income from our brokerage business is recorded as income on a trade date basis, and service fees from our brokerage business is recognized when services are provided by us;

- Underwriting and sponsors fees are recognized as income in accordance with the terms of the underwriting agreement or deal mandate when the relevant significant acts have been completed;

- Interest income from a financial asset is accrued on a time basis using the effective interest method, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition;

- Consultancy and financial advisory fees are recognized when the relevant transactions have been arranged or the relevant services have been rendered; and

- Asset management fees are recognized when management services are provided in accordance with the management contracts.

Financial instruments

Financial assets and financial liabilities are recognized in our consolidated statement of financial position when a group entity becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets or financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognized immediately in profit or loss.

Financial assets

Our financial assets are classified into one of the four categories, including financial assets at fair value through profit or loss, loans and receivables, held-to-maturity financial assets and available-for-sale investments. All regular way purchases or sales of financial assets are recognized and derecognized on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss represent financial assets held for trading.

A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of selling in the near future;
- it is a part of an identified portfolio of financial instruments that we manage and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

Financial assets at fair value through profit or loss are measured at fair value, with changes in fair value arising from re-measurement recognized directly in profit or loss in the period in which they arise. The net gain or loss recognized in profit or loss includes any dividend or interest earned on the financial assets.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables (including advances to customers, accounts receivable, amount due from a subsidiary, bond investments, financial assets held under resale agreements, clearing settlement funds, bank balances and cash, pledged bank deposits, restricted bank deposits, deposits and other receivables), are carried at amortized cost using the effective interest method, less any identified impairment losses.

Held-to-maturity financial assets

Held-to-maturity financial assets are non-derivative financial assets with fixed or determinable payments and fixed maturities that our management has the positive intention and ability to hold to maturity. Subsequent to initial recognition, held-to-maturity financial assets are measured at amortized cost using the effective interest method, less any identified impairment losses.

Available-for-sale investments

Available-for-sale investments are non-derivatives that are either designated or not classified as financial assets at fair value through profit or loss, loans and receivables or held-to-maturity financial assets.

Available-for-sale investments are measured at fair value at the end of the reporting period. Changes in fair value are recognized in other comprehensive income and accumulated in the investment revaluation reserve, until the financial asset is disposed of or is determined to be impaired, at which time the cumulative gain or loss previously accumulated in the investment revaluation reserve is reclassified to profit or loss.

For available-for-sale equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity instruments, they are measured at cost less any identified impairment losses at the end of the reporting period.

Impairment of financial assets

Financial assets, other than those at fair value through profit or loss, are assessed for indicators of impairment at the end of the reporting period. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial assets have been affected.

For an available-for-sale equity investment, a significant or prolonged decline in the fair value of that investment below its cost is considered to be objective evidence of impairment.

For all other financial assets, objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty;
- breach of contract, such as default or delinquency in interest and principal payments;
- it becoming probable that the borrower will enter bankruptcy or financial re-organization; or
- the disappearance of an active market for that financial asset because of financial difficulties.

For certain categories of financial assets, such as advances to customers and accounts receivable, assets that are assessed not to be impaired individually are subsequently assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include our past experience of collecting payments and observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortized cost, an impairment loss is recognized in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate.

For financial assets carried at cost, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss will not be reversed in subsequent periods.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of advances to customers, accounts receivable and other receivables, where the carrying amount is reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognized in profit or loss. When an advance to customers, an account receivable or a receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss.

For financial assets measured at amortized cost, if, in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment losses were recognized, the previously recognized impairment loss is reversed through profit or loss to the extent that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognized.

Impairment losses on available-for-sale equity investments will not be reversed in profit or loss in subsequent periods. Any increase in fair value subsequent to impairment loss is recognized directly in other comprehensive income and accumulated in the investment revaluation reserve. For available-for-sale debt investments, impairment losses are subsequently reversed if an increase in the fair value of the investment can be objectively related to an event occurring after the recognition of the impairment loss.

Financial liabilities and equity instruments

Financial liabilities and equity instruments issued by a group entity are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument.

An equity instrument is any contract that evidences a residual interest in our assets after deducting all of its liabilities. Our financial liabilities are generally classified into financial liabilities at fair value through profit or loss and other financial liabilities.

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss represent financial liabilities held for trading.

A financial liability is classified as held for trading if:

- it has been incurred principally for the purpose of repurchasing in the near future;
- it is a part of an identified portfolio of financial instruments that we manage and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

Financial liabilities at fair value through profit or loss are measured at fair value, with changes in fair value arising on re-measurement recognized directly in profit or loss in the period in which they arise. The net gain or loss recognized in profit or loss excludes any interest paid on the financial liabilities.

Other financial liabilities

Other financial liabilities including borrowings, accounts payable to brokerage clients, financial assets sold under repurchase agreements, other payables and amounts due to a subsidiary are subsequently measured at amortized cost, using the effective interest method.

Equity instruments

Equity instruments issued by us are recorded at the proceeds received, net of direct issue costs.

Effective interest method

The effective interest method is a method of calculating the amortized cost of a financial asset or liability and of allocating interest income or expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) or payments through the expected life of the financial asset or liability, or, where appropriate, a shorter period to the net carrying amount of the financial asset or liability on initial recognition. When the difference between the effective interest rate and the contract rate is insignificant, interest income or expense will be calculated using the contract interest rate.

Interest income is recognized on an effective interest basis for debt instruments other than those financial assets classified as fair value through profit or loss, of which interest income is included in net gains or losses. Interest expense is recognized on an effective interest basis.

Derivative financial instruments

Derivatives are initially recognized at fair value at the date a derivative contract is entered into and are subsequently re-measured to their fair value at the end of the reporting period. The resulting gain or loss is recognized in profit or loss immediately unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in profit or loss depends on the nature of the hedge relationship.

Financial assets sold under repurchase agreements and financial assets held under resale agreements

Financial assets sold under repurchase agreements continue to be recognized, which do not result in derecognition of the financial assets, and are recorded as "available-for-sale investments" or "financial assets held for trading." The corresponding liability is included in "financial assets sold under repurchase agreements." Financial assets held under agreements to resell are recorded as "financial assets held under resale agreements" as appropriate. Financial assets sold under repurchase agreements and financial assets held under resale agreements are initially measured at fair value and are subsequently measured at amortized cost using the effective interest method.

Securities lending

We lend investment securities to clients and the cash collaterals balance required under the agreements and the interest arisen from these agreements are classified as "accounts payable to brokerage clients." For those securities we lent to client that do not result in the derecognition of financial assets, they are included in "available-for-sale investments."

Derecognition

Financial assets are derecognized when the rights to receive cash flows from the assets expire or the financial assets are transferred and we have transferred substantially all the risks and rewards of ownership of the financial assets.

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognized in other comprehensive income and accumulated in equity is recognized in profit or loss.

On derecognition of a financial asset other than in its entirety (e.g. when we retain an option to repurchase part of a transferred asset or retain a residual interest that does not result in the retention of substantially all the risks and rewards of ownership and we retain control), we allocate the previous carrying amount of the financial asset between the part it continues to recognize under continuing involvement, and the part it no longer recognizes on the basis of the relative fair values of those parts on the date of the transfer. The difference between the carrying amount allocated to the part that is no longer recognized and the sum of the consideration received for the part no longer recognized and any cumulative gain or loss allocated to it that had been recognized in other comprehensive income is recognized in profit or loss. A cumulative gain or loss that had been recognized in other comprehensive income is allocated between the part that continues to be recognized and the part that is no longer recognized on the basis of the relative fair values of those parts.

Financial liabilities are derecognized when the obligation specified in the relevant contract is discharged, cancelled or expires. The difference between the carrying amount of the financial liability derecognized and the consideration paid and payable is recognized in profit or loss.

Significant Accounting Estimates and Judgments

Impairment of advances to customers

We review our advances to customers to assess impairment on a periodic basis. In determining whether an impairment loss should be recognized in profit or loss, we make judgments as to whether there is any observable data indicating that there is an objective evidence of impairment that will have a measurable decrease in the estimated future cash flows from a portfolio of advances. Moreover, we also review the value of the securities collateral received from our customers in determining the impairment. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

Impairment of goodwill

Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating units to which goodwill has been allocated. The value in use calculation requires us to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate the present value. Where the actual future cash flows are less than expected, a material impairment loss may arise. Details of the recoverable amount calculation are disclosed in note 20 of the Accountants' Report in Appendix I to this prospectus.

Impairment of available-for-sale investments

The determination of whether an available-for-sale investment is impaired requires significant judgment. In making this judgment, we evaluate the duration and extent to which the fair value of an investment is less than its cost. For listed available-for-sale equity investments, a significant or prolonged decline in fair value below cost is considered to be objective evidence of impairment. Judgment is required when determining whether a decline in fair value has been significant or prolonged.

Fair value of available-for-sale investments with restriction on disposal

For available-for-sale investments that are subject to a legally enforceable restriction that prevents us from disposing them within the specified period, the fair value of these securities are made based on quoted market rates adjusted for specific features of the instrument. The estimation of fair value of these instruments includes some assumptions not supported by observable market prices or rates.

Income taxes

There are certain transactions and activities for which the ultimate tax determination is uncertain during the ordinary course of business. Where the final tax outcome of these matters is different from the amounts that were initially estimated, such differences will impact the current income tax and deferred income tax in the period during which such a determination is made.

No deferred tax asset has been recognized on the tax losses arising from our subsidiaries in Hong Kong due to the unpredictability of future profit streams. The reliability of the deferred tax asset mainly depends on whether sufficient future profits or taxable temporary differences will be available in the future. In cases where the actual profits generated are more than expected, a material deferred tax asset would be recognized in profit or loss for the period. For details of our tax losses, please see note 14 of the Accountants' Report in Appendix I to this prospectus.

PRINCIPAL COMPONENTS OF CONSOLIDATED INCOME STATEMENTS

Revenue and other income

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

Commission and fee income

Our commission and fee income mainly consists of (i) commission and fee income on securities and futures brokerage; (ii) underwriting and sponsors fees; (iii) consultancy and financial advisory fees; and (iv) asset management fees.

We generate commission and fee income on securities and futures brokerage by trading equities, bonds, funds and warrants, as well as futures on behalf of our customers.

We generate underwriting and sponsors fees and consultancy and financial advisory fees in our investment banking business by providing equity and debt underwriting, as well as financial advisory services.

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

Interest income

Our interest income mainly includes (i) bank interest income from our own deposits and deposits we hold on behalf of our clients; (ii) interest income from margin financing and securities lending; and (iii) interest income from financial assets held under resale agreements.

We generally achieve an interest yield above the prevailing bank deposit interest rates in the PRC through effective treasury management. For example, in order to manage our liquidity, we enter into short-term resale agreements with counterparties (such as banks and other financial institutions), under which we are entitled to receive interest income by purchasing financial assets (such as bonds and notes) from the counterparty and agreeing to resell such assets back to the counterparty at a predetermined price on the maturity date of the resale agreement. Please see "– Liquidity and Capital Resources – Assets and Liabilities – Current assets and liabilities."

Net investment (losses) gains

Our net investment gains include (i) net gains from financial instruments held for trading, and (ii) net gains from available-for-sale investments.

Our net gains from financial instruments held for trading mainly consist of (i) net gains or losses from disposal of these financial instruments; (ii) fair value change of these financial instruments; and (iii) dividends and interest income from these financial instruments.

Our net gains from available-for-sale investments mainly consist of (i) dividends and interest income from these investments; and (ii) net gains or losses from disposal of these investments. Net gains or losses from the disposal of available-for-sale investments primarily represent investment returns from our private equity investments exits, participation in follow-on offerings, as well as other trading and market-making activities. As a securities firm, we make private equity investments, participate in follow-on offerings and engage in other types of trading of available-for-sale investments which form part of our normal course of business, and therefore net gains from these transactions are accounted for as net investment gains.

Other income and gains

Our other income and gains primarily include government grants. We receive our government grants which primarily include local government subsidies intended to support our business operations. As our government grants are non-recurring in nature, we cannot assure you that we will continue to receive them. Our other income and gains also includes net foreign exchange gains.

Total expenses

Our total expenses include staff costs, commission to account executives, brokerage transaction fees and other services expenses, depreciation and amortization, interest expenses and other expenses.

Staff costs

Our staff costs primarily include salaries, bonuses and allowances, and other welfare benefits paid to our employees. Historically, staff costs have been the largest component of our operating expenses and accounted for 37.1%, 41.2%, 41.0% and 37.8% of our total expenses for the years ended December 31, 2008, 2009 and 2010 and the six months ended June 30, 2011, respectively.

Commission to account executives

Our commission to account executives refers to the performance-based commissions we pay to our licensed brokers, which represents a certain percentage of the brokerage commission and fee income that our licensed brokers generate.

Brokerage transaction fees and other services expenses

Our brokerage transaction fees and other services expenses primarily include securities dealing expenses charged by the stock exchanges and other authorized institutions for using their transaction and settlement systems.

Depreciation and amortization

Our depreciation and amortization relates primarily to depreciation of our property and equipment and amortization of our intangible assets.

Interest expenses

Our interest expenses primarily include (i) interest expenses on deposits we hold on behalf of our customers; (ii) interest expenses on our borrowings; and (iii) interest expenses from repurchase transactions.

While we earn interest income on deposits we hold on behalf of our customers, we also pay interest expenses on such deposits to our customers with reference to prevailing benchmark interest rates announced by the PBOC.

In order to manage our liquidity, we enter into short-term repurchase agreements with counterparties (such as banks and other financial institutions), under which we incur interest expenses by selling our financial assets (such as bonds and notes) to the counterparty and agreeing to repurchase such assets at a predetermined price on the maturity date of the repurchase agreement. Please see "– Liquidity and Capital Resources – Assets and Liabilities – Current assets and liabilities."

Other expenses

Our other expenses primarily include rental expenses, administrative expenses and business tax and surcharges.

Income tax expense

We are subject to income tax on an entity basis on profits arising in or derived from the jurisdictions in which members of our Group are domiciled and operate. During the Track Record Period, our PRC subsidiaries were subject to an EIT rate of 25.0% in accordance with the EIT law that became effective on January 1, 2008. Assessable profit from our branches located in Shenzhen and Haikou was subject to an EIT rate of 18.0%, 20.0%, 22.0% and 24.0%, respectively, for the years ended December 31, 2008, 2009 and 2010 and the six months ended June 30, 2011. Our Hong Kong subsidiaries were subject to a 16.5% tax on their assessable profit during the Track Record Period. Our effective income tax rate was 8.5%, 22.1%, 22.5% and 23.6% for the years ended December 31, 2008, 2009 and 2010 and the six months ended June 30, 2011.

RESULTS OF OPERATIONS

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

	Year ended December 31,			Six months ended June 30,	
	2008	2009	2010	2010	2011
				(unaudited)	
	(RMB in millions)				
Revenue					
Commission and fee income	5,527.1	8,753.4	8,384.1	3,880.5	3,689.6
Interest income	1,386.6	1,407.0	1,647.0	746.9	1,205.5
Net investment gains	927.7	888.1	1,077.8	289.8	997.2
Total revenue	7,841.4	11,048.5	11,108.9	4,917.2	5,892.3
Other income and gains	106.8	267.3	196.0	55.6	60.8
Total revenue and other income	**7,948.2**	**11,315.8**	**11,304.9**	**4,972.8**	**5,953.1**
Total expenses	(4,347.9)	(5,400.0)	(6,393.4)	(2,537.0)	(2,924.0)
	3,600.3	5,915.8	4,911.5	2,435.8	3,029.1
Share of results of associates	97.6	66.0	78.2	39.6	34.0
Profit before income tax	**3,697.9**	**5,981.8**	**4,989.7**	**2,475.4**	**3,063.1**
Income tax expense	(312.9)	(1,320.1)	(1,121.5)	(550.1)	(724.0)
Profit for the year/period	**3,385.0**	**4,661.7**	**3,868.2**	**1,925.3**	**2,339.1**
Attributable to the owners of the Company	3,301.6	4,548.2	3,686.3	1,842.0	2,234.8
Attributable to non-controlling interests	83.4	113.5	181.9	83.3	104.3

The following discussion compares the major components of our operating results for the six months ended June 30, 2010 and 2011, and the years ended December 31, 2008, 2009 and 2010.

Revenue and other income

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

	Year ended December 31,			Six months ended June 30,	
	2008	2009	2010	2010	2011
				(unaudited)	
			(RMB in millions)		
Commission and fee income	5,527.1	8,753.4	8,384.1	3,880.5	3,689.6
Interest income	1,386.6	1,407.0	1,647.0	746.9	1,205.5
Net investment gains	927.7	888.1	1,077.8	289.8	997.2
Other income and gains	106.8	267.3	196.0	55.6	60.8
Total	**7,948.2**	**11,315.8**	**11,304.9**	**4,972.8**	**5,953.1**

Six months ended June 30, 2011 compared to six months ended June 30, 2010

Our total revenue and other income increased by 19.7% to RMB5,953.1 million for the six months ended June 30, 2011 compared to RMB4,972.8 million for the corresponding period in 2010, due primarily to the increase in our interest income and net investment gains.

2010 compared to 2009

We acquired a controlling interest in Taifook Securities (currently renamed as Haitong International Securities) in December 2009. We have consolidated Haitong International Securities into our consolidated income statements since January 2010.

Our revenue and other income decreased slightly to RMB11,304.9 million in 2010 compared to RMB11,315.8 million in 2009, due primarily to a decrease in our commission and fee income, which was partially offset by our increased interest income and net investment gains.

2009 compared to 2008

Our revenue and other income increased by 42.4% to RMB11,315.8 million in 2009 compared to RMB7,948.2 million in 2008, due primarily to a 58.4% increase in our commission and fee income in 2009, partially offset by our decreased net investment gains.

Commission and fee income

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

	Year ended December 31,			Six months ended June 30,	
	2008	2009	2010	2010	2011
				(unaudited)	
			(RMB in millions)		
Commission and fee income on securities brokerage	4,585.8	7,264.4	5,938.7	2,702.4	2,348.4
Commission and fee income on futures brokerage	59.9	144.8	392.7	159.1	181.1
Consultancy and financial advisory fees	106.5	151.1	274.8	144.6	153.3
Underwriting and sponsors fees	239.3	449.4	1,039.2	551.7	562.2
Asset management fees	535.6	743.7	714.8	312.2	437.4
Commission on bullion contracts	–	–	7.6	–	4.9
Others	–	–	16.3	10.5	2.3
Total	**5,527.1**	**8,753.4**	**8,384.1**	**3,880.5**	**3,689.6**

Six months ended June 30, 2011 compared to six months ended June 30, 2010

Our commission and fee income decreased by 4.9% to RMB3,689.6 million for the six months ended June 30, 2011 compared to RMB3,880.5 million for the corresponding period in 2010, due primarily to a decrease in our commission and fee income on securities brokerage. Our commission and fee income on securities brokerage decreased by 13.1% to RMB2,348.4 million for the six months ended June 30, 2011 compared to RMB2,702.4 million for the corresponding period in 2010. This decrease was mainly attributable to the lower commission rates for securities brokerage in the PRC due to the increased number of securities brokerage branches in the PRC and the resulting price competition. However, this decrease was offset by (i) a 40.1%, or RMB125.2 million, increase in our asset management fees due primarily to the higher performance fees we received from the China-Belgium Fund that we managed and an increase in our average AUM; (ii) a 13.8%, or RMB22.0 million, increase in our commission and fee income on futures brokerage due to business growth; and (iii) an RMB10.5 million and RMB8.7 million increase in our underwriting and sponsors fees and our consultancy and financial advisory fees, respectively.

2010 compared to 2009

Our commission and fee income decreased by 4.2% to RMB8,384.1 million in 2010 compared to RMB8,753.4 million in 2009, due primarily to a decrease in our commission and fee income on securities brokerage. Our commission and fee income on securities brokerage decreased by 18.2% to 5,938.7 million in 2010 compared to RMB7,264.4 million in 2009, mainly attributable to the lower commission rates for securities brokerage in the PRC due to the increased number of securities brokerage branches in the PRC and the resulting price competition. However, the decrease in our commission and fee income on securities brokerage in the PRC was partially offset by (i) a 119.7%, or RMB595.7 million, increase in our revenue and other income from our investment banking business in the PRC, due primarily to the increase in the value of equity securities underwritten by us, which increased to RMB49,657.7 million in 2010 compared to RMB7,530.4 million in 2009; (ii) a 90.4%, or RMB129.8 million, increase in our commission and fee income on futures brokerage in the PRC, due to significant business growth; and (iii) a significant increase in our commission and fee income from our overseas business, due to our acquisition of a controlling interest in Taifook Securities in December 2009.

2009 compared to 2008

Our commission and fee income increased by 58.4% to RMB8,753.4 million in 2009 compared to RMB5,527.1 million in 2008. This increase is mainly attributable to (i) a 58.4%, or RMB2,678.6 million, increase in our commission and fee income on securities brokerage due primarily to our increased trading volume that resulted from the rapid recovery and strong performance of the PRC securities markets in 2009; (ii) a 87.8%, or RMB210.1 million, increase in our underwriting and sponsors fees as we lead-managed ten equity offerings in 2009, including three on the ChiNext Board, by taking advantage of the recovery of the PRC securities markets and the launch of the ChiNext Board; and (iii) an increase in our asset management fees and commission and fee income on futures brokerage due to the rapid recovery and strong performance of the PRC securities markets in 2009.

Interest income

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

	Year ended December 31,			Six months ended June 30,	
	2008	**2009**	**2010**	**2010**	**2011**
				(unaudited)	
			(RMB in millions)		
Bank interest income	1,366.4	1,359.6	1,399.6	674.2	937.7
Interest income from advances to customers	0.6	8.6	219.0	72.6	229.2
Interest income from financial assets held under resale agreements	3.4	0.8	27.8	0.0	35.9
Interest income from held-to-maturity financial assets	13.6	4.4	–	–	–
Interest income from other bond investments	2.4	33.6	–	–	–
Other interest income	0.2	–	0.6	0.1	2.7
Total	**1,386.6**	**1,407.0**	**1,647.0**	**746.9**	**1,205.5**

Six months ended June 30, 2011 compared to six months ended June 30, 2010

Our interest income increased by 61.4% to RMB1,205.5 million for the six months ended June 30, 2011 compared to RMB746.9 million for the corresponding period in 2010, due primarily to the increases in (i) bank interest income; (ii) interest income from advances to customers; and (iii) interest income from financial assets held under resale agreements.

Our interest income from bank deposits (including our own deposits and deposits we hold on behalf of our customers) increased by 39.1% to RMB937.7 million for the six months ended June 30, 2011 compared to RMB674.2 million for the corresponding period in 2010. This increase was mainly attributable to (i) our effective treasury management measures, which led to the increased yield on bank deposits; and (ii) higher prevailing market interest rates in the PRC due to increases in benchmark interest rates announced by the PBOC during the period.

Our interest income from advances to customers increased by 215.7% to RMB229.2 million for the six months ended June 30, 2011 compared to RMB72.6 million for the corresponding period in 2010. This was mainly attributable to the rapid development of our margin financing and securities lending business in the PRC and the resulting significant increase in our average margin loan balance.

Our interest income from financial assets held under resale agreements amounted to RMB35.9 million for the six months ended June 30, 2011 as we entered into more resale agreements to manage our liquidity and enhance our return on liquid funds.

2010 compared to 2009

Our interest income increased by 17.1% to RMB1,647.0 million in 2010 compared to RMB1,407.0 million in 2009, due primarily to an RMB210.4 million increase in interest income from advances to customers. Our margin financing and securities lending business in the PRC has grown rapidly since its launch in March 2010, which resulted in a significant increase in our average margin loan balance. We acquired a controlling interest in Taifook Securities (currently renamed as Haitong International Securities) in December 2009. We have consolidated the interest income from the margin financing and securities lending business of Haitong International Securities into our consolidated income statements since January 2010.

2009 compared to 2008

Our interest income increased by 1.5% to RMB1,407.0 million in 2009 compared to RMB1,386.6 million in 2008, due primarily to an increase in our interest income from other bond investments held by Haitong International Holdings in 2009.

Net investment gains

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

	Year ended December 31,			Six months ended June 30,	
	2008	**2009**	**2010**	**2010**	**2011**
				(unaudited)	
			(RMB in millions)		
Net gains from available-for-sale investments	345.4	211.4	596.2	320.6	569.3
Net gains from financial instruments held for trading	783.5	950.8	378.0	220.4	717.2
Fair value change of financial instruments held for trading	(201.2)	(274.1)	103.6	(251.2)	(289.3)
Total	**927.7**	**888.1**	**1,077.8**	**289.8**	**997.2**

Six months ended June 30, 2011 compared to six months ended June 30, 2010

Our net investment gains increased significantly to RMB997.2 million for the six months ended June 30, 2011 compared to RMB289.8 million for the corresponding period in 2010, due primarily to (i) an increase in our net gains from the disposal of financial instruments held for trading in our proprietary trading business that resulted from our prudent trading and hedging strategy amid market volatility; and (ii) an increase in net gains from the disposal of available-for-sale investments that resulted from changes in our investment portfolios.

2010 compared to 2009

Our net investment gains increased by 21.4% to RMB1,077.8 million in 2010 compared to RMB888.1 million in 2009, due primarily to (i) an increase in net gains from the disposal of available-for-sale investments in our proprietary trading business; and (ii) an increase in our investment gains that resulted from our first private equity investment exit in the second half of 2010. This increase was partially offset by a decrease in our net gains from financial instruments held for trading, due primarily to unfavorable market conditions in 2010.

2009 compared to 2008

Our investment gains decreased by 4.3% to RMB888.1 million in 2009 from RMB927.7 million in 2008, due primarily to a decrease in our net gains from available-for-sale investments that resulted from our decision to reduce the disposal of these investments reflecting our long-term investment strategies. This decrease was partially offset by an increase in our net gains from our financial instruments held for trading that resulted from our decision to increase equity securities in our trading portfolio in order to balance our risk and return profile and capture market opportunities amid favorable market conditions in 2009.

Other incomes and gains

Six months ended June 30, 2011 compared to six months ended June 30, 2010

Our other income and gains increased by 9.2% to RMB60.8 million for the six months ended June 30, 2011 compared to RMB55.6 million for the corresponding period in 2010, due primarily to an increase in our foreign exchange gains.

2010 compared to 2009

Our other income and gains decreased by 26.7% to RMB196.0 million in 2010 compared to RMB267.3 million in 2009. We recorded gains of RMB43.0 million from the disposal of other bond investments held by Haitong International Holdings in 2009 which did not recur in 2010.

2009 compared to 2008

Our other income and gains increased to RMB267.3 million in 2009 compared to RMB106.8 million in 2008, due primarily to an RMB132.5 million increase in our government grants and RMB43.0 million gains we received from the disposal of other bond investments held by Haitong International Holdings.

Total expenses

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

	Year ended December 31,			Six months ended June 30,	
	2008	2009	2010	2010	2011
				(unaudited)	
			(RMB in millions)		
Staff costs	(1,614.1)	(2,225.0)	(2,619.7)	(939.6)	(1,105.3)
Commission to account executives	(84.0)	(51.1)	(278.6)	(107.1)	(151.2)
Brokerage transaction fees and other services expenses	(535.0)	(947.1)	(897.2)	(334.0)	(392.4)
Depreciation and amortization	(184.6)	(236.9)	(288.5)	(146.4)	(147.9)
Interest expenses	(368.0)	(245.1)	(281.5)	(140.2)	(184.0)
Other expenses	(1,562.2)	(1,694.8)	(2,027.9)	(869.7)	(943.2)
Total	**(4,347.9)**	**(5,400.0)**	**(6,393.4)**	**(2,537.0)**	**(2,924.0)**

Six months ended June 30, 2011 compared to six months ended June 30, 2010

Our total expenses increased by 15.3% to RMB2,924.0 million for the six months ended June 30, 2011 from RMB2,537.0 million for the corresponding period in 2010, due primarily to the increases in our staff costs, other expenses, and brokerage transaction fees and other services expenses.

2010 compared to 2009

Our total expenses increased by 18.4% to RMB6,393.4 million in 2010 compared to RMB5,400.0 million in 2009, due primarily to the increases in our commission to account executives, staff costs and other expenses.

2009 compared to 2008

Our operating expenses increased by 24.2% to RMB5,400.0 million in 2009 compared to RMB4,347.9 million in 2008, due primarily to the increases in our brokerage transaction fees and other services expenses and staff costs.

Staff costs

Six months ended June 30, 2011 compared to six months ended June 30, 2010

Our staff costs increased by 17.6% to RMB1,105.3 million for the six months ended June 30, 2011 compared to RMB939.6 million for the corresponding period in 2010, due primarily to an increase in our employee headcount to support our business expansion. Our staff costs as a percentage of our total revenue and other income decreased slightly to 18.6% in the first half of 2011 compared to 18.9% in the first half of 2010.

2010 compared to 2009

Our staff costs increased by 17.7% to RMB2,619.7 million in 2010 compared to RMB2,225.0 million in 2009, due primarily to (i) our acquisition of a controlling interest in Taifook Securities in December 2009 and the resulting consolidation of its staff costs into our consolidated income statements since January 2010; (ii) increased staff costs in our futures brokerage business in the PRC due to its rapid business growth; and (iii) an increase in our employee headcount to support our business expansion. Our staff costs as a percentage of our total revenue and other income increased to 23.2% in 2010 compared to 19.7% in 2009.

2009 compared to 2008

Our staff costs increased by 37.8% to RMB2,225.0 million in 2009 compared to RMB1,614.1 million in 2008, due primarily to increases in the number of branches we operated and our employee headcount. Our staff costs as a percentage of our revenue and other income decreased to 19.7% in 2009 compared to 20.3% in 2008.

Commission to account executives

Six months ended June 30, 2011 compared to six months ended June 30, 2010

Our commission to account executives increased by 41.2% to RMB151.2 million for the six months ended June 30, 2011 compared to RMB107.1 million for the corresponding period in 2010, due primarily to (i) the increased number of our licensed brokers and the resulting increase in the brokerage commission and fee income generated from these brokers; and (ii) the increased revenue from our futures brokerage business in the PRC and securities brokerage business overseas.

2010 compared to 2009

Our commission to account executives increased significantly to RMB278.6 million in 2010 compared to RMB51.1 million in 2009, due primarily to (i) our acquisition of a controlling interest in Taifook Securities in December 2009 and the resulting consolidation of its commission to account executives into our consolidated income statements since January 2010; (ii) increased trading volume of our futures brokerage business in the PRC; and (iii) increased number of our licensed brokers.

2009 compared to 2008

Our commission to account executives decreased by 39.2% to RMB51.1 million in 2009 compared to RMB84.0 million in 2008, due primarily to a decrease in the number of our licensed brokers that resulted from the introduction of more stringent standards on the qualification of brokers in the PRC.

Brokerage transaction fees and other services expenses

Six months ended June 30, 2011 compared to six months ended June 30, 2010

Our brokerage transaction fees and other services expenses increased by 17.5% to RMB392.4 million for the six months ended June 30, 2011 compared to RMB334.0 million for the corresponding period in 2010, due primarily to an increase in the trading volume of our securities brokerage business.

2010 compared to 2009

Our brokerage transaction fees and other services expenses decreased by 5.3% to RMB897.2 million in 2010 compared to RMB947.1 million in 2009, due primarily to a decline in the trading volume of our securities brokerage business in 2010 that largely resulted from the unfavorable market conditions.

2009 compared to 2008

Our brokerage transaction fees and other services expenses increased by 77.0% to RMB947.1 million in 2009 compared to RMB535.0 million in 2008, due primarily to an increase in the trading volume of our securities brokerage business that resulted from the strong performance of the PRC securities markets.

Depreciation and amortization

Six months ended June 30, 2011 compared to six months ended June 30, 2010

Our depreciation and amortization remained relatively stable at RMB146.4 million and RMB147.9 million for the six months ended June 30, 2010 and 2011, respectively.

2010 compared to 2009

Our depreciation and amortization increased by 21.8% to RMB288.5 million in 2010 compared to RMB236.9 million in 2009 because we opened additional securities brokerage branches and relocated certain existing branches in 2010 to optimize our nationwide branch network.

2009 compared to 2008

Our depreciation and amortization increased by 28.3% to RMB236.9 million in 2009 compared to RMB184.6 million in 2008, due primarily to the 52 securities brokerage branches we upgraded from our existing service outlets and six additional branches we opened in 2009.

Interest expenses

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

	Year ended December 31,			Six months ended June 30,	
	2008	**2009**	**2010**	**2010**	**2011**
				(unaudited)	
			(RMB in millions)		
Bank loans and overdrafts	5.1	6.5	22.8	6.8	12.3
Financial assets sold under repurchase agreements	27.6	55.0	54.0	29.5	64.5
Accounts payable to brokerage clients	335.3	183.6	198.8	100.9	105.0
Others	–	–	5.9	3.0	2.2
Total	**368.0**	**245.1**	**281.5**	**140.2**	**184.0**

Six months ended June 30, 2011 compared to six months ended June 30, 2010

Our interest expenses increased by 31.2% to RMB184.0 million for the six months ended June 30, 2011 compared to RMB140.2 million for the corresponding period in 2010, due primarily to an increase in our interest expenses on financial assets sold under repurchase agreements that resulted from our increased use of repurchase transactions in the first half of 2011 to manage our liquidity.

2010 compared to 2009

Our interest expenses increased by 14.9% to RMB281.5 million in 2010 compared to RMB245.1 million in 2009, due primarily to our acquisition of a controlling interest in Taifook Securities in December 2009 and the resulting consolidation of its interest expenses into our consolidated income statements since January 2010.

2009 compared to 2008

Our interest expenses decreased by 33.4% to RMB245.1 million in 2009 compared to RMB368.0 million in 2008, due primarily to the lower prevailing market interest rates in the PRC.

Other expenses

Six months ended June 30, 2011 compared to six months ended June 30, 2010

Our other expenses increased by 8.5% to RMB943.2 million for the six months ended June 30, 2011 compared to RMB869.7 million for the corresponding period in 2010, due primarily to (i) an increase in our business tax and surcharges in line with our revenue growth; and (ii) an increase in our rental and administrative expenses that resulted from the expansion and relocation of our securities brokerage branches.

2010 compared to 2009

Our other expenses increased by 19.7% to RMB2,027.9 million in 2010 compared to RMB1,694.8 million in 2009, due primarily to (i) our acquisition of a controlling interest in Taifook Securities in December 2009; (ii) an increase in expenses such as travel and meeting expenses that resulted from our business growth; (iii) increased relocation and rental expenses that resulted from the relocation or addition of 37 securities brokerage branches in 2010; and (iv) increased costs we incurred to strengthen our customer service.

2009 compared to 2008

Our other expenses increased by 8.5% to RMB1,694.8 million in 2009 compared to RMB1,562.2 million in 2008, due primarily to (i) an increase in our business tax and surcharges in line with our revenue growth; and (ii) an increase in our rental and administrative expenses that resulted from the expansion and optimization of our branch network.

Profit before income tax

Six months ended June 30, 2011 compared to six months ended June 30, 2010

Our profit before income tax increased by 23.7% to RMB3,063.1 million in the first half of 2011 compared to RMB2,475.4 million in the first half of 2010.

2010 compared to 2009

Our profit before income tax decreased by 16.6% to RMB4,989.7 million in 2010 compared to RMB5,981.8 million in 2009.

2009 compared to 2008

Our profit before income tax increased by 61.8% to RMB5,981.8 million in 2009 compared to RMB3,697.9 million in 2008.

Income tax expense

The following table sets forth our profit before tax, income tax expense and effective tax rate for the periods indicated:

	Year ended December 31,			Six months ended June 30,	
	2008	2009	2010	2010	2011
				(unaudited)	
	(RMB in millions, except percentages)				
Profit before income tax . .	3,697.9	5,981.8	4,989.7	2,475.4	3,063.1
Income tax expense	312.9	1,320.1	1,121.5	550.1	724.0
Effective tax rate	8.5%	22.1%	22.5%	22.2%	23.6%

Six months ended June 30, 2011 compared to six months ended June 30, 2010

Our income tax expense increased by 31.6% to RMB724.0 million for the six months ended June 30, 2011 compared to RMB550.1 million for the corresponding period in 2010, due primarily to an increase in our taxable income. Our effective tax rate slightly increased to 23.6% in the first half of 2011 compared to 22.2% in the first half of 2010, due primarily to a decrease in our tax deductions.

2010 compared to 2009

Our income tax expense decreased by 15.0% to RMB1,121.5 million in 2010 compared to RMB1,320.1 million in 2009, due primarily to a decrease in our taxable income. Our effective tax rate remained relatively stable in 2009 and 2010 at 22.1% and 22.5%, respectively.

2009 compared to 2008

Our income tax expense increased significantly to RMB1,320.1 million in 2009 compared to RMB312.9 million in 2008, due primarily to (i) a one-time tax rebate of RMB718.4 million we received in 2008 which did not recur in 2009; and (ii) an increase in our taxable income due to our business growth in 2009.

In December 2008, we successfully secured a tax allowance from the local tax authority to deduct provisional costs from our taxable profit in the years prior to 2008 and received a tax rebate of RMB718.4 million that we had paid previously. Such tax rebate was non-recurring in nature and offset a substantial portion of our income tax expense that would have otherwise been payable in 2008. As a result, our effective tax rate was 8.5% in 2008 and 22.1% in 2009.

Net profit and net margin

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

	Year ended December 31,			Six months ended June 30,	
	2008	2009	2010	2010	2011
				(unaudited)	
	(RMB in millions, except percentages)				
Operating profit(1)	3,493.5	5,648.5	4,715.5	2,380.1	2,968.3
Operating margin(2)	*44.6%*	*51.1%*	*42.4%*	*48.4%*	*50.4%*
Adjusted operating margin(3)	*51.0%*	*57.6%*	*48.9%*	*54.9%*	*57.5%*
Net profit	3,385.0	4,661.7	3,868.2	1,925.3	2,339.1
Net margin(4)	*43.2%*	*42.2%*	*34.8%*	*39.2%*	*39.7%*
Adjusted net margin(5)	*49.4%*	*47.5%*	*40.1%*	*44.4%*	*45.3%*

(1) Operating profit = total revenue − total expenses

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

(3) Adjusted operating margin = (total revenue − total expenses)/(total revenue − commission to account executives − brokerage transaction fees and other services expenses − interest expenses). Adjusted operating margin is presented here because we believe that, after excluding (i) commission to account executives, (ii) brokerage transaction fees and other services expenses and (iii) interest expenses, such measurement provides a meaningful indicator of our results of operations that is more comparable to other PRC listed securities companies due to different presentation requirements from the CSRC. Prospective investors should be aware that adjusted operating margin presented in this prospectus may not be comparable to other similarly titled measures reported by other companies, due to different calculation methods or assumptions.

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

(5) Adjusted net margin = (profit for the year or period)/(total revenue − commission to account executives − brokerage transaction fees and other services expenses − interest expenses). Adjusted net margin is presented here for the reasons stated in note 3 above.

Six months ended June 30, 2011 compared to six months ended June 30, 2010

Our net profit increased by 21.5% to RMB2,339.1 million for the six months ended June 30, 2011 compared to RMB1,925.3 million for the corresponding period in 2010. Our net margin increased slightly to 39.7% for the six months ended June 30, 2011 compared to 39.2% for the corresponding period in 2010. This increase was mainly attributable to (i) the increase in net investment gains from our proprietary trading business; (ii) the rapid growth of our margin financing and securities lending business and the resulting increase in our margin loan balance; (iii) our effective treasury management measures and the resulting increase in our interest income from bank deposits; and (iv) the relatively stable expenses associated with some of our business lines with rapid growth, such as proprietary trading and margin financing and securities lending businesses.

2010 compared to 2009

Our net profit decreased by 17.0% to RMB3,868.2 million in 2010 compared to RMB4,661.7 in 2009. Our net margin decreased to 34.8% in 2010 compared to 42.2% in 2009, due primarily to (i) the lower commission rates for our securities brokerage business that resulted from the intensified price competition in the PRC securities markets; (ii) the consolidation of Taifook Securities into our income statements since January 2010 that has a relatively lower net margin compared to our businesses in the PRC; and (iii) increased expenses that resulted from our continuous efforts to optimize our branch network and strengthen our marketing capabilities.

2009 compared to 2008

Our net profit increased by 37.7% to RMB4,661.7 million in 2009 compared to RMB3,385.0 in 2008. Our net margin decreased to 42.2% in 2009 compared to 43.2% in 2008, due primarily to the significantly lower effective income tax rate in 2008 that resulted from the one-time tax rebate of RMB718.4 million we received during the year. However, our operating margin increased to 51.1% in 2009 compared to 44.6% in 2008. This increase primarily reflected (i) the rapid growth and increased revenue contribution of our securities and futures brokerage business that generally commands a higher operating margin; and (ii) the increased operating margin of our investment banking and asset management businesses in 2008.

SUMMARY SEGMENT RESULTS

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments. Geographically, we divide our business into two main areas: (i) the PRC and (ii) overseas. For our business in the PRC, we generate our revenue primarily from our five principal business lines: securities and futures brokerage, investment banking, asset management, proprietary trading, and direct investment. The following discussion of our segment revenue and other income, segment expenses and segment results include our inter-segment revenue and inter-segment expenses.

The following table sets forth our segment revenue and other income (including inter-segment revenue) for the periods indicated:

	Year ended December 31,						Six months ended June 30,			
	2008		2009		2010		2010		2011	
							(unaudited)			
	(RMB in millions)	%	(RMB in millions)	%	(RMB in millions)	%	(RMB in millions)	%	(RMB in millions)	%
PRC business										
Securities and futures brokerage	5,449.0	68.6	7,897.1	69.8	6,454.2	57.1	2,830.0	56.9	2,632.5	44.2
Investment banking	268.2	3.4	497.6	4.4	1,093.3	9.7	614.0	12.3	624.6	10.5
Asset management	634.4	8.0	879.3	7.8	868.9	7.7	376.6	7.6	515.0	8.7
Proprietary trading	685.0	8.6	804.8	7.1	779.8	6.9	191.1	3.8	802.7	13.5
Direct investment	4.9	0.1	52.1	0.5	106.0	0.9	16.3	0.3	23.4	0.4
Headquarters and others	1,876.0	23.6	1,657.2	14.6	1,834.0	16.2	982.1	19.8	1,437.1	24.1
Overseas business	9.8	0.1	197.3	1.7	905.0	8.0	362.2	7.3	524.9	8.8
Inter-segment elimination	(979.1)	(12.4)	(669.6)	(5.9)	(736.3)	(6.5)	(399.5)	(8.0)	(607.1)	(10.2)
Total	**7,948.2**	**100.0**	**11,315.8**	**100.0**	**11,304.9**	**100**	**4,972.8**	**100.0**	**5,953.1**	**100.0**

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

	Year ended December 31,						Six months ended June 30,			
	2008		2009		2010		2010		2011	
							(unaudited)			
	(RMB in millions)	%	(RMB in millions)	%	(RMB in millions)	%	(RMB in millions)	%	(RMB in millions)	%
PRC business										
Securities and futures brokerage	2,512.1	57.8	3,337.3	61.8	3,438.6	53.8	1,451.0	57.2	1,402.5	48.0
Investment banking	140.4	3.2	224.2	4.2	511.7	8.0	181.7	7.2	160.5	5.5
Asset management	394.9	9.1	514.1	9.5	530.2	8.3	226.1	8.9	297.7	10.2
Proprietary trading	76.7	1.8	92.1	1.7	82.2	1.3	49.1	1.9	99.5	3.4
Direct investment	2.9	0.1	15.5	0.3	24.0	0.4	5.8	0.2	4.3	0.1
Headquarters and others	2,105.2	48.4	1,746.2	32.3	1,761.9	27.6	674.6	26.6	943.4	32.3
Overseas business	38.4	0.9	87.6	1.6	726.2	11.3	293.4	11.6	354.2	12.1
Inter-segment elimination	(922.7)	(21.3)	(617.0)	(11.4)	(681.4)	(10.7)	(344.7)	(13.6)	(338.1)	(11.6)
Total	**4,347.9**	**100.0**	**5,400.0**	**100.0**	**6,393.4**	**100.0**	**2,537.0**	**100.0**	**2,924.0**	**100.0**

The following table sets forth our segment results for the periods indicated. Our segment results are calculated as our segment revenue and other income (including inter-segment revenue) less segment expenses (including inter-segment expenses):

	Year ended December 31,						Six months ended June 30,			
	2008		2009		2010		2010		2011	
	(RMB in millions)	%	(RMB in millions)	%	(RMB in millions)	%	(unaudited) (RMB in millions)	%	(RMB in millions)	%
PRC business										
Securities and futures brokerage	2,936.9	81.6	4,559.8	77.1	3,015.6	61.4	1,379.0	56.6	1,230.0	40.6
Investment banking	127.8	3.5	273.4	4.6	581.6	11.8	432.3	17.8	464.1	15.3
Asset management	239.5	6.7	365.3	6.2	338.7	6.9	150.5	6.2	217.3	7.2
Proprietary trading	608.3	16.9	712.7	12.0	697.6	14.2	142.0	5.9	703.2	23.2
Direct investment	2.0	0.1	36.6	0.6	82.0	1.7	10.5	0.4	19.1	0.6
Headquarters and others	(229.2)	(6.4)	(88.9)	(1.5)	72.1	1.5	307.5	12.6	493.7	16.3
Overseas business	(28.6)	(0.8)	109.6	1.9	178.8	3.6	68.8	2.8	170.7	5.7
Inter-segment elimination	(56.4)	(1.6)	(52.6)	(0.9)	(54.8)	(1.1)	(54.8)	(2.3)	(269.0)	(8.9)
Total	**3,600.3**	**100.0**	**5,915.9**	**100.0**	**4,911.6**	**100.0**	**2,435.8**	**100.0**	**3,029.1**	**100.0**

The following table sets forth our segment margin for the periods indicated. Our segment margin is calculated as our segment results (including inter-segment results) divided by segment revenue and other income (including inter-segment revenue):

	Year ended December 31,			Six months ended June 30,	
	2008	2009	2010	2010	2011
PRC business					
Securities and futures brokerage	53.9%	57.7%	46.7%	48.7%	46.7%
Investment banking	47.6%	54.9%	53.2%	70.4%	74.3%
Asset management	37.7%	41.5%	39.0%	40.0%	42.2%
Proprietary trading	88.8%	88.6%	89.5%	74.3%	87.6%
Direct investment	41.6%	70.3%	77.4%	64.5%	81.6%
Headquarters and others	(12.2%)	(5.4%)	3.9%	31.3%	34.4%
Overseas business	(293.0%)	55.6%	19.8%	19.0%	32.5%
Total	**45.3%**	**52.3%**	**43.4%**	**49.0%**	**50.9%**

PRC business

Securities and futures brokerage

Segment revenue and other income from our securities and futures brokerage business mainly includes commission and fee income on securities and futures brokerage and interest income from margin financing and securities lending. Segment expenses mainly include rental expenses, depreciation and amortization, staff costs and other general expenses, as well as expenses that are directly correlated to our brokerage trading volume and commission and fee income, such as commission to account executives and brokerage transaction fees and other services expenses.

Six months ended June 30, 2011 compared to six months ended June 30, 2010

Segment results decreased by 10.8% to RMB1,230.0 million during the six months ended June 30, 2011 compared to RMB1,379.0 million for the corresponding period in 2010, due primarily to a 7.0% decrease in our segment revenue and other income from RMB2,830.0 million to RMB2,632.5 million during the period. This decrease was mainly attributable to a 12.4% or RMB303.1 million decrease in our segment commission and fee income during the period, primarily due to the lower commission rates for securities brokerage in the PRC due to the increased number of securities brokerage branches in the PRC and the resulting price competition. Our average securities brokerage commission rate decreased from 0.128% in the first half of 2010 to 0.103% in the first half of 2011. However, the decrease in our segment revenue and other income was partially offset by a 31.3%, or RMB113.9 million, increase in our segment interest income, which resulted from the significant growth of our margin financing and securities lending business.

As a result, our segment margin decreased to 46.7% during the six months ended June 30, 2011 compared to 48.7% for the corresponding period in 2010.

2010 compared to 2009

Segment results decreased by 33.9% to RMB3,015.6 million in 2010 compared to RMB4,559.8 million in 2009, due primarily to the following:

(i) a 18.3% decrease in our segment revenue and other income, from RMB7,897.1 million in 2009 to RMB6,454.2 million in 2010, which resulted from a 21.8% or RMB1,576.9 million decrease in our segment commission and fee income. The decrease in our segment commission and fee income was mainly due to the lower commission rates we charged for securities brokerage in the PRC in response to the increased number of securities brokerage branches in the PRC and the resulting price competition. Our average securities brokerage commission rate for stocks and funds decreased from 0.147% in 2009 to 0.118% in 2010. However, the decrease in our segment commission and fee income was partially offset by a 21.5%, or RMB135.6 million, increase in our segment interest income, due primarily to the launch of our margin financing and securities lending business in March 2010 and higher prevailing market interest rates in the PRC; and

(ii) a 3.0% increase in our segment expenses that mainly resulted from our relocation and addition of securities brokerage branches in 2010 in order to optimize our branch network and strengthen our marketing capabilities.

As a result, our segment margin decreased to 46.7% in 2010 compared to 57.7% in 2009.

2009 compared to 2008

Segment results increased by 55.3% to RMB4,559.8 million in 2009 compared to RMB2,936.9 million in 2008, due primarily to a 44.9% increase in our segment revenue and other income, from RMB5,449.0 million in 2008 to RMB7,897.1 million in 2009, which resulted from a 63.1%, or RMB2,803.2 million, increase in our segment commission and fee income. This increase is mainly attributable to the rapid recovery and strong performance of the PRC securities markets in 2009 and the resulting increase in the trading volume of our securities brokerage business from approximately RMB3,334.1 billion in 2008 to approximately RMB5,411.5 billion in 2009. However, the increase in our segment revenue and other income was partially offset by a 32.8% or RMB825.2 million increase in our segment expenses, mainly resulting from the 52 securities brokerage branches we upgraded from our existing service outlets and six additional branches we opened in 2009.

Our segment margin increased to 57.7% in 2009 compared to 53.9% in 2008.

Investment banking

Segment revenue and other income in our investment banking business mainly includes underwriting and sponsors fees as well as consultancy and financial advisory fees. Segment expenses mainly include expenses associated with our underwriting activities and salaries we pay to our professional staff, sales personnel and sponsor representatives.

Six months ended June 30, 2011 compared to six months ended June 30, 2010

Segment results increased by 7.4% to RMB464.1 million during the six months ended 2011 compared to RMB432.3 million for the corresponding period in 2010, due primarily to the following:

(i) a slight increase in our segment revenue and other income, from RMB614.0 million to RMB624.6 million during the period. The increase in our segment revenue and other income was mainly attributable to an increase in our debt underwriting fees and our consultancy and financial advisory fees. Our debt underwriting fees increased significantly from RMB12.1 million during the first half of 2010 to RMB59.6 million during the first half of 2011, due primarily to an increase in the number of debt offerings underwritten by us from three to nine during the period. Our consultancy and financial advisory fees remained stable and increased by 6.1% from RMB61.0 million to RMB64.7 million during the same period. However, these increases were partially offset by a 7.5% or RMB40.5 million decrease in our equity underwriting fees, due primarily to a decrease in the number of our equity offerings underwritten by us from 13 to 11 during the period; and

(ii) a 11.7% decrease in our segment expenses that resulted from our effective cost control measures.

As a result, our segment margin increased to 74.3% for the six months ended June 30, 2011 compared to 70.4% for the correspond period in 2010.

2010 compared to 2009

Segment results increased significantly to RMB581.6 million in 2010 compared to RMB273.4 million in 2009, due primarily to a significant increase in our segment revenue and other income from RMB497.6 million in 2009 to RMB1,093.3 million in 2010, which resulted from a significant increase in our equity underwriting fees. This increase is mainly attributable to our ability to secure more mandates to underwrite equity offerings, in particular offerings on the SME Board and the ChiNext Board which generally enjoy higher underwriting fee rates and the resulting increase in our market share in equity underwriting in 2010. We acted as the lead underwriter for 26 equity offerings in 2010 compared to ten in 2009, with the total value of equity securities we underwrote increasing from RMB7.5 billion to RMB49.7 billion during the period.

However, our segment expenses also increased significantly, outpacing the growth in our segment revenue and other income. As a result, our segment margin decreased to 53.2% in 2010 compared to 54.9% in 2009.

2009 compared to 2008

Segment results increased by 113.9% to RMB273.4 million in 2009 compared to RMB127.8 million in 2008, due primarily to a 85.5% or RMB229.4 million increase in our segment revenue and other income, which resulted from a 72.3% or RMB152.3 million increase in our equity underwriting fees. We successfully lead-managed three IPOs on the ChiNext Board after its launch in 2009, which resulted in the increase in our overall underwriting fee rates for equity offerings.

As a result, our segment margin increased to 54.9% in 2009 compared to 47.6% in 2008.

Asset management

Segment revenue and other income in our asset management business primarily includes asset management fees and performance fees we receive for managing funds and investments for our customers, as well as investment consultancy fees. Segment expenses primarily include marketing and maintenance fees of funds, staff costs, such as salaries paid to our professional staff and marketing personnel, as well as performance-based commissions.

Six months ended June 30, 2011 compared to six months ended June 30, 2010

Segment results increased by 44.4% to RMB217.3 million in the first half of 2011 compared to RMB150.5 million for the corresponding period in 2010, due primarily to a 36.7%, or RMB138.4 million, increase in our segment revenue and other income, which resulted from (i) an increase in performance fees we received from the China-Belgium Fund that we managed; and (ii) an increase in our average AUM.

As a result, our segment margin increased to 42.2% for the six months ended June 30, 2011 compared to 40.0% for the corresponding period in 2010.

2010 compared to 2009

Segment results decreased by 7.3% to RMB338.7 million in 2010 compared to RMB365.3 million in 2009, due primarily to (i) a 1.2%, or RMB10.4 million, decrease in our segment revenue and other income; and (ii) a 3.2%, or RMB16.1 million, increase in our segment expenses. The decrease in our segment revenue and other income is mainly attributable to (i) a decrease in performance fees we received from the China-Belgium Fund that we managed; and (ii) a decrease in performance fees from our collective asset management schemes in the PRC amid unfavorable market conditions in 2010.

As a result, our segment margin decreased to 39.0% in 2010 compared to 41.5% in 2009.

2009 compared to 2008

Segment results increased by 52.5% to RMB365.3 million in 2009 compared to RMB239.5 million in 2008, due primarily to a 38.6%, or RMB244.9 million, increase in our segment revenue and other income, which resulted from (i) an increase in performance fees we received from the China-Belgium Fund that we managed; and (ii) an increase in our average AUM due to the strong performance of the PRC securities markets in 2009.

As a result, our segment margin increased to 41.5% in 2009 compared to 37.7% in 2008.

Proprietary trading

Segment revenue and other income in our proprietary trading business includes net gains from financial instruments held for trading and available-for-sale investments. Our segment expenses primarily include business tax and surcharges and salaries we pay to our professional staff.

Six months ended June 30, 2011 compared to six months ended June 30, 2010

Segment results increased by 395.2% to RMB703.2 million during the first half of 2011 compared to RMB142.0 million for the corresponding period in 2010, due primarily to a 320.0% or RMB611.6 million increase in our segment revenue and other income. Despite market volatility in the securities markets in the PRC and overseas, we recorded significantly higher net gains from available-for-sale investments from shares we purchased in our previous participation in follow-on offerings. We also enhanced our fixed income trading strategies and engaged in stock index futures and ETF arbitrages, which resulted in a significant increase in our net gains from financial instruments held for trading.

As a result, our segment margin increased to 87.6% for the six months ended June 30, 2011 compared to 74.3% in the corresponding period in 2010.

2010 compared to 2009

Segment results decreased by 2.1% to RMB697.6 million in 2010 compared to RMB712.7 million in 2009, due primarily to a 3.1%, or RMB25.0 million, decrease in our segment revenue and other income. This decrease is mainly attributable to the unfavorable market conditions in 2010 which adversely impacted our equity investment portfolio and resulted in a decrease in our net gains from financial instruments held for trading. However, benefiting from our net gains from available-for-sale investments from shares we purchased in previous participation in follow-on offerings, effective and flexible fixed income trading strategies and the successful launch of our stock index futures business, our segment revenue and other income only decreased by 3.1%, compared with a 12.5% decrease in the CSI 300 Index, during the same period.

The decrease in our segment revenue and other income was partially offset by a 12.0% decrease in our segment expenses. As a result, our segment margin remained relatively stable at 88.6% and 89.5% in 2009 and 2010, respectively.

2009 compared to 2008

Segment results increased by 17.2% to RMB712.7 million in 2009 compared to RMB608.3 million in 2008, due primarily to a 17.5%, or RMB119.8 million, increase in our segment revenue and other income. This increase is mainly attributable to the strong performance of the PRC securities markets in 2009, which led to a corresponding increase in the value of our equity investment portfolio and the resulting increase in our net gains from financial instruments held for trading.

Our segment expenses also increased by 20.0% during the period. As a result, our segment margin remained relatively stable at 88.8% and 88.6% in 2008 and 2009, respectively.

Direct investment

Segment revenue and other income in our direct investment segment mainly includes gains or losses from the disposal of our private equity investments and interest income from our unutilized capital. Segment expenses mainly include salaries and performance-based commissions we pay to our professional staff.

Six months ended June 30, 2011 compared to six months ended June 30, 2010

Segment results increased by 81.9% to RMB19.1 million during the six months ended June 30, 2011 compared to RMB10.5 million for the corresponding period in 2010, due primarily to a 43.8%, or RMB7.1 million, increase in our segment revenue and other income. This increase is mainly attributable to higher prevailing market interest rates in the PRC and the resulting increase in our segment interest income. We did not exit from any private equity investments in the first half of 2010 and 2011, but earned interest income from our unutilized capital in this segment.

As a result, our segment margin increased to 81.6% for the six months ended June 30, 2011 compared to 64.5% for the corresponding period on 2010.

2010 compared to 2009

Segment results increased significantly to RMB82.0 million in 2010 compared to RMB36.6 million in 2009 with segment margins increasing from 70.3% to 77.4%, due primarily to a 103.6%, or RMB53.9 million, increase in our segment revenue and other income that resulted from our first private equity investment exit in the second half of 2010.

As a result, our segment margin increased to 77.4% in 2010 compared to 70.3% in 2009.

2009 compared to 2008

Segment results increased significantly to RMB36.6 million in 2009 compared to RMB2.0 million in 2008, due primarily to an increase in our segment revenue and other income from RMB4.9 million to RMB52.1 million during the period. This increase is mainly attributable to the increase in the interest income from our unutilized capital. We established Haitong Capital Investment in October 2008 to conduct our direct investment business and increased its registered capital from RMB1.0 billion in 2008 to RMB3.0 billion in the second half of 2009. We did not exit from any private equity investments in 2008 and 2009, but earned interest income on our unutilized capital designated for our direct investment business.

As a result, our segment margin increased to 70.3% in 2009 compared to 41.6% in 2008.

Headquarters and others

Revenue and other income in our headquarters and others segment mainly includes interest income from our own bank deposits, deposits we hold on behalf of our customers and our treasury management activities, dividends and other investment gains as well as government grants. Please see "– Liquidity and Capital Resources" for details on the treasury management activities at our headquarters. Segment expenses mainly include administrative expenses related to the management function of our headquarters, including depreciation and amortization, rental expenses, staff costs and other expenses.

Six months ended June 30, 2011 compared to six months ended June 30, 2010

Segment results increased by 60.6% to RMB493.7 million during the first half of 2011 compared to RMB307.5 million for the corresponding period in 2010, due primarily to a 46.3% or RMB455.0 million increase in our segment revenue and other income. This is mainly attributable to the increases in our segment interest income and net gains from available-for-sale investments. Our segment interest income increased by 38.5%, or RMB242.3 million, due primarily to our increased use of resale transactions to manage our liquidity and our effective treasury management measures. The increase in our segment revenue and other income was partially offset by an increase in our segment expenses from RMB674.6 million in the first half of 2010 to RMB943.4 million in the first half of 2011 due to our increased contribution to the securities investor protection fund and increased staff costs in this segment.

As a result, our segment margin increased to 34.4% for the six months ended June 30, 2011 compared to 31.3% for the corresponding period in 2010.

2010 compared to 2009

Our segment results amounted to RMB72.1 million in 2010, representing segment margins of 3.9%, compared to a loss of RMB88.9 million in 2009 because the increase in our segment revenue and other income outweighed the increase in our segment expenses. Our segment revenue and other income increased by 10.7% to RMB1,834.0 million compared to RMB1,657.3 million in 2009, due primarily to an RMB173.5 million increase in our segment net investment gains from money market instruments that reflected our effective treasury management measures.

2009 compared to 2008

Segment results decreased to a loss of RMB88.9 million in 2009 compared to a loss of RMB229.2 million in 2008, due primarily to an RMB359.0 million decrease in our segment expenses mainly as a result of lower inter-segment interest expenses, which were partially offset by an RMB218.8 million decrease in our segment revenue and other income from RMB1,876.0 million to RMB1,657.2 million during the period. This decrease is mainly attributable to (i) an RMB41.6 million decrease in segment interest income, from RMB1,341.9 million to RMB1,300.3 million, due to lower prevailing market interest rates in 2009; and (ii) an RMB132.2 million decrease in our segment net gains from available-for-sale investments, from RMB152.1 million to RMB19.9 million, due to changes in our investment strategies to hold investments for the long-term and reduced disposals of our investments.

Overseas business

Segment revenue and other income in our overseas business mainly includes commission and fee income from our securities and futures brokerage business, interest income from margin financing and securities lending business, corporate finance and advisory fees and foreign exchange gains generated by Haitong International Holdings. Segment expenses mainly include commissions to account executives, staff costs and other expenses incurred by Haitong International Holdings.

Six months ended June 30, 2011 compared to six months ended June 30, 2010

Segment results increased significantly to RMB170.7 million for the six months ended June 30, 2011 compared to RMB68.8 million for the corresponding period in 2010, due primarily to an RMB162.7 million increase in our segment revenue and other income, from RMB362.2 million to RMB524.9 million. This increase is mainly attributable to the rapid growth and strong performance of Haitong International Securities' margin financing and securities lending and corporate finance businesses during the period.

As a result, our segment margin increased to 32.5% for the six months ended June 30, 2011 compared to 19.0% for the corresponding period in 2010.

2010 compared to 2009

Segment results increased significantly to RMB178.8 million in 2010 compared to RMB109.6 million in 2009, due primarily to an RMB707.8 million increase in our segment revenue and other income, from RMB197.3 million to RMB905.0 million during the period. This is mainly attributable to our acquisition of a controlling interest in Taifook Securities in December 2009. We have consolidated the results of Haitong International Securities in our consolidated income statements since January 2010, which also contributed to a decrease in our segment margin to 19.8% in 2010 compared to 55.6% in 2009.

2009 compared to 2008

Segment results amounted to RMB109.6 million, representing a segment margin of 55.6%, in 2009 compared to a loss of RMB28.6 million in 2008, due primarily to an RMB187.5 million increase in our segment revenue and other income, from RMB9.8 million to RMB197.3 million during the period. The increase in segment revenue and other income is mainly attributable to (i) an RMB40.0 million increase in our segment interest income; (ii) an RMB91.5 million increase in segment commission and fee income from the brokerage business; and (iii) a net investment gain of RMB42.9 million from our disposal of bond investments.

LIQUIDITY AND CAPITAL RESOURCES

We have in the past funded our working capital and other capital requirements primarily from cash flow from operations, equity financing, repurchase transactions and short-term borrowings. Historically, long-term borrowings have not been a major source of capital.

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

To manage our liquidity while improving yields on surplus cash, in addition to bank deposits and inter-bank borrowings, we actively manage our liquid assets through money market and bond market operations by investing in liquid financial instruments with low risk, such as fixed income securities and financial assets held under resale agreements. We also seek to diversify our source and type of financing to meet various liquidity needs in our operations. Currently, we derive short-term financing for our PRC operations primarily from bond repurchase transactions in the interbank market or through stock exchanges.

As of June 30, 2011, we had aggregate cash and cash equivalents of RMB9,573.7 million, consisting primarily of bank balances and cash (excluding pledged bank deposits, fixed deposits, and restricted bank deposits), clearing settlement funds and time deposits on our own account that can be withdrawn on demand. We also had proceeds from repurchase transactions of RMB6,982.1 million and financial assets available for resale transactions of RMB10,143.5 million, which we can quickly trade with counterparties for short-term liquidity. At the same time, we had total borrowings of RMB3,396.3 million, all of which are either repayable on demand or due within one year. Most of our borrowings are denominated in Hong Kong dollars, which Haitong International Securities incurred to primarily fund its margin financing and securities lending business.

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

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

Cash Flow

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

	For the year ended December 31,			For the six months ended June 30,	
	2008	2009	2010	2010	2011
				(unaudited)	
	(RMB in millions)				
Net cash flows from operating activities	(3,465.4)	7,522.6	(10,500.6)	(5,017.5)	(3,213.3)
Net cash flows from investing activities	(1,050.8)	(3,297.1)	(1,536.6)	(950.3)	(1,826.9)
Net cash flows from financing activities	(466.4)	(578.1)	(1,106.9)	1,541.0	(1,152.5)
Net (decrease) increase of cash and cash equivalent	(4,982.6)	3,647.4	(13,144.1)	(4,426.8)	(6,192.7)
Cash and cash equivalent at the beginning of the year/period	30,307.3	25,290.5	28,931.9	28,931.9	15,777.1
Effect of foreign exchange rate changes	(34.2)	(6.0)	(10.7)	(13.4)	(10.7)
Cash and cash equivalent at the end of the year	25,290.5	28,931.9	15,777.1	24,491.7	9,573.7

Net cash flows from operating activities

Our cash flows from operating activities consist primarily of cash generated or paid in relation to our commission-based securities business (such as brokerage, underwriting and financial advisory services), margin financing and securities lending business, trading of financial instruments held for trading, as well as resale and repurchase transactions. Net cash flows from operating activities reflect (i) profit before tax adjusted for non-cash and non-operating items, such as depreciation and amortization and impairment allowance; (ii) the effects of changes in working capital such as increase or decrease in accounts and other payables, cash held on behalf of clients, advances to customers, financial instruments held for trading, and financial assets held under resale agreements or sold under repurchase agreements; and (iii) other cash items such as income tax paid.

For the six months ended June 30, 2011, we had net cash outflows from operating activities of RMB3,213.3 million since the negative effects of changes in working capital exceeded our profit before tax of RMB3,063.1 million. The negative effects of changes in working capital primarily reflected the following:

(i) an RMB8,023.5 million increase in our financial assets held under resale agreements due primarily to our increased interbank lending activities for managing our liquidity and improving yields on surplus cash;

(ii) an RMB2,232.5 million net increase in our financial instruments held for trading that reflected our investment decisions;

(iii) an RMB828.8 million increase in our advances to customers, due primarily to the expansion of our margin financing and securities lending business in the PRC and overseas; and

(iv) an RMB701.5 million increase in accounts and other receivables and prepayments due primarily to the increase in our receivables from brokers, dealers and clearing houses;

These cash outflows were partially offset by an increase of RMB6,982.1 million in financial assets sold under repurchase agreements.

For the year ended December 31, 2010, we had net cash outflows from operating activities of RMB10,500.6 million since the negative effects of changes in working capital exceeded our profit before tax of RMB4,989.7 million. The negative effects of changes in working capital primarily reflected the following:

(i) an RMB5,821.5 million decrease in financial assets sold under repurchase agreements because we repurchased our financial assets pursuant to our repurchase agreements;

(ii) an RMB3,906.1 million increase in advances to customers, due primarily to our launch of margin financing and securities lending business in the PRC and the growth of our margin financing business overseas after our acquisition of a controlling interest in Taifook Securities in December 2009;

(iii) an RMB2,121.3 million increase in our financial instruments held for trading that reflected our investment decisions; and

(iv) an RMB2,120.0 million increase in financial assets held under resale agreements, due primarily to our increased interbank lending activities for managing our liquidity.

For the year ended December 31, 2009, we had net cash inflows from operating activities of RMB7,522.6 million, which was mainly due to the positive effects of changes in our working capital and our profit before tax of RMB5,981.8 million. The positive effects of changes in working capital primarily reflected the proceeds of RMB5,211.5 million from our repurchase transactions, partially offset by an RMB3,084.5 million increase in our financial instruments held for trading that reflected our investment decisions.

For the year ended December 31, 2008, we had net cash outflows of operating activities of RMB3,465.4 million because the negative effects of changes in working capital exceeded our profit before tax of RMB3,697.9 million. The negative effects of changes in working capital primarily reflected (i) an RMB6,600.5 million increase in our financial instruments held for trading that reflected our investment decisions; and (ii) an RMB1,042.3 million increase in our restricted deposits and fixed bank deposits.

We believe that we have strong ability to generate cash flows from operating activities during the Track Record Period and our operating cash flows before the changes in working capital amounted to RMB3,884.2 million, RMB6,141.9 million, RMB4,883.2 million and RMB2,761.2 million, respectively, for the years ended December 31, 2008, 2009 and 2010 and the six months ended June 30, 2011. In addition, we had net current assets of RMB36,509.2 million, RMB41,376.9 million, RMB40,696.3 million and RMB40,767.3 million as of December 31, 2008, 2009 and 2010 and June 30, 2011, which proved to be sufficient to our working capital requirements during the Track Record Period.

We recorded net operating cash outflow for the years ended December 31, 2008, 2009, 2010 and the six months ended June 30, 2011, which were primarily caused by: (i) our increased purchase of financial instruments held for trading that reflected our investment decisions to increase proprietary trading activities to capture market opportunities; (ii) our increased advances to customers in 2010 and 2011 due to the rapid growth of our margin financing and securities lending business in the PRC and Hong Kong during the periods; and (iii) our increased resale and repurchase transactions to manage our liquidity and improve yields on surplus cash.

In addition, as a securities firm, we hold a substantial amount of liquid financial instruments to manage our liquidity and capital, such as financial instruments held for trading and financial assets held under resale agreements. Our net cash outflows due to resale and repurchase transactions amounted to RMB7,941.5 million in 2010 and RMB1,041.4 million for the six months ended June 30, 2011. We believe that we can quickly liquidate these financial instruments in the near term to increase our working capital and meet other liquidity requirements from time to time. Therefore, changes in our operating cash flows may not necessarily have a significant impact on our ability to meet working capital requirements.

Net cash flows from investing activities

Our cash outflows from investing activities consist primarily of our acquisition of interests in our associates and our purchase of property and equipment as well as financial assets. Our cash inflows from investing activities consist primarily of the dividends we receive from associates and the disposal of our property and equipment, interests in associates and financial assets.

For the six months ended June 30, 2011, our net cash used in investing activities was RMB1,826.9 million, which was mainly attributable to (i) an RMB1,368.0 million increase in our available-for-sale investments that reflected our investment decisions; (ii) payments of RMB370.0 million for the acquisition of an equity interest in an associated company; and (iii) payments of RMB153.9 million for the purchases of property and equipment to support our business expansion in 2011.

For the year ended December 31, 2010, our net cash used in investing activities was RMB1,536.6 million, which was mainly attributable to (i) an RMB936.1 million increase in our available-for-sale investments that reflected our investment decisions; (ii) payments of RMB300.0 million for the acquisition of equity interests in associated companies; and (iii) payments of RMB368.8 million for the purchases of property and equipment to support our business expansion in 2010.

For the year ended December 31, 2009, our net cash used in investing activities was RMB3,297.1 million, which was mainly attributable to (i) an RMB3,314.1 increase in available-for-sale investments that reflected our investment decisions; (ii) a payment of RMB1,238.5 million for the acquisition of Taifook Securities in 2009; and (iii) payments of RMB240.8 million for the purchases of property and equipment to support our business expansion in 2009. These cash outflows were partially offset by cash inflows of RMB1,406.0 million from the proceeds of other investments such as the disposal of certain held-to-maturity financial assets in 2009.

For the year ended December 31, 2008, our net cash used in investing activities was RMB1,050.8 million, which was mainly attributable to (i) payments of RMB1,305.3 million for the purchases of certain held-to-maturity financial assets and bonds in 2008 that reflected our investment decision; and (ii) payments of RMB293.8 million for the purchases of property and equipment to support our business expansion in 2008. These cash outflows were partially offset by cash inflows of RMB464.4 million from the decrease of our available-for-sale investments.

Net cash flows from financing activities

Our cash outflows from financing activities consist primarily of the dividends we pay to our shareholders and the non-controlling shareholders of our subsidiaries and an increase in pledged bank deposits. Our cash inflows from financing activities consist primarily of new borrowings we raise.

For the six months ended June 30, 2011, our net cash used in financing activities was RMB1,152.5 million, which was mainly attributable to (i) dividends of RMB1,315.5 million we paid to our shareholders and the non-controlling shareholders of our subsidiaries; and (ii) an RMB318.5 million increase in our pledged bank deposits for corporate finance purposes. These cash outflows were partially offset by the proceeds of RMB466.8 million from borrowings we raised (net of interest paid) in 2011.

For the year ended December 31, 2010, our net cash used in financing activities was RMB1,106.9 million, which was mainly attributable to (i) dividends of RMB1,736.6 million we paid to our shareholders and the non-controlling shareholders of our subsidiaries; and (ii) an RMB1,158.3 million increase in our pledged bank deposits for corporate finance purposes. These cash outflows were partially offset by the proceeds of RMB1,845.7 million from borrowings we raised (net of interest paid) in 2010.

For the year ended December 31, 2009, our net cash used in financing activities was RMB578.1 million, which was mainly attributable to dividends of RMB873.3 million we paid to our shareholders and the non-controlling shareholders of our subsidiaries, partially offset by the proceeds of RMB435.4 million from borrowings we raised (net of interest paid) in 2009.

For the year ended December 31, 2008, our net cash used in financing activities was RMB466.4 million, which was mainly attributable to dividends of RMB465.5 million we paid to our shareholders and the non-controlling shareholders of our subsidiaries.

Assets and Liabilities

To ensure appropriate cash liquidity management and capital allocation, we actively monitor the scale and composition of our balance sheet and seek to maintain a balance sheet with high liquidity. Given the highly liquid nature of our business, most of our balance sheet consists of current assets and liabilities.

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

	As of December 31,			As of June 30,
	2008	2009	2010	2011
	(RMB in millions)			
Non-current assets				
Property and equipment	1,081.2	1,136.2	1,201.2	1,166.6
Investment properties	107.6	104.1	100.6	98.9
Goodwill	5.9	697.1	673.9	658.7
Other intangible assets	178.4	263.8	289.7	305.9
Investments in associates	192.4	215.7	543.3	892.1
Held-to-maturity financial assets	12.6	–	–	–
Available-for-sale investments	225.6	870.1	1,877.5	1,933.7
Deferred tax assets	4.3	57.0	61.6	163.6
Restricted bank deposits	102.5	184.8	260.8	297.2
Other assets	289.3	84.7	108.0	149.5
Total non-current assets	**2,199.8**	**3,613.5**	**5,116.6**	**5,666.2**
Current assets				
Advances to customers	29.7	2,035.0	5,814.5	6,529.2
Accounts receivable	82.1	677.1	980.2	1,458.3
Other receivables and prepayments	382.4	358.5	447.5	1,044.4
Held-to-maturity financial assets	997.3	–	–	–
Available-for-sale investments	1,007.8	5,778.4	5,060.8	6,293.0
Financial assets held under resale agreements	–	–	2,120.0	10,143.5
Financial assets at fair value through profit or loss	9,760.7	12,896.7	15,018.1	17,340.6
Deposits with exchanges	369.9	1,375.0	2,373.4	2,655.8
Clearing settlement funds	2,776.8	5,749.1	20,424.7	3,726.4
Bank balances and cash	57,079.5	88,246.9	58,057.3	51,200.4
Total current assets	**72,486.2**	**117,116.7**	**110,296.5**	**100,391.6**
Total assets	**74,686.0**	**120,730.2**	**115,413.1**	**106,057.8**

	As of December 31,			As of June 30,
	2008	2009	2010	2011
	(RMB in millions)			
Current Liabilities				
Borrowings	–	1,076.6	2,922.3	3,396.3
Accounts payable to brokerage clients	33,777.7	66,580.2	63,682.3	46,971.9
Other payables and accruals	1,240.2	1,870.9	2,523.4	1,664.3
Provisions	110.6	8.8	6.9	4.8
Tax liabilities	238.5	381.8	465.3	514.9
Financial liabilities at fair value through profit or loss	–	–	–	90.0
Financial assets sold under repurchase agreements	610.0	5,821.5	–	6,982.1
Total current liabilities	**35,977.0**	**75,739.8**	**69,600.2**	**59,624.3**
Net current assets	**36,509.2**	**41,376.9**	**40,696.3**	**40,767.3**
Total assets less current liabilities	**38,709.0**	**44,990.4**	**45,812.9**	**46,433.5**
Equity attributable to owners of the Company	38,362.0	43,414.00	44,467.4	45,153.5
Non-controlling interests	275.0	1,104.6	1,149.4	1,146.3
Total equity	**38,637.0**	**44,518.6**	**45,616.8**	**46,299.8**
Total non-current liabilities	**72.0**	**471.8**	**196.1**	**133.7**
Total equities and non-current liabilities	**38,709.0**	**44,990.4**	**45,812.9**	**46,433.5**

Non-current assets and liabilities

Our non-current assets mainly include investments in associates, property and equipment and available-for-sale investments. Our investments in associates and available-for-sale investments are primarily in the form of equity investments. Investments in associates are strategic principal investments, and we classify our available-for-sale investments in our non-current assets as equity investments that we do not expect to sell within one year due to transfer restrictions. Our property and equipment mainly consist of properties used for operational purposes, including our branch network. Our non-current assets increased from RMB2,199.8 million as of December 31, 2008 to RMB3,613.5 million as of December 31, 2009 and further to RMB5,116.6 million as of December 31, 2010 and RMB5,666.2 million as of June 30, 2011. The increase in our non-current assets reflected the increases in our available-for-sale investments and our investments in associates.

Our non-current liabilities mainly include deferred tax liabilities, which reflect the temporary differences that will result in taxable expenses in future years. As of June 30, 2011, our non-current liabilities amounted to RMB133.7 million.

Current assets and liabilities

Our current assets mainly include bank balances and cash (including cash held on behalf of customers), clearing settlement funds, financial instruments held for trading, available-for-sale investments and advances to customers. Our current liabilities mainly include accounts payable to brokerage customers, which are primarily repayable at our customers' request, and financial assets sold under repurchase agreements. Customer deposits in our brokerage business form a major component of our current assets and current liabilities. In current assets, our customer deposits are reflected in bank balances and cash and clearing settlement funds whereas in current liabilities, customer deposits are reflected under accounts payable to brokerage customers. Customer deposits held by us fluctuate based on our customers' trading activities, market conditions and other external factors beyond our control. As a result, customer deposits in our brokerage business are not a meaningful indicator of our financial condition or operating performance. Please see "– Liquidity and Capital Resources – Assets and Liabilities – Adjusted assets and liabilities" below for a summary of assets and liabilities excluding customer deposits in our brokerage business.

Our net current assets, the difference between total current assets and current liabilities, remained positive during the Track Record Period.

As of June 30, 2011, our net current assets increased slightly to RMB40,767.3 million compared to RMB40,696.3 million as of December 31, 2010, because our total current liabilities decreased at a faster rate than our total current assets. The decrease in our current assets is due primarily to an RMB23,555.2 million decrease in bank balances and cash and clearing settlement funds that resulted from the decrease in our cash held on behalf of our customers. The decrease in current assets are partially offset by the increase in financial instruments held for trading, financial assets held under resale agreements, other receivables and prepayments and advances to customers. On the other hand, the decrease in our current liabilities is primarily due to an RMB16,710.5 million decrease in our accounts payable to brokerage clients in the first half of 2011 as a result of the decrease in cash held on behalf of our customers. The decrease was partially offset by an RMB7,456.1 million increase in our financial assets sold under repurchase agreements and borrowings.

As of December 31, 2010, our net current assets decreased slightly to RMB40,696.3 million compared to RMB41,376.9 million as of December 31, 2009, since the decrease in our total current assets was greater than the decrease in our total current liabilities. The decrease in current assets was primarily due to an RMB30,189.6 million decrease in bank balances and cash, as a result of an increase in our investments in the PRC securities markets and the growth of our margin financing and securities lending in 2010. However, the decrease in bank balances and cash was partially offset by the increase in clearing settlement funds, financial instruments held for trading, financial assets held under resale agreements and advances to customers. On the other hand, the decrease in our current liabilities was primarily due to our repurchase of financial assets we sold under repurchase agreements of RMB5,821.5 million in 2010, partially offset by an RMB1,845.7 million increase in borrowings as a result of our acquisition of a controlling interest in Taifook Securities in 2010 and our assumption of its debts.

As of December 31, 2009, our net current assets increased by 13.3% to RMB41,376.9 million compared to RMB36,509.2 million as of December 31, 2008 because our current assets increased at a faster rate than our current liabilities. The increase in current assets was primarily due to (i) a RMB31,167.4 million increase in bank balances and cash, as a result of an increase in our cash held on behalf of clients; and (ii) a RMB9,911.9 million increase in advances to customers, available-for-sale investments and financial instruments held for trading that reflected the change of our investment strategies in order to capture market opportunities. On the other hand, the increase in current liabilities was primarily due to a RMB32,802.5 million increase in accounts payable to brokerage clients as a result of an increase in our cash held on behalf of clients.

We hold financial assets sold under repurchase agreements and financial assets held under resale agreements mainly to manage our liquidity and achieve higher yields on our financial assets through financial leverage. Because resale or repurchase transactions are important measures to manage our liquidity and we adjust the balance of our financial assets sold under repurchase agreements and financial assets held under resale agreements from time to time, the amount of such financial assets could fluctuate significantly during a period. These financial instruments are short-term in nature and can be quickly liquidated in the near term to increase our working capital and meet other liquidity requirements from time to time. For a detailed discussion of our resale or repurchase transactions, please see "– Principal Components of Consolidated Income Statements – Revenue and other income."

The significant fluctuations in our financial assets held under resale agreements were due primarily to the market conditions and our use of capital, which reflected our effort to achieve higher yields on capital compared to the prevailing deposit interest rates.

The significant fluctuations in our financial assets sold under repurchase agreements in 2009 and 2010 were due primarily to our investment decisions to increase our trading of fixed income securities in light of the rising market interest rates. For example, the fixed income securities we held for trading purpose increased from RMB6.3 billion as of December 31, 2009 to RMB9.0 billion as of December 31, 2010. When our capital position changes and short-term trading opportunities emerge, we can generate returns from the difference between short-term investment gains and interest expenses on proceeds from repurchase transactions by subjecting our fixed income securities to repurchase transactions through the securities market or interbank market. In addition, our business activities may require a significant amount of short-term funds, such as when we subscribe for new shares in IPOs and underwrite debt securities, and we can generally increase our liquidity by relying on repurchase transactions at a relatively low cost.

Adjusted assets and liabilities

Because client deposits held by us fluctuate based on our customers' trading activities, market conditions and other external factors that are beyond our control, we have adjusted our assets and liabilities to exclude our assets held on behalf of clients and accounts payable to brokerage customers so that prospective investors could have an accurate understanding of our financial condition.

	As of December 31,			As of June 30,
	2008	2009	2010	2011
	(RMB in millions)			
Adjusted current assets[1]	38,708.6	50,536.5	46,614.2	53,419.7
Non-current assets	2,199.8	3,613.5	5,116.6	5,666.2
Adjusted total assets[2]	40,908.3	54,150.0	51,730.8	59,085.9
Adjusted current liabilities[3]	2,199.3	9,159.6	5,917.9	12,652.4
Non-current liabilities	72.0	471.8	196.1	133.7
Adjusted total liabilities[4]	2,271.3	9,631.4	6,114.0	12,786.1
Total equity	38,637.0	44,518.6	45,616.8	46,299.8

(1) Adjusted current assets equal total current assets less accounts payable to brokerage clients;

(2) Adjusted total assets equal non-current assets plus adjusted current assets;

(3) Adjusted current liabilities equal total current liabilities less accounts payable to brokerage clients;

(4) Adjusted total liabilities equal non-current liabilities plus adjusted current liabilities.

Borrowings

As of October 31, 2011, being the Latest Practicable Date for the purpose of the indebtedness statement, we had total borrowings of RMB2,413.5 million. The following table sets forth the breakdown of our interest-bearing borrowings as of the dates indicated:

	As of December 31,			As of June 30,	As of October 31,
	2008	2009	2010	2011	2011
					(unaudited)
	(RMB in millions)				
Secured borrowings					
Bank overdrafts	–	–	11.8	–	–
Bank loans	–	724.4	2,060.1	2,355.1	1,759.6
Unsecured borrowings					
Bank loans	–	132.1	765.3	957.9	653.9
Other loans	–	220.1	85.1	83.2	–
	–	1,076.6	2,922.3	3,396.2	2,413.5

We rely on our operating cash flow as the principal source of liquidity for our PRC operations in our ordinary course of business, and we did not incur any borrowings in 2008. We entered into a short-term bridge loan of approximately RMB437.4 million for the acquisition of Taifook Securities in 2009.

Since the acquisition of Taifook Securities, we have started to incur short-term bank borrowings in Hong Kong primarily to fund our overseas margin financing and securities lending business. A majority of our borrowings are secured and some of our bank overdrafts and bank loans were secured by:

- listed shares held by us as security for advances to customers of RMB485.5 million, RMB2,767.2 million and RMB2,760.1 million as of December 31, 2009, 2010 and June 30, 2011, respectively; and

- our shares in Haitong International Securities as of December 31, 2009.

As of October 31, 2011, our borrowings are either repayable on demand or due within one year and primarily denominated in Hong Kong dollars and incurred by our Hong Kong subsidiaries.

Except as disclosed above, and apart from intra-group liabilities, we did not have, as of October 31, 2011, any outstanding mortgages, charges, debentures, other debt capital (issued or agreed to be issued), bank overdrafts, liabilities under acceptance or other similar indebtedness, hire purchase and finance lease commitments, any guarantees or other material contingent liabilities.

CAPITAL EXPENDITURES

Our capital expenditures principally comprise expenditures for the purchase of property, plant, equipment and intangibles assets. The following table sets forth our capital expenditures for the periods indicated:

	Year ended December 31,			Six months ended June 30,
	2008	2009	2010	2011
	(RMB in millions)			
Purchase of property, equipment and intangible assets	293.8	240.8	368.8	153.9

Our capital expenditures were RMB293.8 million, RMB240.8 million, RMB368.8 million and RMB153.9 million for the years ended December 31, 2008, 2009 and 2010 and the six months ended June 30, 2011, respectively. During those periods, we incurred capital expenditures primarily for purchases of property and equipment to expand our branch network and in connection with business acquisitions. The substantial increase in our capital expenditures in 2010 was mainly attributable to the renovation of 22 brokerage branches and relocation of 14 brokerage branches in the PRC.

As of June 30, 2011, we estimated that our capital expenditures for the year ending December 31, 2011 will be approximately RMB174.0 million, which we will use to establish more branches in the PRC and purchase additional property and equipment. We intend to finance these capital expenditures from our operating cash flow.

COMMITMENTS AND CONTINGENT LIABILITIES

Capital commitments

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

	As of December 31,			As of June 30,	As of October 31,
	2008	2009	2010	2011	2011
					(unaudited)
			(RMB in millions)		
Contracted but not provided for:	–	0.7	9.2	6.7	23.9

We have funded a substantial portion of our capital commitments by cash flow from our operating activities. Historically, our capital commitments were mainly attributable to the purchase of property and equipment for expanding our branch network and, as we grow, we expect to continue to incur more capital commitments to support our business expansion.

As of October 31, 2011, our capital commitments of RMB23.9 million were primarily associated with the purchase of property for one brokerage branch and renovation of 16 brokerage branches in the PRC as well as the purchase of IT systems for securities trading.

Operating lease commitments

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

	As of December 31,			As of June 30,	As of October 31,
	2008	2009	2010	2011	2011
					(unaudited)
			(RMB in millions)		
Within one year	77.6	47.6	170.2	195.0	186.1
In the second to fifth year inclusive	124.0	224.0	275.3	364.8	260.1
Over five years	10.4	41.1	101.6	66.3	50.4
	212.0	312.7	547.1	626.1	496.6

We also rent some of our properties to third parties under non-cancellable operating leases. The following table sets forth our future minimum lease payments receivable under non-cancellable operating leases as of the dates indicated:

	As of December 31,			As of June 30,	As of October 31,
	2008	2009	2010	2011	2011
					(unaudited)
	(RMB in millions)				
Within one year	6.4	6.4	6.0	11.2	9.4
In the second to fifth year, inclusive	26.2	19.8	13.7	22.2	22.9
Over five years	–	–	–	0.6	0.2
	32.6	26.2	19.7	34.0	32.5

Contingent liabilities

As of October 31, 2011, we were not involved in any material legal, arbitration or administrative proceedings that if adversely determined, we expect would materially and adversely affect our financial position and results of operations, although there can be no assurance that this will be the case in the future.

As of October 31, 2011, we do not have any guarantees, mortgages, charges, or other material contingent liabilities.

OFF-BALANCE SHEET ARRANGEMENTS

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

CAPITAL ADEQUACY AND RISK CONTROL INDICATOR

According to the Risk Control Indicator Measures, we have established a dynamic Net Capital monitoring mechanism to comply with statutory Net Capital requirements and other regulatory standards for capital adequacy. In addition, we also need to maintain a minimum amount of Net Capital to conduct our margin financing and securities lending, asset management and underwriting businesses. As of December 31, 2008, 2009, 2010 and September 30, 2011, we were in compliance with all of our capital adequacy and risk control indicator requirements. As of September 30, 2011, our Net Capital amounted to RMB31.1 billion, among the second highest in the PRC securities companies.

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

	As of December 31,			As of June 30,	As of September	Warning	Minimum/ Maximum
	2008	2009	2010	2011	30, 2011	level[(1)]	level
Net Capital[(2)] (RMB in millions)	34,145.4	34,390.9	32,459.5	33,270.5	31,138.7	>240.0	>200.0
Net assets/total risk capital reserves[(3)] (%)	1,221.3%	779.2%	571.7%	498.0%	426.1%	>120.0%	>100.0%
Net Capital/net assets (%)	89.3%	79.8%	74.0%	74.3%	69.9%	>48.0%	>40.0%
Net Capital/total liabilities[(4)] (%)	1,600.3%	440.9%	1,232.5%	349.8%	243.3%	>9.6%	>8.0%
Net asset/total liabilities (%)	1,791.6%	552.3%	1,665.0%	470.6%	347.8%	>24.0%	>20.0%
Value of equity securities and derivatives held/Net Capital (%)	3.2%	25.3%	26.9%	37.0%	42.2%	<80.0%	<100.0%
Value of fixed income securities held/Net Capital (%)	31.5%	29.5%	36.3%	42.4%	55.3%	<400.0%	<500.0%

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

(2) Net Capital equals net assets minus risk adjustments of financial assets minus risk adjustments of other assets and contingent liabilities plus/minus other adjustments determined or authorized by the CSRC.

(3) Risk capital reserve is a statutory reserve for PRC securities firms to cover any loss that securities firms may incur in their ordinary course of business and setting up of subsidiaries and branches. Such reserve is calculated based on a securities firm's Net Capital.

(4) Total liabilities exclude the accounts payable to our brokerage clients.

In addition to the risk control indicators mentioned above, the Risk Control Indicator Measures require us to comply with the following requirements when we engage in proprietary trading: (i) the cost of holding one kind of equity securities should not exceed 30% of our Net Capital; and (ii) the market value of one kind of equity securities we hold should not exceed 5% of its total market value, except for owing to underwriting activities or otherwise approved by the CSRC. Meanwhile, when conducting margin financing and securities lending activities, we need to comply with the following requirements: (i) the value of margin financing granted to a single customer should not exceed 5% of our Net Capital; (ii) the value of securities lent to a single customer should not exceed 5% of our Net Capital; and (iii) the market value of one kind of securities we hold should not exceed 20% of its total market value. We closely monitor all risk control indicators when conducting our proprietary trading and margin financing and securities lending businesses. During the Track Record Period, we did not have any non-compliances with these risk control indicators nor have we received any warnings or penalties from the CSRC.

QUANTITATIVE AND QUALITATIVE ANALYSIS OF MARKET RISK

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in economic environment. Market risk comprises five types of risks: credit risk, liquidity risk, price risk, interest rate risk and currency risk.

Credit risk

We are exposed to credit risk, which is the risk that a counterparty will be unable to pay amounts in full when due. The following table sets forth our maximum credit risk exposure, being the carrying amount of the respective recognized financial assets before the effect of mitigation through the use of collateral:

	As of December 31,			As of June 30,
	2008	2009	2010	2011
	(RMB in millions)			
Advances to customers	29.7	2,035.0	5,814.5	6,529.2
Accounts receivable	82.1	677.1	980.2	1,458.3
Other receivables and prepayments	382.3	358.5	447.5	1,044.4
Held-to-maturity financial assets	1,009.8	–	–	–
Available-for-sale investments	–	110.9	278.5	220.0
Financial assets held under resale agreements	–	–	2,120.0	10,143.5
Financial assets at fair value through profit or loss	7,843.1	6,528.1	8,978.2	12,746.8
Deposits with exchanges	369.9	1,375.0	2,373.4	2,655.8
Clearing settlement funds	2,776.8	5,749.1	20,424.7	3,726.4
Bank balances and cash	57,079.6	88,246.9	58,057.3	51,200.4
Restricted bank deposits	102.5	184.8	260.8	297.2
Other assets	282.8	78.3	101.6	143.0
Maximum credit exposure	**69,958.6**	**105,343.7**	**99,836.7**	**90,165.0**

Credit exposures arise principally from investments in debt securities, advances to customers, accounts receivable, clearing settlement funds and bank balances which are included in our asset portfolios.

Credit exposure arising from investments in debt securities include downgrading of credit rating of the debt securities and/or of its underlying issuers and default of payments by the issuers. We have implemented a policy of not investing in any debt securities rated by reputable credit rating agency at a rating below A-3 and BBB for short-term tenor and for medium to long-term tenor, respectively. Our management also closely monitors the credit ratings of respective debt securities on a regular basis and the financial soundness of the underlying issuers.

We provide customers with margin financing for securities transactions and securities lending to customers, which are secured by customers' securities or deposits held as collateral. Our management has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. Each customer has a maximum credit limit based on the quality of collateral held and the financial background of the customer. In addition, we review the recoverable amount of each individual at the end of the reporting period to ensure that adequate impairment losses are made for irrecoverable amounts. Margin calls are made when the trades of margin customers exceed their respective limits. Any such excess is required to be made good within the next trading day. Failure to meet margin calls may result in the liquidation of the customer's positions.

We seek to maintain tight control over our outstanding accounts receivable in order to minimize credit risk. Overdue balances are regularly monitored by our management. Accounts receivable from cash customers which are neither past due nor impaired represent unsettled customer trades on various securities exchanges transacted on the last two business days prior to the respective reporting date. Such receivable balances are neither past due nor impaired as they are within the normal market convention.

Accounts receivable from cash customers which are past due but not impaired represent customer trades on various securities exchanges which are unsettled beyond the settlement date. When the cash customers fail to settle on settlement date, we have the right to force-sell the collateral underlying the securities transactions. The outstanding accounts receivable from cash customers as of December 31, 2008, 2009 and 2010 and June 30, 2011 are considered not to be impaired after taking into consideration the recoverability from collateral. Collateral held against such receivables are publicly traded securities.

The credit risk on liquid funds is limited because the counterparties are banks with high credit ratings assigned by international credit-rating agencies.

Other than concentration of credit risk on liquid funds which are deposited with several banks with high credit ratings, our major credit exposures are with counterparties domiciled in the PRC as of December 31, 2008, 2009 and 2010 and June 30, 2011.

Liquidity risk

Liquidity risk is the risk that we will encounter difficulty in meeting obligations associated with our financial liabilities. Prudent liquidity risk management includes maintaining sufficient cash, the availability of funding from the market in the capacity of a financial institution, and the ability to close out market positions. As part of the measures to safeguard liquidity, we have maintained substantial long-term and other stand-by banking facilities, diversifying the funding sources and spacing out the maturity dates.

As of October 31, 2011 we had RMB5,220.8 million of unutilized banking facilities.

Undiscounted cash flows by contractual maturities

The table below presents our cash flows payable under non-derivative financial liabilities held for managing liquidity risk by remaining contractual maturities at the reporting date. The amounts disclosed in the table are the contractual undiscounted cash flows. The table includes both interest and principal cash flows.

As of December 31, 2008

	On demand	Less than 3 months	3 months to 1 year	Total
	(RMB in millions)			
Accounts payable to brokerage clients	33,777.7	–	–	33,777.7
Other payables	493.2	–	12.9	506.1
Financial assets sold under repurchase agreements	–	610.0	–	610.0
	34,270.9	610.0	12.9	34,893.8

As of December 31, 2009

	On demand	Less than 3 months	3 months to 1 year	Total
	(RMB in millions)			
Borrowings	220.1	856.6	–	1,076.7
Accounts payable to brokerage clients	66,510.3	69.9	–	66,580.2
Other payables	759.5	–	14.7	774.2
Financial assets sold under repurchase agreements	–	5,822.6	–	5,822.5
	67,489.9	6,749.1	14.7	74,253.6

As of December 31, 2010

	On demand	Less than 3 months	3 months to 1 year	Total
	(RMB in millions)			
Borrowings	96.9	2,826.3	–	2,923.2
Accounts payable to brokerage clients	63,462.1	110.3	109.9	63,682.3
Other payables	1,307.6	–	17.9	1,325.5
	64,866.6	2,936.6	127.8	67,931.0

As of June 30, 2011

	On demand	Less than 3 months	3 months to 1 year	Total
	(RMB in millions)			
Borrowings	–	3,397.1	–	3,397.1
Accounts payable to brokerage clients	46,427.7	–	544.2	46,971.9
Other payables	487.2	–	9.5	496.7
Financial assets sold under repurchase agreements	–	6,984.3	–	6,984.3
	46,914.9	10,381.4	553.7	57,850.0

Price risk

Price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate as a result of changes in market prices (other than those arising from interest rate risk or foreign exchange risk), whether caused by factors specific to an individual investment, its issuer, or all factors affecting equity instruments traded in the market.

We are exposed to price risk arising from individual investments classified as financial assets held for trading and available-for-sale investments. Our directors manage the exposure by closely monitoring the portfolio of investments and may hedge exposure by entering into derivatives contracts. Price risk exposures are measured using value-at-risk (VaR) at company level.

There has been no change to our exposure to market risks or the manner in which we manage and measure the risk.

VaR analysis

The VaR risk measure estimates the potential loss over a given holding period for a specified confidence level. The VaR methodology is a statistically defined, probability-based approach that takes into account market volatilities as well as risk diversification by recognizing offsetting positions and correlations between products and markets. Risks can be measured consistently across all markets and products, and risk measures can be aggregated to arrive at a single risk number. The one-day 95% VaR number used by us reflects the 95% probability that the daily loss will not exceed the reported VaR.

We employ VaR methodologies to calculate month end risk numbers which include the historical approach.

Historical VaR (95%, one-day) by risk type	As of December 31,			As of June 30, 2011	As of September 30, 2011
	2008	2009	2010		
	(RMB in millions)				
Total VaR exposure	71.0	409.0	175.0	116.0	159.0

Historical VaR (95%, one-day) by risk type	Average				
	Year ended December 31,			Six months ended June 30, 2011	Nine months ended September 30, 2011
	2008	2009	2010		
	(RMB in millions)				
Total VaR exposure	133.0	231.0	223.0	148.0	150.0

Historical VaR (95%, one-day) by risk type	Minimum				
	Year ended December 31,			Six months ended June 30, 2011	Nine months ended September 30, 2011
	2008	2009	2010		
	(RMB in millions)				
Total VaR exposure	71.0	73.0	173.0	116.0	116.0

Historical VaR (95%, one-day) by risk type	Maximum				
	Year ended December 31,			Six months ended June 30, 2011	Nine months ended September 30, 2011
	2008	2009	2010		
	(RMB in millions)				
Total VaR exposure	252.0	438.0	278.0	185.0	185.0

Assuming other factors remain unchanged, our subsidiaries have utilized the effect of stock price variation on net profit and investment revaluation reserve within the period to manage and analyze the price risk, instead of VaR methodology. When reporting internally to the key management on our price risk, our management estimates that reasonable possible change in price is 10%. If the prices of the respective equity instruments had been 10% higher or lower, and held other variables constant, the impacts to our profit for the year or period and investment revaluation reserve are as follows:

	Year ended December 31,			Six months ended June 30,
	2008	2009	2010	2011
	(RMB in millions)			
Profit for the year/period				
Increase by 10%	–	3.7	5.7	5.4
Decrease by 10%	–	(3.7)	(5.7)	(5.4)
Investment revaluation reserve				
Increase by 10%	–	2.7	14.4	13.9
Decrease by 10%	–	(2.7)	(14.4)	(13.9)

In our management's opinion, the sensitivity analysis does not represent inherent price risk as the year end exposure does not reflect the exposure during the year or period.

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

Our exposure to interest rate risk relates primarily to our bank deposits, advances to customers, amount due from or to a subsidiary, clearing settlement funds, debt securities, accounts payable to brokerage clients and borrowings. Our management actively monitors our net interest rate exposure through setting limits on the level of mismatch of interest rate repricing and duration gap and aims at maintaining an interest rate spread, such that we are always in a net interest-bearing asset position and derive net interest income.

Fluctuations of the prevailing rate quoted by the PBOC and Hong Kong Inter-bank Offered Rate are the major sources of our cash flow interest rate risk.

Sensitivity analysis

The sensitivity analysis below has been determined based on the exposure to interest rates for variable rate financial assets and liabilities. The analysis is prepared assuming the financial instruments outstanding at the end of the reporting period were outstanding for the whole year. A 50 basis point increase or decrease is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates.

If interest rates had been 50 basis points higher/lower and all other variables were held constant, our:

- Profit for the years ended December 31, 2008 would increase/decrease by RMB27.1 million and would decrease/increase for the years ended December 31, 2009 and 2010 and the six months ended June 30, 2011 by RMB18.2 million, RMB42.5 million and RMB123.9 million, respectively. This is mainly attributable to our exposure to interest rates on our bank balances, accounts payable to brokerage clients and investments in debt securities; and

- Investment revaluation reserve for the years ended December 31, 2008, 2009 and 2010 and the six months ended June 30, 2011 would decrease/increase by nil, RMB3.2 million, RMB5.5 million and RMB5.2 million, respectively, mainly as a result of the changes in the fair value of available-for-sale bond investments.

Currency risk

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate as a result of changes in foreign exchange rates.

Our currency risk arises principally from our leveraged foreign exchange business carried out through Haitong International Securities.

Our other amounts of financial assets and liabilities are substantially denominated in the functional currency of the respective entity within us. As such, our currency risk exposure is considered insignificant.

DIVIDEND POLICY

After the completion of the Global Offering, we may distribute dividends in the form of cash or by other means that we consider appropriate. Any proposed distribution of dividends shall be formulated by our Board and will be subject to our Shareholders' approval. A decision to declare or to pay any dividends in the future, and the amount of any dividends, will depend on a number of factors, including our results of operations, cash flows, financial condition, capital adequacy ratio, payments by our subsidiaries of cash dividends to us, business prospects, statutory, regulatory and contractual restrictions on our declaration and payment of dividends and other factors that our Board may consider important.

According to the applicable PRC laws and our Articles of Association, we will pay dividends out of our profit after tax only after we have made the following allocations:

- recovery of accumulated losses, if any;

- allocations to the general risk reserve of not less than 10% of our profit after tax;

- allocations to the statutory reserve equivalent to 10% of our profit after tax, and, when the statutory reserve reaches and is maintained at or above 50% of our registered capital, no further allocations to this statutory reserve will be required;

- allocations to the transaction risk reserve of not less than 10% of our profit after tax; and
- allocations, if any, to a discretionary common reserve fund that are approved by our Shareholders in a Shareholders' meeting.

In accordance with our Articles of Association: (i) dividends may be paid only out of distributable profits as determined under PRC GAAP or IFRS, whichever is lower; (ii) any distributable profits that are not distributed in any given year will be retained and become available for distribution in subsequent years; and (iii) aggregate cash dividends distributed by us in the most recent three fiscal years could not be less than 30% of our average annual distributable profits for the same three fiscal years.

For the years ended December 31, 2008, 2009 and 2010, we declared cash dividends of RMB822.8 million, RMB1,645.6 million and RMB1,234.2 million, respectively, representing a dividend of RMB0.10, RMB0.20 and RMB0.15 per Share, respectively. After the Global Offering, holders of our H Shares and A Shares will have the same rights to our distributable profits as of December 31, 2011 and thereafter.

DISTRIBUTABLE RESERVES

As of June 30, 2011, we had reserves of RMB8,480.4 million available for distribution to the shareholders of our Company.

PROFIT FORECAST FOR THE YEAR ENDING DECEMBER 31, 2011

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

Forecast consolidated profit attributable to owners of the Company for the year ending December 31, 2011[(1)]	Not less than RMB3,140 million
Forecast earnings per Share	
(a) pro forma basis[(2)]	RMB0.33 (HK$0.41)
(b) weighted average basis[(3)]	RMB0.38 (HK$0.46)

(1) The bases and assumptions on which the above profit forecast for the year ending December 31, 2011 has been prepared are set out in "Appendix IV – Profit Forecast" in this prospectus.

(2) The calculation of the forecast earnings per Share on a pro forma basis in accordance with Rule 4.29(8) of the Listing Rules is based on our forecast consolidated net profit attributable to the owners of our Company for the year ending December 31, 2011, and an assumption that a weighted average number of Shares issued and outstanding during the year ending December 31, 2011 would be 9,457,221,180. The weighted average of 9,457,221,180 Shares is calculated based on the 8,227,821,180 Shares issued and outstanding as of December 31, 2010 and the 1,229,400,000 H Shares to be issued pursuant to the Global Offering on the assumption that the Global Offering had been completed on January 1, 2011.

(3) The calculation of the forecast earnings per Share on a weighted average basis in accordance with IAS 33 is based on the forecast consolidated net profit attributable to the owners of our Company for the year ending December 31, 2011 and a weighted average of 8,285,080,906 Shares issued and outstanding during the year ending December 31, 2011. The weighted average of 8,285,080,906 Shares is calculated based on the 8,227,821,180 Shares issued and outstanding as of December 31, 2010, and the 1,229,400,000 H Shares to be issued pursuant to the Global Offering on the assumption that the Global Offering was completed on December 15, 2011.

UNAUDITED PRO FORMA ADJUSTED CONSOLIDATED NET TANGIBLE ASSETS

The following unaudited pro forma adjusted consolidated net tangible assets have been prepared based on the unaudited consolidated net tangible assets as of September 30, 2011 as extracted from the Unaudited Interim Financial Report in Appendix II to this prospectus, and is adjusted as described below. The unaudited pro forma adjusted consolidated net tangible assets have been prepared for illustrative purposes only and, because of their nature, they may not give a true picture of our consolidated financial position as of September 30, 2011 or any future date following the Global Offering.

The following unaudited pro forma adjusted consolidated net tangible assets have been prepared to show the effect on the unaudited consolidated net tangible assets as of September 30, 2011 as if the Global Offering had taken place on September 30, 2011.

	Unaudited consolidated net tangible assets attributable to equity holders of our Company as of September 30, 2011(1)	Estimated net proceeds from the Global Offering(2)	Unaudited pro forma adjusted consolidated net tangible assets attributable to equity holders of the Company(3)	Unaudited pro forma adjusted consolidated net tangible assets per Share(4)	
	(RMB in millions)			RMB	HKD(5)
Based on offer price of HK$9.38 for each Offer Share	43,891.9	9,066.4	52,958.3	5.60	6.86
Based on offer price of HK$10.58 for each Offer Share	43,891.9	10,234.1	54,126.0	5.72	7.01

(1) The unaudited consolidated net tangible assets attributable to equity holders of the Company as of September 30, 2011 is compiled based on the Unaudited Interim Financial Report in Appendix II to the prospectus, which is based on the unaudited consolidated net assets attributable to equity holders of the Company as of September 30, 2011 of approximately RMB44,801.7 million with an adjustment for goodwill and other intangible assets attributable to owners of the Company as of September 30, 2011.

(2) The estimated net proceeds from the Global Offering are based on the offer price of HK$9.38 per share and HK$10.58 per share after deduction of the underwriting fees and other related expenses payable by the Company, and do not take into account any shares which may be issued upon the exercise of the over-allotment option for the Global Offering.

(3) The unaudited pro forma adjusted consolidated net tangible assets attributable to equity holders of the Company do not take into account the effect of the profit for the period from and including October 1, 2011 to the date immediately preceding the date of the Global Offering and the distribution of such profit to the shareholders.

(4) The unaudited pro forma adjusted consolidated net tangible assets per share after the adjustments referred to in note 2 above and on the basis that 9,457,221,180 shares are issued and outstanding following the completion of the Global Offering and that the over-allotment option for the Global Offering is not exercised. If the over-allotment option for the Global Offering is exercised in full, these per share values would increase.

(5) The translation of Renminbi into Hong Kong dollars has been made at the rate of RMB0.8160 to HK$1.00, the PBOC rate prevailing on November 18, 2011. No representation is made that the Hong Kong dollar amounts have been, could have been or could be converted to Renminbi, or vice versa, at that rate or at any other rates or at all.

DISCLOSURE REQUIRED UNDER THE HONG KONG LISTING RULES

Our Directors have confirmed that they are not aware of any circumstances that would give rise to a disclosure requirement under Rules 13.13 to Rules 13.19 of the Hong Kong Listing Rules.

As a company listed on the Shanghai Stock Exchange, we are required to publish our quarterly (for the first and third quarters of each year), interim (for the fix six months of each year) and annual reports with respect to our A Shares on the Shanghai Stock Exchange within one month, two months and four months, respectively, of the end of the relevant reporting period. We will disclose the same information in both English and Chinese in Hong Kong simultaneously under 13.09(2) of the Hong Kong Listing Rules. Our annual and interim financial statements for A Shares and H Shares will be prepared based on PRC GAAP and IFRS, respectively. Our quarterly financial statements will be prepared based on PRC GAAP for A Shares.

NO MATERIAL ADVERSE CHANGE

Our Directors have confirmed that there has been no material adverse change in our financial or trading position since June 30, 2011, being the date of our latest audited consolidated financial results.