



海通证券股份有限公司 HAITONG SECURITIES CO., LTD.*

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

Stock Code: 6837

Annual Report
2012

*For identification purpose only

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IMPORTANT NOTICE

The Board, the Supervisory Committee, Directors, Supervisors and senior management represent and warrant that this annual report is true, accurate and complete and does not contain any false records, misleading statements or material omission and jointly and severally take full legal responsibility.

This report was reviewed and passed at the sixteenth meeting (the "Board Meeting") of the fifth session of the Board. The number of Directors to attend the Board Meeting should be 17 and the number of Directors having actually attended the Board Meeting was 16. Independent non-executive Director Dai Genyou was unable to attend the Board Meeting in person due to work engagement, and had appointed independent non-executive Director Xia Bin to vote on his behalf.

None of the Directors or Supervisors has any objection on this Report.

The Company's annual financial reports, prepared in accordance with IFRS and the PRC GAAP, were audited by Deloitte Touche Tohmatsu and BDO China Shu Lun Pan Certified Public Accountants LLP (Special General Partnership) respectively, whom then issued a standard unqualified audit report thereon. All the financial data in this Report were presented in RMB unless otherwise indicated.

Mr. Wang Kaiguo, Chairman of the Company, and Mr. Li Chuqian, Chief Financial Officer responsible for the accounting affairs, declare that they represent and warrant the truthfulness, accuracy and completeness of the financial report contained in this Report.

The profit distribution proposal or proposal on transfer of capital reserve fund into share capital reviewed by the Board for the Reporting Period: Cash dividends of RMB1.20 per 10 shares (inclusive of tax) was distributed to all holders of A Shares and H Shares whose names appear on the register of members of the Company on the record date, on the basis of a total share capital of 9,584,721,180 A Shares and H Shares at issue as of 31 December 2012. Consequently, an aggregate cash dividend of RMB1,150,166,541.60 was distributed, representing 73.42% of the profits distributable to investors in cash in 2012. The outstanding balance of the retained profits distributable as cash dividends amounted to RMB7,994,320,712.79 and will be carried forward to the next year.

Forward looking statements, including future plan and development strategy, contained in this report do not constitute a real commitment to investors by the Company. Investors should be reminded of such investment risks.

No appropriation of funds on a non-recurring basis by the Company's controlling shareholders, if any, or their respective related parties has occurred during the Reporting Period.

The Company did not provide external guarantees in violation of any stipulated decision-making procedures during the Reporting Period.

CHAIRMAN'S STATEMENT

Dear shareholders:

As stock market remains in doldrums, competition in securities industry is even more intensified, revenue from traditional businesses like brokerage and investment banking suffers substantial decline, and therefore the living space for securities companies solely relying on traditional channels becomes smaller and smaller. In order to overcome cyclic slump in the industry, securities companies are forced by the severe competition to reform and innovate, explore new profit growth drivers, improve revenue from innovative business and diversify revenue model. Facing the difficulties, the Company is united as one, tackled tough situations and conducted innovation-driven transformation and development, thereby having attained satisfactory operating results. Our operating income and profitability remained foremost within the industry, our brokerage business saw significant rise in market share, and innovative business further secured its leading position in the marketplace. The Company was among the first to be approved to conduct margin and securities refinancing business, RQFLP (RMB qualified foreign limited partner) business trial, and QFII (Qualified Foreign Institutional Investors) business (as a PRC-owned Hong Kong securities company). The Company was also qualified to commence small and medium-sized enterprises private debt underwriting and QFLP (Qualified Foreign Limited Partner) business trial and set up Shanghai Cultural Industry Equity Investment Fund. The Company newly established innovative securities investment subsidiary and asset management subsidiary, attaining new achievements in its group development. We received proceeds of HK\$14.38 billion from the listing of H Shares on the Hong Kong Stock Exchange, which further enhanced our capital strength, optimized our shareholders structure and improved the Company's international reputation as well as brand awareness, thereby attaining significant breakthroughs in international development.

Looking forward to the coming year, securities industry will embrace an unprecedented opportunity for innovation. Capitalized on the historical opportunity of industrial reform and innovation, Haitong Securities will regard innovation and internationalization as key drivers, propel organizational innovation, business innovation, product innovation and service innovation in a better manner, further optimize organizational structure, improve capital allocation, perfect revenue structure, speed up building of trading, custody and settlement, payment, financing and investment functions, and increase profitability and service standard. Riding on opportunities arising from listing of the Company in Hong Kong and internationalization of RMB, the Company will secure its advantages of RMB products in Hong Kong, accelerate resource integration as well as PRC and overseas synergistic interaction, and further deepen international development, so as to create better economic and social benefits for shareholders, staff, interest-related parties and the society.

Chairman: Wang Kaiguo
26 March 2013

SECTION I DEFINITION AND IMPORTANT RISK WARNINGS

I. DEFINITION

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

“A Share(s)”	domestic shares of the Company, with a nominal value of RMB1.00 each, which are subscribed for or credited as paid up in Renminbi and are listed for trading on the Shanghai Stock Exchange
“Articles of Association” or “Articles”	the articles of association of Haitong Securities
“Board”	the board of Directors of Haitong Securities
“China” or “PRC”	the People’s Republic of China excluding, for the purpose of this Report, Hong Kong, Macau and Taiwan
“Code”	The Corporate Governance Code and Corporate Governance Report set out in Appendix 14 to the Listing Rules
“Company” or “Haitong Securities”	Haitong Securities Co., Ltd.
“CSRC”	the China Securities Regulatory Commission
“Directors(s)”	the director(s) of Haitong Securities
“Group”	the Company and its subsidiaries
“H Share(s)”	ordinary shares in the share capital of Haitong Securities with nominal value of RMB1.00 each, which are subscribed for and traded in HK dollars and are listed on the Hong Kong Stock Exchange
“Hong Kong Stock Exchange”	the Stock Exchange of Hong Kong Limited
“IFRS”	the International Financial Reporting Standards

SECTION I DEFINITION AND IMPORTANT RISK WARNINGS

“IPO”	initial public offering
“Listing Rules” or “Hong Kong Listing Rules”	the Rules Governing the Listing of Securities on the Hong Kong Stock Exchange (as amended from time to time)
“Model Code”	the Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 to the Listing Rules
“NSSF”	the National Council for Social Security Fund of the PRC (中國全國社會保障基金理事會)
“PRC GAAP”	generally accepted accounting principles in the PRC
“QFII”	Qualified Foreign Institutional Investor
“Reporting Period”	the 12-month period from 1 January 2012 to 31 December 2012
“RMB” or “Renminbi”	the lawful currency of the PRC
“RQFII”	Renminbi Qualified Foreign Institutional Investor
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) as amended, supplemented or otherwise modified from time to time
“Shanghai Stock Exchange”	the Shanghai Stock Exchange
“Shenzhen Stock Exchange”	the Shenzhen Stock Exchange
“Supervisor(s)”	member(s) of the Supervisory Committee
“Supervisory Committee”	the supervisory committee of Haitong Securities

SECTION I DEFINITION AND IMPORTANT RISK WARNINGS

II. IMPORTANT RISK WARNINGS

Most of the revenues of the Company are generated from securities market, so macroeconomic environment and market condition may have a material and adverse impact over the Company's operations. Our business is also subject to many factors, including macroeconomic and monetary policies, laws and regulations on financial and securities industry, inflation, fluctuation in exchange rate, funding sources available in the market in short-term and long-term, cost of funding and level and volatility of interest rates. Our business may be directly affected by market volatility, fluctuations in the trading volume and views of the market on the credit conditions etc. Market risks like declines in the asset prices may materially and adversely impact the Company's operations. The Company is also exposed to credit risks associated with issuers of the financial assets held by the Company. The Company may hold a large amount of specific assets in underwriting, investment, margin financing and securities lending or other securities business. Investment in such capital may expose the Company to concentrated risks.

We face intense competition in securities industry of the PRC and our business could be materially and adversely affected if we are unable to compete effectively. Intense price competition in recent years has lowered commission rates and fee income for our securities brokerage business. In order to improve our standing within the industry, the Company is committed to provision of new products and services to our clients. However, innovative business could lead to higher risks. Business innovation may induce the Company to transact with a broader range of customers and counterparties, tap into new market sectors and provide new products, which expose the Company to new risks. The Company may be subject to more strict regulatory scrutiny or assume greater market risks, credit risks or operational risks.

When the Company has limited access to financing channels in capital market, or is unable to dispose its assets, or our credit qualification suffers from adverse changes, the Company's liquidity, profit and operation could be materially and adversely affected. The Company's business is also exposed to risks when a client or counterparty is unable to discharge its contract obligations, or when the value of collaterals pledged by the client or counterparty is insufficient to cover the credit risk. Our operations depend on key management and professional staff. However, as competition for qualified professionals is highly intensified in the marketplace, our business may suffer if we are unable to attract, retain or replace them with suitable candidates. The Company manages its risks with internal risk management structure and procedures. But some of the risk management methods are based on historical data in the marketplace or past experience, which may not accurately predict risks in future, especially when the basis above is not efficient in predicting extreme market events. In markets that are rapidly developing, the information and experience data that we rely on for our risk management methods may become outdated as markets and regulations continue to evolve. The Company also faces various operational risks like malfunction of information technology, which may cause adverse impact on our operation. Any occurrence of force majeure events, including outbreaks of contagious diseases, acts of terrorism or natural disasters, may have a material adverse impact on our business operations, financial condition and results of operations.

Please refer to discussions on various risk factors and control measures in our operations, as to the specific analysis for all kinds of risks and measures taken or to be taken by the Company.

SECTION II COMPANY PROFILE

I. COMPANY NAME

Chinese name of the Company: 海通證券股份有限公司

Chinese abbreviation of the Company: 海通證券

English name of the Company: Haitong Securities Company Limited

English abbreviation of the Company: Haitong Securities Co., Ltd.

II. LEGAL REPRESENTATIVE OF THE COMPANY: Wang Kaiguo

III. AUTHORIZED REPRESENTATIVES OF THE COMPANY: Wang Kaiguo, Jin Xiaobin

IV. BOARD SECRETARY: Jin Xiaobin

Correspondence address: 12/F, Haitong Securities Building, No. 689 Guangdong Road, Shanghai, PRC
(Postal Code: 200001)

Tel: 8621-23219000

Fax: 8621-63410707

E-mail: jinxb@htsec.com

V. REPRESENTATIVE OF SECURITIES AFFAIRS: Sun Tao

Correspondence address: 12/F, Haitong Securities Building, No. 689 Guangdong Road, Shanghai, PRC
(Postal Code: 200001)

Tel: 8621-23219000

Fax: 8621-63410627

E-mail: sunt@htsec.com

VI. JOINT COMPANY SECRETARIES: Jin Xiaobin, Mok Mingwai

VII. COMPANY ADDRESSES

Registered address: Haitong Securities Building, No. 689 Guangdong Road, Shanghai, PRC
(Postal Code: 200001)

Business address: Haitong Securities Building, No. 689 Guangdong Road, Shanghai, PRC
(Postal Code: 200001)

Internet website: <http://www.htsec.com>

E-mail: haitong@htsec.com

VIII. PRINCIPAL PLACE OF BUSINESS IN HONG KONG:

21st Floor, Li Po Chun Chambers, 189 Des Voeux Road Central, Central, Hong Kong

IX. INFORMATION DISCLOSURE AND PLACE OF INSPECTION

Newspapers for information disclosure: China Securities Journal, Shanghai Securities News, Securities Times and Securities Daily

Websites designated by CSRC for publication of periodic reports: <http://www.sse.com.cn>

Website designated by the Hong Kong Stock Exchange for publication of periodic reports:
<http://www.hkexnews.com.hk>

Place where periodic reports of the Company are available: Office of the Board, 12/F, Haitong Securities Building, No. 689 Guangdong Road, Shanghai, PRC

X. INFORMATION ON THE COMPANY'S SHARES

A Share: Shanghai Stock Exchange Stock name: Haitong Securities Stock code: 600837

H Share: Hong Kong Stock Exchange Stock name: Haitong Securities Stock code: 6837

SECTION II COMPANY PROFILE

XI. CHANGES IN REGISTRATION OF THE COMPANY DURING THE REPORTING PERIOD

(1) Changes in registration during the Reporting Period

1. On 11 April 2012, scope of business was changed into: Securities brokerage; securities proprietary trading business; securities underwriting and sponsoring; securities investment advisory; financial consultation relating to securities trading and investment activities; securities asset management; direct investment business; securities investment fund consignment; provision of intermediary introduction business for the futures companies; margin financing and securities lending business; other businesses approved by the CSRC; and the Company is permitted to establish subsidiaries that are primarily focused on outbound investments including investments in financial products.
2. On 7 November 2012, registered address was changed into: No. 689 Guangdong Road, Shanghai; registered capital was changed into: RMB9,584,721,180; paid-in capital was changed into: RMB9,584,721,180; scope of business was changed into: Securities brokerage; securities proprietary trading business; securities underwriting and sponsoring; securities investment advisory; financial consultation relating to securities trading and investment activities; direct investment business; securities investment fund consignment; provision of intermediary introduction business for the futures companies; margin financing and securities lending business; other businesses approved by the CSRC; and the Company is permitted to establish subsidiaries that are primarily focused on outbound investments including investments in financial products.

(2) Related information of the first business registration of the Company

Please refer to the section “Basic Particulars of the Company” in Annual Report 2011 for the first business registration of the Company.

(3) Changes in main scope of business of the Company since the listing of A Shares

1. On 6 July 2007, registered scope of business was: Trading of securities (including domestically listed foreign shares) on behalf of clients, principal and interest repayment and dividends payment for securities on behalf of clients, securities custodial services, authentication of share certificates, account opening and registration on behalf of clients, securities proprietary trading business, securities (including domestically listed foreign shares) underwriting (including acting as a lead underwriter), securities investment consultation (including financial consultancy), entrusted investment management and other businesses approved by the CSRC.
2. On 3 June 2009, registered scope of business was: Securities brokerage; securities proprietary trading business; securities underwriting and sponsoring; securities investment advisory; financial consultation relating to securities trading and investment activities; securities asset management; direct investment business; securities investment fund consignment; provision of intermediary introduction business for the futures companies; and other businesses approved by the CSRC.

SECTION II COMPANY PROFILE

3. On 22 March 2010, registered scope of business was: Securities brokerage; securities proprietary trading business; securities underwriting and sponsoring; securities investment advisory; financial consultation relating to securities trading and investment activities; securities asset management; direct investment business; securities investment fund consignment; provision of intermediary introduction business for the futures companies; margin financing and securities lending business; and other businesses approved by the CSRC.
4. On 11 April 2012, registered scope of business was: Securities brokerage; securities proprietary trading business; securities underwriting and sponsoring; securities investment advisory; financial consultation relating to securities trading and investment activities; securities asset management; direct investment business; securities investment fund consignment; provision of intermediary introduction business for the futures companies; margin financing and securities lending business; other businesses approved by the CSRC; and the Company is permitted to establish subsidiaries that are primarily focused on outbound investments including investments in financial products.
5. On 7 November 2012, registered scope of business was: Securities brokerage; securities proprietary trading business; securities underwriting and sponsoring; securities investment advisory; financial consultation relating to securities trading and investment activities; direct investment business; securities investment fund consignment; provision of intermediary introduction business for the futures companies; margin financing and securities lending business; other businesses approved by the CSRC; and the Company is permitted to establish subsidiaries that are primarily focused on outbound investments including investments in financial products.

(4) Changes in the controlling shareholders of the Company since the listing of A Shares

Due to the diverse shareholding of the Company, as of the end of the Reporting Period, no shareholder directly held more than 5% of the shares of the Company (excluding Hong Kong Securities Clearing Company Nominees Limited ("HKSCC Nominees Limited")). HKSCC Nominees Limited held shares on behalf of holders of H shares who did not register the H Shares under their names. There has been no controlling shareholder in the Company since its listing.

XII. REGISTERED CAPITAL, PAID-IN CAPITAL, NET CAPITAL AND EACH INDIVIDUAL BUSINESS QUALIFICATION OF THE COMPANY

Registered capital: RMB9,584,721,180

Paid-in capital: RMB9,584,721,180

Net Capital: RMB39,007,731,060

Each individual business qualification:

1. Online securities entrustment business qualification (Zheng Jian Xin Xi Zi [2001] No. 3)
2. Qualification for lending and purchase of bonds, bond transactions and bond repurchase business in the national inter-bank lending market and the bond market (Yin Ban Han [2001] No. 819)
3. Qualification for lending transactions and bond transactions in the national inter-bank lending center (Zhong Hui Jiao Fa [2001] No. 306)
4. Internet information service qualification (Hu ICP Zheng 020694)

SECTION II COMPANY PROFILE

5. Qualification for acquisition of securities branches (Hu Zheng Ji Bian [2002] No. 090)
6. Open-end securities investment fund consignment business qualification (Zheng Jian Ji Jin [2002] No. 076)
7. Qualification for foreign exchange operation in the securities business (SC201014)
8. Securities company engaged in relevant innovative activity trials (Zhong Zheng Xie Han [2005] No. 079)
9. Qualification for agent of share transfer business (Z-007)
10. Short-term commercial paper underwriting business qualification (Yin Fa [2005] No. 173)
11. Quotation transfer business qualification (Zhong Zheng Xie Han [2006] No. 3)
12. Trader Qualification for Shanghai Stock Exchange Fixed Income Securities Consolidated Electric Trading Platform (Shang Zheng Hui Han [2007] No.86)
13. Qualification for Association of PRC Inter-bank Trading (August 2007)
14. Qualification for overseas securities investment management business as a qualified domestic institutional investor (Zheng Jian Xu Ke [2008] No. 146)
15. A-grade clearing participant qualification of China Securities Depository and Clearing Corporation Limited (Zhong Guo Jie Suan Han Zi [2008] No. 22)
16. Qualification for provision of intermediary introduction business for the futures companies (Zheng Jian Xu Ke [2008] No. 479)
17. Qualification for direct investment business trials (Ji Gou Bu Bu Han [2008] No. 421)
18. Qualification for implementation of the broker system (Hu Zheng Jian Ji Gou Zi [2009] No. 302)
19. Qualification of Providing Trading Units for Insurance Agency Investors (Bao Jian Zi Jin Shen Zheng [2009] No. 1)
20. Qualification for provision of intermediary introduction business for the futures companies (Hu Zheng Jian Ji Gou Zi [2010] No. 122)
21. Margin financing and securities lending business qualification (Zheng Jian Xu Ke [2010] No. 315)
22. Qualification of Engaging of Stock Index Futures Hedging Business Through Proprietary Trading (Hu Zheng Jian Ji Gou Zi [2010] No. 372)
23. Securities House Assigned by NSSF (August 2011)
24. Stock repo transaction business trials (Ji Gou Bu Bu Han [2011] No. 512) (Shang Zheng Jiao Zi [2011] No.37)
25. Trial business of bond collateralized repo with quotes (Ji Gou Bu Bu Han [2011] No. 585)
26. Partnership independent custody business trials (Ji Gou Bu Bu Han [2012] No. 686)
27. Over-the-counter transaction business (Zhong Zheng Xie Han [2012] No. 825)
28. Pilot Qualification of Engaging of Margin and Securities Refinancing Business (Zhong Zheng Jin Han [2012] No. 113)
29. Pilot Qualification of Underwriting of Private Debts for SMEs (Zhong Zheng Xie Han [2012] No. 561)

The Company holds membership qualification on the Shanghai Stock Exchange and the Shenzhen Stock Exchange and warrant clearing business qualification in China Securities Depository and Clearing Corporation Limited.

SECTION II COMPANY PROFILE

XIII. GENERAL COMPLIANCE OFFICER AND CHIEF RISK CONTROL EXECUTIVE: Wang Jianye

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(Postal Code: 200001)

Tel: 8621-23219000

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E-mail: wangjy@htsec.com

XIV. HISTORY OF THE COMPANY

Haitong Securities is a subsisting company upon the significant assets disposal of Shanghai Urban Agro-Business Co., Ltd. (上海市都市農商社股份有限公司) ("SUABC" hereinafter), a company listed on the Shanghai Stock Exchange, and its merger with Haitong Securities. On 6 July 2007, the subsisting company was registered with Shanghai Administration for Industry & Commerce. Following the merger, the former Haitong Securities was de-registered in accordance with laws and the subsisting company was renamed as Haitong Securities.

History of Haitong Securities

Haitong Securities was established under the name of Shanghai Haitong Securities Company (上海海通證券公司) with a registered capital of RMB10 million in Shanghai in 1988 with the substantial shareholder being Bank of Communications, Shanghai Branch. In respect of scope of business, it was mainly engaged in distribution and agency issuance of a variety of marketable securities. It was also engaged in securities business consultation, custody, transfer and principal and interest repayment of a variety of marketable securities, securities investment business on behalf of clients and other relevant businesses approved by the People's Bank of China.

Upon approval by the People's Bank of China with the Reply concerning Conversion of Shanghai Haitong Securities Company (上海海通證券公司) (Yin Fu [1994] No. 5), on 27 September 1994, Shanghai Haitong Securities Company (上海海通證券公司) was converted and was renamed as Haitong Securities Company Limited (海通證券有限公司) with a registered capital of RMB1 billion. Its scope of business was changed into issuance of securities and principal and interest repayment for securities on behalf of clients; proprietary trading and trading of securities on behalf of clients; securities custody and authentication business; receipt of principal, interest and dividends of securities on behalf of clients, and registration, transfer and clearing of securities; securities investment consultation and investment fund business; other businesses approved by the People's Bank of China.

Upon approval by the China Securities Regulatory Commission with the Reply concerning Approval of the Share Increase Plan and the Application for being a Comprehensive Securities Company of Haitong Securities Company Limited (海通證券有限公司) (Zheng Jian Ji Gou Zi [2000] No. 296), on 29 December 2000, Haitong Securities Company Limited (海通證券有限公司) completed share increase with its capital increased to RMB3,746,928,000. Its scope of business was issuance of securities on behalf of clients; proprietary trading and trading of securities on behalf of clients; principal and interest repayment for securities on behalf of clients; securities custody and authentication business; receipt of principal, interest and dividends of securities on behalf of clients, and registration, transfer and clearing of securities on consignment; securities investment consultation; securities investment fund business.

SECTION II COMPANY PROFILE

Upon approval by the China Securities Regulatory Commission with the Reply concerning the Overall Change of Haitong Securities Company Limited (海通證券有限公司) into a Joint-stock Limited Liability Company (Zheng Jian Ji Gou Zi [2001] No. 278), on 28 January 2002, Haitong Securities Company Limited (海通證券有限公司) was overall changed into a joint-stock limited liability company and was renamed as “Haitong Securities Co., Ltd. (海通證券股份有限公司)” with a registered capital of RMB4,006,093,000.

Upon approval by the China Securities Regulatory Commission with the Reply concerning Approval of Share Increase of Haitong Securities Co., Ltd. (海通證券股份有限公司) (Zheng Jian Ji Gou Zi [2002] No. 329), on 1 November 2002, the registered capital of Haitong Securities was increased to RMB8,734,438,870. Its scope of was changed into: Trading of securities (including domestically listed foreign shares) on behalf of clients, principal and interest repayment and dividends payment for securities on behalf of clients, securities custodial services, authentication of share certificates, account opening and registration on behalf of clients, securities proprietary trading business, securities (including domestically listed foreign shares) underwriting (including acting as a lead underwriter), securities investment consultation (including financial consultancy), entrusted investment management and other businesses approved by the CSRC.

In May 2005, the Company was qualified as one of the pilot innovative securities companies.

Upon approval of the China Securities Regulatory Commission with the Zheng Jian Gong Si Zi [2007] No. 90 document, on 7 June 2007, SUABC sold all assets and liabilities to Bright Food (Group) Co., Ltd. (a controlling shareholder of the Company) and merged with the former Haitong Securities. Following completion of the merger, the subsisting company was renamed as Haitong Securities Co., Ltd. (海通證券股份有限公司) and carried on all businesses of the former Haitong Securities, taking over the employees, assets and liabilities of the former Haitong Securities. On 29 June 2007, offline registration of the newly added shares in Shanghai Branch of China Securities Depository and Clearing Corporation Limited was completed. On 6 July 2007, the subsisting company filed relevant changes with Shanghai Administration for Industry & Commerce with its registered capital changed to RMB3,389,272,910.

On 31 July 2007, Haitong Securities was listed on the Shanghai Stock Exchange.

Upon approval of the China Securities Regulatory Commission with the Circular on Approval of Non-public Share Issue of Haitong Securities Co., Ltd. (海通證券股份有限公司) (Zheng Jian Fa Xing Zi [2007] No. 368), the Company completed non-public share issue on 21 November 2007 and its registered capital and paid-in capital was changed from RMB3,389,272,910 into RMB4,113,910,590.

On 5 May 2008, the Company held 2007 annual general meeting and passed the Proposal on Profit Distribution of the Company for 2007. Cash dividends of RMB1.00 (inclusive of tax) and stock dividends of 3 shares (inclusive of tax) per 10 shares were distributed to all shareholders on the basis of a total share capital of 4,113,910,590 shares at issue as of 31 December 2007 and 7 shares per 10 shares were transferred from capital reserve fund to all shareholders. Following the distribution of stock dividends and the transfer of capital reserve fund into capital, the Company's total share capital was changed from 4,113,910,590 shares to 8,227,821,180 shares. Implementation of the distribution proposal was completed on 28 May 2008.

SECTION II COMPANY PROFILE

On 27 April 2012, an aggregate of 1,352,340,000 overseas listed foreign shares (H Shares) comprising 1,229,400,000 H shares issued by the Company and 122,940,000 H Shares transferred to the NSSF by the relevant 25 state-owned shareholders of the Company for the purpose of reduction of state-owned shares and converted into H Shares were listed and commenced trading on the main board of the Hong Kong Stock Exchange. On 19 May 2012, joint global coordinators for the Company's IPO of H Shares partially exercised the over-allotment option and the Company issued 127,500,000 additional H Shares, which were subsequently listed and traded on the main board of the Hong Kong Stock Exchange on 22 May 2012. The relevant state-owned shareholders of the Company undertook a similar reduction of state-owned shares and transferred 12,750,000 domestic shares (A Shares) of the Company held by them in the aggregate (equivalent to 10% of the number of H Shares issued additionally pursuant to the partial exercise of the Over-allotment Option) to the NSSF.

Following the completion of the issuance of H Shares, the total number of shares of the Company was 9,584,721,180, among which 8,092,131,180 were A Shares and 1,492,590,000 were H Shares. The stock short name of H Shares is: “海通證券” (in Chinese) and “HAITONG SEC” (in English) and the stock code of H Shares is “6837”.

XV. ORGANIZATION OF THE COMPANY

The Company operates in accordance with the relevant laws and regulations including the Company Law, the Securities Law and Guidance for the Internal Control of Securities Companies and the requirements of the Articles of Association. Scientific and effective corporate governance has been established, and authorities and duties of its general meeting of the shareholders, the Board, the Supervisory Committee and senior management are clear. Meanwhile, the Company has also established an organizational framework and an operational mechanism in conformity with its development requirements.

(I) Organizational structure of the Company (see Appendix I of Section XII in this Report)

(II) Principal holding subsidiaries and non-controlling companies

1. *HFT Investment Management Co., Ltd.*

Registered address: 36-37/F, BEA Finance Tower, No. 66 Huayuan Shiqiao Road, Pudong New Area, Shanghai, PRC

Establishment date: 18 April 2003

Registered capital: RMB150 million

Shareholding percentage: 51%

Legal representative: Shao Guoyou

Tel: 8621-38650999

Scope of business: Fund raising, fund sales, asset management and other businesses permitted by the CSRC. (The businesses subject to administrative permission are operated under permits)

SECTION II COMPANY PROFILE

2. *Fullgoal Fund Management Co., Ltd.*

Registered address: Level 16-17, Two IFC, No. 8 Century Avenue, Pudong New Area, Shanghai, PRC

Establishment date: 13 April 1999

Registered capital: RMB180 million

Shareholding percentage: 27.775%

Legal representative: Chen Min

Tel: 8621-68597788

Scope of business: Fund raising, fund sales, asset management and other businesses permitted by the CSRC. (The businesses subject to administrative permission are operated under permits)

3. *Haitong-Fortis Private Equity Fund Management Co., Ltd.*

Registered address: Room A, 888 No. 8 Lane, Wan Hang Du Road, Jing'an District, Shanghai, PRC

Establishment date: 18 October 2004

Registered capital: RMB20 million

Shareholding percentage: 67%

Legal representative: Sun Jiahua

Tel: 8621-62883005

Scope of business: Industrial investment fund management, investment advisory and investment fund formation. (The businesses subject to administrative permission are operated under permits)

4. *Haitong Futures Co., Ltd.*

Registered address: Level 17, Unit 01-04 of Level 6, and Level 25, No. 1589 Century Avenue, Pudong New Area, Shanghai, PRC

Establishment date: 18 March 1993

Registered capital: RMB1 billion

Shareholding percentage: 66.667%

Legal representative: Xu Ling

Tel: 8621-61871688

Scope of business: commodity futures brokerage, financial futures brokerage and futures investment advisory services, and asset management. (The businesses subject to administrative permission are operated under permits)

SECTION II COMPANY PROFILE

5. *Haitong International Holdings Limited*

Registered address: 22/F, Li Po Chun Chambers, 189 Des Voeux Rd, Central, Hong Kong

Establishment date: 24 July 2007

Authorized capital: HK\$4 billion

Issued capital: HK\$4 billion

Paid-in capital: HK\$4 billion

Shareholding percentage: 100%

Tel: 852-39268888

Nature of business: Investment holdings

Scope of business: Investment holdings; through various of its subsidiaries, it is engaged in brokerage, corporate financing, asset management and other businesses authorized by Hong Kong securities regulatory rules.

6. *Haitong Capital Investment Co., Ltd.*

Registered address: Room 07-12, Level 26, No. 689 Guangdong Road, Shanghai, PRC

Establishment date: 23 October 2008

Registered capital: RMB5.75 billion

Shareholding percentage: 100%

Legal representative: Zhang Xiangyang

Tel: 8621-63410311

Scope of business: Using its own funds or establishing direct investment funds to make equity investments and debt investments in relation to equity in enterprises or investing in other investment funds in relation to equity investments; providing investment advisory, investment management and financial advisory services on equity investments to clients; and other businesses permitted by the CSRC. (The businesses subject to administrative permission are operated under permits)

7. *Haitong Innovation Securities Investment Co., Ltd.*

Registered address: Room 107N, Building No. 2, No. 774 Changde Road, Jing'an District, Shanghai, PRC

Establishment date: 24 April 2012

Registered capital: RMB3 billion

Shareholding percentage: 100%

Legal representative: Shi Jianlong

Tel: 8621-23219000

Scope of business: Financial products investment, securities investment, investment advisory and investment management. (The businesses subject to administrative permission are operated under permits)

SECTION II COMPANY PROFILE

8. *Shanghai Haitong Securities Asset Management Company Ltd.*

Registered address: Room 01-12, Level 32, No. 689 Guangdong Road, Huangpu District, Shanghai, PRC

Establishment date: 26 June 2012

Registered capital: RMB1 billion

Shareholding percentage: 100%

Legal representative: Yu Jiting

Tel: 8621-23219000

Scope of business: Securities asset management. (The businesses subject to administrative permission are operated under permits)

(III) Branch offices and securities branches of the Company

As at the end of the Reporting Period, the Company had 24 branch offices and 202 securities branches. (see Appendix II of Section XII in this Report)

XVI. OTHER RELEVANT INFORMATION

- (I) Legal Advisor to the Company, as to PRC law: Grandall Law Firm (Shanghai)
Legal Advisor to the Company, as to Hong Kong law: Clifford Chance
- (II) Domestic Accounting Firm: BDO China Shu Lun Pan Certified Public Accountants LLP (Special General Partnership)
Address: 4/F, 61 Nanjing Road East, Shanghai, PRC
International Accounting Firm: Deloitte Touche Tohmatsu
Address: 35/F, One Pacific Place, 88 Queensway, Hong Kong
- (III) A Share Registrar: Shanghai Branch of China Securities Depository and Clearing Corporation Limited
Address: China Insurance Building, 166 Lujiazui East Road, Pudong New Area, Shanghai, PRC
H Share Registrar: Computershare Hong Kong Investor Services Limited
Address: 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong
- (IV) Registration number of corporate business license: 310000000016182
Registration number of tax certificate: 31010113220921X
Organization code: 13220921X

SECTION III SUMMARY OF ACCOUNTING DATA AND FINANCIAL INDICATORS

I. MAJOR ACCOUNTING DATA AND FINANCIAL INDICATORS OF THE GROUP OVER THE PAST THREE YEARS PRECEDING THE END OF THE REPORTING PERIOD

(All of the accounting data and financial indexes set out in this annual report are prepared in accordance with IFRS)

(1) Major accounting data

Items	2012	2011	As compared to the last corresponding period	2010
Operating results (RMB'000)				
Revenue and other income	10,743,162	10,860,374	-1.08%	11,304,935
Profit before income tax	4,109,472	4,300,164	-4.43%	4,989,690
Profit for the year attributable to owners of the Company	3,019,776	3,103,034	-2.68%	3,686,264
Net cash (used in) from operating activities	-7,133,480	7,123,839	-200.14%	-10,500,650
Amount per share (RMB/share)				
Basic earnings per share	0.33	0.38	-13.16%	0.45
Diluted earnings per share	0.33	0.38	-13.16%	0.45
Indexes of profitability				
Weighted average returns on net assets (%)	5.63	6.93	-1.30 percentage points	8.39

Items	31 December 2012	31 December 2011	As compared to the last corresponding period end	31 December 2010
Indexes of size (RMB'000)				
Total assets	126,725,439	98,976,911	28.04%	115,413,098
Total liabilities	66,294,843	52,366,269	26.60%	69,796,351
Accounts payable to brokerage clients	36,956,823	38,013,807	-2.78%	63,682,354
Equity attributable to owners of the Company	58,679,683	45,042,375	30.28%	44,467,363
Total share capital (share'000)	9,584,721	8,227,821	16.49%	8,227,821
Net assets per share attributable to owners of the Company (RMB/share)				
	6.12	5.47	11.88%	5.40
Gearing ratio (%)⁽¹⁾	32.68	23.54	9.14 percentage points	11.82

¹ Gearing ratio = (total liabilities – accounts payable to brokerage clients)/(total assets – accounts payable to brokerage clients)

SECTION III SUMMARY OF ACCOUNTING DATA AND FINANCIAL INDICATORS

(2) Particulars of major accounting data and financial indicators of the Company over the past three years preceding the end of Reporting Period

In the last three years, the stock market continued to be depressed. The Shanghai Stock Index decreased by 31%, from 3290 in the beginning of 2010 to 2269 at the end of 2012. As share index plunged to new lows down to 1949, prices of financial assets, trading volume in securities market and commission rate of securities brokerage business dropped significantly. As such, IPO projects were postponed, and traditional businesses in the securities industry were seriously affected. Despite of the difficulties, the Group strived to implement reforms and innovations, continued to explore new profit growing point, drove transformative approaches to development by innovation, and further improved revenue composition. By active innovation, increased investments in fixed income business and enhanced expansion in businesses like debt securities underwriting, the Group well reduced impacts of decreased revenue from traditional brokerage, equity investments and equity financing businesses. The Group's total revenue and other income and annual profits remain continued to maintain their leading positions in the industry, with a decrease lower than that of the industry.

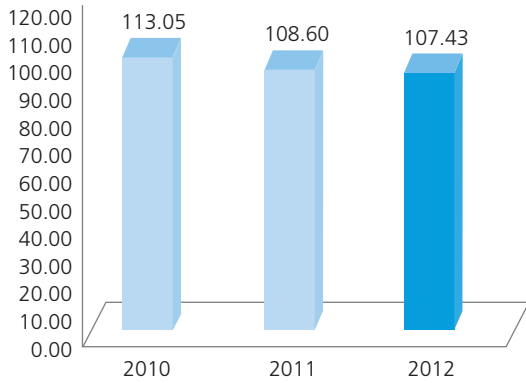
In 2012, by seizing appropriate opportunities, the Company successfully completed the listing of H Shares, further strengthened its financial position, and achieved increases in both total assets and net assets. At the end of 2012, the Group's total assets and net assets amounted to RMB126.725 billion and RMB58.680 billion, respectively, ranking the second in the domestic securities industry. The assets of the Group were in reasonable structure with strong liquidity. Affected by the dilution of earnings per share and returns on net assets by the increases in the Group's equity and net assets, as well as the decreased net profits due to the market conditions, the Group recorded slight decreases in both earnings per share and returns on net assets.

As a securities company, the Group's cash flows from operating activities consist primarily of cash flows from financial assets at fair value through profit or loss, cash flows from management of liquid funds, cash flows from interests and service fee and commission income, as well as cash flows from margin financing and securities lending business. In 2012, the Group's cash flows from operating activities were negative, mainly attributable to: the increase in advances to customers, which was due to the expansion of margin financing and securities lending business; increase in capital outflow from transactions, which was due to the increase of financial assets at fair value through profit or loss (inclusive of current managed financial assets) and investment in stock index futures, for purposes of seizing market opportunities and increasing return on liquid funds; and decrease in accounts payable to brokerage clients, which was due to factors like market conditions. The Group's assets were of good liquidity, and sufficient to meet its working capital needs.

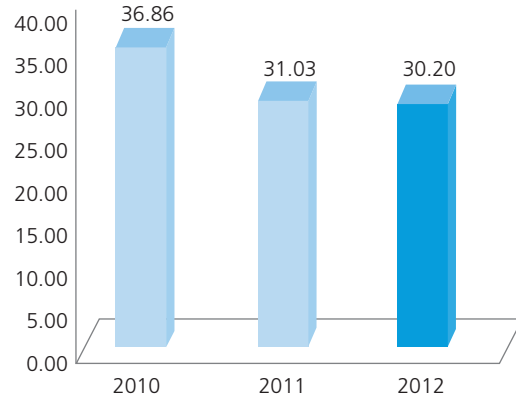
In recent three years, the Group has good major accounting data and financial indexes, and its assets were in reasonable structure with strong liquidity and good quality.

SECTION III SUMMARY OF ACCOUNTING DATA AND FINANCIAL INDICATORS

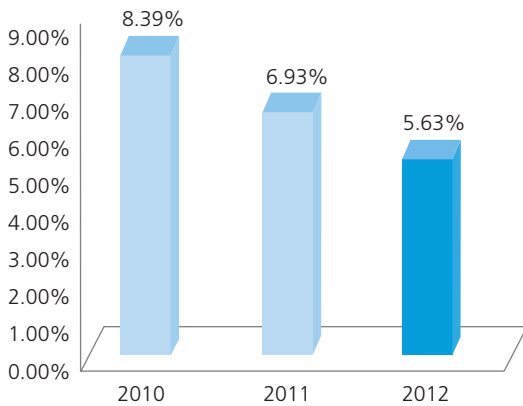
Revenue and other income (RMB in 100 million)



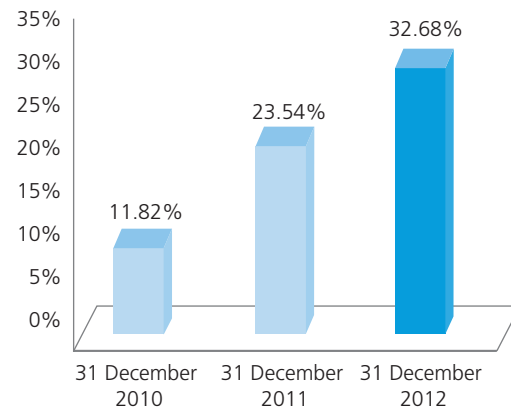
Profit for the year attributable to owners of the Company (RMB in 100 million)



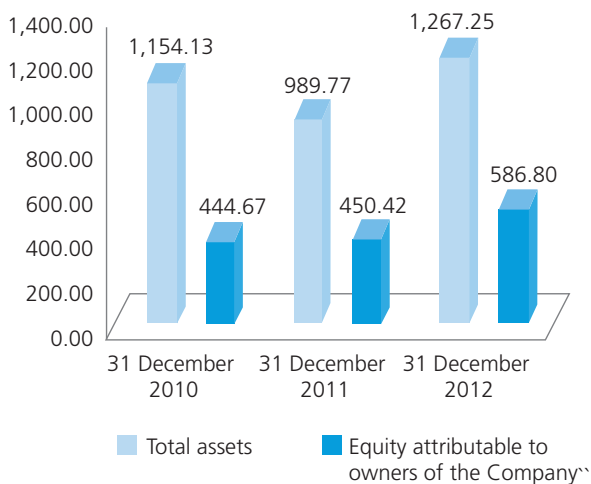
Weighted average returns on net assets



Gearing ratio



Indexes of size (RMB in 100 million)



SECTION III SUMMARY OF ACCOUNTING DATA AND FINANCIAL INDICATORS

(3) Major accounting data and financial indicators over five years (Unit: RMB'000)

1. Profitability

	2012	2011	2010	2009	2008
Revenue and other income	10,743,162	10,860,374	11,304,935	11,315,846	7,948,205
Total expenses	6,699,556	6,633,122	6,393,365	5,399,981	4,347,861
Profit before income tax	4,109,472	4,300,164	4,989,690	5,981,827	3,697,861
Profit for the year attributable to owners of the Company	3,019,776	3,103,034	3,686,264	4,548,226	3,301,653

2. Assets

	31 December 2012	31 December 2011	31 December 2010	31 December 2009	31 December 2008
Total assets	126,725,439	98,976,911	115,413,098	120,730,205	74,686,019
Total liabilities	66,294,843	52,366,269	69,796,351	76,211,610	36,049,025
Accounts payable to brokerage clients	36,956,823	38,013,807	63,682,354	66,580,170	33,777,667
Equity attributable to owners of the Company	58,679,683	45,042,375	44,467,363	43,413,960	38,361,988
Share capital	9,584,721	8,227,821	8,227,821	8,227,821	8,227,821

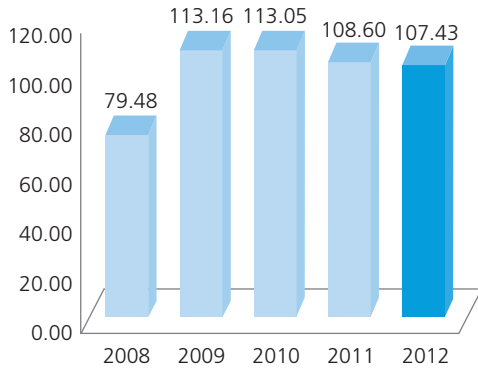
3. Critical financial indicators

	2012	2011	2010	2009	2008
Basic earnings per share	0.33	0.38	0.45	0.55	0.40
Diluted earnings per share	0.33	0.38	0.45	0.55	0.40
Weighted average returns on net assets (%)	5.63	6.93	8.39	11.12	8.81
Gearing ratio (%) ⁽¹⁾	32.68	23.54	11.82	17.79	5.55
Net assets per share attributable to owners of the Company (RMB/share)	6.12	5.47	5.40	5.28	4.66

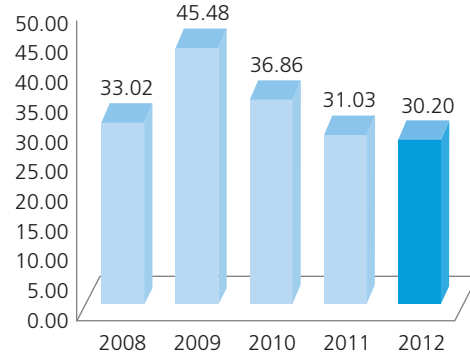
¹ Gearing ratio = (total liabilities – accounts payable to brokerage clients)/(total assets – accounts payable to brokerage clients)

SECTION III SUMMARY OF ACCOUNTING DATA AND FINANCIAL INDICATORS

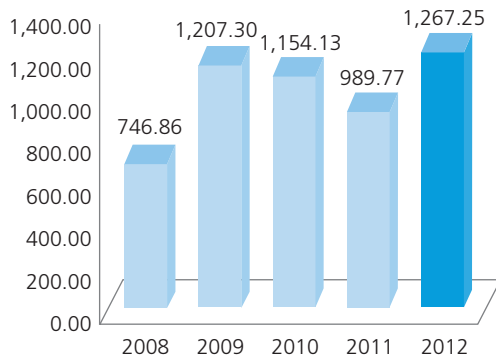
**Revenue and other income
(RMB in 100 million)**



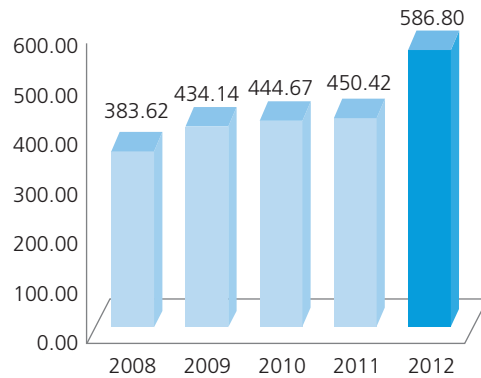
**Profit for the year attributable to
owners of the Company
(RMB in 100 million)**



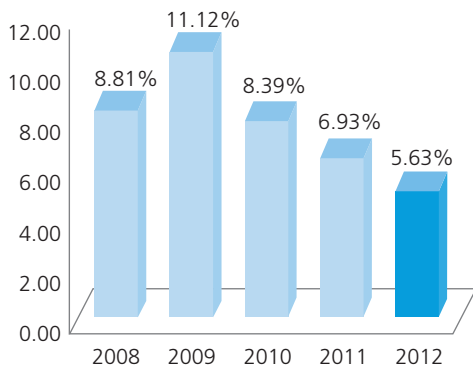
**Total assets
(RMB in 100 million)**



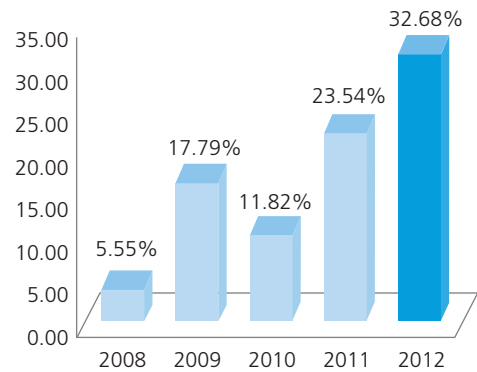
**Equity attributable to owners of the
Company (RMB in 100 million)**



Weighted average returns on net assets



Gearing ratio



SECTION III SUMMARY OF ACCOUNTING DATA AND FINANCIAL INDICATORS

II. DIFFERENCES BETWEEN IFRS AND PRC GAAP

There is no difference between the net profits for 2012 and 2011, the net assets as of 31 December 2012 and 31 December 2011 included in the consolidated financial statements of the Group prepared in accordance with IFRS and those items for and as of the same periods included in the consolidated financial statements of the Group prepared in accordance with PRC GAAP.

III. THE NET CAPITAL AND RELEVANT RISK CONTROL INDICATORS OF THE COMPANY

As at 31 December 2012, the net capital of the Company was RMB39.008 billion, representing an increase of RMB6.567 billion ^{Note 1} compared to the net capital of RMB32.441 billion as at 31 December 2011. During the Reporting Period, all risk control indicators including net capital of the Company met the regulatory requirements.

Items	31 December 2012 RMB'000	31 December 2011		Change ^{note 1}
		After adjusted ^{note 1} RMB'000	Before adjusted RMB'000	
Net capital	39,007,731	32,441,465	31,342,596	20.24%
Net assets	57,972,896	44,686,906	44,686,906	29.73%
Total of risk capital reserves	2,730,633	2,226,820	5,939,888	22.62%
Net capital/total of risk capital reserves	1428.52%	1456.85%	527.66%	Decrease by 28.33 percentage points
Net capital/net assets	67.29%	72.60%	70.14%	Decrease by 5.31 percentage points
Net capital/liabilities	161.10%	292.73%	282.82%	Decrease by 131.63 percentage points
Net assets/liabilities	239.42%	403.23%	403.23%	Decrease by 163.81 percentage points
Proprietary equity securities and securities derivatives/net capital	35.02%	30.56%	38.09%	Increase by 4.46 percentage points
Proprietary fixed income securities/net capital	66.30%	58.31%	60.35%	Increase by 7.99 percentage points

Note 1: The opening amount of net capital and risk control indicators were adjusted in accordance with CSRC Announcements [2012] No. 36 – The Regulations on Calculation Standard for Risk Capital Reserve of Securities Companies (《關於證券公司風險資本準備計算標準的規定》) and No. 37 – The Regulations on Adjustment of the Calculation Standard for Net Capital of Securities Companies (revised in 2012) (《關於調整證券公司淨資本計算標準的規定(2012年修訂)》). Changes in percentage points reflect the comparison results between the end of Reporting Period amount and the opening amount adjusted.

SECTION IV REPORT OF THE BOARD OF THE DIRECTORS

I. DISCUSSION AND ANALYSIS OF THE BOARD ON THE COMPANY'S OPERATION DURING THE REPORTING PERIOD

(I) Overall operations of the Company

In 2012, Chinese economy witnessed a difficult transition while its stock market remained in the doldrums and the traditional business model of the securities industry encountered great challenges. Under the leadership of the management team, especially the correct guidance of the Board, all staff of the Company strived to explore and innovate new business, successfully issuing H Shares and promoting its internationalization strategy. The Company established an asset management subsidiary, an innovative securities investment subsidiary and a creative capital fund management subsidiary, achieving a significant process in its strategy of strengthening the Group. Through active development of innovative business, the Company became one of the first securities companies obtaining qualifications for various innovative businesses, demonstrating an initial success on its business transition, with the proportion of revenue from innovative business increasing year by year. Meanwhile, by constantly strengthening its internal management, increasing income and controlling expenses, the Group achieved sound operating results and received an "AA" regulatory rating of class "A" from the CSRC for the past five consecutive years, in recognizing its excellent financial indicators.

As at the end of 2012, the Group had total assets of RMB126.725 billion, net assets of RMB58.68 billion (attributable to the owners of the Company), and net profits of RMB3.02 billion (attributable to the owners of the Company), and net capital of the Company amounted to RMB39.008 billion. Revenue and other income of the Group was RMB10.743 billion, including securities and futures brokerage business of RMB3.606 billion, accounting for 33.57%; proprietary trading of RMB1.738 billion, accounting for 16.17%; asset management business of RMB951 million, accounting for 8.86%; investment banking business of RMB743 million, accounting for 6.92%; direct investment business of RMB186 million, accounting for 1.73%; overseas business of RMB963 million, accounting for 8.96%; and administrative department and others business of RMB2.556 billion, accounting for 23.79%. The percentage of revenue from traditional business has decreased and the sources of revenue were increasingly diversified. In 2012, total assets, net assets and net profits of the Group all ranked the top in the domestic securities industry.

SECTION IV REPORT OF THE BOARD OF THE DIRECTORS

(II) Analysis of Our Principal Business Lines

1. Securities and futures brokerage business

Retail business grew rapidly. The Company has achieved a market share of 5.45% in terms of total trading volume in the year, representing an increase of 0.88 percentage point over 2011 (4.57%). The Company's market ranking rose to the second place from the fourth. Its market share in terms of stock-based trading volume was 4.54%, increasing by 0.41 percentage point over 2011 (4.13%) and ranking fourth in the market.

Institutional business service system has been initially established. The Company has strengthened its service efforts for professional institutional investors such as funds and insurance companies, as well as for corporate and high net worth customers, realizing an annual volume block trade of RMB22.3 billion, representing a market share of 8.51% and ranking second in the industry. The Company has also paid close attention to the development of international institutional customers and won 11 new QFII customers throughout the year, gaining 9.4% of the market share for new account opening. Additionally, the Company has reinforced the construction of research teams and was ranked the sixth in 2012 for *New Fortune* "Best Domestic Research Team", with its number of listed "Best Analyst" increasing notably on year-on-year basis and its influence in research service market significantly improved.

During the reporting period, the Company sold funds amounting to RMB16.821 billion, recording a sales income of RMB18.23 million. According to the requirements under the *Management Regulations on Agency Sales of Financial Products by Securities Companies* and the *Administrative Approval of Changes in Business Scope, Registered Capital, Major Articles in the Articles of Association, Company Form and Merger and Division of Securities Companies* (《【行政許可事項】證券公司變更業務範圍、註冊資本、章程重要條款、公司形式及合併、分立審批》) published by CSRC, the Company standardized its overall process, strictly controlled its risks and strived to enhance its efficiencies, in order to apply financial products distribution business. Currently, the Company has been well prepared for its internal reporting of qualification application.

Profitability of its futures brokerage business has further improved. As at the end of 2012, the customer equity generated from Haitong Futures was RMB6.78 billion, representing a 27.6% year-on-year increase and ranking the third in the industry. The network construction has been promoted solidly and 4 branches have been newly set up within the year, making the total number of branches to 28. Achievement has been made in key institutional customer marketing, and a relatively large number of large corporate clients has been secured.

In 2012, the total profits generated from securities and futures brokerage business amounted to RMB1.659 billion, accounting for 40% of the overall total profits.

SECTION IV REPORT OF THE BOARD OF THE DIRECTORS

2. *Proprietary trading*

By adapting to changing market conditions, the Group has proactively promoted its investment business transformation and diversified its profit models. It has engaged in hedging, the spot-future arbitrage, ETF arbitrage and market-making business for its equity investment in order to reduce impact of trend-based investment on profit, and participated into secondary market exchange with cautious to seize business opportunities from the market vibration pattern. For fixed income investment, it made good use of bond market opportunities and reasonably increased the leverage ratio. Prudent strategy was adopted for its innovative financing business, such as quantifying the investment business and developing a variety of arbitrage methods.

In 2012, the Group increased investment in fixed income business and achieved a respectable return, thus the segment revenue generated from proprietary trading business increased by 51.78% over the same period of last year. Meanwhile, affected by the securities market conditions, prices of equity financial assets decreased, and segment expenses increased by 77.70% due to the large amount of impairment loss in respect of available-for-sale investments. Proprietary trading business recorded total profits of RMB573 million, representing 14% of the total profits of the Group.

3. *Asset management business*

The asset management subsidiary seized the innovation opportunity and became one of the first securities companies obtaining the qualification for managing insurance fund. It actively launched such innovative products as “cash winner (現金赢家)” series, and bond-classified assets management scheme, and increased 5 collective assets management plans and 15 targeted assets management plans throughout the year, with the scale of collective assets management reaching RMB2.68 billion and targeted asset management reaching RMB30.3 billion.

Public fund management scale of HFT Investment Management Co., Ltd. was RMB34.05 billion, ranking the twenty-sixth in the industry. Its assets management scale of enterprise annuity, separately managed accounts, social security portfolio, etc. totaled RMB30.42 billion. Total public fund management scale of Fullgoal Fund Management Co., Ltd. was RMB75.5 billion, with market ranking the thirteenth.

Investment fund managed for various industries amounted to RMB8.9 billion and the number of new investment projects was 22, with increased investment amount of RMB670 million. The establishments of Haitong Creative Capital Fund Management Co., Ltd. and the Shanghai Cultural Industry Fund it managed have been completed, with RMB1.7 billion initially raised, and have commenced operation.

In 2012, the total profits generated from asset management business amounted to RMB352 million, accounting for 9% of the overall total profits.

SECTION IV REPORT OF THE BOARD OF THE DIRECTORS

4. *Investment banking business*

Investment banking business made a transition from equity-offering-focused to two-pronged approach (equity and debt businesses). The revenue from debt underwriting business increased substantially, effectively offsetting the adverse influence of the downturn of equity financing market. Throughout the year, equity financing business has fulfilled 5 initial public offering (“IPO”) projects and 3 issuance projects, with the amount underwritten of RMB7.85 billion. Great breakthrough has been achieved in debt financing business, and the Company underwrote 38 projects in the year, with the amount underwritten of RMB74 billion. The Company has also obtained the underwriting qualification for short-term financing debt, medium-term note and private debt of SMEs, laying a foundation for further development of debt business. For M&A financing, 5 projects have been completed in the year, with the transaction amount of RMB5.09 billion. New OTC Board business has 4 listed companies completed.

In 2012, segment revenue from investment banking business decreased by 30.24% year on year, due to the impact of various factors such as slowdown of IPO business, and the annual total profits generated from investment banking business amounted to RMB252 million, representing a percentage of 6%.

5. *Direct Investment Business*

The Group accelerated project investment in direct investment business, and intensified post-investment management. In 2012, the Company increased investment of RMB1.750 billion in Haitong Capital Investment, whose registered capital increased to RMB5.750 billion accordingly, and the financial position of direct investment business was further enhanced. Haitong Capital Investment invested in 23 projects during the year, with a total investment amount of RMB1.21 billion. From its inception, Haitong Capital Investment had invested in 59 projects with a total investment amount of RMB2.72 billion. Meanwhile, the Company strengthened the post-investment management and actively explored various exiting channels such as buyback, M&A. Meanwhile, it actively participated into establishment of new direct investment funds and expanded funds management scale. In 2012, the direct investment business exited from companies and investment projects resulting in an increased dividend income, segment revenue and segment expenses increased significantly over the same period of last year, and realized total profits of RMB145 million, representing a percentage of 4%.

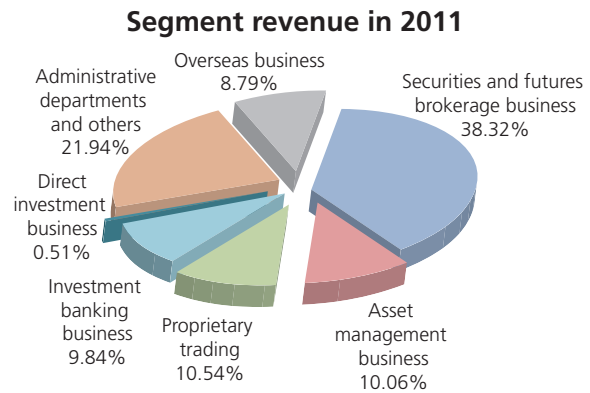
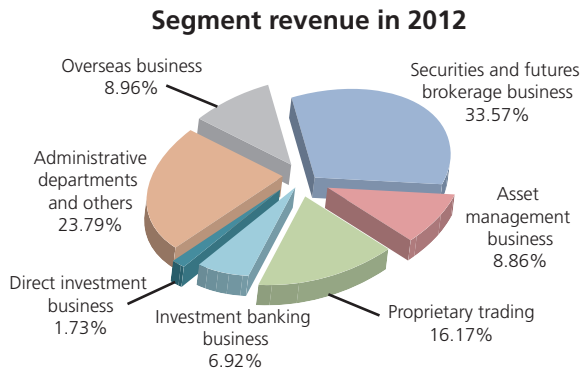
6. *Overseas business*

Haitong International Holdings realized a net profit of HK\$207 million (attributable to the parent company). Market share of brokerage business stocks was 0.52%, ranking the twenty-first among type B securities traders, advancing by 5 places compared with that in 2011. The Company has put great effort in developing its international large fund customers and gained 116 new overseas institutional customers in the year. The total annual amount underwritten for investment banking was HK\$7.07 billion, involving 10 underwriting IPO projects. Its market share was 5.4% and ranked the seventh in Hong Kong in terms of amount underwritten and ranking the second in Hong Kong in terms of

SECTION IV REPORT OF THE BOARD OF THE DIRECTORS

the number of issuance. Haitong International Holdings was the first assets management company issuing RQFII products successfully in Hong Kong, with amount raised of RMB900 million, and also was the first PRC securities firm in Hong Kong obtaining the qualification for QFII and RQFLP.

In 2012, the total profits generated from overseas business amounted to RMB271 million, representing a percentage of 7%.



Main business table of the Group

Unit: RMB'000

Item	Segment Revenue (Before eliminated)	Segment Expenses (Before eliminated)	Segment margin before tax	Increase/decrease of segment revenue over the same period last year	Increase/decrease of segment expenses over the same period last year	Increase/decrease of segment margin over the same period last year
Securities and futures brokerage business	4,312,441	2,653,246	38.47%	-10.46%	-9.87%	Decreased by 0.40 percentage points
Proprietary trading	1,737,553	1,164,834	32.96%	51.78%	77.70%	Decreased by 9.78 percentage points
Asset management business	951,472	599,289	37.01%	-12.90%	-9.59%	Decreased by 2.34 percentage points
Investment banking business	746,053	493,969	33.79%	-30.24%	-5.03%	Decreased by 17.58 percentage points
Overseas business	1,006,703	736,159	26.87%	5.47%	-11.69%	Increased by 14.21 percentage points
Direct investment business	186,196	35,114	81.14%	237.92%	101.11%	Increased by 11.28 percentage points

SECTION IV REPORT OF THE BOARD OF THE DIRECTORS

(III) Analysis on principal components of the Company's consolidated income statement

In 2012, the revenue and other income realized by the Group totaled RMB10.743 billion, representing a slight decrease by RMB117 million or 1.08% as compared to 2011 (RMB10.86 billion). The decrease was mainly due to the sluggish securities market, fierce industry competition and the reduction in both transaction amount and commission rate. IPO business slowed down, and the Group's revenue from traditional brokerage business, equity investment and equity financing business decreased year-on-year. However, the Group proactively expanded innovative business and enhanced the scale of fixed income investment and the effort in debt underwriting business expansion, partly making up the decrease in revenue from traditional brokerage business, equity investment and equity financing business.

In 2012, the Group recorded profit before income tax of RMB4.109 billion, representing a slight decrease of 4.43% year-on-year. The principal components of the Group's income statement are as follows:

Item	Unit: RMB'000		
	2012	2011	Change
Commission and fee income	5,213,180	6,566,781	-20.61%
Interest income	2,876,735	2,553,171	12.67%
Net investment gains	2,402,689	1,506,926	59.44%
Other income and gains	250,558	233,496	7.31%
Total expenses	6,699,556	6,633,122	1.00%
Share of results of associates	65,866	72,912	-9.66%
Profit before income tax	4,109,472	4,300,164	-4.43%
Income tax expenses	874,980	1,018,167	-14.06%
Profits for the year attributable to owners of the Company	3,019,776	3,103,034	-2.68%

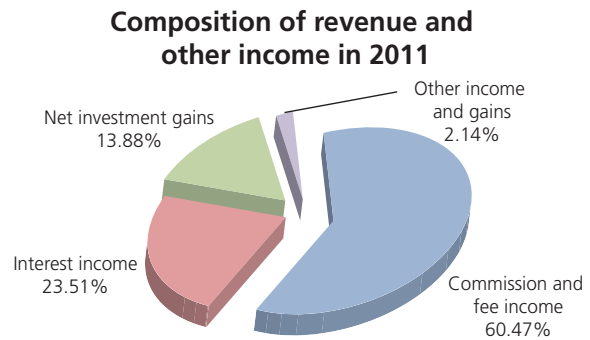
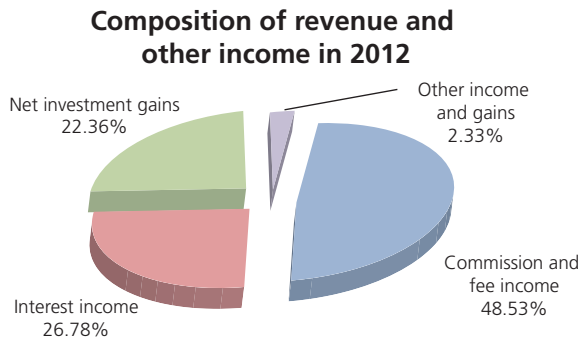
SECTION IV REPORT OF THE BOARD OF THE DIRECTORS

1. Composition of revenue and other income

In 2012, the Group realized revenue and other income of RMB10.743 billion, in which commission and fee income accounted for 48.53%, a drop of 11.94 percentage points year-on-year, interest income accounted for 26.78%, an increase of 3.27 percentage points year-on-year; and net investment gains accounted for 22.36%, an increase of 8.48 percentage points year-on-year. The composition of the Group's revenue and other income during the Reporting Period is as follows:

Item	January to December 2012		January to December 2011		Increase/Decrease	
	Amount	Composition	Amount	Composition	Amount	Percentage
Commission and fee income	5,213,180	48.53%	6,566,781	60.47%	(1,353,601)	-20.61%
Interest income	2,876,735	26.78%	2,553,171	23.51%	323,564	12.67%
Net investment gains	2,402,689	22.36%	1,506,926	13.88%	895,763	59.44%
Other income and gains	250,558	2.33%	233,496	2.14%	17,062	7.31%
Total revenue and other income	10,743,162	100.00%	10,860,374	100.00%	(117,212)	-1.08%

Unit: RMB'000



Commission and fee income

In 2012, the Group realized commission and fee income of RMB5.213 billion, representing a decrease of 20.61% year-on-year. The decrease was mainly due to 1) the sluggish securities market, the fierce industry competition, the decrease in trading volume and commission rate of securities market, which led to a decrease in net revenue of domestic securities brokerage business; and 2) the decrease in revenue from equity underwriting business, due to the impact of adverse factors such as slowdown of IPO business.

The decrease was partially offset by the increase in futures brokerage fee and commission income.

SECTION IV REPORT OF THE BOARD OF THE DIRECTORS

Interest income

Interest income of RMB2.877 billion was realized in the year, representing a year-on-year increase of 12.67%, primarily due to the increase in the interest income from the Group's margin financing and securities lending business and bank deposits.

The increase in interest income of margin financing and securities lending business was mainly attributable to the rapid development of the Group's margin financing and securities lending business during the Reporting Period and the significant increase of average value of margin financing. The increase in the interest income from bank deposits was mainly attributable to the Company's continuous enhancement on liquidity management and adoption of effective measures to improve return on liquid funds. Meanwhile, the Group vigorously expanded the investment scale in fixed income products and the held-to-maturity interest income also increased significantly.

Net investment gains

In 2012, the Group's net investment gains increased by 59.44% year-on-year to RMB2.403 billion, mainly due to an increase in the net gains and the fair value change of financial assets at fair value through profit or loss.

During the Reporting Period, the net gains and the change in fair value of financial assets at fair value through profit or loss were RMB1.266 billion, mainly due to the timely expansion in scale of investment, which led to a better performance of fixed income investment.

Other income and gains

In 2012, other income and gains of the Group was RMB251 million, representing an increase of 7.31% year-on-year, mainly attributable to the fund raising by H Shares issuance of the Company and timely adopting foreign exchange forwarding hedging measures, which led to a year-on-year increase in foreign exchange gains.

2012 was a year of innovation for the securities industry, and during this year, the Group took innovation as the key drive for strategic transformation and achieved significant results. Innovative business has maintained a leading position in the domestic securities industry, with its revenue contribution significantly increased. As at the end of 2012, the Company's balance of margin financing and securities lending was RMB7.049 billion, ranking the first in the industry. The scale of stock repo trading was RMB1.47 billion, ranking the first in the industry. Revenue contribution from innovative businesses such as margin financing and securities lending, stock repo trading, spot-futures arbitrage and etc. kept increasing, effectively offsetting the adverse influence brought by the drop of traditional operating income.

SECTION IV REPORT OF THE BOARD OF THE DIRECTORS

2. Total expenses

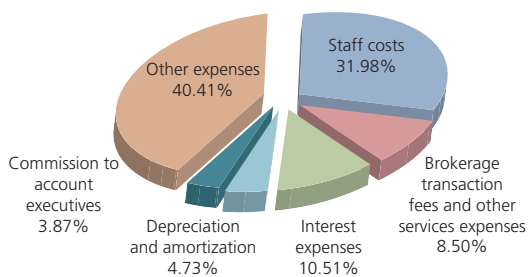
(1) Analysis table of costs

In 2012, total expenses of the Group amounted to RMB6.7 billion, representing a slight increase of 1.01% year-on-year (RMB6.633 billion in 2011), mainly due to the significant increase in Interest expenses. The components of total expenses of the Group in 2012 are shown as below:

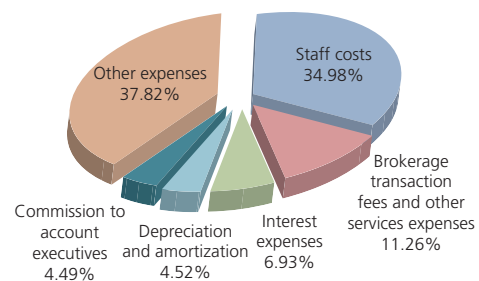
Total expenses	2012	2011	Increase/Decrease	
			Amount	Percentage
Staff costs	2,142,298	2,319,953	-177,655	-7.66%
Interest expenses	704,404	459,796	244,608	53.20%
Brokerage transaction fees and other services expenses	569,299	746,724	-177,425	-23.76%
Depreciation and amortization	316,841	300,037	16,804	5.6%
Commission to account executives	259,035	297,519	-38,484	-12.93%
Other expenses	2,707,679	2,509,093	198,586	7.91%
Total	6,699,556	6,633,122	66,434	1.01%

Unit: RMB'000

Composition of total expenses of 2012



Composition of total expenses of 2011



SECTION IV REPORT OF THE BOARD OF THE DIRECTORS

Interest expenses

The Group's Interest expenses in 2012 were RMB704 million, representing an increase of 53.20% year-on-year, mainly because the Group increased the leverage ratios and the scale of repurchase business and of deposits taken from other financial institutions, so as to achieve higher gains.

Other expenses

Other expenses primarily include business expenses, business tax and surcharges and impairment loss on assets etc. In 2012, other expenses of the Group amounted to RMB2.708 billion, representing an increase of 7.91% year-on-year, mainly because that, influenced by the stock market, the financial asset prices dropped, and the Group's impairment losses on available-for-sale investment increased year-on-year. Total expenses of the Group would decrease by RMB258 million year-on-year, if the effect of provision for the impairment loss on available-for-sale investments is excluded.

Brokerage transaction fees and other services expenses

In 2012, brokerage transaction fees and other services expenses decreased by 23.76% to RMB569 million as compared to the last year, primarily due to the decrease in trading-related expenses resulting from the depressed stock market and decreased trading volume.

3. Cash flows

- (1) In 2012, the Group had net cash used in operating activities of RMB7.133 billion, since the effects of changes in working capital exceeded our profit before tax of RMB4.109 billion. The effects of changes in working capital primarily reflected the following: i) an RMB11.591 billion increase in financial assets at fair value through profit or loss, primarily due to our increased investment in due course; ii) an RMB4.876 billion increase in advanced to customers, primarily due to rapid expansion of our margin financing and securities lending business, and the substantial increase in the average value of margin financing; iii) an RMB1.588 billion increase in our financial assets held under resale agreements, primarily due to our increased assets held under resale agreements.
- (2) net cash used in investing activities was RMB6.370 billion, which was mainly attributable to (i) an RMB5.405 billion increase in receivables investments, held-to-maturity investments and available-for-sale investments that reflected the Group's investment decisions; (ii) payments of RMB800 million for the contribution in equity interests in a newly established associated company.
- (3) net cash from financing activities was RMB12.493 billion, which was mainly attributable to (i) proceeds of RMB11.278 billion from H Shares listing of the Company; (ii) borrowings raised/(repaid) net of interest paid was RMB1.079 billion, which was mainly attributable to the increase in funds raised for the purpose of enhancing the leverage ratios.

SECTION IV REPORT OF THE BOARD OF THE DIRECTORS

4. *Research and Development Expenses*

To facilitate innovation in securities business, apply new transaction products and transaction types, and enhance the operating efficiency and management effectiveness, the Company invested RMB31.1833 million in the system information management platform by way of self-development, cooperative development and commissioned development.

5. *Others*

(1) *Details of material changes in the composition and sources of the Company's profits*

During the Reporting Period, there were no material changes in the composition and sources of the Company's profits, therefore, this provision is not applicable.

(2) *Analysis and description of various previous financing and significant asset reorganization events of the Company*

According to the approval issued by the China Securities Regulatory Commission (Zheng Jian Xu Ke [2011] No.1821), the Company issued overseas listed foreign shares ("H Shares") on the Stock Exchange on 27 April 2012. As of 24 May 2012, the Company issued 1,356,900,000 H shares at the price of HK\$10.60 per share. The aggregate application monies of HK\$14,383,140,000.00 have been paid up in Hong Kong dollars in cash, and net proceeds of HK\$13,801,031,788.31 after deduction of issuing and listing fees have been deposited in the capital verification account opened by the Company. The above mentioned registered capital has been verified by Deloitte Touche Tohmatsu CPA LLP. (Special General Partnership) (formerly known as Deloitte Touche Tohmatsu CPA Limited) with capital verification report De shi Bao (Yan) Zi (12) No. 0025.

As of 31 December 2012, the Company recorded interest income of HK\$63,737,462.25 from the proceeds raised from its H Shares listing of HK\$13,801,031,788.31 (equivalent to RMB11,265,812,558.58 based on the actual settlement and the year-end exchange rate).

As of 31 December 2012, the Company utilized an aggregate proceeds raised from its H Shares listing of HK\$7,597,975,516.48 (equivalent to RMB6,236,064,380.57); the outstanding proceeds amounted to HK\$6,266,793,734.08 (equivalent to RMB5,081,429,699.28 based on the year-end exchange rate), of which, principal of the outstanding proceeds amounted to RMB5,029,748,178.01 and interest amounted to RMB51,681,521.27. Unutilized proceeds are mainly used for strategic acquisition of overseas securities companies and/or further expansion of overseas securities business, as well as working capital and other general corporate purposes. The deposit and actual use of proceeds raised from H Shares listing have been audited by Deloitte Touche Tohmatsu CPA Ltd. (Special General Partnership).

Utilization of proceeds strengthened the financial position of the Company, laid a solid foundation for the its development, and further enhanced its competitiveness.

In 2012, the weighted average return on net assets of the Group was 5.63%.

SECTION IV REPORT OF THE BOARD OF THE DIRECTORS

(3) *Explanation on progress of development strategies and business plans*

In 2012, the domestic stock market remained in the doldrums, and the traditional business model of the securities industry encountered great challenges. Facing with such complicated operation environment, the Company adhered to its strategy of being customer-oriented and paid attention to the development of core financial agency services regarding brokerage, investment banking and assets management, mainly by means of innovation and internationalization. It constantly strengthened supporting systems for risk management, information technology, research and human resources and committed itself to the construction of a securities-centered financial service group. The Company successfully issued H Shares and promoted its internationalization strategy. It established asset management subsidiaries, Haitong Innovation Securities Investment Co., Ltd. and Haitong Creative Capital Fund Management Co., Ltd., achieving a significant process in its strategy of strengthening the Group. Through active development of innovative business, the Company became one of the first securities companies obtaining qualifications for various innovative businesses, demonstrating an initial success on its business transition.

(IV) **Analysis on principal components of consolidated statement of financial position**

1. *Overall situation of consolidated statement of financial position*

In 2012, the Company successfully listed its H Shares on the Hong Kong Stock Exchange. The Company issued an aggregate of 1,356,900,000 H Shares and received total proceeds of HK\$14.383 billion, strengthening its financial position. By the end of 2012, the total assets of the Group increased by 28.04% to RMB126.725 billion as compared to the beginning of the year. Total liabilities increased by 26.60% to RMB66.295 billion as compared to the beginning of the year. Total equity increased by 29.65% to RMB60.431 billion as compared to the beginning of the year. Major items of the consolidated statement of financial position of the Group are as follows:

SECTION IV REPORT OF THE BOARD OF THE DIRECTORS

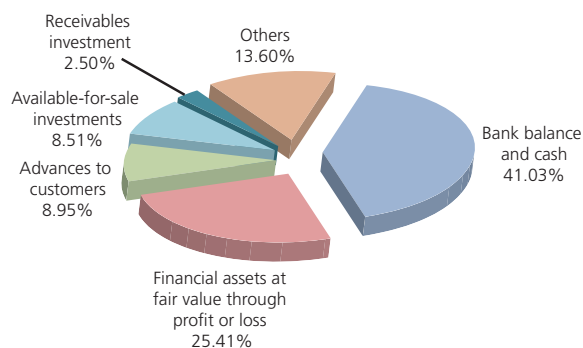
Unit: RMB'000

	2012		2011		Increase/ Decrease	
	As at 31 December	Composition	As at 31 December	Composition	Amount	Percentage
Non-current assets	9,951,897		6,162,961		3,788,936	61.48%
Of which: Available-for-sale investments	3,353,761	2.65%	1,933,565	1.95%	1,420,196	73.45%
Property and equipment	1,134,459	0.90%	1,177,137	1.19%	-42,678	-3.63%
Receivables investment	1,278,302	1.01%	157,683	0.16%	1,120,619	710.68%
Current assets	116,773,542		92,813,950		23,959,592	25.81%
Of which: Bank balance and cash	51,991,465	41.03%	50,571,034	51.09%	1,420,431	2.81%
Financial assets at fair value through profit or loss	32,195,783	25.41%	20,605,107	20.82%	11,590,676	56.25%
Advances to customers	11,338,687	8.95%	6,462,677	6.53%	4,876,010	75.45%
Available-for-sale investments	7,427,046	5.86%	6,826,646	6.90%	600,400	8.79%
Financial assets held under resale agreements	2,193,569	1.73%	605,900	0.61%	1,587,669	262.03%
Receivables investment	1,894,100	1.49%	-	0.00%	1,894,100	
Total assets	126,725,439		98,976,911		27,748,528	28.04%
Current liabilities	66,144,880		52,294,251		13,850,629	26.49%
Of which: Accounts payable to brokerage clients	36,956,823	55.75%	38,013,807	72.59%	-1,056,984	-2.78%
Financial assets sold under repurchase agreements	16,040,561	24.20%	9,524,534	18.19%	6,516,027	68.41%
Borrowings	8,626,314	13.01%	2,520,730	4.81%	6,105,584	242.21%
Deposits taken from other financial institutions	2,150,000	3.24%	-	0.00%	2,150,000	
Other payables and accruals	1,897,509	2.86%	1,818,960	3.47%	78,549	4.32%
Net current assets	50,628,662		40,519,699		10,108,963	24.95%
Non-current liabilities	149,963	0.23%	72,018	0.14%	77,945	108.23%
Total liabilities	66,294,843		52,366,269		13,928,574	26.60%
Total equity	60,430,596		46,610,642		13,819,954	29.65%

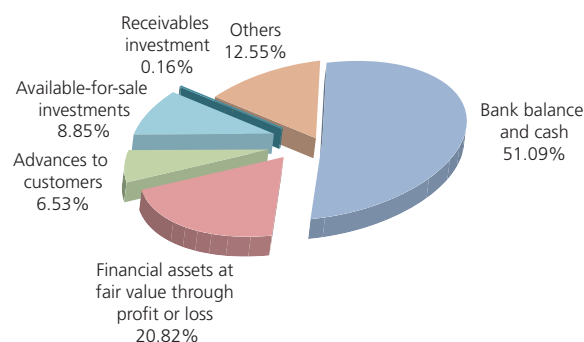
* Percentages for assets and liabilities refer to the share of total assets and the share of total liabilities respectively.

SECTION IV REPORT OF THE BOARD OF THE DIRECTORS

Composition of Total Assets in 2012



Composition of Total Assets in 2011



Non-current assets

As at the end of 2012, the non-current assets of the Group increased by 61.48% to RMB9.952 billion as compared to the beginning of the year, mainly due to the increase in available-for-sale investment and receivables investment. In 2012, the Group proactively seized the market opportunity and increased the scale of available-for-sale and receivables investment. In addition, the wholly-owned subsidiary Haitong Capital Investment proactively developed direct investment business and thus the scale of direct investment business sustained rapid growth.

Current assets and liabilities

As at the end of 2012, the net current assets of the Group increased by RMB10.109 billion to RMB50.629 billion as compared to RMB40.520 billion as at the beginning of the year, representing an increase of 24.95%, mainly because the growing of current assets was faster than that of current liabilities.

The increase in the Group's current assets was mainly attributable to the increase in: 1) financial assets at fair value through profit or loss; 2) advances to customers; 3) receivables investment; and 4) financial assets held under resale agreements, and bank balance and cash.

The increase in financial assets at fair value through profit or loss and receivables investment was mainly caused by more investment by the Group during the Reporting Period.

The increase in advances to customers was mainly due to the rapid development and faster growing of margin financing and securities lending business.

The financial assets held under resale agreements increased, mainly as a result of larger trading scale under resale agreements purchased to earn a better return.

SECTION IV REPORT OF THE BOARD OF THE DIRECTORS

The increase in bank balances and cash was mainly attributable to 1) the proceeds raised from issuance of H Shares and 2) the increase in the scale of financial assets sold under repurchase agreements, the borrowings and the deposits taken from other financial institutions. The Group sold financial assets under repurchase agreements, borrowed money and took deposits from other financial institutions to enhance the management of liquid funds and earn a higher return through financial leverages.

The increase in the Group's current liabilities was mainly attributable to the increase in financial assets sold under repurchase agreements, borrowings and deposits taken from other financial institutions, which was offset by the decrease in the accounts payable to brokerage clients.

Non-current liabilities

The Group's non-current liabilities primarily consisted of deferred tax liabilities, the increase of which was mainly attributable to the increase in fair value of the financial assets at fair value through profit or loss and available-for-sale investment, resulting in the increase of taxable temporary differences.

Borrowings

As at 31 December 2012, the Group had total borrowings of RMB8.626 billion. The following table sets forth the details of the Group's borrowings as at the end of 2012:

	As at 31 December 2012 RMB'000	As at 31 December 2011 RMB'000
Secured short-term borrowings:		
Bank borrowings	1,714,948	1,741,384
Unsecured short-term borrowings:		
Bank borrowings	6,911,366	779,346
	8,626,314	2,520,730

Bank borrowings, borrowed by the subsidiaries in Hong Kong, of approximately RMB525,334,000 and RMB1,706,839,000 as at 31 December 2011 and 31 December 2012, respectively, were secured by the listed shares pledged to the Group as a security for advances to customers (with customers' consent) of RMB1,705,713,000 and RMB4,452,377,000 as at 31 December 2011 and 31 December 2012, respectively.

As at 31 December 2012, secured bank borrowings of RMB8,109,000 were secured by the Group's bond with a carrying amount of RMB217,500,000. As at 31 December 2011, secured bank borrowings of RMB1,216,050,000 were secured by the Group's short-term time deposits placed at financial institutions. Such pledged borrowings were repaid in 2012.

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Of all the Group's bank loans, RMB1,919,475,000 bore interest (which are also equal to the effective interest rate) at Hong Kong Interbank Offered Rate plus 0.55% to 2% per annum or cost of funding plus interest of 0.85% per annum. (2011: Hong Kong Interbank Offered Rate plus 0.41% to 1.75% per annum); the remaining portions bore interest at domestic interbank offered rate plus 1.2% per annum.

As at 31 December 2012, the Group's borrowings were either repayable on demand or due within one year and incurred by the Company and the Company's Hong Kong subsidiaries. As at 31 December 2012, the Group's own capital amounted to RMB20.851 billion, which was far more than the interest-bearing liabilities such as borrowings and deposits taken from other financial institutions and therefore there was no liquidity risk.

Except for the liabilities disclosed in this Report, as at 31 December 2012, the Group did not have any outstanding mortgage, charges, bonds, other debt capital (issued or agreed to be issued), liabilities under acceptance or other similar indebtedness, hire purchase and finance lease commitment, guarantee or other material contingent liabilities.

2. *Distributable reserves*

On 31 December 2012, reserves of the Company available for distribution to shareholders of the Company amounted to RMB8.956 billion.

3. *public welfare contributions*

During 2012, the Group contributed RMB1,252,900 in total in public welfare areas like disaster relief donations, education subsidies and charity donations.

Breakdown of public welfare contributions for 2012

Item	<i>Unit: RMB'000</i> Amount for the period
Disaster relief donations	1
Education subsidies	126
Charity donations	1,006
Others	120
Total	1,253

Charity donations of the Group were mainly donations from domestic charity funds.

SECTION IV REPORT OF THE BOARD OF THE DIRECTORS

4. *Explanations on change in the scope of consolidation of the statements*

- (1) As compared with the end of last year, during the year, the Group set up another eight entities, which were two subsidiaries of the Company recently established (Haitong Innovation Securities Investment Co., Ltd. and Shanghai Haitong Securities Asset Management Company Ltd.), a subsidiary of Haitong Capital Investment Co., Ltd. established during the year (Haitong Leading Capital Management Co., Ltd.), a subsidiary of HFT Investment Management Co., Ltd. (HFT China (New) Frontier Non-US Feeder Fund) and four subsidiaries of Haitong International Securities Group Limited (“Haitong International Securities Group”) (formerly known as “Taifook Securities”) (listed on the Hong Kong Stock Exchange, stock code: 665) (including Haitong International Equity Investment Management Limited).
- (2) During the year, the Group totally reduced ten entities, which were ten subsidiaries of Haitong International Securities Group deregistered, including E-wealth Club Limited.

(V) *Analysis on core competitiveness*

In the process of long-standing business operation, the Company has gradually formed its characteristic core competitiveness which is mainly embodied in:

1. *Strong capital strength*

Since 2007, the Company has taken the market opportunities and strengthened our capital strength through two strategic financing arrangements; the Company has taken the development opportunity brought about by economic transition to the securities market and enhanced capital accumulation through endogenous growth. According to the statistics published by the Securities Association of China, the Company ranked second among all securities firms in the PRC in terms of total assets and net assets as of 31 December 2009, 2010, 2011 and 2012 respectively. Sufficient capital provided the Company with first-mover advantage in regard to implementing business transformation and accelerating business innovation.

2. *Extensive branch network with a substantial and stable customer base*

As of 31 December 2012, the Company had 230 securities and futures branches (including 202 securities branches and 28 futures branches) spanning across 27 provinces and 142 cities in the PRC, as well as 12 branches in Hong Kong and Macau operated through our subsidiary, Haitong International Securities Group. According to the statistics from the Shanghai Stock Exchange and the China Futures Association, the Company ranked the fourth in terms of the number of securities and futures brokerage branches among all securities companies in China as of 31 December 2012. In addition, in order to adapt to the evolving competitive landscape and development trends specific to different regions, the Company has established 24 branch offices in Beijing, Shanghai and some other provinces. Such branch offices directly manage and supervise regional securities brokerage branches and allow us to enhance management efficiency and resource allocation at our branches. Leveraging its nationwide strategically branch network, the Company has built a large and stable customer base. As of 31 December 2012, the Company had nearly 4.6 million customers in China.

SECTION IV REPORT OF THE BOARD OF THE DIRECTORS

3. *Forward-looking business innovation*

The Company always treats innovation as the key driving force in promoting strategic transition. In recognition of its strong capital position, effective risk management and internal controls and proven execution capabilities, the Company is frequently designated by the regulatory authorities as one of the first few securities firms to participate in pilot programs for new businesses in the PRC securities industry. The Company has been one of the first securities firms to obtain the qualifications for running stock index futures brokerage business, margin financing and securities lending business, futures IB business and OTC business, etc. and one of the first securities firms to be approved to conduct direct investment and alternative investment businesses. During the recent years, the Company has made rapid progress in new businesses, with margin financing and securities lending business, stock index futures brokerage trading business and direct investment business always being able to maintain their leading positions in the industry. In 2012, the Company constantly devoted more efforts to self-innovation, enlarged the stock of new businesses and innovative products, further enriched its product lines and improved its service capability in addition to further improving the working mechanism of innovation. Based on all those efforts, we successively obtained the qualifications for running insurance fund management business, as well as qualifications for running new businesses such as margin and securities refinancing, independent custody of partnership, futures assets management, RQFLP, QFII and QFLP (both for securities firms with PRC background), etc. Based on all the above, we smoothly obtained the qualifications for trading, as a lead underwriter, in short-term commercial papers, medium-term notes and private debts of SMEs, with the first credit asset securitization project of China (Bank of Communications) leadingly underwritten by us being honored by Asiamoney as the “Best Securitization Deal in 2012”, and we successfully issued the first cash management product, with the insurance size listed among the first rank in the industry. Revenue contribution from various new businesses, including margin financing and securities lending, stock repo trading and arbitrage, etc., climbed continuously, effectively avoiding the adverse effect of revenue decline of traditional business.

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

Haitong International Securities Group is one of the leading local full-service securities firms in Hong Kong, with nearly 40 years of operating history, and has been awarded the best securities firm in Hong Kong for over ten consecutive years by internationally renowned financial media, such as FinanceAsia, Asiamoney and Euromoney. Currently, there are only a small number of PRC securities firms which have listed business platforms in Hong Kong, among which Haitong International Securities Group has a long operating history, with the most extensive distribution network in Hong Kong. The full-service overseas platform of Haitong International Securities Group and its overseas customer base and branch network have allowed the Company to capture increasing cross-border business opportunities and to meet changing customer demands in the Greater China region.

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5. *Prudent corporate governance and effective risk management and internal control systems*

The Company has navigated through various market and business cycles, regulatory reforms and industry developments over its 25 years of operating history. The Company has established prudent corporate governance, effective risk management and internal control systems to reduce its exposure to various risks in the securities markets. The Company is 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 acquired or restructured. The Company has developed a comprehensive risk control system that effectively manages market risk, credit risk, liquidity risk and operational risk. The Company has also established effective Chinese walls and precautionary mechanisms across its business lines to prevent potential conflicts of interests. In addition, the Company has established an independent and centralized internal audit and compliance system, which effectively monitors its operations and transactions. The Company has received an "AA" regulatory rating of class "A" from the CSRC for the past five consecutive years, the highest rating given to a PRC securities firm to date.

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

Our success is attributable to the sound leadership of our Directors and senior management. The majority of our Directors and members of our senior management have an average of 20 years of experience in the PRC financial and securities industries. Most of them have served us for over ten years.

We believe that the strategic vision of the Board and our senior management team has distinguished us from our competitors and has allowed us to capture business opportunities arising from product innovation and globalization of the PRC securities industry. In recognition of the achievements of our senior management team, our Board was awarded as "Excellent Board of Directors" by the "Directors and Boards" magazine, an authoritative domestic journal in corporate governance, for the past four consecutive years (2008 – 2011). Our chairman, Mr. Wang Kaiguo, won the Award of Most Strategically-Minded Chairman and was awarded as the "Most Influential Leader" in the "Golden Bauhinia" Award of China securities held by "Ta Kung Pao" of Hong Kong in 2012. Our general manager, Mr. Li Mingshan, was awarded as "Shanghai's Top Ten Financiers for 2012".

We have a highly proficient professional workforce. As of 31 December 2012, 5,619 of our employees held a bachelor's or more advanced degree, representing 77.5% of the total number of our employees. Our Directors believe that the retention of key employees is attributable to our well-recognized brand name, business prospects and successful talent recruitment and remuneration mechanism and customized professional training programs.

SECTION IV REPORT OF THE BOARD OF THE DIRECTORS

(VI) Analysis on investments

1. External equity investments

As of the end of the Reporting Period, available-for-sale investments of the Group included unlisted equity securities of RMB2.681 billion, representing an increase of RMB1.108 billion, or 70.44%, as compared with the RMB1.573 billion as at the end of last year. The increase was mainly attributable to additional equity investments in direct investment of Haitong Capital Investment. Investments in other non-financial equity amounted to RMB1.079 billion, and the shareholding of each investment as a percentage of total equity was less than 20%.

2. Securities investment

No.	Type of securities	Stock code	Abbreviated name	Initial investment cost (RMB)	Number of shares held (share)	Carrying value as at the end of the period (RMB)	Percentage of total securities investment at the end of the period	Profit and loss during the Reporting Period (RMB)
1	Treasury bonds	010308	03國債(8)	1,656,391,629.49	16,500,000.00	1,655,775,000.00	4.47%	55,989,406.44
2	Treasury bonds	010213	02國債(13)	996,898,570.92	10,374,000.00	1,004,203,200.00	2.71%	24,310,120.42
3	Treasury bonds	010107	21國債(7)	585,963,473.98	5,520,000.00	577,888,800.00	1.56%	3,426,650.15
4	Funds	091005	大成貨幣B	500,390,689.36	500,000,000.00	500,453,378.31	1.35%	453,378.31
5	Funds	380002	中銀理財14天債券B	500,000,000.00	500,000,000.00	500,323,810.00	1.35%	323,810.00
6	Funds	163820	中銀貨幣B	500,000,000.00	500,000,000.00	500,295,410.00	1.35%	295,410.00
7	Funds	070088	嘉實貨幣B	500,000,000.00	500,000,000.00	500,188,390.00	1.35%	188,390.00
8	Funds	041003	華安現金富利貨幣B	500,000,000.00	500,000,000.00	500,151,800.23	1.35%	151,800.23
9	Funds	003003	華夏現金增利	500,000,000.00	500,000,000.00	500,046,860.00	1.35%	46,860.00
10	Debentures	1180057	11常州中小債	458,000,000.00	4,580,000.00	457,720,620.00	1.24%	17,630,610.97
Other securities investment holding as at the end of the period				30,159,847,857.08	/	30,320,756,771.68	81.92%	1,450,399,225.95
Profit and loss for securities investment sold during the Reporting Period				/	/	/	/	703,378,987.82
Total				36,857,492,220.83	/	37,017,804,040.22	100.00%	2,256,594,650.29

Note 1: The sequence of this table is based on the percentage of the carrying value as at the end of the Reporting Period attributed to the total securities investment of the Company as at the end of the Reporting Period, and this table only shows the top ten securities of the Group as at the end of the Reporting Period;

Note 2: The securities investment of this table refers to the investment in stocks, derivatives, convertible bonds, etc. Investment in stocks only shows the accounting part of financial assets at FVTPL listed in the consolidated statement of financial position of the Company;

Note 3: Other securities investment refers to investment in other securities, other than the top ten securities;

Note 4: Profit and loss during the Reporting Period includes net investment gains from holding such securities by the Group.

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As at the end of the Reporting Period, the initial investment cost for securities investment stated as stated in the table above amounted to RMB36.857 billion, representing an increase of RMB14.665 billion as compared to the end of 2011 (RMB22.192 billion), mainly due to an enlargement to the investment scale of stocks and funds in the financial assets at FVTPL.

3. Shareholding in other listed companies

Unit: RMB

Stock Code	Abbreviated name	Initial investment cost	Shareholding in the company	Carrying value as at the end of the period	Profit and loss during the Reporting Period	Changes in interests of owners during the Reporting Period	Accounting items	Source of shares
600000	浦發銀行	1,025,060,098.76	0.56%	1,033,202,124.80	-4,192,818.53	10,343,239.96	Available-for-sale investments	Non-public issuance of shares and purchase from secondary market
600221	海南航空	803,362,368.23	3.23%	814,240,250.85	34,358.82	12,628,619.25	Available-for-sale investments	Non-public issuance of shares and purchase from secondary market
600522	中天科技	513,713,547.51	5.51%	306,544,528.65	-391,717,592.84	-	Available-for-sale investments	Underwriting from investment bank
600498	烽火通信	127,400,000.00	1.04%	113,800,000.00	-30,817.90	-13,600,000.00	Available-for-sale investments	Non-public issuance of shares and purchase from secondary market
601318	中國平安	69,439,225.18	0.02%	61,574,381.82	-442,485.18	14,751,204.30	Available-for-sale investments	Purchase from secondary market
600036	招商銀行	62,789,741.50	0.02%	63,278,380.00	537,376.05	8,651,880.32	Available-for-sale investments	Purchase from secondary market
601328	交通銀行	44,697,454.57	0.01%	42,263,438.88	155,901.79	3,930,461.92	Available-for-sale investments	Purchase from secondary market
600016	民生銀行	44,209,799.01	0.03%	62,607,823.92	3,084,409.99	15,691,782.84	Available-for-sale investments	Purchase from secondary market
300059	東方財富	43,525,878.86	2.80%	89,142,520.46	15,334,903.88	-28,205,609.66	Available-for-sale investments	Circulation of legal person share
601166	興業銀行	41,184,223.42	0.03%	46,406,928.87	-959,787.93	11,594,780.91	Available-for-sale investments	Purchase from secondary market
Shareholding of other listed companies		1,685,446,039.01		1,309,478,901.15	-395,173,989.62	626,445,626.62		
Total		4,460,828,376.05		3,942,539,279.40	-773,370,541.47	662,231,986.46		

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Note 1: This table only shows the accounting shareholdings in other listed companies for available-for-sale investments by the Group;

Note 2: Profit and loss during the Reporting Period refers to the effects of consolidated net profit of the Group during the Reporting Period caused by this investment.

As at the end of the Reporting Period, the initial investment cost for shareholding in other listed companies as stated in the table above amounted to RMB4.461 billion, representing a decrease of RMB2.861 billion as compared to the end of 2011 (RMB7.322 billion), mainly due to a reduction of shareholding of other listed companies in the available-for-sale investments by the Group.

4. Equity participation in non-listed financial companies of the Company

Name	Initial investment cost (RMB)	Number of shares held (Share)	Shareholding in the company	Carrying value as at the end of the period (RMB)	Profit and loss during the Reporting Period (RMB)	Changes in interests of owners during the Reporting Period (RMB)	Accounting items	Source of shares
Fullgoal Fund Management Co., Ltd.	92,907,375.00	49,995,000.00	27.775%	276,993,841.84	71,903,838.49	1,686,765.96	Investment in associates	Capital contribution for subscription
HFT Investment Management Co., Ltd.	67,000,000.00	76,500,000.00	51.00%	76,500,000.00	78,499,071.78	551,882.81	Investment in subsidiaries	Capital contribution for establishment of subsidiaries
Haitong-Fortis Private Equity Fund Management Co., Ltd.	13,400,000.00	13,400,000.00	67.00%	13,400,000.00	67,268,108.78	-	Investment in subsidiaries	Capital contribution for establishment of subsidiaries
Haitong Futures Co., Ltd.	699,191,777.61	666,670,000.00	66.667%	699,191,777.61	59,749,384.80	-	Investment in subsidiaries	Subsidiaries acquired through business combination not involving entities under common control
Haitong International Holdings Limited	3,494,038,000.00	4,000,000,000.00	100.00%	3,494,038,000.00	167,824,789.19	30,865,418.65	Investment in subsidiaries	Capital contribution for establishment of subsidiaries
Haitong Capital Investment Co., Ltd.	5,750,000,000.00	5,750,000,000.00	100.00%	5,750,000,000.00	116,707,633.86	-43,061,703.48	Investment in subsidiaries	Capital contribution for establishment of subsidiaries
Haitong Innovation Securities Investment Co., Ltd.	3,000,000,000.00	3,000,000,000.00	100.00%	3,000,000,000.00	85,438,678.53	635,297.48	Investment in subsidiaries	Capital contribution for establishment of subsidiaries
Shanghai Haitong Securities Asset Management Company Ltd.	1,000,000,000.00	1,000,000,000.00	100.00%	1,000,000,000.00	9,545,129.05	111,645.05	Investment in subsidiaries	Capital contribution for establishment of subsidiaries
Total	14,116,537,152.61	14,556,565,000.00	/	14,310,123,619.45	656,936,634.48	-9,210,693.53	/	/

Note 1: Financial companies include commercial banks, securities companies, insurance companies, trust companies, and futures brokerage companies. This table only shows the shareholdings in non-listed financial companies held by the Company;

Note 2: Profit and loss during the Reporting Period refers to the effects of consolidated net profit on the Group during the Reporting Period caused by this investment;

Note 3: Changes in interests of owners during the Reporting Period refer to the effects of the consolidated interests of owners on the Group during the Reporting Period caused by this investment.

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As at the end of the Reporting Period, the initial investment cost for equity participation in non-listed financial companies of the Company as stated in the table above amounted to RMB14.117 billion, representing an increase of RMB5.750 billion as compared to the end of 2011 (RMB8.367 billion), mainly due to the Group's investment of RMB3 billion and RMB1 billion in its newly established subsidiaries Haitong Innovation Securities Investment Co., Ltd. and Shanghai Haitong Securities Asset Management Company Ltd. respectively, and contribution of RMB1.750 billion to Haitong Capital Investment Co., Ltd..

5. Trading in shares of other listed companies

Buy or sell	Shares held at the beginning of the period (share)	Shares bought/sold during the Reporting Period (share)	Shares held at the end of the period (share)	Fund utilized (RMB)	Investment gains generated from disposal (RMB)
Buy	1,305,826,413.24	25,539,344,435.04	1,636,872,996.62	10,776,859,480.46	-390,658,665.87
Sell		25,208,297,851.66			

The total investment gains generated from selling new shares obtained from application for subscription during the Reporting Period amounted to RMB370,420.53.

The shares bought/sold and fund utilized recorded an increase as compared to previous year during the Reporting Period, which was due to the Group's engagement in hedging and ETF arbitrages.

6. Use of proceeds

(1) Overall use of proceeds

According to use of proceeds from the Global Offering (including surplus proceeds) sated in H Share prospectus, the Company intends to use proceeds from the Global Offering as follows:

- Approximately 35% will be used for strategic acquisitions of overseas securities firms and/or further expansion of our overseas securities business;
- Approximately 20% will be used to expand our margin financing and securities lending business
- Approximately 20% will be used to develop our alternative financial products investment business and other new businesses as permitted by the PRC regulatory authorities;
- Approximately 15% will be used for capital contributions to Haitong Capital Investment and the expansion of our direct investment and private equity funds management businesses; and

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- Approximately 10% will be used for working capital and general corporate purposes.

As of 31 December 2012, the Company has used aggregate proceeds raised from H Share of HK\$7,597,975,516.48 (equivalent to RMB6,236,064,380.57). Unused proceeds amounted to HK\$6,266,793,734.08 (equivalent to RMB5,081,429,699.28 based on the year end exchange rate), of which, principal of the outstanding proceeds amounted to RMB5,029,748,178.01 and interest amounted to RMB51,681,521.27. Recently, the unused proceeds are primarily proceeds to be used for strategic acquisitions of overseas securities firms and/or further expansion of our overseas securities business, and proceeds to be used for working capital and general corporate purposes. Deposit and actual use of proceeds raised from H Shares were audited by Deloitte Touche Tohmatsu CPA Ltd. (special general partnership).

Unit: RMB'000

Year of fund raising	Fund raising methods	Total proceeds	Total proceeds used this year	Total accumulated proceeds used	Unutilized proceeds	Use and purpose of unutilized proceeds
2012	IPO (H Shares)	11,265,812	6,236,064	6,236,064	5,029,748	used for strategic acquisitions of overseas securities firms and/or further expansion of our overseas securities business and for working capital and general corporate purposes

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(2) Use of proceeds on committed projects

Unit: RMB'000

Name of committed project	Any changes in the project	Amount of proceeds scheduled to invest	Amount of proceeds invested in the year	Actual accumulated amount of proceeds invested	Whether in line with the schedule	Project progress	Expected revenue	Generation of revenue	Explanations		
									Whether the expected revenue achieved	on failure to achieve the schedule and expected revenue	Reasons of changes and explanations on change in proceeds
Proceeds used for strategic acquisitions of overseas securities firms and/or further expansion of our overseas securities business	No	3,932,623	-	-	-	-	-	120,069	-	-	-
Proceeds used to expand our margin financing and securities lending business	No	2,265,411	2,265,411	2,265,411	Yes	100%	-	81,232	-	-	-
Proceeds used to develop our alternative financial products investment business and other businesses as permitted by the PRC regulatory authorities	No	2,269,805	2,269,805	2,269,805	Yes	100%	-	103,483	-	-	-
Proceeds used for capital contributions to Haitong Capital Investment and the expansion of our direct investment and private equity funds management businesses	No	1,700,849	1,700,849	1,700,849	Yes	100%	-	14,170	-	-	-
Proceeds used for working capital and general corporate purposes	-	1,097,126	-	-	-	-	-	33,497	-	-	-

(3) Changes in fund-raising projects

There is no change in fund-raising projects, so that this clause does not apply.

7. Investing activities of the Group incurred during the Reporting Period

- (1) Establishment of Haitong Innovation Securities Investment Co., Ltd. by investment
According to the Proposal on Establishment of Haitong Innovation Securities Investment Co., Ltd. (tentative name) considered and approved at the second meeting of the fifth session of the Board, in April 2012, the Company, with an initial investment of RMB3 billion, established its subsidiary, Haitong Innovation Securities Investment Co., Ltd. having a registered capital of RMB3 billion.
- (2) Establishment of Shanghai Haitong Securities Asset Management Company Ltd. by investment
According to the Proposal on Establishment of Shanghai Haitong Securities Asset Management Company Ltd. (tentative name) considered and approved at the third meeting of the fifth session of the Board, in June 2012, the Company, with an initial investment of RMB1 billion, established its subsidiary, Shanghai Haitong Securities Asset Management Company Ltd. having a registered capital of RMB1 billion.

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- (3) Capital contributions to Haitong Capital Investment Co., Ltd.

According to the Proposal on Capital Contribution of RMB2 billion to Haitong Capital Investment Co., Ltd. was considered and approved at the eleventh meeting (extraordinary meeting) of the fifth session of the Board, it was resolved to make capital contribution of RMB2 billion to Haitong Capital Investment Co., Ltd. In 2012, capital contribution to Haitong Capital Investment by the Company reached RMB1.75 billion. Upon the capital contribution, the registered capital of Haitong Capital Investment changed to RMB5.75 billion.

8. *Analysis on principal subsidiaries and non-controlling companies*

- (1) The registered capital of HFT Investment Management Co., Ltd. was RMB150 million, 51% of which was held by Haitong Securities. As at 31 December 2012, total assets and net assets (generated by HFT Investment Management) of HFT Investment Management Co., Ltd. amounted to RMB955 million and RMB748 million respectively. In 2012, its net profit amounted to RMB153 million.

The main scope of business of HFT Investment Management includes fund raising, fund sale, asset management and other businesses permitted by the CSRC.

- (2) The registered capital of Fullgoal Fund Management Co., Ltd. was RMB180 million, 27.775% of which was held by Haitong Securities. As at 31 December 2012, total assets and net assets of Fullgoal Fund Management amounted to RMB1.217 billion and RMB981 million respectively. In 2012, its net profit amounted to RMB270 million.

The main business of Fullgoal Fund Management includes fund raising, fund sale, assets management and other businesses permitted by the CSRC.

- (3) The registered capital of Haitong-Fortis Private Equity Fund Management Co., Ltd. was RMB20 million, of which 67% was held by Haitong Securities. As at 31 December 2012, total assets and net assets of Haitong-Fortis PE Management amounted to RMB246 million and RMB171 million respectively. In 2012, its net profit amounted to RMB100 million.

The main business of Haitong-Fortis PE Management includes industrial investment fund management, investment advisory, and investment funds formation.

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- (4) The registered capital of Haitong Futures Co., Ltd. was RMB1 billion, of which 66.667% was held by Haitong Securities. As at 31 December 2012, total assets and net assets of Haitong Futures Co., Ltd. amounted to RMB8.073 billion and RMB1.19 billion. In 2012, its net profit amounted to RMB90 million.

The main business of Haitong Futures Co., Ltd. includes commodity futures brokerage and financial futures brokerage.

- (5) The registered capital of Haitong International Holdings Limited was HK\$4 billion, of which 100% was held by Haitong Securities. As at 31 December 2012, total assets and net assets (generated by Haitong International Holdings Limited) of Haitong International Holdings Limited amounted to HK\$16.628 billion and HK\$4.187 billion. In 2012, its net profit amounted to HK\$297 million.

Through various of its subsidiaries, Haitong International Holdings Limited's main business scope includes securities and futures brokerage, investment banking, M&A financing, asset management, market research and other businesses authorized by Hong Kong securities regulatory rules.

- (6) The registered capital of Haitong Capital Investment Co., Ltd. was RMB5.75 billion, of which 100% was held by Haitong Securities. As at 31 December 2012, total assets and net assets (generated by Haitong Capital Investment Co., Ltd.) of Haitong Capital Investment Co., Ltd. amounted to RMB6.163 billion and RMB5.954 billion. In 2012, its net profit amounted to RMB121 million.

The main scope of business of Haitong Capital Investment includes using its own funds to make equity investments in domestic enterprises; providing financial advisory services on equity investments to clients; using unutilized capital to invest in highly liquid securities with low risks, such as national bonds, investment-grade corporate bonds, money market funds and central bank bills, and collective asset management schemes or targeted asset management schemes authorized to be established for the purpose of cash management based on the premise of effective risk management and maintenance of liquidity; and other businesses permitted by the CSRC.

- (7) The registered capital of Haitong Innovation Securities Investment Co., Ltd. was RMB3 billion, of which 100% was held by Haitong Securities. Founded in April 2012, Haitong Innovation Securities Investment has total assets and net assets of RMB3.123 billion and RMB3.086 billion as at 31 December 2012 respectively. In 2012, its net profit amounted to RMB85 million.

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The main business of Haitong Innovation Securities Investment includes financial products investment, securities investment, investment advisory and investment management.

- (8) The registered capital of Shanghai Haitong Securities Asset Management Company Ltd. was RMB1 billion, of which 100% was held by Haitong Securities. Founded in June 2012, Shanghai Haitong Securities Asset Management Company Ltd. had total assets and net assets of RMB1.022 billion and RMB1.01 billion as at 31 December 2012 respectively. In 2012, its net profit amounted to RMB10 million.

The main business of Shanghai Haitong Securities Asset Management Company Ltd. is securities asset management business.

9. *Newly establishment and disposal of branches, branch offices and subsidiaries during the Reporting Period*

During the Reporting Period, the Company was permitted to establish 4 securities branch offices (all of which were in operation), 9 newly-set securities branches which were in operation and another one in Wenzhou, Zhejiang province which is under preparation. As at the end of the Reporting Period, the Company had 24 securities branch offices and 202 securities branches (details refer to the list of securities branches) in total.

10. *Explanation on account standardization*

The Company has completed the work of account liquidation in April 2008 and was awarded with the title of "Advanced Group for Account Liquidation" by the CSRC. During the Reporting Period, the Company has further strengthened the management on newly-opened accounts, and effectively avoided the setting up of non-standard accounts by standardizing the processes and enhancing supervision, review and etc. The Company also made further liquidation to the unqualified accounts, small-amount-dormant accounts and dormant accounts without risk management which have been reserved separately. During the Reporting Period, the Company has totally liquidated 162 unqualified capital accounts (including 122 unqualified cash-only accounts), 3,491 small-amount-dormant capital accounts (including 414 cash-only small-amount-dormant accounts), and 200 dormant accounts without risk management. As at 31 December 2012, the Company still had 26,879 unqualified accounts (including 23,492 unqualified cash-only capital accounts), 1,442,426 small-amount-dormant capital accounts (including 446,922 cash-only small-amount-dormant capital accounts) and 99,273 dormant accounts without risk management.

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11. Development of innovative business

Persisting in promoting transformation by innovation, the Company has obtained a number of innovative business achievements:

- (1) giving great impetus to all innovative businesses and products launched by the CSRC, the Securities Association of China and stock exchanges, and becoming one of the first securities companies having qualification for engaging in over-the-counter (OTC) pilot trading (the first to sell products on the OTC market in January 2013) and qualification for managing insurance fund from the China Insurance Regulatory Commission and being qualified by the CSRC for engaging in innovative business such as refinancing, independent custodian of partnership enterprise, futures asset management, RQFLP, Chinese brokerages QFII, QFLP and etc. as well as being qualified for underwriting short-term financing bond, medium-term note and SME private creditor. The national first credit asset securitization project (Bank of Communication) in which the Company was a lead underwriter has been awarded as “2012 Best Securitization Transaction” by Asiamoney. The asset management subsidiary has successfully issued the first cash management product and its scale of issuance ranked top in the industry;
- (2) strengthening its independent innovation works and its self-developed analysis technique based on customer behavior and its application system gaining the Second Prize of Shanghai Financial Innovation, while the procedural and algorithmic trading platform and third-party valuation system developed by the Company being launched on-line;
- (3) its innovative business maintaining a leading position in the industry and its contributions to income having significantly increased, ranking the first in the industry in terms of the scale of securities margin trading balance and stock repo trading, with constantly increasing revenue contribution from innovative business, so as to effectively offset the adverse effects from the drop of revenue in traditional business.

12. Special purpose entities controlled by the Group

During the Reporting Period, there are no special purpose entities under the control of the Group.

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II. DISCUSSION AND ANALYSIS OF THE BOARD ON THE COMPANY'S FUTURE DEVELOPMENT

(I) Competition patterns and development trends of the industry

In the coming years, transformation of economic development modes and the economic restructuring process in China will continue, and the securities industry will also see profound reform. The regulatory environment of the securities industry in China will become more and more market-oriented; innovation and reform measures will be continually launched; the business modes of securities companies will undergo great reform; the securities industry will be gradually transformed to the capital- and diverse-product-based financial intermediary service mode from the channel-service-based traditional service mode and will become the organizer of the capital market, the manager of investor wealth, thus practically improving the capability of serving the capital market and real economy.

In respect of brokerage, off-site account opening and deregulation of small and micro-sized outlets will further intensify the competition of retail businesses and bring new uncertainties to the trend of commission rates in the industry. Like the ability of customer marketing/services, the ability of cost controls will become a key competition for securities companies with respect to brokerages.

In respect of the investment banking business, equity financing market and other channel businesses suffered some uncertainties due to the market and approval factors. Enterprises will turn to the bond market financing and other non-channel financing methods; the pace of industrial integration and corporate M&A and reorganization are expected to be quickened, which will provide opportunities for securities companies' domestic and overseas M&A financing businesses.

In respect of the asset management business, with the substantial loosening of regulation on securities companies' asset management business, the cooperation channel between the asset management business and other businesses has been basically established, which has provided advantageous conditions for innovation and transformation of the asset management business. The future asset management scale of securities companies is expected to maintain rapid growth.

In respect of the proprietary trading business, overall, the securities companies with leading proprietary fund scale will maintain their advantages in terms of proprietary trading.

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In respect of the innovative business, the CSRC incorporated bank financing plans and collective fund trust schemes etc. into the proprietary investment scope of securities companies, which has further removed obstacles for securities companies to develop the over-the-counter trading business, and the securities companies allowed to engage in business pilots are expected to be benefited. With the successive debuts of margin and securities refinancing, collateralized repo and other businesses, the scales of margin financing and securities lending, stock repo and other credit trading businesses are expected to be continually expanded in the future, which will bring clearer incremental gains for the large-scale securities companies with abundant capital and solid customer base and further optimize the income structure of their brokerages. The depression of businesses and the restriction on the exit channel in the primary market will have adverse effects on the development of direct investment businesses of securities companies. The simple Pre-IPO business mode will be hard to sustain, and diversity of investment/withdrawal forms as well as deep expansion of the equity investment fund management business will increasingly become a key competitive direction of direct investment businesses of securities companies.

(II) Development strategy of the Company

The Company has accumulated a certain competitive advantage in the past 25 years: firstly, the Company has initially realized the strategic objectives – “restructuring and listing as a group and internationalization” and established the relatively strong capital strength and an diversified business platform; secondly, the Company has owned approximately 60 billion net assets and approximately 4.60 million customers, which has provided abundant capital and solid customer base for its business development; thirdly, brokerage, investment banking, assets management, PE investment and other alternative investments constitute a comprehensive industry chain with strong scale effects and cross-selling potential, which has provided powerful support for its business development; fourthly, margin financing and securities lending, stock repo, over-the-counter trading and other innovative businesses took the lead in the market and the profit mode of the Company has got a prompt transformation; fifthly, the Company has trained and exercised a group of high-quality talents, which has provided a powerful human resources support for its business development.

Under the backdrop of transformation, the overall development strategy of the Company is to reinforce the establishment of such four pillars as the Company’s research, talent, IT and risk management and to create Haitong as a domestically first-class and internationally influential financial service group centering on online securities, wealth management securities, SMEs securities and institutional business securities, by taking brokerage, investment banking business, assets management, and other seller and intermediary businesses as the core, capital intermediary business and capital investment business as the two wings, and innovation and internationalization as the drive.

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(III) Business plan

In 2013, the Company will focus on the following work to further accelerate innovation and transformation and achieve major financial indicators and business indicators leading in the industry: the first is to speed up development of the innovative business, especially the over-the-counter market business, margin financing and securities lending business and the stock repo trading business, to strive to remain dominated in the industry; the second is to continuously improve the competitiveness of brokerage, investment banking, assets management, investment and other traditional businesses; the third is to strengthen cross-selling and business collaboration and to quicken domestic and overseas resource integration; the fourth is to optimize capital allocation and capital structures and to increase the Company's capital utilization efficiency; the fifth is to further enhance the establishment of such four pillars as talent, risk management, IT and research.

(IV) Capital required by the Company to maintain existing businesses and complete the investment projects in progress

The Company is being transformed from traditional channel businesses to traditional and innovative businesses with equal emphasis, and the functions including payment, financing, custodian, investment, transaction and asset management will be constantly developed and improved. During this significant business transformation period, the Company has substantial capital requirements.

Firstly, traditional businesses will experience profound changes, and industry competition is anticipated to be further increased; under such circumstance, more capital investment will be required by the Company to support its system development and staffing. Investment banking business is booming, and apart from traditional equity financing, bond underwriting surges, accordingly, more underwriting reserve is required to control the associated risks.

Secondly, capital requirements of innovative businesses are particularly remarkable. The capital intermediary businesses including margin financing and securities lending and stock repo are capital-consumed businesses and require a large number of capital allocation. Launch of the stock index futures business has provided good opportunities for risk-free arbitrage among various markets, in which the Company may allocate a large quantity of capital. As a multi-tiered capital market advances, and regional equity markets and the New OTC Board etc. see significant developments, the Company will further invest in the emerging markets in respect of underwriting, transaction and capital intermediary, including personnel, system and market capital.

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Thirdly, subsidiary developments require more capital from the Company. Rapid developments of the businesses of domestic futures companies, direct investment companies, fund companies and innovative investment companies require more capital from the Company. Internationalization is a significant step of the Company's strategy of "division into three stages". Notable results have been achieved in respect of business and revenue internationalization, mainly including acquirement of QFII and RQFII business qualifications and merger and acquisition of overseas securities companies. In order to further boost the Company's internationalization strategy, the Company is going to step up efforts in internationalization investment, to expand the market share through new establishment or merger and acquisition, and to increase the proportion of internationalization revenue. Additional capital investment will be in need to make the Company's brand recognized by international investors and international customers.

Overall, the Company is in face of historic opportunities from business transformation and has substantial financing requirements. Relaxation of financing channels has also provided benign conditions for appropriate financing of the Company. In addition to equity financing, short-term, medium-term and long-term capital sources may come from the debt instruments including short-term commercial papers, corporate bonds and subordinated bonds to achieve flexible matches of different assets, so as to improve the Company's revenue, constantly enhance its ROE and thereby increase shareholder's return.

(V) Possible risk factors and countermeasures

1. *Specific risks against the Company's operating activities*

The risks facing the Company's business operation activities mainly include: market risk, credit risk, liquidity risk and operational risk, etc. which, specifically speaking, are mainly represented in the following aspects:

(1) *Market risk*

- A. Price fluctuation risk of securities assets. Securities asset price risk mainly refers to that the change in the market value of the Company's securities trading and securities invested will bring loss to the Company. Market risk includes security price risk, interest rate and exchange rate fluctuation risk and bulk commodity price risk involved in the Company's brokerage business, underwriting business, proprietary trading investment, assets management, derivative products and other business. The operation state of the Company highly relates to the environment of securities market and has great uncertainties.

In 2012, the world economic situation was still complicated and severe and Chinese capital market also maintained in depression. Shanghai and Shenzhen index was fluctuated in the low post throughout the year, and the market quotations were not booming. SSE composite index started with point 2,211.99 at the beginning of year and the year-end closing quotation was point 2,269.13, 3.17% slightly higher than point 2,199.42 at the end of 2011. SZSE component index also recorded a weaker rise of 2.22%.

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For the management of market risk, the Company mainly implements diversified investment strategies, properly controls and timely regulates the equity security position, and uses stock index futures for hedging, thus effectively controlling the market risk. Company regularly follows up the risk value changes of equity security position to monitor the market risk influence on equity security value. The ratio between value at risk and net assets never went beyond 0.5% at the end of each month in 2012 and presented a downward trend, therefore, the risk was controllable and acceptable. However, the use of these management tools was still influenced by the effectiveness of investment strategy and hedging strategy. The effectiveness of management methods was also restricted by the adverse changes of market liquidity, and the relevance between securities price and hedging derivative product price also has an influence on the effectiveness of hedging strategy.

- B. Interest rate risk. Interest rate risk refers to the risk resulted from market interest rate change, and the main part of the Company's assets which is relevant to interest rate risk mainly includes monetary deposits and bond investment, etc.. In 2012, the bond market was featured with ups and downs. China bond composite full-price index closed at point 111.66 at the end of the year, representing a rise of 0.4% over the last-year-end point. The Company mainly adopted scale control and investment portfolio, etc. to control interest rate risk, properly allocated assets and measured the interest rate risk by regularly estimating the portfolio duration, convexity and DV01 and other indexes. For proprietary trading of the Company's non-equity securities, the investment scale displayed a growth trend based on the trend and judgment of bond market and under the support of company liquidity. However, the overall portfolio duration was put under control and each-month-end duration was also relatively stable with little changes. At the end of December 2012, the duration was 3.56, slightly higher than 2011-year-end 3.31. With the development of market, the Company was actively using effective financial instruments to avoid interest rate risk.
- C. Exchange rate risk. Exchange rate risk refers to the risk resulted from the foreign exchange rate changes. With the international expansion of the Company, the exchange rate risk is gradually revealed. The Company often conducts the follow-up study for foreign exchange market and supports the expansion of overseas business. It has established RMB account in Hong Kong, thus avoiding the risk from appreciation of RMB. With the expansion of international business, the Company will further consider the exchange rate factor on the basis of foreign exchange asset allocation and adopt the proper tools to avoid risks.

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(2) *Credit risk*

Credit risk refers to the risk that the Company's counter party or issuer of the securities the Company holds fails to perform the contract obligations, thus bringing loss to the Company or where the Company holds securities issued by a third-party, the deterioration of the party's credit quality brings loss to the Company. Credit risk has certain correlation with market risk. During the market fluctuation, the Company's credit risk exposure degree on some financial products and transactions will accordingly change. Therefore, some monitoring and preventive means of the Company against market risk can also play a role in the management of credit risk.

Generally speaking, credit risk faced by securities companies in the industry mainly involves counter party failing to perform the contract, thus leading to loss in the process of acting trading securities for customers, providing securities margin trading business for customers and bond investment. The present securities market transaction and settlement rules in China can moderately control credit risk in an effective manner, and the securities transactions conducted by securities companies on behalf of customers use full margin clearing form to avoid risks. For the securities margin trading, the Company formulates and implements various strict systems and measures and control the credit risk related to this business from credit investigation, credit granting, marking to market, close position and multiple links. The Company focuses on the investment diversification for credit-class fixed income securities investment and closely follows up the operation condition of investees and credit rating changes. The invested credit products are mainly high credit rating products, and the credit risk of investment objects is controlled well.

(3) *Liquidity risk*

The liquidity risk mainly refers to the risk that the Company's core business can't ceaselessly generate income or that the Company brings about liquidity shortage due to the occupation of funds in such cases as industry or market facing great events. The liquidity risk will also come into being if securities companies are influenced by macro policy, market change, operation condition, credit degree and other factors in the business process or owing to the mismatching of structure of company assets and liabilities. In addition, the large-amount underwriting of investment banking business of securities traders, the oversize of investment scale of proprietary trading, the excessively high proportion of long-term assets and other factors can lead to the poor capital turnover and liquidity difficulties of securities companies.

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The Company's liquidity risk management focused on the overall financial situation, self-owned fund balance, long-term funds occupation and liquidity situation. After implementing third party custody, all the amounts for securities trading agency collected from securities brokerage will be supervised by custodian bank, and this part will not constitute the Company's liquidity risk. The Company controls long-term asset occupation proportion and scientifically operates funds by strict asset management and collective decision mechanism; carries out scale management for proprietary investment and pays attention to investments proportion in all tradable shares with investment diversification as principles, thus to avoid the liquidity risk of individual share investment; emphasizes the disperse position with interest rate product and bonds with high credit rating as the dominance in bond investment and with the reasonable distribution of residual maturity. The Company has also maintained cooperative relationship with many large commercial banks to reinforce the liquidity and made financing in the way of fund lending, stock-pledged loan, buy-back and other means approved by competent authority to solve the short-term fund demand.

On the whole, the Company holds plenty of reserve assets with strong liquidity and has good financial indexes and lower liquidity risk.

(4) *Operational risk*

Operational risk usually includes the risks resulted from intra-company human-error in operation, imperfection of internal process, information system fault and imperfection, trading failure and other reasons, also includes the damnous risks caused by fraudulent conduct outside the Company. Information technology risk is a main component of the present operational risks. Information technology is of importance for the business development and management of securities trading, settlement and service, etc. The unreliability of system, imperfection of network technology and data error will all bring losses to the Company.

The Company adheres to improving the internal control management mechanism, completing the operational processes, strengthening the inspection and audit, intensifying the accountability system, reducing the possibility of operational risks and actively and properly dealing with the adverse effects. However, although the Company formulates a relatively perfect internal control system in accordance with the provisions of Guidelines of Securities Company for Internal Control by the CSRC, it still can't guarantee to completely avoid the economic loss, legal disputes and violation risks likely resulted from operation error and subjective omission. Besides, the securities industry which the Company belongs to is an intelligence-intensive industry, therefore, the staff moral hazard is more severer than that of other industries, and staff moral crime will cause loss to the Company's assets and adverse effects to the Company's reputation. The Company will persist in implementation of refined management, constantly improve the business process and strengthen the professional integrity and professional ethics education of staff.

SECTION IV REPORT OF THE BOARD OF THE DIRECTORS

2. Reflection of main risk factors in this Reporting Period

During the Reporting Period, the main risk faced by the Company is market risk, embodied in available-for-sale investments and financial assets at fair value through profit or loss appearing fair value fluctuation due to the stock market price development, as well as the drop down of brokerage commission income caused by severe competition in the market situation. The Company adheres to standard operation and has no violation risk; it continues to strengthen the establishment and operation of information technology system and conduct regular and irregular inspection and maintenance in strict accordance with operation management procedure, thus to ensure the reliable, stable and safe operation of system. Consequently, there is no technology risk; the Company intensifies the executive force of various rules and regulations and focuses on improving each system and process, therefore, there is no management risk substantially influencing the Company. During the Reporting Period, the Company is steady in business, reasonable in assets allocation, good in financial situation and abundant in net assets.

3. Countermeasures and measures taken (or proposed to be taken) by the Company

In response to the above mentioned risks, the Company has targetedly taken or is taking a variety of measures to prevent and control related risks according to the situation of domestic and international market.

- (1) Adhere to the development strategy of international development and innovation, actively explore ways to enhance capital strength through equity financing and debt financing, etc., strengthen control of global financial market and improve the competitiveness of enterprises and overall risk management capabilities.

Through the steady progress of internationalization strategy and international business expansion, the Company is aimed at raising the international brand awareness of Haitong, promoting the diversification of business development, enhancing the competitiveness of enterprises, and improving risk management capability by the complementarity and co-movement of domestic and foreign financial markets. In 2012, the Company's international strategy achieved new progress, smoothly issued H share, enhanced capital strength, improved corporate governance structure and optimized shareholder structure. Meanwhile, the group strategy has made new progress, and Haitong Innovation Securities Investment Co., Ltd. and Haitong asset management subsidiary have been set up, which laid the foundation for further expansion of business scale and promotion of product innovation. The Company actively involved itself in innovative business, on the one hand, in order to achieve the strategic objective of transformation development, on the other hand, to accumulate experience, train the team and improve risk management capability through the interaction between business development and risk management.

By taking advantage of benefits brought by global development, the Company is trying to strengthen the cooperation between parent companies and subsidiary companies home and abroad, study and explore ways and tools of risk hedging.

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- (2) Insist on improving corporate governance structure. Continue to regulate operation of the general meeting of shareholders, to ensure that all shareholders, especially minority shareholders enjoy equal rights; to standardize and improve operation of the Board, to give full play to the role of each special committee and independent directors, to give full play to the supervision role of the Supervisory Committee to the Board and manager-level officers.
- (3) Adhere to optimizing internal control system, fully implement the requirements of “Basic Standard for Enterprise Internal Control” and related guidelines, and build the risk management system in accordance with international standards.

In recent years, the Company has invited internationally renowned strategy consulting and IT consulting agencies many times to assist the development of group strategic development program. The construction of the Company’s internal control system is constantly using the experience of international investment banks of mature financial markets. Thus, compliance, risk management and integration of internal control mechanism have been strengthened. According to the requirements of “Basic Standard for Enterprise Internal Control” and related guidelines, the Company completely carries out self-examination and assessment, combs the key risk points and internal control procedures of business lines, rectifies problems and defects discovered and improves the effectiveness of internal control. The Company continues to establish and improve the internal control measures of brokerage business, investment banking business, proprietary trading, customer assets management, securities margin trading, agreed repurchase securities transactions, IB business, overseas business, etc., in order to strengthen the management and control of funds, accounting system, electronic information system, authorization, staff quality, subsidiary management, etc.. The overall risk management framework has been gradually improved, and the methods and procedures of risk management has been standardized.

- (4) By focusing on institutional reform, team-building and marketing development, quality service, network construction, the Company is aimed at enhancing customer service and satisfaction comprehensively, and strong enough to withstand the impact of adverse changes in market economic environment.

By strengthening the study of domestic and international macro-economy, industry economics and listed companies, the Company has improved control of market fluctuations; based on the judgment of the market, it has made real-time adjustments of proprietary trading scale, asset allocation structure, standardized the investment decision-making process, strengthened alternative library management of investment products, implemented strictly proprietary investment stop-profit and stop-loss system and guarded against market risk and counterparty credit risk.

- (5) Strengthen compliance and risk management. Continue to improve the management functions of various compliances and risk management standards; further strengthen anti-money laundering work and Chinese wall construction, compliance monitoring, and prevent violations such as inside trading, conflict of interest, and transfer of benefits.

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The Company lays special stress on risk identification on new products, new business, standardizes business operating procedures; constantly improves the real-time monitoring system to carry out real-time monitoring of the business and risk pre-warning; increases the audit and inspection of various businesses to ensure that the system, processes and risk management measures are effectively implemented; increases staff compliance training, publicizes and creates culture of comprehensive compliance and active compliance heading by the senior management, increases employees' awareness of compliance and risk management capabilities, and builds corporate culture based on operation compliance.

- (6) Continue to improve net capital monitoring system, strengthen the net capital-oriented risk control monitoring system, and optimize allocation between various businesses. At the same time, strengthen the application of sensitivity analysis and stress testing tools, providing risk assessment support for major business development and important decisions in a timely manner. With company funds deposited in the state-owned holding banks and listed joint-stock banks, financial security can be guaranteed. Efforts to improve efficient use of funds should be made under the premise of ensuring the safety of funds.
- (7) Increase system investment and strengthen the construction of IT governance. Fully survey the information system framework, search the blind spots in information management, strengthen system privileges management, and standardize the network construction of branches. At the same time, strengthen the upgrading and optimization of centralized trading, legal person settlement, marketing management, securities margin trading, stock index futures, human resources management, OA (Office Automation) system of the Company, promoting customer relationship management systems and data warehouse construction and providing strong support for business development.
- (8) Adhere to investor education and appropriate management. The Company insists on investor education, works on customer and product management at different levels, and reveals the risks to investors in a timely manner. At the same time, the Company integrates customer resources and enhances customer data analysis and service capabilities. The Company will make full use of the channels of customer service and the advantages of integration of resources, devotes to appropriate investor management, providing appropriate products and services for all types of customers.

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(VI) Risk control indicators and establishment of net capital replenishment mechanism of the Company

1. *Dynamic monitoring of risk control indicators*

In order to establish and improve the dynamic monitoring mechanism of risk control indicators, strengthen risk monitoring, and carry out businesses with measurable, controllable and endurable risks, in accordance with the Administrative Measures for the Risk Control Indicators of Securities Companies (《證券公司風險控制指標管理辦法》), Issuing the Circular concerning the Guidance (Interim) on Sensitivity Analysis of Financial and Capital Position and Stress Testing Mechanism of Securities Companies in Shanghai (Hu Zheng Jian Ji Gou Zi [2008] No. 606, the Guidance), and the Securities Companies Stress Testing Guidelines (Interim) issued by the Securities Association of China, the Company has set up the internal systems, organizational structures and corresponding technology systems in conformity with related requirements based on the former dynamic monitoring platform of risk control indicators and has carried out dynamic monitoring of risk control indicators. In strict accordance with the Administrative Measures for the Risk Control Indicators of Securities Companies (《證券公司風險控制指標管理辦法》), the Company provided written reports to the regulatory authorities regarding risk control indicators and achievements on a regular basis; in the event that changes in risk control indicators reach a certain level, it made timely reports to the local securities regulatory bureaus. The Company constantly improved the system construction, process optimization and data system upgrade of the dynamic monitoring platform and has achieved reporting to the local securities regulatory bureaus about the Company's net capital calculation sheets, regulatory statements of risk control indicators and preparatory calculation sheets of risk capital within T+1 days. These measures were taken to ensure that various risk control indicators including net capital etc., are in line with regulatory requirements at any time point.

2. *Establishment of net capital replenishment mechanism*

The Company has established a net capital replenishment mechanism. When the Company's risk control indicators including net capital have reached the pre-warning standards, the Company will replenish net capital by reducing the variety or scale of proprietary investment products with high risks, making more efforts in receivables recovery, transfer of long-term equity investments, disposal of tangible or intangible assets, issuance of subordinated debt or debt for equity swap, raising capital and improving profitability etc.

3. *Monitoring of risk control indicators during the Reporting Period*

The Company always adheres to sound business philosophy, and focuses on risk management to maintain a reasonable capital structure. As at the end of the Reporting Period, the Company's net capital was RMB39.008 billion, and its net assets was RMB57.973 billion, while the ratio of net capital to net assets was 67.29%. During the Reporting Period, the Company controlled its operating risks at a relatively low level with high asset quality and standardized business operations, and its risk control indicators were in line with regulatory requirements.

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4. *Sensitivity analysis and stress testing for risk control indicators*

In 2012, the Company conducted sensitivity analysis or stress testing on significant events, including distribution of cash dividend, establishment of the innovative investment subsidiary, scale of the margin financing and securities lending business, scale of the repo business with quotes, investment banking underwriting projects, issuance of wealth management products and establishment of new securities branches etc., and carried out the above-mentioned events with analysis and testing conclusions meeting the regulatory requirements. Meanwhile, in accordance with the requirements of the Guidance, stress testing has been conducted at the end of each month for all possible extreme cases. In 2012, the Company conducted a total of 55 sensitivity analysis and stress testing, and all testing results were in line with the requirements of the regulatory authorities, and were taken as the basis of the major decisions of the Company.

(VII) **Construction of the compliance management system of the Company**

In May 2007, the CSRC issued the Circular on Issuance of Pilot Work Scheme for Guidance of Setup of General Compliance Officer and Establishment of Compliance Management System by Securities Companies. As one of the first seven pilot compliance securities companies, the Company took the lead in completing the compliance pilot program in March 2008. By establishing and improving the compliance management system and organizational system, the Company carried out compliance consultation, training, review, compliance monitoring, and real-time monitoring to penetrate the compliance work into various business sectors, which has been recognized by the regulatory authorities. Under the leadership of the CSRC and the Shanghai Securities Regulatory Bureau, the Company has established a sound compliance management system, covering various businesses and management aspects with compliance management. The philosophy of “compliance shall start from senior management; everyone shall be compliant voluntarily, and compliance creates value” has been deeply rooted, effectively safeguarding and facilitating the sustainable and healthy development of the Company.

In strict accordance with the requirements of the CSRC, and combined with the actual situation of the Company, the Company has established a scientific and rational compliance and risk management framework system with segregation of duties. The system is composed of five layers: the Board and its Compliance and Risk Management Committee, General Compliance Officer and Chief Risk Control Executive, the Compliance and Risk Management Department, Functional Management Department, all Business Departments and the related departments or positions of all departments, branches and subsidiaries.

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Compliance duties of the Board of the Company mainly include: deliberation and approval of the basic compliance management system; appointment and dismissal of the general compliance officer, and performance evaluation of the general compliance officer; deliberation and approval of the compliance reports submitted by the general compliance officer; supervision on the implementation of compliance policies. Main compliance duties of the Compliance and Risk Management Committee under the Board include: formulation of compliance management policies in accordance with laws, regulations and regulatory policies for the Board's review; listening to the work reports of the general compliance officers regularly or irregularly and proposing compliance improvements; review and supervision on science, rationality, effectiveness and implementation of the compliance management system; other compliance management duties delegated by the Board. Compliance and Risk Management Committee is committed to supervise the overall risk management of the Company, and diagnose and complete the internal control system, in order to ensure that all business related activities are under effective risk management.

The General Compliance Officer is appointed by the Board. The main duties of the general compliance officers include: review on compliance of the Company's internal management system, major decisions, new products and new business programs, and issuance of written compliance review comments; supervision on operation and management of the Company and its staff and compliance of their practice, and regular or irregular inspections in accordance with the requirements of the securities regulatory authorities and the requirements of the Company; organization of implementation of anti-money laundering and the Chinese wall system; provision of compliance consultation and compliance training for the senior management, and all departments and branches, and handling of complaints and reports in relation to illegal activities and irregularities of the Company and its staff; reporting to the Board in a timely manner once illegal behaviors and irregularities and compliance risks are discovered and meanwhile, to securities regulatory bureau in the domicile of the Company, and to the self-regulatory organizations in respect of the conducts in violation of industry standards and self-regulatory rules; making suggestions on curbing and handling illegal behaviors and irregularities and compliance risks to relevant organizations and departments of the Company and urging rectification; advising on changes in laws, regulations and standards in a timely manner to the Board or the senior management and procuring related departments to assess the effects on compliance management, and to modify and improve the management system and relevant business processes; maintain communication with securities regulatory authorities and relevant self-regulatory organizations to cooperate with the securities regulatory authorities and relevant self-regulatory organizations; and other duties as required by laws, regulations, rules and regulatory documents and as delegated by the Board. The Chief Risk Control Executive of the Company is responsible for the implementation of its risk management strategy and policy.

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The compliance and risk management department has been set up to fulfill the compliance management duties, mainly including: assisting the general compliance officer in fulfillment of compliance management duties and development of compliance management policies and plans; compiling annual and semi-annual compliance reports; drawing up the compliance documents such as compliance management systems, compliance manuals and training materials, etc.; monitoring the potential compliance risks; reviewing, assessing and managing the qualifications of the compliance officers in all departments, branches and subsidiaries; implementing the Chinese wall system, anti-money laundering management and compliance risk management of foreign exchange; participating in significant lawsuits and non-lawsuit activities as a proxy and providing guidance; managing the manuscripts of compliance work of compliance review, consultation and inspections of the general compliance officer and the department and the records of fulfillment of duties of the general compliance officer; other duties granted by the Board and the general compliance officer. Headquarters of Compliance and Risk Management is composed of members with qualifications, experiences and know-how relating to compliance and risk management, and will control, manage and evaluate all risks facing by the Company, to complete risk management at all times.

Functional Management Departments of the Company primarily include operation center, finance and planning department and IT department, and they will manage the compliance matters and risk exposure of the Company arising from the securities trading, operations, capital deployment, financial and IT systems with their professional knowledge. In order to perform a complete compliance and risk management over its business, every business operation, branch and subsidiary has set up a position or a department relating to compliance and risk management.

The Company has appointed compliance officers for all departments, branch offices, branches and subsidiaries. Most of the compliance officers are deputy general managers or assistants to general manager of the compliance and risk management departments, chief operating officers of the branches or inspectors of the funds.

The compliance duties of the compliance officers of various departments, branches and subsidiaries include implementing compliance policies, and performing compliance management schemes; conducting review, supervision and inspections on a variety of activities; conscientiously fulfilling the compliance reporting system; actively cooperating with regulatory authorities and the compliance department in the inspections and making appropriate implementation of rectification; communicating with the regulatory authorities to keep abreast of regulatory developments; organizing the staff of the department to learn the compliance system, carrying out education of compliance culture, and making records and management of files; other duties granted by the compliance department. The hard works of the compliance management personnel have strongly guaranteed the effective implementation of compliance management.

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The compliance management department and the audit department conduct inspections on a regular basis including compliance inspections, regular inspections and management inspections in respect of main business lines, including brokerage, proprietary investment business, investment banking business and customer assets management business etc. The Company's internal control and management level has been enhanced greatly through inspections, compliance assessment and accountability of the implementation of laws, regulations and rules, and operation and management of various departments and branches.

In 2012, the Company was accredited with "AA" regulatory rating of class "A" for the fifth consecutive year. The overall brand value was enhanced continually and significantly.

III. EXPLANATIONS ON "NON-STANDARD AUDIT REPORT" OF ACCOUNTING FIRM OF THE BOARD

(I) Explanations on "Non-standard Audit Report" of accounting firm of the Board and Board of Supervisors

✓ NA

(II) Analysis and explanation of causes and effects of changes in terms of accounting policies, accounting estimates and accounting methods of the Board

✓ NA

(III) Analysis and explanation of the causes and effects of important corrections of early-stage errors of the Board

✓ NA

IV. PROPOSAL OF PROFIT DISTRIBUTION OR TRANSFER OF CAPITAL RESERVE FUND INTO CAPITAL

(I) Formulation, implementation or adjustment of cash dividend policy

The Company always focuses on providing reasonable investment returns to shareholders and adopts a continuous, stable and aggressive profit distribution policy. Formulation and implementation of the Company's profit distribution policy is conducted strictly in compliance with the provisions of the Articles of Association. As approved after consideration by the Board and the general meeting of the Company, the basis and ratio of profit distribution is clear and specific, and its relevant decision-making procedures and mechanisms are complete and comprehensive. The due diligence of the independent Directors plays an effective role. Minority shareholders' legal rights are fully protected.

Cash dividends of RMB5.348 billion (inclusive of tax) and stock dividends of 1.234 billion shares (inclusive of tax) were distributed to shareholders of the Company and share capital of 2.880 billion shares was transferred from capital reserve fund during 2007 to 2011. During 2007 to 2011, the percentage of dividends distributed each year in the profit available for distribution to investors exceeded 30%, amounting to 51.75%, 35.69%, 54.44%, 53.87% and 57.79% respectively.

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During the Reporting Period, in accordance with the requirements of “Notice regarding Further Implementation of Cash Dividends Distribution of Listed Companies” (《關於進一步落實上市公司現金分紅有關事項的通知》) and other relevant documents, the Company amended the cash dividends distribution provisions of the Articles of Association. In the new Articles of Association, the profit distribution policy is replenished and amended as follows: “In the course of making specific dividend distribution plans, the Board and shareholders’ general meeting shall fully consider the views of independent directors, Supervisory Committee and public investors, communicate with public investors through a variety of tunnels and accept the inspections on the corporate profit distribution from independent directors, Supervisory Committee and public investors. In principle, the Company will distribute cash dividend for the year with profit. The Company may distribute interim dividend. Profit distribution shall satisfy the regulatory requirements, not exceed the accumulated distributable profit and not influence continuous operation capacity of the Company. If the Company generated profits in the previous accounting year but the Board did not made any cash profit distribution proposal after the end of the previous accounting year, the Company shall state the reasons for not distributing the profit and the usage of the profit retained in the periodic report and the independent directors shall give an independent opinion in such regard. The accumulated cash distribution of profit for the last three years of the Company were not less than 30% of the average annual distributable profit. Specific percentages of dividend distribution for each year shall meet the needs of corporate operation and development and be resolved in accordance with the annual earnings conditions and future plans on usage of funds. If any of the following situations occurs, the Company can adjust the aforesaid cash dividend distribution percentages by obtaining the approval from more than two-thirds of voting rights held by shareholders attending the shareholders’ general meeting: 1. there are changes in, or adjustments to, the relevant laws and regulations; 2. the risk control indicators (such as net capital) reach the warning levels; 3. the Company’s operating conditions deteriorate; 4. the Board proposes the adjustments. In the event that adjustments to the Company’s profit distribution policy are necessary due to the needs of operation and long term development, the adjusted profit distribution policy shall comply with the relevant requirements of the regulatory authorities. Any resolution regarding the adjustments to the Company’s cash dividend policy shall be approved by two-thirds of the voting rights of the shareholders attending the shareholders’ general meeting and online voting shall be made available. The Company shall consider the views of public investors and timely respond the questions concerned by public investors.”

Currently, the amendments to the Articles of Association have been approved after consideration at the fourteenth meeting of the fifth session of the Board of the Company, and remain subject to consideration by the general meeting of the Company.

During the Reporting Period, implementation of the Company’s profit distribution scheme for the year of 2011 was completed.

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(II) Profit distribution proposal for the year of 2012

As audited by the accounting firm, the net profit attributable to shareholders of the Company in the consolidated financial statements of the Company for 2012 was RMB3.020 billion and the net profit of the Company for 2012 was RMB2.702 billion.

In accordance with the relevant requirements of the Company Law, the Securities Law, the Financial Rules for Financial Enterprises and the Articles of Association, the Company may distribute profits to investors after appropriating statutory reserve fund and reserve fund. The Company appropriated statutory reserve fund, general risk reserve fund and transaction risk reserve respectively at 10% of its net profit realized in 2012, each amounting to RMB270 million and totaling RMB810 million. Plus the retained profits of RMB8.487 billion (A share) at the beginning of the year, and less the dividends of RMB1.234 billion distributed on implementation of the profit distribution scheme for 2011 during the year, the Company's retained profits amounted to RMB9.144 billion (A share) at the end of the year. According to the relevant requirements, in respect of the profits available for distribution, the gains from changes in fair value shall not be used for cash distribution. After deduction of the effects of the gains from changes in fair value for 2012 on the profits available for cash distribution by investors, the profits available for cash distribution by investors of the Company amounted to RMB1.567 billion in 2012. After taking into account the Company's long-term development and investors' interests, the Company's profit distribution proposal for 2012 is:

On the basis of the total share capital of A Shares and H Shares amounting to 9,584,721,180 shares as at 31 December 2012, cash dividends of RMB1.20 (inclusive of tax) for every 10 shares are to be distributed to shareholders of A Shares and H Shares whose names appear on the register of members of the Company as at the record date, totaling RMB1,150,166,541.60, accounting for 73.42% of the profits available for cash distribution by investors in 2012. The retained profits of the parent company of RMB7,994,320,712.79 following the cash dividends distribution will be carried forward to the next year.

Cash Dividends are denominated and declared in RMB and payable in RMB to A shareholders and in Hong Kong dollars to H shareholders. The actual amounts declared in Hong Kong dollars are converted based on the average benchmark exchange rate for Renminbi to Hong Kong dollars as announced by the People's Bank of China in five working days prior to the date of the 2012 annual general meeting.

Cash dividends will be distributed within two months after the date of the annual general meeting, following the approval of the profit distribution proposal for 2012 by the annual general meeting.

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(III) Profit distribution scheme or proposal and scheme or proposal on transfer of capital reserve fund into capital for the recent three years (including the Reporting Period)

Unit: Yuan Currency: RMB

Year of distribution	Number of bonus shares for every 10 shares (share)	Amount of dividends for every 10 shares (Yuan) (inclusive of tax)	Number of shares converted for every 10 shares (share)	Amount of cash dividends (inclusive of tax)	Net profit attributable to the shareholders of the listed company in the consolidated financial statement during the year of distribution	Percentage of
						amount of cash dividends in net profit attributable to the shareholders of the listed company (%)
2012	Nil	1.20	Nil	1,150,166,541.60	3,019,776,384.79	38.09
2011	Nil	1.50	Nil	1,234,173,177.00	3,103,034,183.67	39.77
2010	Nil	1.50	Nil	1,234,173,177.00	3,686,264,237.25	33.48

(IV) If the Company records profits and the parent company records positive retained profits during the Reporting Period but there is no proposal for cash dividends, the Company shall disclose the reasons and the usage of the retained profits and the usage plan in detail

✓ N/A

V. ACTIVE FULFILLMENT OF SOCIAL RESPONSIBILITY

Please refer to "2012 Annual Enterprise Social Responsibility Report of Haitong Securities Co., Ltd." disclosed at the website of the Shanghai Stock Exchange on 27 March 2013.

VI. OTHER DISCLOSURES

(1) Pre-emptive Right Arrangement

Under the requirements of PRC laws and the Articles of Association, the Company's shareholders have no pre-emptive right.

(2) Sufficiency of Public Float

Based on the publicly available information and within the knowledge of the Directors, as at the latest practical date before the printing of this annual report, the Directors believe that, the public float of the Company complies with the requirements for minimum public floats as prescribed in the Rule 8.08 of the Listing Rules.

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(3) Interests of the Directors in Business Competing with the Company

Mr. Zhou Donghui, the non-executive Director of the Company, has been a non-executive director of Orient Securities Company Limited (“Orient Securities”) since May 2009, and Mr. Xu Chao, the non-executive director of the Company has been a non-executive director of Orient Securities since March 2011. As Orient Securities is mainly engaged in, among others, securities underwriting, proprietary trading, investment consultation, financial advisory, enterprise mergers and acquisitions and asset management, it competes or is likely to compete, either directly or indirectly, with some aspects of the business of the Company. Save as disclosed above, none of the Directors of the Company has any interest in the businesses which compete or is likely to compete, either directly or indirectly, with the Company’s business.

(4) Directors’ and Supervisors’ Service Contracts

None of the Directors or Supervisors has a service contract with the Company or its subsidiaries (excluding agreements expiring or determinable by the employer within one year without payment of compensation (other than statutory compensation)).

(5) Directors’ and Supervisors’ Interests in Material Contracts

During the Reporting Period, the Directors or Supervisors of the Company did not have any material interests, whether directly or indirectly, in any material contract entered into by the Company or its subsidiaries.

(6) Share Option Scheme

The Company does not operate any share option scheme. A subsidiary of the Company, Haitong International Securities Group adopted a share option scheme (the “2002 Share Option Scheme”) on 23 August 2002, which was valid and effective for a period of 10 years commencing from the date of adoption and expired on 22 August 2012. According to the 2002 Share Option Scheme, options could be granted to any full time employees, executive and non-executive directors of Haitong International Securities Group and any of its subsidiaries or associates. The exercise price of the share options was determinable by the directors of Haitong International Securities Group, and should be at least the highest of (1) the closing price of its shares as stated in the Hong Kong Stock Exchange’s daily quotations sheet on the offer date; (2) the average closing price of its shares as stated in the Hong Kong Stock Exchange’s daily quotations sheets for 5 trading days immediately preceding the offer date; and (3) the nominal value of its shares. For further information, please refer to Note 55 of the Consolidated Financial Statements (share option scheme of a subsidiary) and 2012 annual report of Haitong International Securities Group.

SECTION IV REPORT OF THE BOARD OF THE DIRECTORS

(7) Major Clients and Suppliers

The Group serves a diverse base of institutional and retail clients across a spectrum of sectors. The Group's clients range from multinational corporations and SME clients to high net worth individuals and retail customers. Its clients are primarily located in the PRC. The Company expects to serve more overseas clients as it seeks to further expand its overseas operations. In 2012, revenue attributable to the five largest clients of the Group accounted for 1.81% of its total revenue and other income.

The Group has no major suppliers due to the nature of its business.

(8) Tax Relief

Holders of A Shares

According to the Circular of the Ministry of Finance, the State Administration of Taxation and the CSRC on Relevant Issues concerning Implementation of Differentiated Individual Income Tax Policies for Dividends of Listed Companies (《財政部國家稅務總局證監會關於實施上市公司股息紅利差別化個人所得稅政策有關問題的通知》) (Cai Shui [2012] No. 85), for individual shareholders of the Company who hold shares for a period (from the date of an individual's acquirement of the shares of a listed company from the public offer and transfer market to the date prior to the date of transfer and settlement of such shares) of within one months (including one month), their dividends are fully included in taxable income (effective tax rate is 20%); for those who hold shares for a period of over one month to one year (including one year), 50% of their dividends are temporarily included in taxable income (effective tax rate is 10%); for those who hold shares for a period of over one year, 25% of their dividends are temporarily included in taxable income (effective tax rate is 5%). When distributing dividends, the listed company withholds individual income tax for its individual shareholders at a temporarily uniform tax rate of 5%. When an individual transfers his/her shares, the securities depository and clearing company calculates the actual taxable income according to his/her period for holding shares, and the company withholds tax otherwise through the securities depository and clearing company for the part in excess of the withheld tax. For the dividends obtained from a listed company by a securities investment fund, individual income tax is levied in accordance with the Cai Shui [2012] No. 85 requirements.

For shareholders who are resident enterprises, the income tax on their cash dividends shall be payable on their own.

For QFII, listed companies are required to withhold and pay enterprise income tax at a rate of 10% pursuant to the requirements of the Notice Concerning the Relevant Questions on the Withholding and Payment of Enterprise Income Tax Relating to the Payment of Dividends, Bonus and Interest by PRC Resident Enterprises to QFII (Guo Shui Han [2009] No. 47) issued by the State Administration of Taxation. Shareholders who are QFII and who wish to enjoy tax concessions shall apply to the competent taxation authority for tax rebates according to the relevant rules and regulations after they receive the dividends.

SECTION IV REPORT OF THE BOARD OF THE DIRECTORS

Holder of H Shares

Pursuant to the Notice of the PRC State Administration of Taxation on Issues Concerning Individual Income Tax Collection and Management after the Repeal of Guo Shui Fa [1993] No. 045 (Guo Shui Han [2011] No. 348), the dividend received by the overseas resident individual shareholders from the stocks issued by domestic non-foreign invested enterprises in Hong Kong is subject to the payment of individual income tax according to the items of “interests, dividend and bonus income”, which shall be withheld by the withholding agents according to the relevant laws. The overseas resident individual shareholders who hold the stocks issued by domestic non-foreign invested enterprises in Hong Kong are entitled to the relevant preferential tax treatment pursuant to the provisions in the tax agreements signed between the countries where they are residents and China or the tax arrangements between Mainland and Hong Kong (Macau). The tax rate for dividends under the relevant tax agreements and tax arrangements is generally 10%, and for the purpose of simplifying tax administration, domestic non-foreign-invested enterprises issuing shares in Hong Kong may, when distributing dividend, generally withhold individual income tax at the rate of 10%, and are not obligated to file an application. If the tax rate for dividend is not equal to 10%, the following provisions shall apply: (1) for citizens from countries under agreements to be entitled to tax rates lower than 10%, the withholding agents will file applications on their behalf to seek entitlement of the relevant agreed preferential treatments, and upon approval by the tax authorities, over withheld tax amounts will be refunded; (2) for citizens from countries under agreements to be entitled to tax rates higher than 10% but lower than 20%, the withholding agents will withhold the individual income tax at the agreed-upon effective tax rate when distributing dividend (bonus), and are not obligated to file an application; (3) for citizens from countries without tax agreements or are under other situations, the withholding agents will withhold the individual income tax at a tax rate of 20% when distributing dividend.

Pursuant to the Notice of the State Administration of Taxation on the Issues Concerning Withholding the Enterprise Income Tax on the Dividends Paid by Chinese Resident Enterprises to H Share Holders Which Are Overseas Non-resident Enterprises (Guo Shui Han [2008] No. 897), a PRC resident enterprise, when distributing dividends for 2008 and for the years afterwards to H shareholders who are overseas non-resident enterprises, shall be subject to the enterprise income tax withheld at a uniform rate of 10%.

Under the current practice of the Hong Kong Inland Revenue Department, no tax is payable in Hong Kong in respect of dividends paid by the Company.

SECTION IV REPORT OF THE BOARD OF THE DIRECTORS

(9) Connected Transactions

For related party transactions as defined by the relevant accounting standards by the end of the reporting period, please refer to Note 56 of the Consolidated Financial Statements for details. The transactions between the Company's subsidiary, HFT Investment Management Company Limited and its shareholder BNP Paribas Investment Partners BE Holding SA and its subsidiaries constitute continuing connected transactions under Chapter 14A of the Hong Kong Listing Rules. Such transactions are exempt from the reporting, annual review, announcement and independent shareholders' approval requirements according to Rule 14A.31(9) and 14A.33(4) of the Hong Kong Listing Rules.

By order of the Board
Haitong Securities Co., Ltd.
WANG Kaiguo
Chairman

Shanghai, the PRC
26 March 2013

SECTION V SIGNIFICANT EVENTS

I. MATERIAL LITIGATION, ARBITRATION AND MATTERS COMMONLY QUESTIONED BY MEDIA

The Company was not involved in any material litigation and arbitration and did not have matters commonly questioned by media during the Reporting Period.

II. EMBEZZLEMENT OF FUNDS AND REPAYMENT OF DEBT DURING THE REPORTING PERIOD

There was no embezzlement of funds of the Company during the Reporting Period.

III. BANKRUPTCY AND RESTRUCTURING RELATED MATTERS

The Company did not have bankruptcy and restructuring related matter during the Reporting Period.

IV. ASSETS TRANSACTIONS AND MERGER OF COMPANIES

The Company was not involved in any material asset acquisition, asset disposal, asset swap or merger during the Reporting Period.

V. EQUITY INCENTIVES OF THE COMPANY AND ITS EFFECT

The Company has not operated any equity incentive scheme during the Reporting Period.

VI. SIGNIFICANT CONNECTED TRANSACTIONS

During the Reporting Period, the Company had no significant connected transactions and there was no non-operating credit or indebtedness with related parties.

On 23 January 2013, the Company convened the fifteenth meeting (extraordinary meeting) of the fifth session of the Board, during which Proposal on Establishment and Management of Liaoning New Energy And Low-Carbon Industry Equity Investment Fund was considered and approved. The wholly-owned subsidiaries of the Company. Haitong Capital Investment Co., Ltd. and Liaoning Energy Investment (Group) Limited Liability Company intended to establish Liaoning New Energy And Low-Carbon Industry Equity Investment Fund and its administration jointly. Such joint investment was a connected transaction, particulars of which was disclosed in the connected transaction announcement "the joint investment by the wholly-owned subsidiary and related party of Haitong Securities Co., Ltd." issued on the websites of the Shanghai Stock Exchange and the Hong Kong Stock Exchange on the same date.

SECTION V SIGNIFICANT EVENTS

VII. MATERIAL CONTRACTS AND THEIR PERFORMANCE

(1) Trust, contracting and leasing matters

During the Reporting Period, the Company was not involved in any material trust, contracting or leasing matters.

(2) Guarantees

On 13 August 2012, the Company convened the twelfth meeting (extraordinary meeting) of the fifth session of the Board, during which Proposal on Provision of Guarantee on Net Capital to Shanghai Haitong Securities Asset Management Company Ltd. was considered and approved, in order to support the asset management subsidiary to achieve greater and stronger innovative business, thus driving the overall business development and improving the efficiency of capital utilization of the Company. The Board permitted the Company to provide net capital guarantee commitment of not more than RMB1.5 billion for the asset management subsidiary at any time, to ensure it an adequate net capital. Its management shall be granted with specific authorization for actual business requirements in accordance with the regulatory requirements.

(3) Other material contract

During the Reporting Period, the Company had no other discloseable material contract not disclosed.

VIII. PERFORMANCE OF UNDERTAKINGS

During the Reporting Period, the Company had no relevant undertakings.

IX. APPOINTMENT AND DISMISSAL OF ACCOUNTING FIRMS AND THEIR REMUNERATIONS

During the Reporting Period, the Company re-appointed BDO China Shu Lun Pan Certified Public Accountants LLP (Special General Partnership) ("BDO China") as its external auditor for 2012, who will be responsible for provision of relevant domestic audit services in accordance with the PRC GAAP, for a term of one year with auditing fees RMB2.15 million, and BDO China do not provide the Company with non-audit services; Meanwhile, the Company appointed BDO China as its internal control auditor, with auditing fees RMB400,000. In addition, Deloitte Touche Tohmatsu CPA LLP. (Deloitte Touche Tohmatsu (德勤•關黃陳方會計師行) and Deloitte Touche Tohmatsu Certified Public Accountants LLP. (德勤華永會計師事務所) (Special General Partnership)) ("Deloitte Touche Tohmatsu") was appointed as the Company's external auditor for 2012 for a term of one year, who will be responsible for provision of relevant audit and review services in accordance with the IFRS, with auditing fees RMB2.4 million; and Deloitte Touche Tohmatsu also was appointed to implement its special auditing on the Information technology and raised funds of the company, with auditing fees RMB410,000, and Deloitte Touche Tohmatsu do not provide the Company with non-audit services.

The Company never changes its external auditors since listing its H shares.

During the period covered by this Report, there was no occurrence of disagreement from the Board to the opinions of selection and appointment of external auditor from the Audit Committee.

SECTION V SIGNIFICANT EVENTS

X. PUNISHMENT ON AND RECTIFICATION OF THE LISTED COMPANY, ITS DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT, SHAREHOLDERS WHO HELD MORE THAN 5% OF SHARES AND DE FACTO CONTROLLER

As at the end of the Reporting Period, the Company had neither shareholder who held directly more than 5% of shares, nor de facto controller. During the Reporting Period, none of the Company, its Directors, Supervisors and senior management was subject to any examination, administrative punishment, being criticized through notification by the CSRC and public censures by any stock exchanges.

XI. CONVERTIBLE CORPORATE BONDS

During the Reporting Period, neither the Company nor any of its subsidiaries issued any convertible bonds.

XII. CLOSURE OF REGISTER OF MEMBERS

The company will announce in due course the date of convening the 2012 annual general meeting, and for the purpose of ascertaining the entitlement of the shareholders to attend and vote at the forthcoming annual general meeting, the timing for which the register of members of the Company will be closed.

The Company will give further notice on the record date and book closure date for the dividend of H Shares.

XIII. DESCRIPTION OF OTHER SIGNIFICANT EVENTS

1. Matters related to issuance and listing of H Shares in Hong Kong by the Company

On 27 April 2012, an aggregate of 1,352,340,000 overseas listed foreign shares (H Shares) comprising 1,229,400,000 H shares issued by the Company and 122,940,000 H Shares transferred to the NSSF by the relevant 25 state-owned shareholders of the Company for the purpose of reduction of state-owned shares and converted into H Shares were listed and commenced trading on the main board of the Hong Kong Stock Exchange. On 19 May 2012, joint global coordinators for the Company's IPO of H Shares partially exercised the over-allotment option and the Company issued 127,500,000 additional H Shares, which were subsequently listed and traded on the main board of the Hong Kong Stock Exchange on 22 May 2012. The relevant state-owned shareholders of the Company undertook a similar reduction of state-owned shares and transferred 12,750,000 domestic shares (A Shares) of the Company held by them in the aggregate (equivalent to 10% of the number of H Shares issued additionally pursuant to the partial exercise of the Over-allotment Option) to the NSSF.

Following the completion of the issuance of H Shares, the total number of shares of the Company was 9,584,721,180, among which 8,092,131,180 were A Shares and 1,492,590,000 were H Shares. The stock short name of H Shares is “海通證券” (in Chinese) and “HAITONG SEC” (in English) and the stock code of H Shares is “6837”.

SECTION V SIGNIFICANT EVENTS

2. Establishment of Haitong Innovation Securities Investment Co., Ltd.

During the Reporting Period, a wholly-owned subsidiary invested by the Company, Haitong Innovation Securities Investment Co., Ltd. was established with a registered capital of RMB3 billion. Haitong Innovation Securities Investment Co., Ltd. is an alternative investment subsidiary of the Company that was formed in accordance with the relevant requirements of the Regulations on Investment Scopes of the Proprietary Trading Business of Securities Companies and the Relevant Matters, and its main business scope is financial products investment, securities investment, investment consultation and investment management.

3. Establishment of Shanghai Haitong Securities Asset Management Company Ltd.

In March 2012, the Company received the Approval on Establishment of A Securities Asset Management Subsidiary by Haitong Securities Company, Ltd. from the CSRC (Zheng Jian Xu Ke [2012] No. 418), approving establishment of a wholly-owned securities asset management subsidiary by the Company. After active preparations, Shanghai Haitong Securities Asset Management Co., Ltd. completed the requisite industrial and commercial registration and obtained business license on 26 June 2012 and has already obtained the Permit for Business Operations of Securities Business, with a registered capital of RMB1 billion. Its principal business scope is securities asset management.

4. Establishment of Shanghai Cultural Industry equity Investment Fund

In March 2012, the Company received the Letter of No Objection on the Establishment of Shanghai Cultural Industry Equity Investment Fund by Haitong Capital Investment Co., Ltd. from the Institution Department of the CSRC (Ji Gou Bu Han [2012] No.139), which states that the CSRC has no objection on the establishment of Shanghai Cultural Industry Equity Investment Fund (a temporary name) and its administrative institution, Haitong Leading Capital Management Co., Ltd. (a temporary name), by Haitong Capital Investment.

Haitong Leading Capital Management Co., Ltd., the administrative institution of Shanghai Cultural Industry Equity Investment Fund obtained business license from the Industrial and Commercial Bureau of Shanghai on 29 June 2012 with a registered capital of RMB120 million. On 3 September 2012, the industrial and commercial registration of "Shanghai Cultural Industry Equity Investment Fund Partnership (limited partnership)" has been successfully completed and business license has been obtained. So far, the fund has received total proceeds of RMB1.75 billion. The construction of relevant governance structure of Shanghai Cultural Industry Fund and Haitong Creative Capital Fund Management Co., Ltd. has been completed.

5. There has been no other significant events and subsequent events which should be disclosed by the Company during the Reporting Period.

SECTION VI CHANGES IN SHARE CAPITAL AND PARTICULARS ABOUT SHAREHOLDERS

I. CHANGES IN SHARE CAPITAL

(1) Table of changes in shares

1. Table of changes in shares for the Reporting Period

	Before the change		Changes (+,-)				After the change	
	Number of shares	Percentage (%)	New issuance (H Shares)	Transfer of		Sub-total	Number of shares	Percentage (%)
				state-owned shares	Others			
I. Shares subject to trading moratorium								
1. Shares held by state	-	-	-	-	-	-	-	-
2. Shares held by state-owned legal persons	-	-	-	-	-	-	-	-
3. Shares held by other domestic investors	-	-	-	-	-	-	-	-
Including: shares held by domestic non state-owned legal persons	-	-	-	-	-	-	-	-
Shares held by domestic natural persons	-	-	-	-	-	-	-	-
4. Shares held by foreign investors	-	-	-	-	-	-	-	-
Including: shares held by foreign legal persons	-	-	-	-	-	-	-	-
Shares held by foreign natural persons	-	-	-	-	-	-	-	-
Total number of shares subject to trading moratorium	-	-	-	-	-	-	-	-
II. Circulating shares not subject to trading moratorium								
1. RMB denominated ordinary shares	8,227,821,180	100	-	-135,690,000	-	-135,690,000	8,092,131,180	84.43
2. Foreign shares listed in the PRC	-	-	-	-	-	-	-	-
3. Foreign shares listed overseas	-	-	1,356,900,000	-	-	1,356,900,000	1,356,900,000	14.16
4. Shares transferred to the NSSF and converted to H Shares pursuant to the regulations in the reduction of state-owned shares	-	-	-	135,690,000	-	135,690,000	135,690,000	1.42
Total number of circulating shares not subject to trading moratorium	8,227,821,180	100	-	-	-	1,356,900,000	9,584,721,180	100
III. Total	8,227,821,180	100	1,356,900,000	-	-	1,356,900,000	9,584,721,180	100

Unit: share

SECTION VI CHANGES IN SHARE CAPITAL AND PARTICULARS ABOUT SHAREHOLDERS

2. *Particulars about changes in shares*

The Company issued 1,229,400,000 foreign shares listed overseas (H Shares) on 27 April 2012 and the related over-allotment option was partially exercised on 19 May 2012 (an aggregate of 127,500,000 H Shares were placed and listed on 22 May 2012), resulting in the issuance of an aggregate of 1,356,900,000 H Shares. During the period, 25 state-owned shareholders of the Company, including SIIIC Shanghai (Holding) Co., Ltd., transferred a portion of their shareholding (A Shares), based on 10% of H Shares actually issued in the IPO, to the National Council for Social Security Fund, and converted them to H Shares. A total of 135,690,000 A Shares were converted. As at the end of the Reporting Period, there were 8,092,131,180 A Shares and 1,492,590,000 H Shares. The total number of the Company's A Shares and H Shares was 9,584,721,180.

3. *Effect of changes in shares on financial indicators such as earnings per share and net assets per share for the most recent year and most recent period*

During the Reporting Period, the Company successfully completed issuance of H Shares with its share capital increased from 8,227,821,180 shares to 9,584,721,180 shares. The increase in its share capital has diluted the Group's earnings per share for the Reporting Period and net assets per share as at the end of the Reporting Period. The Group's basic earnings per share for 2012 calculated based on the weighted average share capital amounted to RMB0.33 and net assets per share attributable to the shareholders of the listed company calculated based on the total share capital as at the end of the Reporting Period amounted to RMB6.12.

(2) **Changes in restricted shares**

All shares of the Company are circulating shares not subject to trading moratorium.

SECTION VI CHANGES IN SHARE CAPITAL AND PARTICULARS ABOUT SHAREHOLDERS

II. SECURITIES ISSUANCE AND LISTING

(1) Historical issuances of securities for the past three years as at the end of the Reporting Period

On 16 May 2011, the Company convened 2010 annual general meeting, at which Proposal on Issuance and Listing of H Shares in Hong Kong by the Company was considered and approved. The Company has determined the final issue price for issuance of H Shares of the Company to be HK\$10.06 per share (exclusive of brokerage fee of 1%, SFC transaction levy of 0.003% and Hong Kong Stock Exchange trading fee of 0.005%). The Company conducted its initial public offering of 1,229,400,000 foreign shares listed overseas (H Shares), which were listed and traded on the Main Board of Hong Kong Stock Exchange, and the related over-allotment option was partially exercised on 19 May 2012 (an aggregate of 127,500,000 H Shares were placed and listed on 22 May 2012), resulting in the issuance of an aggregate of 1,356,900,000 H Shares. During the period, 25 state-owned shareholders of the Company, including SIIC Shanghai (Holding) Co., Ltd., transferred a portion of their shareholding (A Shares), based on 10% of H Shares actually issued in the IPO, to the National Council for Social Security Fund, and converted them to H Shares. A total of 135,690,000 A Shares were converted.

(2) Total number of the Company's shares and changes in shareholders structure and assets and liabilities of the Company

The foreign shares listed overseas (H Shares) of the Company were initially issued on 27 April 2012 and listed on the main board of the Hong Kong Stock Exchange. The over-allotment options of H Shares were partially exercised on 19 May 2012. Upon completion of this issuance, the total number of the Company's shares increased from 8,227,821,180 to 9,584,721,180, including 8,092,131,180 A Shares and 1,492,590,000 H Shares. The Company did not have any shareholder directly holding more than 5% shares. Details of changes in assets and liabilities of the Company are set out in analysis on principal components of consolidated statement of financial position of I(IV) of section IV in this report.

(3) Existing shares held by internal employees

As at the end of the Reporting Period, there was no share held by internal employees.

SECTION VI CHANGES IN SHARE CAPITAL AND PARTICULARS ABOUT SHAREHOLDERS

III. SHAREHOLDERS AND THE DE FACTO CONTROLLERS

Total number of shareholders and theirs shareholdings

- As at the end of the Reporting Period, the total number of shareholders of the Company was 411,023, among which 410,811 were holders of A Shares and 212 were registered holders of H Shares. The total number of shareholders at the end of the fifth trading day preceding disclosure of this Report was 396,304, of which 396,119 were A Share shareholders and 185 were H Share registered shareholders.
- As at 31 December 2012, all of the Company's shareholders were not subject to trading moratorium. The table below sets out the shareholdings of the top ten shareholders of the Company:

Total number of shareholders as at the end of the Reporting Period: 411,023

Total number of shareholders at the end of the fifth trading day preceding the date of this Report: 396,304

Shareholdings of the top ten shareholders

Name of shareholders	Nature of shareholders	Percentage (%)	Total number of shares held	Changes in the number of shares during the Reporting Period	Number of shares subject to trading moratorium held	Number of shares subject to pledge or freeze
Hong Kong Securities Clearing Company Nominees Limited (the "HKSCC Nominees Limited")	Foreign legal person	15.57	1,492,316,800	1,492,316,800	0	Nil
Bright Food (Group) Co., Ltd.	State-owned legal person	4.70	450,220,026	-32,466,556	0	210,000,000 (pledged)
Shanghai Haiyan Investment Management Company Limited	State-owned legal person	4.18	400,709,623	-15,710,945	0	Nil
Shanghai Electric (Group) Corporation	State owned shares	3.94	377,667,258	-14,807,504	0	Nil
Shenergy Group Company Limited	State-owned legal person	3.36	322,162,086	-16,002,056	0	Nil
Shanghai Jiushi Corporation	State-owned legal person	2.45	235,247,280	-7,664,718	0	Nil
Shanghai Friendship Group Incorporated Company	Domestic non-State-owned legal person	2.24	214,471,652	0	0	Nil
Shanghai Lansheng Corporation	State-owned legal person	1.99	190,950,000	0	0	Nil
Wenhui-Xinmin United Press Group	State-owned legal person	1.96	187,629,853	-18,238,016	0	Nil
China Life Insurance Company Limited – dividend – personal dividend – 005L – FH002Shanghai	State-owned legal person	1.75	167,789,759	125,492,810	0	Nil

SECTION VI CHANGES IN SHARE CAPITAL AND PARTICULARS ABOUT SHAREHOLDERS

Shareholdings of the top ten shareholders not subject to trading moratorium

Name of shareholders	Number of circulating shares not subject to trading moratorium held (shares)	Type of shares (A, B, H or others)
HKSCC Nominees Limited	1,492,316,800	H Share
Bright Food (Group) Co., Ltd.	450,220,026	A Share
Shanghai Haiyan Investment Management Company Limited	400,709,623	A Share
Shanghai Electric (Group) Corporation	377,667,258	A Share
Shenergy Group Company Limited	322,162,086	A Share
Shanghai Jiushi Corporation	235,247,280	A Share
Shanghai Friendship Group Incorporated Company	214,471,652	A Share
Shanghai Lansheng Corporation	190,950,000	A Share
Wenhui-Xinmin United Press Group	187,629,853	A Share
China Life Insurance Company Limited – dividend – personal dividend – 005L – FH002Shanghai	167,789,759	A Share

- Notes:*
1. Among the H shareholders of the Company, HKSCC Nominees Limited held the H Shares on behalf of the holders who did not register such shares under their names.
 2. In the above table, the shares held by HKSCC Nominees Limited are foreign shares listed overseas (H Shares) and the shares held by other shareholders are RMB denominated ordinary A Shares.
 3. The nature of the Company's A Shareholders represents that of accounts registered by such shareholders in Shanghai branch of China Securities Depository and Clearing Corporation Limited.

IV. CONTROLLING SHAREHOLDERS AND DE FACTO CONTROLLERS

Due to the diverse shareholding of the Company, as of the end of the Reporting Period, no shareholder directly held more than 5% of the shares of the Company (excluding HKSCC Nominees Limited). HKSCC Nominees Limited held shares on behalf of H shareholders who did not register the H Shares under their names.

SECTION VI CHANGES IN SHARE CAPITAL AND PARTICULARS ABOUT SHAREHOLDERS

V. DISCLOSURE OF INTERESTS

1. Directors, Supervisors and chief executive's (i.e. General Manger of the Company) interests and short positions in the shares, underlying shares or debentures of the Company and its associated corporations

As at 31 December 2012, according to the information obtained by the Company and so far as the Directors are aware, none of the Directors, Supervisors or chief executive of the Company had any interest and short positions in the shares, underlying shares and debentures of the Company or its associated corporation (within the meaning of Part XV of the SFO), which shall be notified to the Company and the Hong Kong Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which is taken or deemed to have under such provisions of the SFO) or which would be required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or would be required, pursuant to the Model Code for Securities Transactions by Directors of Listed Companies (set out in Appendix 10 to the Hong Kong Listing Rules), to be notified to the Company and the Hong Kong Stock Exchange.

2. Substantial shareholders and other persons' interests and short positions in the shares and underlying shares

As at 31 December 2012, so far as the Directors, having made all reasonable enquiries, are aware, the following parties (other than the Directors, Supervisors and chief executives of the Company) had an interest or short position in the shares or underlying shares, which is required to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO and has been entered in the register kept by the Company according to section 336 of the SFO.

No.	Name of Substantial shareholders	Type of share	Nature of interests	Number of shares held (shares)	Percentage of total issued shares of the Company (%)	Percentage of total issued A Shares/ H Shares of the Company (%)	Long position (Note 3)/ short position (Note 4)/ interest in lending pool
1	Bright Food (Group) Co., Ltd.	A Share	Beneficial owners (Note 1)	450,220,026	4.70	5.56	Long position
2	Shanghai Haiyan Investment Management Company Limited	A Share	Beneficial owners (Note 1)	400,709,623	4.18	4.95	Long position
3	NFFS	H Share	Beneficial owners	134,185,200	1.40	8.99	Long position
4	JP Morgan Chase & Co.	H Share	Beneficial owners	1,264,000	0.01	0.08	Long position
		H Share	Investment manage	29,108,800	0.30	1.95	Long position
		H Share	Custodian – corporation/approved lending agent	50,284,800	0.52	3.37	Lending pool
5	Capital Research and Management Company	H Share	Investment manager	75,000,000	0.78	5.02	Long position
6	Pacific Alliance Group Limited	H Share	Interests in controlled corporation (Note 2)	219,704,400	2.29	14.72	Long position
7	PAG Asia Capital GP I Limited	H Share	Investment manager (Note 2)	219,704,400	2.29	14.72	Long position
8	PAG Asia I LP	H Share	Interests in controlled corporation (Note 2)	219,704,400	2.29	14.72	Long position

SECTION VI CHANGES IN SHARE CAPITAL AND PARTICULARS ABOUT SHAREHOLDERS

No.	Name of Substantial shareholders	Type of share	Nature of interests	Number of shares held (shares)	Percentage of total issued shares of the Company (%)	Percentage of total issued A Shares/ H Shares of the Company (%)	Long position (Note 3)/ short position (Note 4)/ interest in lending pool
9	PAG Capital Limited	H Share	Interests in controlled corporation (Note 2)	219,704,400	2.29	14.72	Long position
10	PAG Holdings Limited	H Share	Interests in controlled corporation (Note 2)	219,704,400	2.29	14.72	Long position
11	PAGAC Horseshoe Holding I (HK) Limited	H Share	Interests in controlled corporation (Note 2)	219,704,400	2.29	14.72	Long position
12	PAGAC Horseshoe Holding I Limited	H Share	Interests in controlled corporation (Note 2)	219,704,400	2.29	14.72	Long position
13	PAGAC Horseshoe Holding I SARL	H Share	Beneficial owners (Note 2)	219,704,400	2.29	14.72	Long position
14	Roseworth Investments Limited	H Share	Interests in controlled corporation (Note 2)	219,704,400	2.29	14.72	Long position
15	Shan Weijian	H Share	Interests in controlled corporation (Note 2)	219,704,400	2.29	14.72	Long position
16	Citigroup. Inc.	H Share	Interests in controlled corporation	62,106,700	0.65	4.16	Long position
		H Share	Interests in controlled corporation	9,219,836	0.10	0.62	Short position
		H Share	Custodian – corporation/approved lending agent	45,060,362	0.47	3.02	Lending pool
		H Share	Persons having a security interest in shares	1,520,000	0.02	0.10	Long position
17	Cheah Capital Management Limited	H Share	Interests in controlled corporation (Note 3)	89,060,400	0.93	5.96	Long position
18	Cheah Cheng Hye	H Share	Founder of a discretionary trust (Note 3)	89,060,400	0.93	5.96	Long position
19	Cheah Company Limited	H Share	Interests in controlled corporation (Note 3)	89,060,400	0.93	5.96	Long position
20	Hang Seng Bank Trustee International Limited	H Share	Trustee (Note 3)	89,060,400	0.93	5.96	Long position
21	To Hau Yin	H Share	Interests of spouse (Note 3)	89,060,400	0.93	5.96	Long position
22	Value Partners Group Limited	H Share	Interests in controlled corporation (Note 3)	89,060,400	0.93	5.96	Long position

Note 1: According to the information disclosed on the website of the Hong Kong Stock Exchange (www.hkex.com.hk), an aggregate of 482,686,582 A Shares are held by Bright Food (Group) Co., Ltd., and an aggregate of 416,420,568 A Shares are held by Shanghai Haiyan Investment Management Company Limited. Under Section 336 of the SFO, forms disclosing of interests shall be submitted by shareholders of the Company upon satisfaction of certain conditions. Changes of shareholders' shareholdings in the Company are not required to inform the Company and Hong Kong Stock Exchange, except for the satisfaction of certain conditions. Therefore, there could be difference between substantial shareholders' latest shareholdings in the Company and the shareholdings submitted to Stock Exchange.

Note 2: Such 219,704,400 shares represent the same block of shares.

Note 3: Such 89,060,400 shares represent the same block of shares.

SECTION VI CHANGES IN SHARE CAPITAL AND PARTICULARS ABOUT SHAREHOLDERS

Note 4: A shareholder has a “long position” if such shareholder has an interest in shares, including interests through holding, writing or issuing financial instruments (including derivatives) under which: (i) such shareholder has a right to take the underlying shares; (ii) such shareholder is under an obligation to take the underlying shares; (iii) such shareholder has a right to receive money if the price of the underlying shares increases; or (iv) such shareholder has a right to avoid or reduce a loss if the price of the underlying shares increases.

Note 5: A shareholder has a “short position” if such shareholder borrows shares under a securities borrowing and lending agreement, or holds, writes or issues financial instruments (including derivatives) under which: (i) such shareholder has a right to require another person to take the underlying shares; (ii) such shareholder is under an obligation to deliver the underlying shares; (iii) such shareholder has a right to receive money if the price of the underlying shares declines; or (iv) such shareholder has a right to avoid or reduce a loss if the price of the underlying shares declines.

Save as disclosed above, the Company is not aware of any other person (other than the Directors, Supervisors and chief executive of the Company) having any interests or short positions in the shares or underlying shares of the Company as at 31 December 2012 required to be recorded in the register pursuant to Section 336 of the SFO.

VI. REPURCHASE, SALE OR REDEMPTION OF THE SECURITIES OF THE COMPANY

During the Reporting Period, other than the IPO of H Shares, neither the Company nor any of its subsidiaries has repurchased, sold or redeemed any securities of the Company, except for the case where such trading is conducted by the Company or any of its subsidiaries on behalf of its clients and acting as agencies.

SECTION VII PARTICULARS ABOUT DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND EMPLOYEES

I. CHANGES IN SHAREHOLDING AND REMUNERATION OF CURRENT AND RESIGNED DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT DURING THE REPORTING PERIOD

Name	Position	Gender	Age	Commencement date of tenure for the session	Ending date of tenure for the session	Number			Reasons for changes	Total remuneration before tax received from the Company during the Reporting Period (RMB0'000)	Total remuneration received from shareholder entities during the Reporting Period (RMB0'000)
						of shares held at the beginning of the year	Number of shares held at the end of the year	Changes in the number of shares during the year			
Directors											
<i>Executive Directors</i>											
Wang Kaiguo	Chairman, secretary of CPC party committee	Male	54	16 May 2011	15 May 2014	0	0	0		232	0
Li Mingshan	Director, General Manager	Male	60	16 May 2011	15 May 2014	0	0	0		232	0
<i>Non-executive Directors</i>											
Qian Shizheng	Vice Chairman	Male	60	16 May 2011	26 March 2013	0	0	0		0	0
Zhuang Guowei	Director	Male	58	16 May 2011	15 May 2014	0	0	0		0	58
Zhou Donghui	Director	Male	43	16 May 2011	15 May 2014	0	0	0		0	0
He Jianyong	Director	Male	50	16 May 2011	15 May 2014	0	0	0		0	20.5
Zhang Jianwei	Director	Male	58	16 May 2011	15 May 2014	0	0	0		0	To be approved and granted by SASAC
Xu Chao	Director	Male	57	16 May 2011	15 May 2014	0	0	0		0	65
Wang Hongxiang	Director	Male	56	16 May 2011	15 May 2014	0	0	0		0	To be approved and granted by Shenergy Group Company Limited
Li Gewei	Director	Male	45	16 May 2011	15 May 2014	0	0	0		0	0
Feng Huang	Director	Male	41	16 May 2011	15 May 2014	0	0	0		0	0

SECTION VII PARTICULARS ABOUT DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND EMPLOYEES

Name	Position	Gender	Age	Commencement date of tenure for the session	Ending date of tenure for the session	Number			Reasons for changes	Total remuneration before tax received from the Company during the Reporting Period (RMB0'000)	Total remuneration received from shareholder entities during the Reporting Period (RMB0'000)
						of shares held at the beginning of the year	Number of shares held at the end of the year	Changes in the number of shares during the year			
<i>Independent non-executive Directors</i>											
Xia Bin	Independent non-executive Director	Male	61	16 May 2011	15 May 2014	0	0	0		12	0
Chen Qiwei	Independent non-executive Director	Male	60	16 May 2011	15 May 2014	0	0	0		12	0
Zhang Huiquan	Independent non-executive Director	Male	45	16 May 2011	15 May 2014	0	0	0		12	0
Zhang Ming	Independent non-executive Director	Male	54	16 May 2011	15 May 2014	0	0	0		12	0
Dai Genyou	Independent non-executive Director	Male	63	16 May 2011	15 May 2014	0	0	0		12	0
Liu Chee Ming	Independent non-executive Director	Male	61	28 November 2011	15 May 2014	0	0	0		12	0
Supervisors											
Wang Yimin	Chairman of Supervisory Committee	Male	61	27 April 2011	23 January 2013	0	0	0		232	0
Yang Qingzhong	Vice Chairman of Supervisory Committee, secretary of the discipline inspection commission	Male	56	27 April 2011	15 May 2014	0	0	0		168	0
Yuan Lingcai	Supervisor	Male	52	16 May 2011	26 March 2013	0	0	0		0	0
Dong Xiaochun	Supervisor	Male	48	16 May 2011	15 May 2014	0	0	0		0	48
Wu Zhilin	Supervisor	Male	60	16 May 2011	15 May 2014	0	0	0		0	44
Jin Yanping	Supervisor	Female	57	16 May 2011	15 May 2014	0	0	0		0	0
Xu Qi	Supervisor	Male	50	16 May 2011	15 May 2014	0	0	0		0	Please refer to 2012 annual report of Shanghai Oriental Pearl (stock code: 600832)
Xing Jianhua	Supervisor	Male	53	16 May 2011	15 May 2014	0	0	0		0	35
Wang Yugui	Supervisor	Male	61	16 May 2011	15 May 2014	0	0	0		0	216
Qiu Xiaping	Employee Supervisor	Female	52	27 April 2011	15 May 2014	0	0	0		80	0
Du Hongbo	Employee Supervisor	Male	49	27 April 2011	15 May 2014	0	0	0		79	0

SECTION VII PARTICULARS ABOUT DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND EMPLOYEES

Name	Position	Gender	Age	Commencement date of tenure for the session	Ending date of tenure for the session	Number			Reasons for changes	Total remuneration before tax received from the Company during the Reporting Period (RMB0'000)	Total remuneration received from shareholder entities during the Reporting Period (RMB0'000)
						of shares held at the beginning of the year	Number of shares held at the end of the year	Changes in the number of shares during the year			
Senior management											
Shen Degao	Deputy General Manager	Male	60	16 May 2011	23 January 2013	0	0	0		168	0
Ji Yuguang	Deputy General Manager	Male	55	16 May 2011	15 May 2014	0	0	0		168	0
Ren Peng	Deputy General Manager	Male	50	16 May 2011	15 May 2014	0	0	0		168	0
Wu Bin	Deputy General Manager	Male	39	14 March 2011	15 May 2014	0	0	0		158	0
Li Xunlei	Deputy General Manager	Male	49	14 March 2011	15 May 2014	0	0	0		131	0
Hiroki Miyazato	Deputy General Manager	Male	47	14 March 2011	15 May 2014	0	0	0		114	0
Jin Xiaobin	Secretary to the Board	Male	58	16 May 2011	15 May 2014	0	0	0		159	0
Wang Jianye	Chief Risk Control Executive and General Compliance Officer	Male	54	16 May 2011	15 May 2014	0	0	0		159	0
Li Chuqian	Chief Financial Officer	Male	55	16 May 2011	15 May 2014	0	0	0		159	0
Li Jianguo	assistant to general manager	Male	49	14 March 2011	13 March 2014	0	0	0		365 (HK\$)	0
Chen Chunqian	assistant to general manager	Male	49	14 March 2011	13 March 2014	0	0	0		96	0

- Note:*
- The Company did not operate any equity incentive scheme during the Reporting Period. None of the Directors, Supervisors and senior management of the Company holds any shares of the Company.
 - Mr. Wang Yimin resigned as the Chairman of Supervisory Committee on 23 January 2013. Mr. Wang will continue to act as an Employee Supervisor of the Company until the new election of a Employee Supervisor according to Article 195 of the Articles of Association.
 - Mr. Qian Shizheng resigned as the Vice Chairman and a Director of the Board of the Company due to his professional development on 26 March 2013.
 - Mr. Yuan Lingcai resigned as a Supervisor of the Supervisory Committee of the Company due to his professional development on 26 March 2013.
 - The remuneration of Mr. Li Jianguo was paid by Haitong International Holdings Limited and Haitong International Securities Group.

SECTION VII PARTICULARS ABOUT DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND EMPLOYEES

II. POSITIONS OF CURRENT AND RESIGNED DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT DURING THE REPORTING PERIOD

(1) Positions in shareholder entities

Name	Name of shareholder entities	Positions	Tenure
Directors:			
Qian Shizheng	Shanghai Industrial Investment (Holdings) Co., Ltd. (上海實業(集團)有限公司)	vice president	1998 to 2012
Zhuang Guowei	Bright Food (Group) Co., Ltd. (光明食品(集團)有限公司)	vice president	2006 to date
Zhou Donghui	Shanghai Tobacco (Group) Co., Ltd. (上海煙草集團有限責任公司)	deputy director of finance management division	2011 to date
He Jianyong	Liaoning Energy Investment (Group) Co., Ltd. (遼寧能源投資(集團)有限責任公司)	chairman, secretary of CPC party committee	2011 to date
Zhang Jianwei	Shanghai Jiushi Corporation Co., Ltd. (上海久事公司)	deputy general manager	2002 to date
Xu Chao	Shanghai Electric Capital Management Co., Ltd.* (上海電氣資產管理有限公司)	director and legal representative	2011 to date
Wang Hongxiang	Shenergy Group Company Limited (申能(集團)有限公司)	deputy chief accountant	1998 to date
Li Gewei	Tibet Linzhi Fuxi Jewels & Gold Co., Ltd.* (西藏林芝福禧珠寶金行有限公司)	vice general manager	2010 to date
Feng Huang	SIIC Investment (Shanghai) Co., Ltd. (上實投資(上海)有限公司)	director, president	2012 to date
Supervisors:			
Yuan Lingcai	SIIC Investment (Shanghai) Co., Ltd. (上實投資(上海)有限公司)	chief finance officer, general manager of the planning and finance department	2002 to date
Dong Xiaochun	Shanghai Friendship Group Incorporated Company (上海友誼集團股份有限公司)	chief financial officer	2011 to date
Wu Zhilin	Wenhui-Xinmin United Press Group (文匯新民聯合報業集團)	member of CPC party committee, secretary of the CPC party committee and deputy chief editor of Xinmin Evening News	2008 to date

SECTION VII PARTICULARS ABOUT DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND EMPLOYEES

Name	Name of shareholder entities	Positions	Tenure
Jin Yanping	Shanghai Lansheng (Group) Co., Ltd. (上海蘭生(集團)有限公司)	assistant to president, general manager of strategic planning department and investment development department	1998 to date
Xu Qi	Shanghai Oriental Pearl (Group) Co., Ltd. (上海東方明珠(集團)股份有限公司)	chief financial officer	2004 to date
Xing Jianhua	Orient International (Holding) Co., Ltd. (東方國際(集團)有限公司)	deputy chief economist, director of asset operation department	2003 to date
Wang Yugui	China Shipowners Mutual Assurance Association (中國船東互保協會)	managing manager	1993 to date

* For identification purpose only

(2) Positions in other entities

Name	Name of entities	Positions	Tenure
Xia Bin	Institute of Finance of Development Research Centre of State Council (國務院發展研究中心金融研究所)	Head (now honorary head)	2002 to December 2012
Chen Qiwei	Shanghai Asia Business Development Group Co., Ltd.* (亞商發展集團有限公司)	chairman	2004 to date
Zhang Huiquan	Union Best Partner (嘉誠泰和律師事務所)	lawyer	2002 to date
Zhang Ming	accounting college of Shanghai University of Finance and Economics (上海財經大學會計學院)	deputy director	1997 to date
Dai Genyou	Zhangjiang High-Tech Park Development Co., Ltd. (上海張江高科技園區開發股份有限公司)	independent non-executive director	2010 to date
Liu Chee Ming	Platinum Holdings Limited (百德能控股有限公司)	Managing Director	1996 to date

* For identification purpose only

SECTION VII PARTICULARS ABOUT DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND EMPLOYEES

(3) Profiles of current Directors, Supervisors and Senior Management

1. Executive Directors (2):

Mr. Wang Kaiguo (王開國), aged 54, serves as our Chairman, an executive Director and the secretary of CPC party committee. Mr. Wang joined our Company in February 1995 as deputy general manager and has been our Chairman since May 1998. He was appointed as our Director on 23 August 1996. He has over 17 years of management experience in securities industry. Mr. Wang obtained a bachelor's degree in economics from Jilin University in July 1984, a master's degree in economics from Jilin University in July 1987, and a doctor's degree in economics from Xiamen University in July 1990. Mr. Wang is a senior economist recognized by Economics and Accounting Senior Professional and Technical Title Evaluating Committee* (經濟會計系列高級專業技術職務評審委員會) of Bank of Communications Co., Ltd. in December 1997. Mr. Wang previously served in various positions in Research Institute of National State-owned Assets Administration Bureau* (國家國有資產管理局研究所) from July 1990 to February 1995, including deputy head of this bureau. He was also director of policy research office of policy and regulation department of the same bureau from March 1992 to February 1994. Mr. Wang was deputy general manager of our Company from February 1995 to November 1997, secretary of Communist Party of China ("CPC") party group of our Company from November 1997 to December 1998 and general manager of our Company from November 1997 to May 2001. Mr. Wang has been secretary of CPC party committee of our Company since December 1998, director of the Shanghai Stock Exchange since April 1999 and vice president of Securities Association of China since July 2002. In addition, Mr. Wang was a non-executive director of Shanghai Shimao Co., Ltd. (上海世茂股份有限公司) from October 2000 to February 2009 (a company listed on the Shanghai Stock Exchange and its stock code is 600823). Mr. Wang has been a non-executive director of Shenzhen Development Bank Co., Ltd. (深圳發展銀行股份有限公司) (a company listed on the Shenzhen Stock Exchange with stock code 000001 and it was renamed as Ping An Bank Co., Ltd. in August 2012) since June 2006 and an independent non-executive director of Shanghai Chlor-Alkali Chemical Co., Ltd. (上海氯鹼化工股份有限公司) ("Shanghai Chlor-Alkali") (a company listed on the Shanghai Stock Exchange and its stock code is 600618) since December 2009.

* For identification purpose only

SECTION VII PARTICULARS ABOUT DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND EMPLOYEES

Mr. Li Mingshan (李明山), aged 60, serves as our General Manager and an executive Director. Mr. Li joined our Company in May 2001 and has been our General Manager since then. He has been our Director since 28 November 2002. He is fully in charge of the overall management of our operations. He has around 21 years of management experience in securities industry. Mr. Li graduated from East China Normal University as a post-graduate with a major in global economics in May 1998 and obtained a master's degree in business administration from Asia International Open University (Macau) in September 2000. Mr. Li is a senior economist recognized by Shanghai Professional Qualification Evaluation Centre* (上海市任職資格評價中心) in June 2001. Mr. Li previously worked at CPC Shanghai Committee and guard department of Shanghai Public Security Bureau from May 1978 to January 1993. Mr. Li was previously vice general manager of Shanghai Shenyin Securities Co., Ltd. (上海申銀證券公司, predecessor of Shenyin & Wanguo Securities Co., Ltd. (申銀萬國證券股份有限公司) ("Shenyin & Wanguo") from January 1993 to June 1996 and vice general manager of Shenyin & Wanguo from June 1996 to March 1998. Mr. Li was also deputy general manager of the Shanghai Stock Exchange from March 1998 to May 2001. Mr. Li was a non-executive director and chairman of Haitong International Securities Group from January 2010 to April 2011 and also chairman of Haitong International Holdings Limited from August 2010 to March 2011. Mr. Li has been deputy secretary of CPC party committee of our Company since March 2002 and a director of Fullgoal Fund Management Co., Ltd. ("Fullgoal Fund") since 2005.

2. *Non-executive Directors (9):*

Mr. Qian Shizheng (錢世政), aged 60, serves as our Vice Chairman and a non-executive Director. Mr. Qian has been our Director and our Vice Chairman since 30 May 2006. Mr. Qian obtained a bachelor's degree in economics from Shanghai University of Finance and Economics in July 1983, and a doctor's degree in management from Fudan University in July 2001. Mr. Qian lectured in accounting department of Fudan University from September 1983 to December 1997. Mr. Qian joined Shanghai Industrial Investment (Holdings) Co., Ltd. in January 1998 and has been vice president since then. He has been an executive director and vice president of Shanghai Industrial Holdings Limited (上海實業控股有限公司) (a company listed on the Hong Kong Stock Exchange and its stock code is 00363), which is an affiliate of SIIC Shanghai (Holding) Co., Ltd., from January 2002 to May 2012, an independent non-executive director of Lonking Holdings Limited (中國龍工控股有限公司) (a company listed on the Hong Kong Stock Exchange and its stock code is 03339) since February 2005, an independent non-executive director of Zoomlion Heavy Industry Science & Technology Development Co., Ltd. (中聯重工科技發展股份有限公司) (a company listed on both the Shenzhen Stock Exchange and the Hong Kong Stock Exchange and its stock code is 000157 and 01157 respectively) since July 2010 and a professor of College of Management of Fudan University since July 2012. Mr. Qian resigned as the Vice Chairman and a non-executive Director of the Company on 26 March 2013.

SECTION VII PARTICULARS ABOUT DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND EMPLOYEES

Mr. Zhuang Guowei (莊國蔚), aged 58, serves as a non-executive Director of our Company. Mr. Zhuang has been our Director since 16 July 2007. Mr. Zhuang obtained a bachelor's degree in economics from Party School of the Central Committee of the CPC* (中共中央黨校函授學院) in December 1994, graduated from Shanghai Academy of Social Sciences as a postgraduate in economics in January 1996, and obtained a master's degree in business administration from Arizona State University in May 2009. Mr. Zhuang is a registered manager* (註冊經理) of Chinese Registered Career Manager (中國註冊職業經理人) recognized by China Enterprises Evaluation Association (中國企業評價協會) in 2005. Mr. Zhuang previously served in various positions in Shanghai Wusi Farm* (上海市五四農場) and Shanghai NGS (Group) Wusi Corporation* (上海農工商集團五四總公司) from July 1984 to August 1999, including general manager and deputy secretary of its CPC party committee. He was manager of asset operation department of Shanghai NGS (Group) Corporation (上海市農工商(集團)總公司) from August 1999 to April 2001 and was deputy general manager of the same company from April 2001 to August 2006. He was deputy chairman of Shanghai Urban Agro-Business Co., Ltd. (上海市都市農商社股份有限公司) from June 2001 to February 2003 and chairman of Shanghai HaiBo Co., Ltd. (上海海博股份有限公司) ("Shanghai HaiBo") (a company listed on the Shanghai Stock Exchange and its stock code is 600708) from February 2004 to April 2009. In addition, Mr. Zhuang has been vice president of Bright Food (Group) Co., Ltd. (光明食品(集團)有限公司) since August 2006, chairman of Bright Dairy & Food Co., Ltd. (光明乳業股份有限公司) (a company listed on the Shanghai Stock Exchange and its stock code is 600597) since April 2010, a director of Shanghai HaiBo since April 2009 and chairman of NGS Real Estate (Group) Co., Ltd.* (農工商房地產(集團)股份有限公司) since December 2011.

Mr. Zhou Donghui (周東輝), aged 43, serves as a non-executive Director of our Company. Mr. Zhou has been our Director since 8 May 2009. He has over ten years of financial management experience. Mr. Zhou graduated with a major in accounting from Adult Education College* (成人教育學院) of Fudan University in July 2001. Mr. Zhou is a senior accountant recognized by State Tobacco Monopoly Administration of PRC* (中國國家煙草專賣局) in December 2007. Mr. Zhou previously served in various positions in the finance and price department of Shanghai Tobacco (Group) Company* (上海煙草(集團)公司) ("Shanghai Tobacco") (predecessor of Shanghai Tobacco (Group) Co., Ltd* (上海煙草(集團)有限責任公司)) from July 1991 to October 2000, including deputy section chief of finance section and deputy section chief of fund and price section. Mr. Zhou was also deputy manager of finance department of China Tobacco Shanghai Import & Export Co., Ltd.* (中國煙草上海進出口有限責任公司) from October 2000 to August 2003, manager of that department from August 2003 to October 2008 and was deputy director of investment management division of Shanghai Tobacco from October 2008 to May 2011. Mr. Zhou has been deputy director of finance management division of Shanghai Tobacco (Group) Co., Ltd.* since May 2011 and a non-executive director of Orient Securities since May 2009. As Orient Securities is mainly engaged in, among others, securities underwriting, proprietary trading, investment consultation, financial advisory, enterprise mergers and acquisitions and asset management, it competes or is likely to compete, either directly or indirectly, with some aspects of the business of the Company.

SECTION VII PARTICULARS ABOUT DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND EMPLOYEES

Mr. He Jianyong (何健勇), aged 50, serves as a non-executive Director of our Company. Mr. He has been our Director since 16 September 2011. Mr. He obtained a bachelor's degree in economics from Northeast Finance Institute in July 1986 and graduated from Liaoning University in December 1999 as a postgraduate (part time) with a major in accounting. Mr. He previously served in various positions in Liaoning Energy Development Corporation* (遼寧省能源開發公司) from August 1986 to December 1989, including assistant accountant of the finance department and deputy manager of the energy-efficient product distribution department. Mr. He worked with the Provincial "San Liao" Poverty Aid Taskforce at Kazuo County in Liaoning Province* (遼寧省政府駐喀左縣“三遼”扶貧工作隊) from December 1989 to December 1990 and served as head of the finance department of Liaoning Energy and Materials Company* (遼寧能源物資公司) from December 1990 to July 1995. He was deputy manager of Liaoning Energy Efficiency and Thermal Electricity Group Company* (遼寧節能熱電集團公司) from July 1997 to January 1999. He was deputy general manager and then executive deputy general manager of Liaoning Energy Corporation* (遼寧能源總公司) from January 1999 to December 2003. He joined Liaoning Energy Investment (Group) Co., Ltd. (遼寧能源投資(集團)有限責任公司) in December 2003 and served in various positions including general manager and vice chairman, and is currently chairman and secretary of CPC party committee of this company.

Mr. Zhang Jianwei (張建偉), aged 58, serves as a non-executive Director of our Company. Mr. Zhang has been our Director since 28 November 2002. He has ten years of management experience in securities industry. Mr. Zhang obtained a junior college degree in industrial economic management from Fudan University in July 1986 and also graduated with a major in enterprise management from Fudan University (Evening School) in July 1995, respectively. He also obtained a master's degree in business administration from China Europe International Business School in May 1999. Mr. Zhang is a senior economist recognized by Shanghai Economics (Circulation) Senior Professional and Technical Title Qualification Evaluating Committee* (上海市經濟系列(流通領域)高級專業技術職務任職資格評審委員會) in May 2000. He previously served in various positions in Shanghai Jiushi Corporation Co., Ltd. from July 1994 to December 2002, including general manager of industry division and assistant to general manager. Mr. Zhang has been deputy general manager of Shanghai Jiushi Corporation Co., Ltd. since December 2002, a non-executive director of Shenyin & Wanguo from January 2002 to September 2012, a director of Shanghai International Trust Corp., Ltd. (上海國際信托有限公司) since June 2005, a director of Shenergy Company Limited (申能股份有限公司) (a company listed on the Shanghai Stock Exchange and its stock code is 600642) since May 2008, a director of Shanghai Highly (Group) Co., Ltd. (上海海立股份有限公司) (a company listed on the Shanghai Stock Exchange and its stock code is 600619) from May 2008 to June 2012 and a supervisor of China Pacific Insurance Group Co., Ltd. (太平洋保險集團股份有限公司) (a company listed on both the Hong Kong Stock Exchange and the Shanghai Stock Exchange and its stock code is 02601 and 601601 respectively) since February 2011.

SECTION VII PARTICULARS ABOUT DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND EMPLOYEES

Mr. Xu Chao (徐潮), aged 57, serves as a non-executive Director of our Company. Mr. Xu has been our Director since 16 May 2011. Mr. Xu graduated with a major in Marxism-Leninism theory from Cadre Training College of Shanghai Municipal Party School (Junior College)* (上海市委黨校幹部專修科(大專)) in July 1985 and obtained a master's degree in business administration from China Europe International Business School in April 2000. Mr. Xu is a senior economist recognized by Shanghai Economics Senior Professional and Technical Title Qualification Evaluating Committee* (上海市經濟系列高級專業技術職務任職資格審定委員會) in December 2009. Mr. Xu successively served as deputy secretary of CPC party branch, secretary of CPC party branch and deputy director of reform office of Shanghai Turbine Works* (上海汽輪機廠) from 1986 to June 1994. He was director of financial division, head of financial department and chief financial officer of Shanghai Turbine Co., Ltd.* (上海汽輪機有限公司) from August 1996 to October 2004, and vice president of the same company from October 2004 to October 2006. He joined Shanghai Electric Capital Management Co., Ltd.* (上海電氣資產管理有限公司) in October 2006 and served in various positions including chief financial officer from March 2007 to October 2011 and vice president of the same company since May 2008. He was head of financial budget department of Shanghai Electric (Group) Corporation* (上海電氣(集團)總公司) from October 2010 to October 2011. He has also been the executive director and legal representative of Shanghai Electrical Industrial Investment Co., Ltd.* (上海電氣實業公司) from May 2010 to December 2012, a non-executive director of Orient Securities since March 2011 and chairman of supervisory committee of Shanghai Prime Machinery Co., Ltd. (上海集優機械股份有限公司) (a company listed on the Hong Kong Stock Exchange and its stock code is 02345) since May 2010 (vice chairman since December 2012), vice chairman of Shanghai Highly (Group) Co., Ltd (上海海立(集團)股份有限公司) since June 2011 and chairman of supervisory committee of Shanghai Automation Instrumentation Co., Ltd. (上海自動化儀錶股份有限公司) (a company listed on the Shanghai Stock Exchange and its stock code is 600848) since June 2011.

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Mr. Wang Hongxiang (王鴻祥), aged 56, serves as a non-executive Director of our Company. Mr. Wang has been our Director since 16 May 2011. He has over 20 years of finance and accounting working experience since he graduated from university. Mr. Wang obtained a bachelor's degree in accounting from Xiamen University in July 1983 and an EMBA degree from Shanghai University of Finance and Economics in June 2006. Mr. Wang is a senior accountant recognized by Shanghai Accounting Senior Professional and Technical Title Qualification Evaluating Committee* (上海市會計系列高級專業技術職務任職資格評審委員會) in 1999. Mr. Wang was an associate professor at Shanghai University of Finance and Economics for a number of years. Mr. Wang has been deputy chief accountant of Shenergy Group Company Limited (申能(集團)有限公司) since December 1998.

Mr. Li Gewei (李葛衛), aged 45, serves as a non-executive Director of our Company. Mr. Li has been our Director since 16 May 2011. Mr. Li obtained a bachelor's degree in science from Lanzhou University in June 1989. Mr. Li is an economist recognized by Professional and Technical Title Qualifications Evaluating Committee of Nankai District, Tianjin* (天津市南開區專業技術任職資格評審委員會) in August 1998. Mr. Li was a director of Lingyun Industrial Corporation Limited (凌雲工業股份有限公司) (a company listed on the Shanghai Stock Exchange and its stock code is 600480) from April 2007 to January 2012. He has been an executive director of New World Strategic Investment Limited (新世界策略投資有限公司) since June 2003, vice general manager of Tibet Linzhi Fuxi Jewels & Gold Co., Ltd.* (西藏林芝福禧珠寶金行有限公司) since October 2010, and an executive deputy general manager of Shenzhen Sunlong Communication Co., Ltd. (深圳市翔龍通訊有限公司) since March 2006, in charge of investment management for all of these three companies. Mr. Li has been an independent non-executive director of Orient Group Incorporation (東方集團股份有限公司) (a company listed on Shanghai Stock Exchange and its stock code is 600811) since June 2008. Mr. Li served as an independent non-executive director of Sichuan Direction Photo-electricity Co., Ltd. (四川方向光電股份有限公司) from April 2002 to April 2007.

SECTION VII PARTICULARS ABOUT DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND EMPLOYEES

Mr. Feng Huang (馮煌), aged 41, serves as a non-executive Director of our Company. Mr. Feng has been our Director since 16 May 2011. Mr. Feng obtained a bachelor's degree in hotel management from Shanghai Jiao Tong University in July 1993, and a master's degree in business administration from Webster University in November 1998. Mr. Feng is an economist recognized by Ministry of Personnel of PRC in November 2001, and an in-house legal counsel recognized by Ministry of Personnel, Ministry of Justice and State-owned Assets Supervision and Administration Commission of PRC in October 2007. Mr. Feng joined SIIC Investment (Shanghai) Co., Ltd. (上實投資(上海)有限公司) ("SIIC Investment") in January 1999 and served in various positions, and has been a director and president since December 2012. He has been a director and president of Shanghai SIIC Investment Management Consulting Co., Ltd.* (上海上實投資管理諮詢有限公司) ("Shanghai SIIC") since August 2007, a director of Shanghai Lujiazui Finance & Trade Zone United Development Co., Ltd.* (上海陸家嘴金融貿易區聯合發展有限公司) since July 2004, vice chairman of Shanghai Qixiang Qingchen New Materials Co., Ltd.* (上海奇想青晨新材料股份有限公司) since December 2007, chairman of Shanghai Zhendong Auto Service Company* (上海振東汽車服務有限公司) since September 2008 and a director of Shanghai Information Investment Inc. (上海市信息投資股份有限公司) since June 2011. Mr. Feng has also been the chairman of SIIC Investment Co., Ltd. (上海實業投資有限公司) and South Pacific Hotel Hong Kong Co., Ltd.* (南洋酒店(香港)有限公司) since January 2012.

3. *Independent Non-executive Directors (6):*

Mr. Xia Bin (夏斌), aged 61, serves as an independent non-executive Director of our Company. Mr. Xia has been our Director since 30 May 2006. He has over 29 years of management experience in banking and securities industry. Mr. Xia obtained a master's degree in economics from the Graduate School of PBOC in December 1984. Mr. Xia is a researcher recognized by PBOC Research Senior Professional and Technical Title Evaluating Committee* (中國人民銀行研究系列高級專業技術職務評審委員會) in November 1997. Mr. Xia served as director and deputy head of financial research institute of PBOC from January 1982 to March 1993 and from March 1993 to July 1993, respectively. He served as director of trading department of CSRC from July 1993 to October 1995, general manager of the Shenzhen Stock Exchange from July 1993 to October 1993, deputy director of policy research office of PBOC from October 1996 to August 1998 and director of non-bank institution department of PBOC from August 1998 to September 2002. Mr. Xia was the head of Research Institute of Finance under Development Research Centre of the State Council from September 2002 to the end of 2012 and he now serves as an honorary head.

SECTION VII PARTICULARS ABOUT DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND EMPLOYEES

Mr. Chen Qiwei (陳琦偉), aged 60, serves as an independent non-executive Director of our Company. Mr. Chen has been our Director since 16 July 2007. Mr. Chen obtained a bachelor's degree in economics from East China Normal University in September 1982 and a doctor's degree in economics from East China Normal University in October 1988. Mr. Chen is a professor recognized by the Teachers' Senior Professional and Technical Title Qualification Evaluating Committee of Shanghai Jiao Tong University* (上海交通大學教師高級專業技術職務任職資格評審委員會) in October 1992. Mr. Chen has been professor and doctoral supervisor of Antai College of Economics & Management, Shanghai Jiao Tong University (上海交通大學安泰經濟與管理學院) since August 1997, chairman of Shanghai Asia Business Development Group Co., Ltd.* (上海亞商發展集團有限公司) since March 2004, an independent non-executive director of Shanghai Oriental Pearl (Group) Co., Ltd. (上海東方明珠(集團)股份有限公司) ("Shanghai Oriental Pearl") (a company listed on the Shanghai Stock Exchange and its stock code is 600832) since June 2008, an independent non-executive director of Guangzhou Development Industry (Holdings) Co., Ltd. (廣州發展實業控股集團股份有限公司) (a company listed on the Shanghai Stock Exchange and its stock code is 600098) since July 2009, a director of China Entrepreneurs Forum (中國企業家論壇) and a rotating chairman of New Shanghai Businessman Federation (新滬商聯合會) since December 2008.

Mr. Zhang Huiquan (張惠泉), aged 45, serves as an independent non-executive Director of our Company. Mr. Zhang has been our Director since 16 July 2007. He has around 16 years of working experience in legal compliance. Mr. Zhang obtained a bachelor's degree in law from Nanjing Institute of Politics of the People's Liberation Army* (中國人民解放軍南京政治學院) in July 1990 and a master's degree in economic law from Peking University in July 2002. Mr. Zhang was granted the Certificate of PRC Lawyer by the PRC Ministry of Justice in September 1995. Mr. Zhang was previously an officer of political department of People's Court of Jingshan District, Beijing (北京市景山區人民法院) from October 1996 to March 2000 and a director of research office and judge of the same court from April 2000 to December 2002. Mr. Zhang has been a lawyer of Union Best Partner (北京嘉誠泰和律師事務所) since December 2002.

Mr. Zhang Ming (張鳴), aged 54, serves as an independent non-executive Director of our Company. Mr. Zhang has been our Director since 5 May 2008. He has nearly 30 years of working experience in relation to accounting. Mr. Zhang obtained a bachelor's degree in accounting, a master's degree in accounting and a doctor's degree in economics (accounting) from the accounting department of Shanghai University of Finance and Economics in June 1983, June 1988 and January 1996, respectively. Mr. Zhang lectured in Shanghai University of Finance and Economics since graduation in 1983 and has successively been deputy director, and now the professor and doctoral supervisor of the accounting college of the same university. Mr. Zhang has been an independent non-executive director of Shanghai Shenda Co., Ltd. (上海申達股份有限公司) (a company listed on the Shanghai Stock Exchange and its stock code is 600626) since May 2010, and an independent non-executive director of SGSB Group Co., Ltd. (上工申貝(集團)股份有限公司) (a company listed on the Shanghai Stock Exchange and its stock code is 600843) since June 2009.

SECTION VII PARTICULARS ABOUT DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND EMPLOYEES

Mr. Dai Genyou (戴根有), aged 63, serves as an independent non-executive Director of our Company. Mr. Dai has been our Director since 16 May 2011. He has around 35 years of working experience in financial industry including over 25 years of management experience. Mr. Dai graduated with a major in political economics from Anhui Labor University (predecessor of Anhui University) in September 1977. Mr. Dai is a senior economist recognized by PBOC in 1989. He was granted a special allowance by the State Council in October 2000. Mr. Dai previously served in various positions in PBOC. He successively served as vice president of Anqing Branch of PBOC, director of the first economic analysis division of research and investigation department of PBOC, and head and deputy director of economic analysis division of survey and statistics department of PBOC from October 1983 to February 1993. He held a position at the finance and trade group of the Leading Group for Financial and Economic Affairs of the CPC Central Committee* (中央財經領導小組辦公室財貿組) from February 1993 to November 1997 and was a deputy leader thereof since September 1994 and concurrently was deputy director and inspector of survey and statistics department of PBOC. He was head of monetary policy department and secretary-general of monetary policy committee of PBOC from November 1997 to November 2003, director of credit information system bureau of PBOC from November 2003 to April 2004, and director of credit information center of PBOC from April 2004 to March 2010. Mr. Dai has been an independent non-executive director of Zhangjiang High-Tech Park Development Co., Ltd. (上海張江高科技園區開發股份有限公司) (a company listed on the Shanghai Stock Exchange and its stock code is 600895) since April 2010.

Mr. Liu Chee Ming (劉志敏), aged 61, serves as an independent non-executive Director of our Company. Mr. Liu has been our Director since 16 September 2011. Mr. Liu obtained a bachelor's degree in business administration from National University of Singapore in July 1976. He has been a member of the Takeovers Appeal Committee under the Securities and Futures Commission of Hong Kong (香港證券及期貨事務監察委員會收購上訴委員會) since May 1995, and vice chairman of the Takeovers and Mergers Panel since April 2008. In addition, he established the Platinum Holdings Limited (百德能控股有限公司) in April 1996 and oversees the stock broking, corporate finance and asset management businesses. He has been an independent non-executive director of Kader Holdings Company Limited (開達集團有限公司) (a company listed on the Hong Kong Stock Exchange and its stock code is 00180) since June 1998, an independent non-executive director of CIMC Raffles Offshore (Singapore) Limited (中集來福士海洋工程(新加坡)有限公司) since December 2005, and an independent non-executive director of Starhub Ltd. (星和有限公司) (a company listed on the Singapore Stock Exchange and its stock code is STH SP) since August 2004.

SECTION VII PARTICULARS ABOUT DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND EMPLOYEES

4. *Members of the Supervisory Committee (11):*

Mr. Wang Yimin (王益民), aged 61, serves as our employee Supervisor and our Chairman of Supervisory Committee. Mr. Wang joined our Company in January 2010 and was appointed as our Supervisor on 7 April 2010. He has around 20 years of experience as a director, supervisor and senior management of securities companies. Mr. Wang graduated with a major in economics by correspondence from Fudan University (undergraduate) in July 1992, and obtained a master's degree in economics and a master's degree in business administration from Shanghai University of Finance and Economics and China Europe International Business School in January 1997 and in April 2000 respectively, and a doctor's degree in management from Tongji University in November 2001. Mr. Wang is a senior economist recognized by China People's Construction Bank (predecessor of China Construction Bank) in February 1993. Mr. Wang served in various positions in China Construction Bank (Shanghai Branch) from September 1979 to September 1990, including section chief and deputy division chief. Mr. Wang served as vice president of China Construction Bank (Shanghai Pudong Branch) from September 1990 to October 1992, an executive director and deputy general manager of Guotai Securities Co., Ltd. (國泰證券有限公司) (predecessor of Guotai Junan Securities Co., Ltd. (國泰君安證券股份有限公司) ("Guotai Junan") from October 1992 to August 1999, chairman of supervisory committee and secretary of discipline inspection commission of Guotai Junan. from August 1999 to September 2004, and chairman of Orient Securities and secretary of CPC party committee from September 2004 to January 2010. Mr. Wang resigned as the Chairman of Supervisory Committee on 23 January 2013. Mr. Wang will continue to act as the employee supervisor of the Company until the appointment of new employee supervisor in order to maintain the quorum of the Supervisory Committee.

Mr. Yang Qingzhong (楊慶忠), aged 56, serves as our employee Supervisor and our Vice Chairman of Supervisory Committee. Mr. Yang joined our Company in 1998 and was appointed as our Supervisor on 21 May 2004. He has around 14 years of working experience in securities industry. Mr. Yang obtained a bachelor's degree in economic management from Party School of the Central Committee of CPC in December 1995 and graduated as a postgraduate with a major in management science and engineering from Shanghai University in April 2001. Mr. Yang is a senior political officer recognized by Shanghai Senior Professional and Technical Titles of Enterprise Personnel of Political Work Qualification Evaluating Committee* (上海市企業思想政治工作人員高級專業職務任職資格評審委員會) in December 2000. Mr. Yang worked in the People's Liberation Army Navy (中國人民解放軍海軍) from December 1974 to August 1998. He served in various positions in our Company, including deputy director of CPC party committee office and the member of discipline inspection committee from August 1998 to November 2002 and deputy chief of organization department of our CPC party committee from August 1998 to August 2003 and general manager of our training center from May 2003 to April 2005. Mr. Yang has been the director of our department of party-masses relationship from November 2002 to February 2013, the general manager of our human resources development department since August 2003, the head of our organization department of the CPC party committee since August 2003 and the secretary of our discipline inspection commission since October 2008.

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Mr. Yuan Lingcai (袁領才), aged 52, serves as a Supervisor of our Company. Mr. Yuan joined our Company on 16 May 2011 and has been our Supervisor since then. He has around 30 years of working experience in finance. Mr. Yuan graduated with a major in accounting from China Central Radio and Television University in July 2003. Mr. Yuan is a senior accountant recognized by Shanghai Accounting Senior Professional and Technical Title Qualification Evaluating Committee* (上海市會計系列高級專業技術職務任職資格審定委員會) in March 2003. Mr. Yuan was manager of finance department of Shanghai Hardware Machinery Corporation Metal Material Company* (上海五金機械總公司金屬原料公司) from August 1981 to October 1995, manager of finance department and chief financial officer in Hardware Company of Shanghai Friendship (Group) Co., Ltd.* (友誼集團上海五金公司) from November 1995 to October 1999, assistant to the director of audit and supervision department of Shanghai Friendship Group (上海友誼(集團)有限公司) from October 1999 to August 2000 and manager of finance department of Haomeijia Decoration Co., Ltd. under Friendship Group* (友誼集團好美家裝潢有限公司) from August 2000 to December 2001. Mr. Yuan was a supervisor of Shanghai SIIC from August 2010 to March 2012. Mr. Yuan has been working at SIIC Investment since January 2002 and is currently the general manager of the planning and finance department and chief finance officer of the company. He has also been a director of Shanghai SIIC Zhentai Chemical Co., Ltd. (上海實業振泰化工有限公司) since March 2007, and a director of Shanghai SIIC since March 2012. Mr. Yuan resigned as a Supervisor of the Company on 26 March 2013.

Mr. Dong Xiaochun (董小春), aged 48, serves as a Supervisor of our Company. Mr. Dong joined our Company on 16 July 2007 and has been our Supervisor since then. He has over 20 years of working experience in finance and over five years of experience as supervisor. Mr. Dong graduated with a major in accounting from Shanghai TV University in July 1989 and obtained a master's degree in business administration from Shanghai Jiao Tong University in July 2000. Mr. Dong is a senior accountant recognized by Shanghai Accounting Senior Professional and Technical Title Qualification Evaluating Committee* (上海市會計系列高級專業技術職務任職資格審定委員會) in April 2001. Mr. Dong served as chief financial officer and secretary to the board of Hualian Supermarket Co., Ltd. (華聯超市股份有限公司) from October 1992 to August 2004, chief financial officer of department store division of Shanghai Bailian Group Co., Ltd. ("Bailian Group") (formerly known as Bailian Group (百聯集團)) (a company listed on the Shanghai Stock Exchange until August 2011 and its stock code was 600631) from August 2004 to April 2006 and a director of Bailian Group from April 2010 to April 2011. Mr. Dong was secretary to the board and chief financial officer of Bailian Group from April 2006 to September 2011, and he is now secretary to the board and chief financial officer of Shanghai Friendship Group Incorporated Company (上海友誼集團股份有限公司) (a company listed on the Shanghai Stock Exchange and its stock code is 600827).

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Mr. Wu Zhilin (吳芝麟), aged 60, serves as a Supervisor of our Company. Mr. Wu joined our Company on 19 May 2010 and has been our Supervisor since then. He has around 35 years of working experience in media industry. Mr. Wu graduated with a major in Chinese literature from Shanghai Education College* (上海教育學院) in July 1986. Mr. Wu is a senior editor recognized by Shanghai Journalism Senior Professional and Technical Title Qualification Evaluating Committee* (上海市新聞系列高級專業技術職務任職資格審定委員會) in January 1996. Mr. Wu served in various positions in Jiefang Daily (解放日報) from October 1973 to November 1994, which included editorial committee member and director of literature department. Mr. Wu was deputy chief editor of People's Daily East China Branch (人民日報社華東分社) and deputy chief editor of Wenhui Paper (文匯報) from November 1994 to May 1998 and from May 1998 to July 2008, respectively. Mr. Wu has been a member of CPC party committee of Wenhui-Xinmin United Press Group (文匯新民聯合報業集團) since July 2008, secretary of the CPC party committee and deputy chief editor of Xinmin Evening News (新民晚報) since July 2008 and the chairman of supervisory committee of Shanghai Oriental Sports Media Co., Ltd. (上海東體傳媒有限公司) since February 2010.

Ms. Jin Yanping (金燕萍), aged 57, serves as a Supervisor of our Company. Ms. Jin joined our Company on 16 July 2007 and has been our Supervisor since then. She has over 25 years of working experience including over five years of experience as supervisor. Ms. Jin obtained a bachelor's degree in literature from Shanghai University of Technology in October 1982. Ms. Jin is a senior political officer recognized by Propaganda Department of the CPC Shanghai Committee* (上海市委宣傳部) in May 1992. Ms. Jin was previously member of CPC party committee and deputy director of CPC party committee office of Shanghai Foreign Trade Corporation* (上海對外貿易總公司) from February 1986 to December 1987. Ms. Jin was previously secretary of CPC general branch of Shanghai Overseas Company* (上海海外公司) from January 1988 to December 1990. Ms. Jin also served as deputy secretary of CPC party committee and deputy general manager of Shanghai Advertising Co., Ltd. (上海廣告有限公司) from December 1990 to December 1994. Ms. Jin was Shanghai office's executive vice director and secretary of CPC general branch of Shanghai Industrial Investment (Holdings) Co., Ltd. from January 1995 to October 1998, head of the research office of Shanghai Lansheng (Group) Co., Ltd. (上海蘭生(集團)有限公司) ("Shanghai Lansheng") from October 1998 to March 2001 and manager of the general corporate business department of Shanghai Lansheng from March 2001 to June 2003. Ms. Jin has been assistant to president of Shanghai Lansheng since October 1998, general manager of investment management department of the same company since June 2003, a director of Shanghai Lansheng Corporation (上海蘭生股份有限公司) (a company listed on the Shanghai Stock Exchange and its stock code is 600826) from May 2003 to May 2012, vice chairman of Soochow Asset Management Co., Ltd. (東吳基金管理有限公司) since April 2004 and chairman of supervisory committee of Shanghai CP Guojian Pharma Co., Ltd. (上海中信國健藥業股份有限公司) since February 2011.

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Mr. Xu Qi (許奇), aged 50, serves as a Supervisor of our Company. Mr. Xu joined our Company on 16 July 2007 and has been our Supervisor since then. He has around 20 years of extensive working experience in finance and accounting and over five years of experience as supervisor. Mr. Xu graduated with a major in economic management (junior college course) from Shanghai Normal University in July 1988. He graduated from East China Normal University as a postgraduate with a major in international enterprise management in November 1997. Mr. Xu is an accountant recognized by Leading Working Group for Shanghai Professional Title Reform* (上海市職稱改革工作領導小組) in July 1992. Mr. Xu was awarded China's outstanding CFO of 2005 by Selection Committee of Annual Figure of China CFO* (中國CFO年度人物評選委員會) and Xinlicai Magazine* (新理財雜誌社) in March 2006. He was a Chinese registered career manager (中國註冊職業經理人) recognized by China Enterprise Evaluation Association (中國企業評價協會) in July 2006. He was a senior member of the Chinese Enterprise Operation and Management Talent Bank* (中國企業經營管理人才庫成員(高級)) recognized by National Talent Service Centre under the Ministry of Human Resources (人事部全國人才流動中心) in September 2006. He was also awarded the Annual Figure of China Chief Financial Officer in November 2006 recognized by Organizing Committee of China CFO International Summit* (中國CFO國際峰會組委會) and China CFO Magazine* (中國總會計師雜誌社). He is a qualified professional director and qualified director and supervisor (Senior) recognized by China Institute of Directors* (中國董事協會) and Chinese Director and Supervisor Certification Experts Committee* (中國職業董監事資格認證專家委員會) in May 2007. He was a senior international finance manager recognized by China Association of Chief Financial Officers (中國總會計師協會), Ministry of Labor and Social Security (中國勞動和社會保障部) and International Financial Management Association (國際財務管理協會) in November 2007. Mr. Xu served in various positions in Shanghai Chlor-Alkali from April 1988 to June 2002, including deputy manager of asset operation department and deputy manager of asset finance department. He also served as deputy manager of asset finance department of Shanghai Tianyuan Group Co., Ltd. (上海天原集團有限公司) from March 1996 to April 1997. Mr. Xu was also manager of planning and finance department and vice chief financial officer of Shanghai Oriental Pearl from July 2002 to March 2003 and from March 2003 to March 2004, respectively. Mr. Xu has been chief financial officer of Shanghai Oriental Pearl since March 2004.

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Mr. Xing Jianhua (邢建華), aged 53, serves as a Supervisor of our Company. Mr. Xing joined our Company on 28 November 2002 and has been our Supervisor since then. He has over 5 years of experience as supervisor. Mr. Xing obtained a bachelor's degree in economics from East China Normal University in December 1992. Mr. Xing is a senior accountant recognized by Shanghai Accounting Senior Professional and Technical Title Evaluating Committee* (上海市會計系列高級專業技術職務任職資格評審委員會) in December 1998. Mr. Xing was clerk of finance department of Shanghai Chemical Industry Bureau* (上海市化學工業局) from November 1986 to July 1989, and deputy director of finance department of Shanghai Fertilizer United Co., Ltd.* (上海市化肥聯合公司) from July 1989 to April 1993. Mr. Xing was deputy general accountant of Shanghai Rubber Belt Co., Ltd. (上海膠帶股份有限公司) from April 1993 to April 1995 and director and deputy general manager of the same company from April 1995 to July 1996. Mr. Xing was also manager of asset department of Shanghai Huayi (Group) Company (上海華誼(集團)公司) from July 1996 to April 2001. He successively served as deputy director and director of finance department of Orient International (Holding) Co., Ltd. (東方國際(集團)有限公司) ("Orient International") from April 2001 to November 2003. He has been director of asset operation department of the same company since April 2002. Mr. Xing was director of Orient International Enterprise Ltd.* (東方國際創業股份有限公司) (a company listed on the Shanghai Stock Exchange and its stock code is 600278) from April 2008 to April 2011. He has been deputy chief economist of Orient International since February 2009, vice chairman of Shanghai Orient International Asset Management & Administration Co., Ltd. (上海東方國際資產經營管理有限公司) since April 2007 and a director of Shanghai Silk (Group) Co., Ltd. (上海絲綢(集團)有限公司) since January 2003.

Mr. Wang Yugui (王玉貴), aged 61, serves as a Supervisor of our Company. Mr. Wang joined our Company on 16 May 2011 and has been our Supervisor since then. He has around 30 years of financial working experience. Mr. Wang graduated with a major in English from Beijing Second Foreign Language Institute in February 1977. Mr. Wang is a senior economist recognized by Certification Committee of Specialized Technical Post of the Ministry of Communications* (交通部專業技術職務評審委員會) in November 1994. Mr. Wang has been managing director of China Shipowners Mutual Assurance Association (中國船東互保協會) since February 1993, and a non-executive director of China Minsheng Banking Corp., Ltd. (a company listed on both the Shanghai Stock Exchange and the Hong Kong Stock Exchange and its stock code is 600016 and 01988 respectively) since December 1995.

SECTION VII PARTICULARS ABOUT DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND EMPLOYEES

Ms. Qiu Xiaping (仇夏萍), aged 52, serves as our employee Supervisor. Ms. Qiu joined our Company in November 1994 and has been our Supervisor since 16 July 2007. She has around 30 years of working experience in banking and securities industry and over 5 years of experience as supervisor. Ms. Qiu graduated with a major in finance from Shanghai TV University (junior college degree) in July 1982 and obtained a bachelor's degree in law from Correspondence Institute of Party School of Central Committee of the CPC* (中共中央黨校函授學院) in December 2005. She graduated from Shanghai Academy of Social Sciences as a postgraduate with a major in economics in January 2002, and obtained a master's degree in business administration from Washington International University in July 2003. Ms. Qiu is an accountant recognized by Industrial and Commercial Bank of China in September 1992. She was an officer of Yangpu branch of Industrial and Commercial Bank of China from August 1980 to August 1992 and worked at Pudong branch of the same bank from March 1993 to August 1993. She also worked at Dongfang Road branch of Huaxia Securities Co., Ltd. from August 1993 to November 1994. She was an officer of our Company from November 1994 to August 1996, section chief of finance and accounting department from August 1996 to April 1998. Ms. Qiu was assistant to general manager and has been deputy general manager of our planning and finance department from April 1998 to July 2000 and since July 2000, respectively. Ms. Qiu has been a director of Haitong Futures Co., Ltd. since October 2005, a director of Haitong Capital Investment Co., Ltd. since October 2008, a supervisor of Fullgoal Fund since October 2008 and a supervisor of Haitong Jihe Private Equity Investment Fund Management Company Limited ("Haitong Jihe") since November 2010.

Mr. Du Hongbo (杜洪波), aged 49, serves as our employee Supervisor. Mr. Du joined our Company in March 2002 and has been our Supervisor since 16 May 2011. He has around 16 years of working experience in securities industry. Mr. Du obtained a bachelor's degree in industrial automation from Huazhong Institute of Technology (華中工學院) in July 1984. Mr. Du is an engineer recognized by Wuhan Personnel Bureau in December 1992. Mr. Du successively worked at Wuhan Computer Application Institute* (武漢市計算機應用開發研究所), Wuhan Branch of Stone Group Corp.* (四通集團武漢分公司) and Wuhan Software Research Center* (武漢軟件研究中心) from August 1984 to August 1996. Mr. Du worked at information technology department of Guotai Junan Securities Co., Ltd. from August 1996 to March 2002. He was assistant to general manager of the website management department and brokerage business department of our Company from March 2002 to May 2005 and deputy general manager of risk control headquarters of our Company from May 2005 to March 2011. Mr. Du was our general manager of compliance and risk management headquarters from March 2011 to January 2013 and has been the general manager of counter market department since January 2013.

SECTION VII PARTICULARS ABOUT DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND EMPLOYEES

5. *Other Senior Management (11):*

Mr. Shen Degao (沈德高), aged 60, joined our Company in September 1991 and has been our Deputy General Manager from December 1991 to January 2013. He has over 20 years of management experience in securities industry. Mr. Shen graduated from the People's Liberation Army Air Force Political Science College* (解放軍空軍政治學院) with a major in economic management in July 1999 and obtained a master's degree in business administration from Asia International Open University (Macau) in March 2002. Mr. Shen is an economist recognized by Appraisal Committee of Intermediate Professional Technical Titles* (中級專業技術職務評審委員會) in the Bank of Communications (Shanghai Branch) in December 1992. Mr. Shen served in various positions in the People's Liberation Army Navy (中國人民解放軍海軍) from March 1968 to September 1989. He was a discipline inspector (section chief level) of Bank of Communications (Shanghai Branch) from March 1990 to September 1991. Mr. Shen served in various positions in our Company, including office director from September 1991 to June 1994, member of the CPC party group from June 1994 to December 1998 and secretary of the discipline inspection committee from May 2006 to October 2008. Mr. Shen was our deputy secretary of CPC party committee from December 1998 to January 2013.

Mr. Ji Yuguang (吉宇光), aged 55, joined our Company in November 1995 and has been our Deputy General Manager since November 1997. He is mainly in charge of proprietary trading and international business. He has around 25 years of working experience in banking and securities industry including over 16 years of management experience. Mr. Ji obtained a bachelor's degree in economics from Beijing Finance and Commerce College in July 1983 and graduated with a major in economy management as a postgraduate from Party School of Central Committee of the CPC (中共中央黨校) in June 1999. Mr. Ji is a senior economist recognized by Senior Professional and Technical Title Evaluating Committee* (高級專業職務評審委員會) of the Bank of Communications in April 1994. Mr. Ji was an officer of Finance Department of Beijing Planning Commission* (北京市計委財金處) from August 1983 to November 1988. Mr. Ji served in various positions in Bank of Communications (Beijing Branch) from November 1988 to November 1995, including deputy manager and manager of securities trading department of the same branch. He also served as leading officer and general manager of Beijing Langjiayuan Branch of Haitong Securities Company Limited from November 1995 to November 1997. Mr. Ji served as chairman of Jilin Investment Fund from December 2010 to May 2011. Mr. Ji has been a non-executive director of Haitong International Securities Group since January 2010 and chairman of board of directors of Haitong International Securities since March 2011, a director of Haitong International Holdings Limited ("Haitong International Holdings") since August 2010 and chairman of board of directors of Haitong International Holdings since March 2011.

SECTION VII PARTICULARS ABOUT DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND EMPLOYEES

Mr. Ren Peng (任澎), aged 50, joined our Company in March 1996 and has been our Deputy General Manager since November 1997. He is mainly in charge of investment banking and direct investment businesses. He has around 30 years of working experience in banking and securities industry including over 16 years of management experience. Mr. Ren graduated with a major in finance from Fudan University in January 2004 and obtained a master's degree in business administration from China Europe International Business School in July 2006. Mr. Ren is an economist recognized by the Medium-level Professional and Technical Title Evaluating Committee* (中級專業技術職務評審委員會) of Bank of Communications (Hangzhou Branch) in July 1989. Mr. Ren served in several managerial positions in the Xihu Office of the Industrial and Commercial Bank of China from June 1982 to February 1988 and served in various positions in Bank of Communications (Hangzhou Branch) from March 1988 to March 1996 including head of saving business and manager of securities department. In addition, Mr. Ren was manager of Hangzhou branch of Haitong Securities Company Limited from March 1996 to November 1997. Mr. Ren was a director of Haitong Capital Investment Co., Ltd. from October 2008 to August 2011. He has been a director of China-Belgium Direct Equity Investment Fund since March 2011.

Mr. Wu Bin (吳斌), aged 39, joined our Company in July 1998 and has been our Deputy General Manager since March 2012. He is mainly in charge of asset management business, the Company's strategy development and information technology ("IT"). He has around 15 years of working experience in the securities industry including over 11 years of management experience. Mr. Wu obtained a bachelor's degree in law from East China Normal University in July 1995, a master's degree in economic law from East China College of Politics and Law in July 1998 and a doctor's degree in economics from Fudan University in June 2003. Mr. Wu obtained the lawyer qualification certificate of China which is recognized by the Ministry of Justice of the PRC (中華人民共和國司法部) in April 1997 and is an economist recognized by PRC Ministry of Personnel (中華人民共和國人事部) in November 2000. Mr. Wu served in various positions in our Company including a project manager in the investment bank department from July 1998 to March 2001, deputy section chief and section chief of the general manager office from March 2001 to October 2003, assistant to general manager in the international business division from October 2003 to May 2005, deputy director in the general manager office from May 2005 to January 2007, director in the general manager office from January 2007 to February 2013, and chief compliance director from July 2007 to August 2010, during which time he was working part-time as an inspector assistant in the Shanghai municipal government from January 2010 to January 2011. Mr. Wu has been a non-executive director of Haitong International Securities Group from January 2010 to August 2012, a director of Haitong International Holdings Limited since August 2010, the director of strategic development and IT management committee of Haitong since March 2011, and a member of the investment banking committee of Haitong since May 2011.

SECTION VII PARTICULARS ABOUT DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND EMPLOYEES

Mr. Li Xunlei (李迅雷), aged 49, joined our Company in October 2011 and has been our Deputy General Manager and Chief Economist since March 2012. He is mainly in charge of research and institutional business. He has around 15 years of working experience in securities industry, including 11 years of management experience. Mr. Li obtained a bachelor's degree and a master's degree in economics from Shanghai University of Finance and Economics in July 1985 and in July 1991 respectively. Mr. Li was a librarian and assistant researcher of Institute of Economics and Finance in Shanghai University of Finance and Economics from July 1985 to September 1996. Mr. Li was deputy director of research institute of Junan Securities Co., Ltd. (君安證券有限責任公司) from September 1998 to August 1999. He was deputy director of the research institute, director of the research institute and general manager of sales and trading department, assistant to president and chief economist in Guotai Junan Securities Co., Ltd. (國泰君安證券有限公司) from August 1999 to October 2011.

Mr. Hiroki Miyazato (宮里啟暉), aged 47, joined our Company in May 2009 and has been our Deputy General Manager since March 2012. He is mainly in charge of securities investment and transactions. He has around 20 years of working and management experience in banking and securities industry. Mr. Miyazato obtained a bachelor's degree in science from Fudan University in July 1986 and obtained a master's degree in biophysics and biochemistry from University of Tokyo in March 1993. Mr. Miyazato was a manager in fixed income department of Credit Suisse First Boston (currently known as Credit Suisse Group AG) from April 1993 to March 1994. He was head of Asia department of Tokyo branch of Deutsche Genossenschaftsbank AG (currently known as Deutsche Zentral-Genossenschaftsbank AG) from April 1994 to March 1998. Mr. Miyazato was the global market investment manager of proprietary investment department of Tokyo branch of J.P. Morgan from April 1998 to September 1999. Mr. Miyazato was a fund manager of global strategic asset management, a senior fund manager of alternative investment, general manager of the China Investment Department and president of the Greater China area of Nikko (Citi) Asset Management Co., Ltd. from October 1999 to March 2009. He was also a director and the shareholder representative of Rongtong Fund Management Co., Ltd. (融通基金管理有限公司) from April 2007 to April 2009. He was a general manager of international business department, a commissioner of international business coordination committee and a commissioner of strategic development and IT management committee of our Company from May 2009 to March 2012.

SECTION VII PARTICULARS ABOUT DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND EMPLOYEES

Mr. Jin Xiaobin (金曉斌), aged 58, joined our Company in August 1998 and has been our Secretary to the Board since May 2005, the joint company secretary of the Company since November 2011 and the deputy director of our investment banking committee since March 2010. He is mainly in charge of the office of the Board and office of Supervisory Committee. He mainly assists in the management of investment banking business. He has 15 years of management experience in securities industry. Mr. Jin obtained a bachelor's degree in political education from Shanghai Second Institute of Education (上海第二教育學院) in July 1988, a master's degree in economics from Fudan University in July 1993, a doctor's degree in economics from Fudan University in January 1997 and a postdoctoral degree in finance from Shanghai University of Finance and Economics in July 1999. Mr. Jin has been a deputy researcher (deputy professor level) recognized by Shanghai University of Finance and Economics since June 1998 and has been an expert with special allowance from the State Council since June 2002. Mr. Jin worked in the People's Liberation Army Navy (中國人民解放軍海軍) from December 1972 to March 1998. Mr. Jin has served in various positions in our Company and subsidiaries including deputy general manager of research and development center from December 1998 to March 2000, head of research institute from March 2000 to August 2004, general manager of brokerage business headquarters from May 2003 to March 2005, general manager of M&A financing department from January 2007 to March 2008, and chairman and legal representative of Haitong Jihe from June 2010 to May 2011. He was deputy director member of analysts committee of the Securities Association of China from July 2000 to June 2011. Mr. Jin has been assistant to our general manager since July 2003, secretary to the Board of Directors of our Company (enjoying the Company's deputy general manager level benefits) since May 2005, the joint company secretary of the Company since November 2011, the deputy director of investment banking commission of our Company since March 2010, mainly providing assistance in the management of equity financing department, debt financing department and M&A financing department. He has been a professional evaluation expert of securities companies in the Securities Association of China since January 2011, and leader of preparation team of Liaoning New Resource and Low Carbon Industry Investment Fund* (遼寧新能源和低碳產業投資基金) since June 2011.

SECTION VII PARTICULARS ABOUT DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND EMPLOYEES

Mr. Wang Jianye (王建業), aged 54, joined our Company in August 1994 and has been our General Compliance Officer since July 2010 and our Chief Risk Control Executive (enjoying the Company's deputy general manager level benefits) since May 2011. He is mainly in charge of compliance and risk management headquarters. He has around 25 years of working experience in banking and securities industry including over 16 years of management experience. Mr. Wang graduated with a major in finance from Shaanxi Institute of Finance and Economics (junior college degree) in June 1984 and graduated with a major in money and banking from Graduate School of Xiamen University in January 1994. Mr. Wang is a senior economist recognized by PBOC in July 1993. Mr. Wang was successively deputy director-level clerk* (副主任科員), trainee deputy director and deputy director of education department of financial administration division of PBOC Inner Mongolia Branch from August 1984 to August 1990, deputy director of Financial Administration Division of PBOC Inner Mongolia Branch from August 1990 to May 1992, deputy general manager of the securities department of Inner Mongolia Securities Company* (內蒙古自治區證券公司) from May 1992 to March 1993 and deputy general manager of the same company from March 1993 to July 1994. Mr. Wang previously served in various positions in our Company including head of trading department from August 1994 to March 1996, deputy general manager of business management headquarters from March 1996 to September 1998, and general manager of integrated business management headquarters from September 1998 to August 2004. Mr. Wang was assistant to general manager of our Company from June 2001 to February 2011, general manager of brokerage business headquarters from March 2005 to June 2006 and general manager of risk control headquarters from October 2008 to March 2011, and was successively in charge of integrated business management headquarters, brokerage business headquarters, I.T. department, brokerage operations center, sales and transactions headquarters, customer asset management department and risk control department.

SECTION VII PARTICULARS ABOUT DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND EMPLOYEES

Mr. Li Chuqian (李礎前), aged 55, joined our Company in August 1994 and has been our Chief Financial Officer (enjoying the Company's deputy general manager level benefits) and general manager of planning and finance department since July 2007. He is mainly in charge of planning and finance department and assists in the management of equity management department. He has around 25 years of working experience in financial management including over 16 years of financial experience in securities industry. Mr. Li obtained a bachelor's degree in engineering from Hefei University of Technology in September 1982 and a master's degree in economics from Zhongnan University of Economics (predecessor of Zhongnan University of Economics and Law) in October 1988. Mr. Li is an accountant recognized by the PRC Ministry of Finance in December 1992 and a senior economist recognized by Job Title Qualification Evaluating Committee in the Department of Finance of Anhui Province* (安徽省財政廳機關職稱認定委員會) in April 1993. Mr. Li was previously deputy director clerk of Central Enterprise Department of Anhui Provincial Department of Finance* (安徽省財政廳中企處) from July 1988 to August 1991 and section chief of Anhui Provincial State-owned Assets Supervision and Administration Bureau (安徽省國有資產管理局) from August 1991 to July 1994. Mr. Li served in various positions in our Company including head of planning and finance department from August 1994 to March 1996, deputy general manager of finance and accounting department from March 1996 to April 1998, general manager of finance and accounting department from April 1998 to July 2001, and deputy chief financial officer and general manager of finance and accounting department from July 2001 to July 2007. Mr. Li has been chief supervisor of HFT Investment Management Co., Ltd. since April 2003, a director of Haitong-Fortis Private Equity Fund Management Co., Ltd. since June 2010, and a director of Shanghai Jielong Industry Group Corporation Limited (上海界龍實業集團股份有限公司) (a company listed on the Shanghai Stock Exchange and its stock code is 600836) from May 2006 to May 2009.

SECTION VII PARTICULARS ABOUT DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND EMPLOYEES

Mr. Li Jianguo (李建國), aged 49, joined the Company in 1998. He obtained a doctoral degree in economics from Xi'an Jiaotong University and has over 20 years of experiences in securities industry. Mr. Li served as a general manager of 河南省證券有限公司 from 1992 to 1998, a deputy general manager of Haitong Securities Co., Ltd. from 1998 to 1999, a vice chairman and general manager of Fullgoal Fund from 1999 to 2008. Mr. Li has served as the assistant to general manager of Haitong Securities Co., Ltd. and the chairman of Haitong International Holdings Limited (formerly known as Haitong Finance Holding (HK) Co., Ltd.) since 2008. He has served as the vice chairman of Haitong International Holdings Limited since 9 August 2010. Mr. Li has been appointed as the executive director of Haitong International Securities Group since 13 January 2010 and was appointed as the vice chairman of Haitong International Securities Group on 10 March 2010. He is also a member of strategic development committee of Haitong International Securities Group.

Mr. Chen Chunqian (陳春錢), aged 49, joined the Company in October 1997 and has been the assistant to General Manager since March 2012, responsible for the brokerage business of the Company. Mr. Chen is also the director of our brokerage committee, a member of international business coordination committee, and a member of strategic development and IT management committee. He is also a member of Securities Brokerage Committee under the Securities Association of China. He has 16 years of working and management experiences in securities industry. Mr. Chen obtained a master degree in economics from Anhui Institute of Finance and Trade in July 1988 and a doctorate degree in economics from Xiamen University in July 1995. From October 1997 to January 1998, he was the person-in-charge of our Shenzhen Branch. He was the deputy general manager of international business division from January 1998 to March 2000, and the deputy general manager of Shenzhen Branch from March 2000 to December 2000. Mr. Chen served as the general manager of investment management department (Shenzhen) from December 2000 to May 2006, the general manager of sales and trading department from May 2006 to February 2013. He was also the general manager of our business department during the period of November 2007 to March 2009.

SECTION VII PARTICULARS ABOUT DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND EMPLOYEES

III. REMUNERATIONS OF DIRECTORS, SUPERVISORS, AND SENIOR MANAGEMENT

(1) Procedure for determining the remunerations of Directors, Supervisors and senior management

The remunerations of our Independent Directors are determined by the Board and proposed to the general meeting for consideration and approval. The allowances of the Independent Directors are provided monthly. The remunerations of our senior management are considered and determined by the Board. Procedures for determination of the remuneration of Directors and senior management: the nomination, remuneration and assessment committee of the Board of Directors is responsible for making recommendations to the Board of Directors on the policy and structure for all Directors' and senior management's remuneration and on the establishment of standard and transparent procedures for developing remuneration policy. The Board decides the remuneration, reward and punishment matters for the senior management, and the shareholders' general meeting decides the remuneration of the Directors.

(2) Basis of determining the remunerations of Directors, Supervisors and senior management

Remunerations of our Directors and Supervisors (Non-Employee Supervisors) are determined by reference to factors including operating results of the Company, their functions and duties, performance and market environment. Remunerations of our Independent Non-executive Directors are determined based on the average level of our listed competitors the industry. Our Non-executive Directors and External Supervisors do not receive any remuneration from the Company. Remunerations of our internal Directors, Employee Supervisors and senior management are determined based on the remuneration and assessment system of the Company and according to their positions and duties and the progress of achieving annual targets. Under the existing legal framework, the Company has an incentive scheme based on performance. The Board will offer and distribute incentives based on the Company's operating results in accordance with the established policy.

(3) Remunerations payable to Directors, Supervisors and senior management

For details, please refer to 'Changes in shareholding and remuneration of current and resigned Directors, Supervisors and Senior Management during the Reporting Period' of this section.

(4) Actual remunerations received in aggregate for all Directors, Supervisors and senior management at the end of the Reporting Period

Actual remunerations received in aggregate for all Directors, Supervisors and senior management from the Company at the end of the Reporting Period is: RMB25,757,500.

SECTION VII PARTICULARS ABOUT DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND EMPLOYEES

IV. CHANGES IN DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT OF THE COMPANY

(1) Changes in Directors

During the Reporting Period, there was no change in the Directors of the Company.

As at 31 December 2012, the Board of the Company was composed of 17 Directors, including 2 Executive Directors, namely Mr. Wang Kaiguo and Mr. Li Mingshan; 9 Non-executive Directors, namely Mr. Qian Shizheng, Mr. Zhuang Guowei, Mr. Zhou Donghui, Mr. He Jianyong, Mr. Zhang Jianwei, Mr. Xu Chao, Mr. Wang Hongxiang, Mr. Li Gewei and Mr. Feng Huang; 6 Independent Non-executive Directors, namely Mr. Xia Bin, Mr. Chen Qiwei, Mr. Zhang Huiquan, Mr. Zhang Ming, Mr. Dai Genyou and Mr. Liu Chee Ming. The Directors were all elected by the Shareholders at the general meeting of the Company for a term of three years, which is subject to re-elections.

(2) Changes in Supervisors

During the Reporting Period, there was no change in the Supervisors of the Company.

As at 31 December 2012, the Supervisory Committee of the Company was composed of 11 Supervisors, including 4 Employee Supervisors, namely Mr. Wang Yimin, Mr. Yang Qingzhong, Mr. Du Hongbo and Ms. Qiu Xiaping; 7 Non-Employee Supervisors, namely Mr. Yuan Lingcai, Mr. Dong Xiaochun, Mr. Wu Zhilin, Ms. Jin Yanping, Mr. Xu Qi, Mr. Xing Jianhua and Mr. Wang Yugui. Except for the Employee Supervisors elected by the workers' congress, Non-Employee Supervisors were elected by our Shareholders at the general meeting of the Company for a term of three years, which is subject to re-elections.

According to the legal procedures, on 23 January 2013, the Company convened the eighth meeting of the fifth session of the Supervisory Committee (the Extraordinary Meeting), during which the Resolution on Mr. Wang Yimin's Resignation as Chairman of the Supervisory Committee was considered and approved. Mr. Wang Yimin, the chairman of the Supervisory Committee, has tendered to the Supervisory Committee his resignation as the chairman of the fifth session of the Supervisory Committee due to reason of age. Mr. Wang Yimin will continue to act as the Employee Supervisor until the appointment of new Employee Supervisor by the employee representative congress of the Company in order to maintain the quorum of the Supervisory Committee.

SECTION VII PARTICULARS ABOUT DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND EMPLOYEES

(3) Changes in senior management

According to the legal procedures, on 14 March 2012, the Company convened the seventh meeting of the fifth session of the Board, during which the Resolutions on Appointment of Mr. Wu bin, Mr. Li Xunlei, Mr. Hiroki Miyazato as Deputy General Manager of the Company, and the Resolutions on Appointment of Mr. Li Jianguo and Mr. Chen Chunqian as Assistant to General Manager of the Company were considered and approved, pursuant to which, the Board appointed Mr. Wu bin, Mr. Li Xunlei, who concurrently served as chief economist of the Company, and Mr. Hiroki Miyazato as deputy general managers of the Company, and Mr. Li Jianguo and Mr. Chen Chunqian as assistant to general manager of the Company.

As at 31 December 2012, the senior management of the Company was composed of 12 members, namely, Mr. Li Mingshan, Mr. Shen Degao, Mr. Ji Yuguang, Mr. Ren Peng, Mr. Wu Bin, Mr. Li Xunlei, Mr. Hiroki Miyazato, Mr. Jin Xiaobin, Mr. Wang Jianye, Mr. Li Chuqian, Mr. Li Jianguo and Mr. Chen Chunqian.

On 23 January 2013, the Company issued an Announcement on Mr. Shen Degao's Resignation as Deputy General Manager of the Company. Mr. Shen Degao, the deputy general manager, has resigned as the deputy general manager of the Company due to reason of age. Currently, the senior management of the Company was composed of 11 members.

V. THE CORE TECHNICAL TEAM OR KEY TECHNICAL STAFF OF THE COMPANY

The Company has 456 senior professional technicians and 18 resigned in 2012. The change in its core technical team and impact of significance on the Company's core competitiveness were minor.

SECTION VII PARTICULARS ABOUT DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND EMPLOYEES

VI. PARTICULARS ABOUT STAFF OF THE COMPANY AND ITS MAJOR SUBSIDIARIES

(1) Particulars about Staff

Number of existing employees of the Company	5,512
Number of existing employees of major subsidiaries	1,736
Total number of existing employees	7,248

Professional type	Professional	Number of persons
Research		216
Investment banking		429
Brokerage business		4,619
Asset management		184
Securities investment/Direct investment		119
Information technology		430
Finance and planning		441
Futures business		338
Risk-management compliance/Auditing		175
Administrative		297
Total		7,248

Education level	Educational Background	Number of persons
Doctor's degree		126
Master's degree		1,317
Bachelor's degree		4,176
Junior college graduate and below		1,629
Total		7,248

SECTION VII PARTICULARS ABOUT DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND EMPLOYEES

(2) Remuneration Policy

As at the end of the Reporting Period, the Group had 7,248 employees, of whom 5,512 were from the Company, and 1,736 were from subsidiaries.

The Company emphasizes talent attraction, motivation, training and use, and focuses on the external competitiveness of its remuneration level and the internal fairness of its remuneration system. We implement a remuneration system under which remunerations are determined based on the market levels and the individual performance appraisal results. The remuneration package generally comprises basic salary, allowance, performance bonus, and staff benefits. Under the applicable laws and regulations of the PRC, the Company enters into a labor contract and establishes employment relationship with each of its employees. A labor contract contains the provisions relating to contract term, working hours, rest and vacation, labor remuneration and insurance benefits, labor protection and conditions, as well as modification and termination of the contract.

Under the applicable laws and regulations of the PRC, the Company purchased various social insurance policies (endowment insurance, medical insurance, unemployment insurance, work-related injury insurance and maternity insurance) and established housing funds for its employees, and made social insurance and housing fund contributions in full in accordance with applicable regulations. Meanwhile, the Company also established a corporate annuity system which provides supplemental pension protection in accordance with applicable regulations.

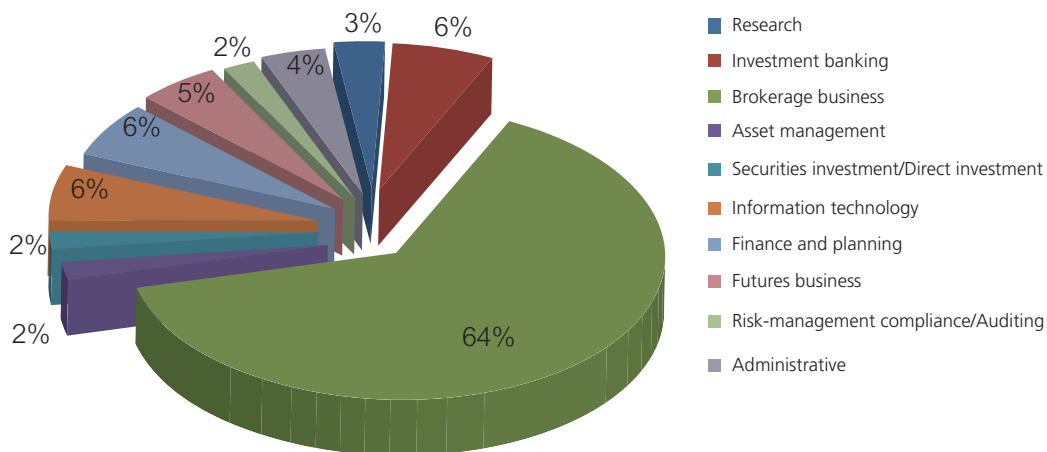
(3) Training Plan

The Company's training work in 2012 further strengthened the planning of training, improved the curriculum system of training, developed new channels for overseas training and formed a multi-method training mode that is fully covered by internal lecturers. Its trainings adopted multi-channels, including overseas trainings, on-site teaching and videos on web, in order to enhance the comprehensive ability of the staff and the management skill of the leaders. All kinds of trainings achieved a sound result. The total hours of training for the year accumulated to 152,949 and 27.77 hours per capita. The Company held 19 web examinations, with 12,260 participants.

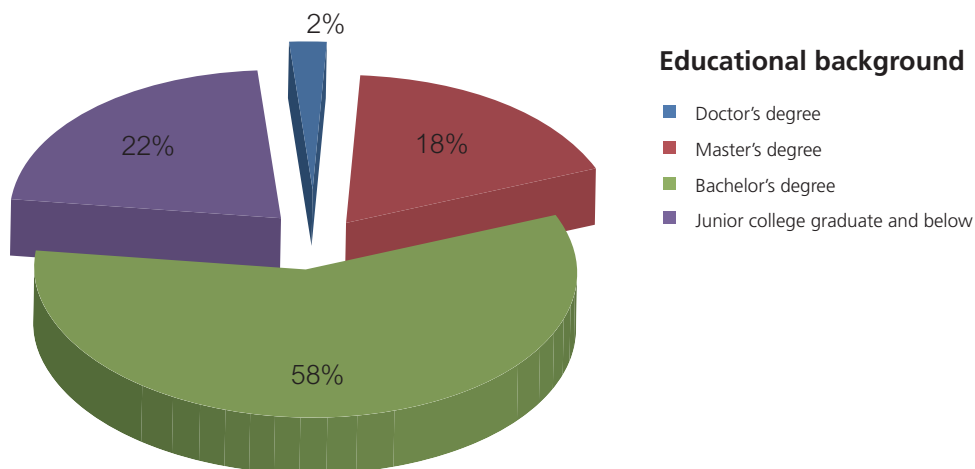
The Company will continue to improve and complete its training system, and to promote the establishment of learning organization, so as to enhance the standard of its management personnel and staff in 2013. Its trainings will be focused on topics such as leadership and ability of strategic development, innovative business, and investment advisory, and will extend the coverage of training aspects in order to adapt the rapid transformation and development of the Company.

SECTION VII PARTICULARS ABOUT DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND EMPLOYEES

(4) Chart of Professions



(5) Chart of Education level



(6) Particulars about Labor Outsourcing

Total labor hours involved in labor outsourcing
 Total compensation paid for labor outsourcing

68,000
 RMB2,261,977.4

Section VIII CORPORATE GOVERNANCE

I. DESCRIPTION OF CORPORATE GOVERNANCE AND INSIDER REGISTRATION MANAGEMENT

(1) Overview of Corporate Governance

As an “A+H” listed company, the Company conducts operation in strict accordance with laws and regulations and regulatory documents of the two places of its listing and has been dedicated to maintaining and building up its goodwill on the markets. Pursuant to the Company Law, the Securities Law, relevant regulations of the CSRC, Listing Rules of Hong Kong Stock Exchange and other relevant regulations, the Company has further improved its Compliance and Risk Management system and internal control management system and has formed a corporate governance structure under which the general meeting, the Board, the Supervisory Committee and the management separate from and check and balance each other, which makes them perform their respective duties within their terms of reference and ensures the Company’s standard operation. The procedures for holding the Company’s general meetings, Board meetings, Supervisory Committee meetings and the voting mechanisms with respect thereto are legal and valid, with information disclosed in a true, accurate, complete, responsive and fair manner. The Company can, strictly according to relevant provisions of Insider Registration System, strengthen the management of the Company’s inside information and well organise the insider registration, with standard, professional and pragmatic management of investor relations and scientific, standard and transparent corporate governance.

During the Reporting Period, the Company amended the corporate governance documents including the Articles of Association, the Work Rules for Audit Committee and the Work Rules for the General Manager according to the Basic Norms for Enterprise Internal Control (Cai Kuai [2008] No. 7), 18 sets of application guidelines including the Application Guidelines for Enterprise Internal Controls No. 1 – Organizational Structure, the Guidelines for the Evaluation of Enterprise Internal Controls and the Guidelines for the Auditing of Enterprise Internal Controls jointly issued by the five ministries and commissions, and revised the Insider Registration System according to Rules on Establishing a Registration System of People with Inside Information in Listed Companies promulgated by CSRC. The Company amended relevant provisions of the Articles of Association according to the Notice on Further Implementing Issues Concerning Cash Dividends of Listed Companies (Zheng Jian Zi [2012] No. 37) of CSRC and the Notice on Further Organizing Issues Concerning Cash Dividends of Listed Companies in Shanghai (Hu Zheng Jian Gong Si Zi [2012] No. 145) of the Shanghai Securities Regulatory Bureau, and formulated the Written Guidelines of Haitong Securities Co., Ltd. for Directors, Supervisors and Relevant Employees’ Trading in Company Securities according to the Model Code as set out in Appendix 10 to the Hong Kong Stock Exchange Listing Rules, and amended the Measures on Administration of Investor Relations of Haitong Securities Co., Ltd. according to relevant requirements of the Notice on Further Strengthening the Management of Investor Relations of Listed Companies of the Shanghai Stock Exchange.

During the Reporting Period, the Company strictly observed all provisions of the Code and met the requirements of most recommended best practices set out in the Code.

The Company was accredited with “AA” regulatory rating of class “A” for the fifth consecutive year, the highest rating given to a PRC securities company awarded an “AAA” credit rating. The Board was awarded as Excellent Board of PRC Listed Company for the fourth consecutive year.

Section VIII CORPORATE GOVERNANCE

During the Reporting Period, the Company convened 29 meetings in total, including one general meeting, eight meetings of the Board, four meetings of the Supervisory Committee, two independent director annual work report meetings, six meetings of the Audit Committee, two meetings of the Nomination, Remuneration and Assessment Committee, three meetings of the Development Strategy and Investment Management Committee and three meetings of the Compliance and Risk Management Committee.

(2) Formulation and Implementation of Insider Management System

To further improve the internal management system, strengthen management of the Company's inside information, secure confidentiality of the inside information and maintain the principle of fair information disclosure, the Company formulated an Insider Registration System of Haitong Securities Co., Ltd. in 2009, which specifies the inside information, scope of insiders and procedure on insider registration pursuant to the Notice on Governance of Listed Companies in 2009 of the Shanghai Securities Regulatory Bureau. The said system was considered and approved at the twenty-third meeting of the fourth session of the Board of the Company. In 2011, the Company revised and improved the said system according to the Rules on Establishing a Registration System of People with Inside Information in Listed Companies (announcement of CSRC [2011] No. 30) of CSRC, with the revised edition considered and approved at the seventh meeting of the fifth session of the Board. During the Reporting Period, the Company, as required by the Insider Registration System, performed well in inside information management and insider registration, and truly and completely recorded the list of all insiders involved in the reporting, delivery, preparation, audit and disclosure before publication of the inside information as well as files concerning what and when insiders know in relation to the inside information, to facilitate query by the Company and relevant regulatory institutions. During the Reporting Period, the Company did not violate the Insider Registration System and well implemented the said system.

(3) Corporate Governance Policies and Related Duties of the Board of Directors

The Company strictly complies with the Listing Rules, and takes all principles as set out in the Code as its corporate governance policies. The Board of Directors has the following duties in respect of corporate governance:

- (a) To formulate and review corporate governance policies and practices of the issuer, and make recommendations to the Board;
- (b) To review and monitor the training and continuous professional development of the directors and senior management;
- (c) To review and monitor the policies and practices of the issuer in compliance with legal and regulatory requirements;
- (d) To formulate, review and monitor the code of conduct and compliance manual (if any) of employees and directors;
- (e) To review the issuer's compliance with the Code and the disclosure in Corporate Governance Report.

Section VIII CORPORATE GOVERNANCE

II. GENERAL MEETINGS

During the Reporting Period, the Company convened the 2011 Annual General Meeting in Shanghai Lansheng Hotel in the morning on 28 June 2012, which considered and approved eight ordinary resolutions: Work Report 2011 of the Board of the Company, Work Report 2011 of the Supervisory Committee of the Company, Annual Report 2011 of the Company, Report on Financial Accounting 2011 of the Company, Profit Distribution Plan 2011 of the Company, Proposal on Continuing Appointing A-share Accounting Firm for 2012, Engaging H-share Accounting Firm for 2012 and Authorizing the Board of the Company to Determine Their Respective Remunerations, Proposal on Buying Liability Insurance for Directors, Supervisors and Senior Management of the Company and Proposal on Allocation of Equity, Fixed Income and Derivative Investment Assets in 2012 of the Company, and two special resolutions: Proposal on Amendment to the Articles of Association and Proposal on Amendment to the Rules of Procedure for Meetings of the Supervisory Committee of the Company. Relevant resolutions were published on the website of the Shanghai Stock Exchange (<http://www.sse.com.cn>), the website of the Hong Kong Stock Exchange (<http://www.hkexnews.hk>) and the Company's website (<http://www.htsec.com>) on the date of the meeting and then published on China Securities, Shanghai Securities, Securities Times and Securities Daily on 29 June 2012.

III. PERFORMANCE OF DUTIES OF DIRECTORS

The Board exercises the functions and powers specified in the Articles of Association, and reports on its work to the general meeting, implements resolutions of the general meetings and is accountable to the general meeting in the best interest of the Company and shareholders.

Profiles of the Directors at the date of this Report are set out on "Section VII Particulars about Directors, Supervisors, Senior Management and Employees – Profiles of current Directors, Supervisors and Senior Management". None of the Directors, Supervisors or the senior management has any relations between each other (including financial, business, kinship or other material or connected relations). The Board is structurally scientific, and each director has adequate knowledge, experience and capacity relating to business operation and development of the Group. All directors understand their joint and several liabilities to shareholders.

Since the listing of the Company, the Board has always complied with the requirement of the Listing Rules on appointment of at least three independent non-executive directors, who shall jointly account for at least one third in number of members of the Board. Six independent non-executive directors of the Company are fully qualified as specified in Rules 3.10 (1) & (2), Rule 3.10(A) of the Listing Rules. Besides, the Company has received annual confirmations issued by each independent non-executive director in respect of their independence according to Rule 3.13 of the Listing Rules. Therefore, the Company believes that each independent non-executive director is independent as specified in the Listing Rules.

(1) Attendances of Directors at Board Meetings and General Meetings

According to the Articles of Association, meetings of the Board shall be convened by the chairman at least four times a year. Notice of a regular meeting of the Board shall be issued at least 14 days prior to the meeting and shall include the date, venue, duration, reasons, topics for discussion and the date of issue of the notice.

Section VIII CORPORATE GOVERNANCE

A meeting of the Board shall be held only when over half of the members are present. Save as otherwise specified in the Articles of Association, resolutions made by the Board shall be passed by more than half of all members. If any director has connection with the enterprise involved in the resolution made at a meeting of the Board, the said director shall not vote on the said resolution for himself or on behalf of other director. Meetings of the Board may be held when more than half of the non-connected directors attend the meetings. The resolution made at the meeting of the Board shall be passed by more than half of the non-connected directors. If the number of non-connected directors attending the meetings is less than 3, the matter shall be submitted to the general meeting for examination. Meetings of the Board shall generally be held onsite. If necessary, extraordinary meetings of the Board may be held via video, telephone or fax, or be held onsite and offsite simultaneously. A director may attend the meeting of the Board in person or appoint other director in writing to attend the meeting on his behalf.

Name of Director	Independent Non-executive Director	Number of meetings this year	Attendance at the Board meetings				Absence from two consecutive meetings	Attendance at general meetings
			Attendance in person	Attendance by communication equipment	Attendance by proxy	Absence		
Wang Kaiguo	No	8	8	5	0	0	No	1
Li Mingshan	No	8	8	5	0	0	No	0
Qian Shizheng	No	8	7	5	1	0	No	0
Feng Huang	No	8	8	5	0	0	No	0
Zhuang Guowei	No	8	8	5	0	0	No	1
Zhou Donghui	No	8	7	5	1	0	No	0
Xu Chao	No	8	8	5	0	0	No	0
Wang Hongxiang	No	8	8	5	0	0	No	1
He Jianyong	No	8	8	5	0	0	No	1
Zhang Jianwei	No	8	8	5	0	0	No	1
Li Gewei	No	8	7	5	1	0	No	0
Xia Bin	Yes	8	7	5	1	0	No	0
Chen Qiwei	Yes	8	7	5	1	0	No	1
Zhang Huiquan	Yes	8	8	5	0	0	No	1
Zhang Ming	Yes	8	8	5	0	0	No	1
Dai Genyou	Yes	8	8	5	0	0	No	1
Liu Chee Ming	Yes	8	8	5	0	0	No	0

Number of Board meetings convened during the year	8
Including: number of meetings held onsite	3
Number of meetings held by communication equipments	5
Number of meetings held onsite and by means of communication equipments simultaneously	0

Section VIII CORPORATE GOVERNANCE

(2) Independent Directors' Objections to Relevant Matters of the Company

During the Reporting Period, independent Directors of the Company had no objections to proposals of the Board and other proposals. Please refer to "Attendances of Directors at Board Meetings and General Meetings" and of this Section for attendances of independent Directors at general meetings, Board meetings and meetings of special committees. Annual Work Report 2012 of Independent Directors of Haitong Securities Co., Ltd. disclosed by the Company on the website of the Shanghai Stock Exchange on 27 March 2013 set out the details of the performance of duties of independent Directors.

(3) Powers and Duties of the Board and the Management

Powers and duties of the Board and the management have been specified in the Articles of Association to ensure adequate check and balance for sound corporate governance and internal control.

The Board is responsible for deciding on the Company's business plans and investment plans and the internal management structure of the company, establishing the basic management system of the Company, resolving on major business and administrative issues of the Company and supervising the management.

The management of the Company, under the leadership of the General Manager (also an Executive Director), is responsible for implementing various resolutions made by the Board and organising daily operation and management of the Company.

1. Chairman and General Manager

Positions of the Chairman and the General Manager (i.e. chief executive officer under relevant rules of the Listing Rules) of the Company are served by different persons to secure independence of their duties and accountabilities and balanced distribution of rights and authorisations. Mr. Wang Kaiguo serves as the Chairman and Mr. Li Mingshan serves as the General Manager. The Rules of Procedures for the Board Meetings and Work Rules for the General Manager considered and approved by the Board clearly define duties of the Chairman and the General Manager, respectively.

Chairman Mr. Wang Kaiguo is responsible for leading the Board to determine the overall development strategy of the Company and ensuring the Board operating effectively, performing its statutory duties and responsively discussing all important relevant issues. He has to ensure that the Company formulates sound corporate governance practices and procedures and the Board acts in the best interest of the Company and all shareholders. General Manager Mr. Li Mingshan is responsible for daily operation and management of the Company, including organizing and implementing the resolutions of the Board and deciding on daily issues.

Section VIII CORPORATE GOVERNANCE

2. *Directors' Appointment and Re-election*

According to the Articles of Association, non-employee representative directors shall be elected or replaced by the general meetings, and employee representative directors shall be elected or replaced by the workers' congress. A director shall serve a term of office no longer than three years and is eligible for re-election. The Company has implemented a set of effective procedures for appointment of new directors. A list of candidates for directors may be proposed by the Board as per the number specified in the Articles of Association and the number of the Directors to be elected. Candidates for directors may also be nominated by shareholders severally or jointly holding more than 3% of the Company's shares and shall be elected at the general meetings or at the workers' congress. For specific procedures for shareholders to nominate directors, the Company has prepared the Procedures for Shareholders' Nomination of Candidates for Directors and has published the same on its website.

3. *Term of Office of Non-executive Directors*

Non-executive Directors of the Company are all elected by the general meetings, with a term of office of three years, which is renewable upon re-election and reappointment.

4. *Directors' Remunerations*

For details, please refer to "Particulars about Directors, Supervisors, Senior Management and Employees – III. Remunerations of Directors, Supervisors, Senior Management" in Section VII of this Report.

5. *Directors' Training*

The Company attaches great importance to continuous training for Directors to ensure that Directors have adequate knowledge of its operations and businesses and their duties assigned by CSRC, the Shanghai Stock Exchange, the Hong Kong Stock Exchange, the Articles of Association and other relevant laws and regulations. During the Reporting Period, Directors shall not only participate in the regular trainings organised by local regulatory authorities to complete continued training as required, but also receive special trainings on compliant operation of HK-listed companies provided by overseas law firms, including continuous obligations after the company's listing, legal liabilities of directors, supervisors, senior executives and relevant employees, information disclosure of HK-listed companies, explanation of code on corporate governance practices, and connected transactions and transactions to be disclosed. Various trainings help directors improving their decision-making capacity. The office of the Board of the Company regularly edits and delivers Newsletter of Directors and Supervisors and Regulations of Securities Market and Case Analysis to keep directors duly informed of the latest policies, regulations and classic cases, builds multi-level information communication mechanisms and sets up information exchange platform to strengthen information sharing and exchange among directors, supervisors and the management and improve directors' duty performance capability.

Section VIII CORPORATE GOVERNANCE

During the Reporting Period, all our Directors attended the compliance training for Hong Kong listed companies organized by the Company on 24 August 2012. The training lasted for two hours. Apart from that, trainings for Directors are specified as follows:

Name of Director	Date	Duration	Organizer	Contents	Place
Li Gewei	July 2012	Three days	Shanghai Stock Exchange	Post-training for directors	Shenyang
Zhou Donghui	10 May 2012	16 hours	Shanghai Securities Regulatory Bureau	First training for directors and supervisors of listed companies in 2012	Shanghai
	17 May 2012	24 hours	Shanghai Municipal Finance Bureau	Corporate governance training	Shanghai
Feng Huang	30 May 2012	4 hours	Shanghai Corporate Counsel Association	Corporate governance and protection of rights and interest of shareholders	Shanghai
	12 July 2012	4 hours	Shanghai Corporate Counsel Association	Legal practice of business secret and competition restriction	Shanghai
	13 September 2012	4 hours	Shanghai Corporate Counsel Association	Explanation of Guidelines on Enterprise Legal Risk Management	Shanghai
He Jianyong	23 October 2012	8 hours	Liaoning Securities Regulatory Bureau	Training for directors and supervisors of listed companies	Shenyang
Zhang Huiquan	28 August 2012	4 hours	Beijing Lawyers Association	Lecture on "Interpretation on Issues Concerning the Application of Law for Cases of Disputes over Sales Contracts"	Beijing
	3 September 2012	4 hours	Beijing Lawyers Association	Analysis of reasons for IPO's failure in the mainland main board, SME board and GEM in the first half of 2012	Beijing
	29 September 2012	4 hours	Beijing Lawyers Association	Legal practice of business secret and competition restriction	Beijing
	8 October 2012	4 hours	Beijing Lawyers Association	Generation and principle of double entry bookkeeping	Beijing
	26 November 2012	4 hours	Beijing Lawyers Association	Property right market, factor market and M&A	Beijing
	28 November 2012	4 hours	Beijing Lawyers Association	Judge rules of trial of difficult insurance cases – judicial regulations on and lawsuit practice of standard form insurance contracts	Beijing

Section VIII CORPORATE GOVERNANCE

IV. IMPORTANT OPINIONS AND SUGGESTIONS PROPOSED BY THE SPECIAL COMMITTEES UNDER THE BOARD DURING THE REPORTING PERIOD

(1) The fifth session of the Board of the Company sets up four special committees, with various committees and members set out as follows:

1. Development strategy and investment management committee: Wang Kaiguo (chairman), Qian Shizheng, Chen Qiwei, Zhuang Guowei and Zhang Jianwei
2. Compliance and Risk Management committee: Zhang Huiquan (chairman), Li Mingshan, Dai Genyou, Zhou Donghui and Feng Huang
3. Nomination, Remuneration and Assessment Committee: Xia Bin (chairman), Qian Shizheng, Zhang Ming, Dai Genyou, Li Gewei, He Jianyong and Liu Chee Ming
4. Audit committee: Zhang Ming (chairman), Chen Qiwei, Dai Genyou, Zhang Huiquan, Zhou Donghui, Xu Chao and Wang Hongxiang

(2) Duties of various special committees and their meetings

1. Compliance and Risk Management Committee

The primary duties of this committee are to formulate compliance management policies for review by the Board according to laws, regulations and regulatory policies; to review and monitor relevancy, rationality, effectiveness and implementation of the compliance management system of the Company; to formulate the risk management principles and define the major risks for the Company; and to review and supervise the implementation of the internal control system formulated by the management. For the specific duties of the Compliance and Risk Management Committee, please refer to the "Terms of Reference of the Compliance and Risk Management Committee under the Board of Directors" which was published on the websites of the Company and the Hong Kong Stock Exchange.

During the Reporting Period, the Compliance and Risk Management committee held three meetings in total, as specified below:

- The first meeting 2012 of the Compliance and Risk Management committee of the fifth session of the Board convened on 7 March 2012 considered and approved Compliance Report 2011 of the Company, Risk Assessment Report 2011 of the Company, Self-evaluation Report on Internal Control 2011 of the Company and Implementation Scheme of Internal Control Regulations of the Company.
- The second meeting 2012 of the Compliance and Risk Management committee of the fifth session of the Board convened on 23 August 2012 considered and approved Compliance Report for the First Half of 2012 of the Company and Risk Assessment Report for the First Half of 2012 of the Company.

Section VIII CORPORATE GOVERNANCE

- The third meeting 2012 of the Compliance and Risk Management committee of the fifth session of the Board convened on 26 October 2012 (by means of telecommunications) considered and approved Proposal on the Management's Disposal of Assets as Authorised by the Board.

During the Reporting Period, attendances of members of the Compliance and Risk Management Committee are as follows:

Name	Number of actual attendances/ number of scheduled attendances
Zhang Huiquan	3/3
Dai Genyou	3/3
Li Mingshan	2/3
Zhou Donghui	3/3
Feng Huang	3/3

2. **Audit Committee**

The primary duties of this committee are to propose the appointment or replacement of the external audit institution and to approve remuneration and appointment terms of the external audit institution; to ensure the objectivity and independence of the external auditor institution and the effectiveness of the audit process; to audit the Company's financial information and disclosure thereof, and to review, where necessary, major connected transactions; to review the financial monitoring, internal control system and risk management system of the Company and its subsidiaries and branches from the perspective of relevancy, rationality, effectiveness and implementation; and to review financial and accounting policies and practices of the Group. The committee will also perform the duties assigned by the Board. For the specific duties of the Audit Committee, please refer to the "Terms of Reference of the Audit Committee under the Board of Directors" which was published on the websites of the Company and the Hong Kong Stock Exchange.

The Audit Committee convened meetings to audit relevant matters according to relevant provisions of Terms of Reference of the Audit Committee and improved working efficiency and scientific decision-making. The Audit Committee carefully fulfilled its duties by actively participating in the work of formation, audited and disclosed the annual financial reports according to Work Procedures for Annual Reports of the Audit Committee of the Board. The Audit Committee fully communicated with certified public accountants to jointly formulate audit project plans 2012 for the Company. The audit work 2012 of the Company was arranged under the guidance of the Audit Committee, which ensured the independence of audit and improvement of audit quality to safeguard the overall interest of the Company and its shareholders. The Audit Committee and its members, abiding by relevant laws and regulations, gave full play to the audit and supervision role by conducting work diligently, and served an important role in improving the corporate governance structure and audit quality. During the Reporting Period, the Audit Committee held six meetings in total, as specified below:

Section VIII CORPORATE GOVERNANCE

- The first meeting 2012 of the Audit Committee of the fifth session of the Board convened on 11 January 2012 listened to the Chief Financial Officer's brief financial report 2011 of the Company, discussed with certified public accountants for annual examination to formulate the annual audit work plans, and reviewed the financial statement 2011 (the parent company was not audited) prepared by the finance department of the Company and provided written opinions.
- The second meeting 2012 of the Audit Committee of the fifth session of the Board convened on 7 March 2012 considered and approved Financial Report and Special Report 2011 of the Company (Audited or Reviewed Draft), Opinions of the Audit Committee of the Board of the Company on BDO China's Engagement in Audit Work 2011, Suggestions on Appointment of the Accounting Firm for 2012, Self-evaluation Report on Internal Control 2011 of the Company and Examination Report on Internal Control 2011 of the Company.
- The third meeting 2012 of the Audit Committee of the fifth session of the Board convened on 26 April 2012 (by means of telecommunications) considered and approved Report for the First Quarter of 2012 of the Company.
- The fourth meeting 2012 of the Audit Committee of the fifth session of the Board convened on 8 May 2012 (by means of telecommunications) considered and approved Proposal on Engaging the Accounting Firm.
- The fifth meeting 2012 of the Audit Committee of the fifth session of the Board convened on 23 August 2012 considered and approved Financial Report for the First Half of 2012 of the Company (A+H) and Examination Report on Internal Control for the First Half of 2012 of the Company and listened to Financial Description for the First Half of 2012 of the Company (A+H).
- The sixth meeting 2012 of the Audit Committee of the fifth session of the Board convened on 26 October 2012 (by means of telecommunications) considered and approved Report for the Third Quarter of 2012 of the Company.

During the Reporting Period, attendances of members of the Audit Committee are as follows:

Name	Number of actual attendances/ number of scheduled attendances
Zhang Ming	6/6
Zhang Huiquan	6/6
Dai Genyou	6/6
Chen Qiwei	3/6
Zhou Donghui	5/6
Xu Chao	5/6
Wang Hongxiang	6/6

Section VIII CORPORATE GOVERNANCE

3. *Development strategy and investment management committee*

The primary duties of this committee are to conduct studies and submit proposals regarding mid-to-long-term development strategies and planning of the Company; to study and make suggestions to material plans on investment and financing which the Articles of Association has required to be approved by the Board; to conduct feasibility study and make suggestions to the major capital operation, asset operation and mergers and acquisitions which the Articles of Association has required to be approved by the Board; to study and make suggestions to major issues affecting the development of the Company; and to conduct inspection and supervision to the implementation of the above matters. Its duties also include other matters assigned by the Board.

During the Reporting Period, the Development Strategy and Investment Management Committee held three meetings in total, as specified below:

- The first meeting 2012 of the Development Strategy and Investment Management Committee of the fifth session of the Board convened on 12 March 2012 (by means of telecommunications) considered and approved Business Plan 2012 of the Company, Proposal on Allocation of Equity, Fixed Income and Derivative Investment Assets in 2012 of the Company, Proposal on Disposal of Shares of Zhenjiang Hualian Held by the Company and Proposal on Sales of Property of the Business Department of Jiazhou City Garden in Chongqing.
- The second meeting 2012 of the Development Strategy and Investment Management Committee of the fifth session of the Board convened on 13 June 2012 (by means of telecommunications) considered and approved Proposal on the Company's Engagement in Underwriting of Private Placement Bonds for Small and Medium-sized Enterprises, Proposal on the Company's Expansion of Overall Scale of Margin Trading Business and Proposal on Capital Increase of RMB2 Billion in Haitong Capital Investment Co., Ltd.
- The third meeting 2012 of the Development Strategy and Investment Management Committee of the fifth session of the Board convened on 8 August 2012 (by means of telecommunications) considered and approved Proposal on Commitment to Provide Net Capital Guarantee by Shanghai Haitong Securities Asset Management Company Ltd.

During the Reporting Period, attendances of members of the Development Strategy and Investment Management Committee are as follows:

Name	Number of actual attendances/ number of scheduled attendances
Wang Kaiguo	3/3
Qian Shizheng	3/3
Zhuang Guowei	3/3
Zhang Jianwei	3/3
Chen Qiwei	3/3

Section VIII CORPORATE GOVERNANCE

4. *Nomination, Remuneration and Assessment Committee*

Main duties of the Nomination, Remuneration and Assessment Committee include: to study and make suggestions on criteria and procedure for selecting directors and managers; to extensively search for qualified candidates for directors and managers; to examine the qualifications of the candidates for directors and managers and provide proposals; to review the structure, size and composition (including the skills, knowledge and experience) of the Board, and to make recommendations on any proposed changes to the Board to complement the Company's corporate strategy; to assess the independence of the independent non-executive directors and make recommendations to the Board on the appointment or re-appointment of directors and succession planning for directors, in particular, the chairman and the general manager; to work out remuneration policies that include but not limited to performance evaluation standard and procedure, major evaluation system, principal award and punishment scheme and regulations; to examine how the Directors and managers of the Company fulfil their duties, evaluate their annual performance and make suggestions according to the annual audit result of the Audit Committee; to appraise the remuneration reform plan of the Company, to approve the service terms of the Directors; and supervise implementation of the Company's remuneration system. For the specific duties of the Nomination, Remuneration and Assessment Committee, please refer to the "Terms of Reference of the Nomination, Remuneration and Assessment Committee under the Board of Directors" which was published on the websites of the Company and the Hong Kong Stock Exchange.

During the Reporting Period, the Nomination, Remuneration and Assessment Committee convened two meetings as follows:

- On 14 March 2012, the first meeting 2012 of Nomination, Remuneration and Assessment Committee of the fifth session of the Board was convened. The committee listened to 2011 Business Operation and 2012 Business Plan of the Company, and considered and approved Proposal on 2011 Awards for the Operation Team of the Company for Their Operating Performance, Proposal on Buying Liability Insurance for Directors, Supervisors and Senior Management of the Company, Proposal on Appointing Mr. Wu Bin, Mr. Li Xunlei and Mr. Hiroki Miyazato as Deputy General Managers of the Company and Proposal on Appointing Mr. Chen Chunqian and Mr. Li Jianguo as Assistant General Managers of the Company.
- On 26 October 2012, the second meeting 2012 of the Nomination, Remuneration and Assessment Committee of the fifth session of the Board was convened (by means of telecommunications) and considered the Trail Measures on Assessment of the Directors of Haitong Securities Co., Ltd.

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Attendance of the meeting by Nomination, Remuneration and Assessment Committee members during the Reporting Period:

Name	Number of actual attendances/ number of scheduled attendances
Xia Bin	2/2
Zhang Ming	2/2
Liu Chee Ming	2/2
Dai Genyou	2/2
Qian Shizheng	2/2
He Jianyong	2/2
Li Gewei	2/2

V. EXPLANATION ON DISCOVERY OF COMPANY RISKS BY THE SUPERVISORY COMMITTEE

The Supervisory Committee has no objection to matters under supervision during the Reporting Period.

VI. EXPLANATION ON ABSENCE OF INDEPENDENCE OR INDEPENDENT OPERATING ABILITY ON BUSINESS, PERSONNEL, ASSETS, INSTITUTIONS AND FINANCE BY THE COMPANY AND ITS CONTROLLING SHAREHOLDERS

The equity structure of the Company is relatively scattered. There is no controlling shareholder. The Company is completely independent from its shareholders in business, personnel, assets, institutions, finance, etc. The Board, the Supervisory Committee and other functional departments of the Company all function independently with independent and complete operation and self-standing businesses.

1. Business Independence

According to the Company Law and the Articles of Association and under independent operation within the scope of business as approved by the CSRC, the Company has obtained relevant permits for operations of securities business, by which it shaped independent complete business system and the ability to conduct independent operation. Therefore, its business operation is not controlled or influenced by shareholders or related parties. Instead, the Company is able to participate in market competition independently. There is no activity of any shareholder or any related party in violation with the Company's operational procedures or in interference with the Company's internal management and operational decision-making.

Section VIII CORPORATE GOVERNANCE

2. Staff Independence

The Company has an established human resource department, with independent complete labor, personnel and salary administration system. The Company's 2010 Annual General Meeting, the first meeting of the fifth session of the Board, and the first meeting of the fifth session of the Supervisory Committee elected and appointed Directors, Supervisors, Chairman, Chairman of Supervisory Committee, general manager, deputy general manager, secretary to the Board, chief financial officer, Chief Risk Control Executive, General Compliance Officer and other senior management to work at and receive salaries from (some of the Directors and Supervisors do not receive salary from the Company) the Company. None of our senior managements hold any position other than positions of director or supervisor at any shareholders, associates, or subsidiaries, nor do they hold any position in any enterprises that have the same or similar business with that of the Company. There is no occasion where the Company's shareholders act beyond their authority as delegated by the general meeting and the Board to appoint Directors, Supervisors or senior management of the Company. Appointment of Directors, Supervisors, and senior management complies with the Company Law, Securities Law and Articles of Association, and is conducted in lawful procedures. The Company has established complete labor employment, personnel administration, payroll management and social security system, and all employees have signed labor contracts with the Company. The Company has the independent right to sign labor contract without interference of any shareholders.

3. Assets Independence

The Company operates independent complete assets necessary to conduct securities business. There is no occasion where any shareholders or related parties occupy the Company's assets and infringe the lawful rights of the Company, other shareholders or clients of the Company. The Company operates and manages its assets according to law and has business licenses, properties, equipments and trademarks necessary to conduct business.

4. Organizational Independence

The Company has established a complete corporate governance structure. It operates general meeting, the Board, the Supervisory Committee, management and relevant management department in sound condition, with all divisions accountable for their own responsibilities. The Company has independent complete securities operation and management system to independently conduct business operation, and its structure and operation of organizations comply with relevant requirements of CSRC. The existing offices and premises are separate from our shareholders, and there is no mix of corporate structure or direct interference against operation of the Company by any shareholders.

Section VIII CORPORATE GOVERNANCE

5. Financial Independence

The Company has set up independent financial department, with independent financial accounting system and financial management system. It makes independent financial decisions, and there is no occasion where any shareholder or related party interfere the Company's use of fund. The chief financial officer of the Company is appointed by the Board and works with independent dedicated financial officers to operate separate accounts at banks. There is no occasion where any shareholder or related party shares any bank account with the Company. As an independent tax payer, the Company pays various taxes according to requirements under financial and taxation system.

The Company has no business competitor resulting from shareholding system transformation, industrial characteristics, national policy, acquisition, merger, etc.

VII. ESTABLISHMENT AND IMPLEMENTATION OF EVALUATION AND INCENTIVE MECHANISMS FOR SENIOR MANAGEMENT DURING THE REPORTING PERIOD

In 2008, the first meeting of the fourth session of the Board of the Company considered and approved Administrative Measures on Remuneration and Evaluation for Senior Executives of Haitong Securities (Measures). The Measures specified the performance evaluation measures and remuneration incentive scheme for senior executives of the Company. According to the Measures, the Board will evaluate the performances of senior executives after the end of each fiscal year. The evaluation will focus on improvement of the Company's value with the performance indexes being mainly quantitative, covering execution, internal management, risk control, reform and innovation, personnel training, team building and operation team building. The Board will deliberate the annual operating performance awards for senior executives based on the evaluation results. The Company enhanced the work initiative and awareness on compliance risks of senior executives through annual evaluation and performance-based award.

VIII. OTHER RELATED MATTERS

(1) Company secretary

Mr. Jin Xiaobin and Ms. Mok Mingwai are Joint Company Secretaries of the Company. Ms. Mok Mingwai (a director of KCS Hong Kong Limited) is one of the Joint Company Secretaries and Mr. Jin Xiaobin, the Board Secretary of the Company, is one of the main contactors between the Hong Kong Stock Exchange and the Company. According to Rule 3.29 of Listing Rules, they have both received no less than 15 hours of relevant professional training as at 31 December 2012.

(2) Compliance with codes on securities transaction

The Company has adopted the Model Code as the code for all directors and supervisors to conduct securities transaction of the Company. Upon inquiry, all directors and supervisors of the Company confirm that they have strictly observed standards specified in the Model Code. The Company has also set guidelines, at least as strict as the Model Code, on transactions of the Company's securities for relevant employees (as defined in Listing Rules). The Company has not found any employee violating the said guidelines.

The Board will irregularly examine the corporate governance and operation of the Company in accordance with relevant provisions in the Listing Rules to protect shareholders' interests.

Section VIII CORPORATE GOVERNANCE

(3) Internal control

Refer to “internal control” Section IX of this Report for details.

(4) Directors’ Responsibility for the Financial Statement

The Board submitted its responsibility of preparing the financial statement for the year ended 31 December 2012 of the Group.

The Board is responsible for the clear and fair assessment report for annual reports, interim reports, insider information and other disclosures according to the Listing Rules and other regulatory rules. The Management has provided the Board with all necessary explanations and information for the Board to make an informed assessment of the Group’s financial data and position and for the Board’s consideration and approval.

The Company has not encountered with any uncertainties or situations that might cause material doubt to the ability of continuous operation of the Company. In addition, the Company has arranged suitable insurance coverage for the possible legal actions and liabilities of the Directors, the Supervisors and the senior management.

(5) Communications with shareholders

The general meeting shall be the supreme authority of the Company. All shareholders exercise their power through the general meeting. The Company shall hold general meetings in strict accordance with relevant regulations to ensure that all shareholders, especially the minority shareholders, enjoy equal status and can exercise their rights fully. Under the guidance of the Company’s Articles of Association, the Company maintains orderly, stable and healthy development in the interest of the Company and shareholders.

Attaching great importance to opinions and suggestions of its shareholders, the Company actively carries out various investor relation activities to keep in contact with shareholders and meet their reasonable demands in time.

The Company releases its announcements, financial data and other relevant data on its website www.htsec.com, which serves as a channel facilitating effective communication. The shareholders may send any enquiry in writing to the Company’s principal place of business in Hong Kong. The Company will properly handle all enquiries in time.

The Board welcomes suggestions from shareholders, and encourages shareholders to attend general meetings or directly express misgivings that they may have to the Board and the management. Usually, the chairman of the Company and the chairmen of respective committees would attend annual general meetings and other general meetings to answer questions put forward by shareholders.

Section VIII CORPORATE GOVERNANCE

Shareholders may convene an extraordinary general meeting and make proposals on the meeting in accordance with Articles 70 and 75 of the Articles of Association, which was published on the websites of the Company and the Hong Kong Stock Exchange.

The Board will be arranged to attend the Company's 2012 annual general meeting to answer the shareholders' enquiries.

(6) Investor relation activities

Professional investor relations management is the statutory duty of listed companies, and also the effective means for the Company to manage its market value. After the Company issued H-shares, more than 400,000 investors from home and abroad needs communication services. In response, the Board has to further strengthen the investor relations management starting from institutional changes. It amended Measures on Administration of Investor Relations of the Company according to relevant requirements of Notice on Further Strengthening the Management of Investor Relations of Listed Companies of the Shanghai Stock Exchange and relevant requirements of Hong Kong Stock Exchange. Secondly, it added a column of "investor relations" on its official website, releasing company information simultaneously with Shanghai Stock Exchange and Hong Kong Stock Exchange and releasing A-share and H-share prices of the Company in real-time. In addition, by setting up a hotline for investors, appointing a full-time IR manager, holding online interactions, telephone conferences, receptions on-site, result briefing, investor presentation and quarterly, semi-annual and annual road shows, etc., the Company provides all-round and multi-level communications services in various forms for its investors. It received nearly a thousand investors from home and abroad through road show and various channels. Through exchange and communication, investors' recognition of the Company's development was deepened, and a long-term and stable positive interaction with its investors was established, promoting the Company operation based on honest and self-discipline, maximizing corporate value and shareholders' interests, and achieving in managing its market value.

Section VIII CORPORATE GOVERNANCE

(7) Other matters to be reported

To update the Company's registered address and further give expression to requirements for internal control in its Articles of Association, the Company passed a special resolution to amend its Articles of Association regarding the registered address of the Company and the terms of reference of the Supervisory Committee and general manager at its 2011 annual general meeting ("2011 annual general meeting"). In addition, in view that requirement for internal control was added to the Articles of Association, 2011 annual general meeting passed another special resolution to amend the Rules of Procedure for Meetings of the Supervisory Committee of the Company. The updated Articles of Association (including Rules of Procedure for Meetings of the Supervisory Committee of the Company) was released on the websites of Hong Kong Stock Exchange and the Company in August 2012.

Upon the approval on the first extraordinary general meeting 2011 of the Company held on 16 September 2011, Shanghai Haitong Securities Asset Management Company Ltd., the wholly-owned subsidiary of the Company was approved to establish. The Company would no longer engage in client assets management business itself and Article 13 of the Articles of Association regarding "securities assets management" was deleted accordingly. In July 2012, the Company was approved by the CSRC to establish Shanghai Haitong Securities Asset Management Company Ltd. Accordingly, the context of "securities assets management" was deleted in the Articles of Association, the amendment of which would be filed to the CSRC together with other amendments of the Articles of Association approved by the Annual General Meeting 2012.

SECTION IX INTERNAL CONTROL

I. RESPONSIBILITY STATEMENT AND INSTITUTIONAL IMPROVEMENT ON INTERNAL CONTROL

(1) Statement of the Board

The Board and all the Directors of the Company undertake that this Report contains no false record, misrepresentation or material omissions, and are severally and jointly liable for the truthfulness, accuracy and completeness thereof.

To develop, improve and effectively implement internal control is the responsibility of the Board of the Company. The Supervisory Committee shall supervise the establishment and implementation of internal control by the Board. The management shall be responsible for organizing and leading daily operation of the Company's internal control.

Objectives of the Company's internal control: To reasonably ensure compliance with laws and regulations of business operation, assets safety, truthfulness and completeness of financial reporting and relevant information, effective and efficient operations and facilitate the achievement of development strategy of the Company. As internal control bears inherent limitations, it can only provide reasonable assurance for achieving the said objectives.

The Board has evaluated internal control according to requirements in Basic Norms for Enterprise Internal Control and deem it valid before 31 December 2012.

(2) The Setting of Internal Control Institution

The Company's internal control system consists of the Board, the Supervisory Committee, the managers, the internal control division, and business operations division. Their respective functions are: the Board shall be responsible for examining internal control of the Company, supervising the effective execution and self-evaluation of internal control, coordinating internal control audit and risk control, etc., through its affiliated Audit Committee and Compliance and Risk Management Committee; the Supervisory Committee shall be responsible for supervising the building and implementation of internal control by the Board; the managers shall be responsible for organizing and leading daily operation of the Company's internal control; the Company's internal control division, consisting of compliance and risk management department, auditing department, planning & finance department, IT department, operating centre, human resource department and etc., shall be responsible for the implementation of internal control; and business operations division is consisted of sales and trading department, investment banking department, fixed income department, securities investment department, institutional business department, mergers and acquisitions department, international business department, research institute, branches and etc., and the formulation and implementation of their respective internal control systems of the abovementioned units, and the review of the compliance of rules and regulations shall be taken up by their specified personnel, to achieve a complete supervision on business risks.

SECTION IX INTERNAL CONTROL

(3) Establishment and Improvement of Internal Control System

During the Reporting Period, the Company kept strengthening its internal control system, improving its internal control mechanism, standardizing its business process, and improving its management system, to ensure that the internal control covers the whole process of decision-making, implementation and supervision and covers the entire business and management of the Company.

The Company formulated or revised and perfected such compliance and risk management systems as Compliance Review Management Measures, Interim Measures for Assessment and Evaluation of Compliance Management of Department of Headquarter, Administrative Measures for Compliance Checking on Employee Behaviour, Administrative Measures for Preventing and Controlling Speculation of New Shares (Interim), Query System for Due Diligence Investigation on Sponsored Projects, Measures for Risk Management of Fund Consignment Business (Revised in 2012), Registration System for People with Inside Information of Investment Banking Business (Provisional), Interim Measures for Compliance Management of Investment Banking Business, and Administrative Measures for Conflicts of Interest Prevention and Business Separation of Refinancing Business.

The Company formulated or revised and perfected such fund management systems as: Administrative Measures on Settlement of Pledged-bond Repurchase Business, Measures for Settlement of Refinancing Deals, and Administrative Measures for Transfer and Payment of Business Income of Headquarters, Branches and Subsidiaries.

The Company formulated or revised and perfected such business control (including innovative businesses) systems as: Repurchased Business Management Measures, Guidelines on Management of Securities Underwriting by Business Departments of Investment Banks, Interim Measure for Management of Underwriting of Private Placement Bonds for Small and Medium-sized Enterprises, Due Diligence Investigation system for Issuance of Securities, Continuous Supervision System for Issuance of Securities, Measures on the Guidance for the Initial Public Offering of Stocks, Examination and Verification System for Investment Banking Projects, Administrative Measures on Refinancing Pilots, and Processes and Service Specifications of Securities Investment Advisor Business.

The Company formulated or revised and perfected such financial management systems as: Financial Information Management Measures, Interim Measures for Accounting of Refinancing Business, Measures for Administration of Expenses Arising from Domestic Business Trips, Measures for Administration of Expenses of Headquarters, and Interim Measures for Administration of Expenses Arising from Overseas Business Trips.

The Company formulated or revised and perfected such information systems control management systems as IT Governance Standards, Management System for Construction Projects of Information System, Management System for Construction Demands of Information System, Management System for IT Service Providers, Administrative Measures for User Permission of NC Financial System, and Access Control on Application System of Brokerage Businesses, which covers IT governance and various application systems.

SECTION IX INTERNAL CONTROL

(4) Basis of Building Internal Control over Financial Reporting

The Company built internal control over financial reporting based on Basic Norms for Enterprise Internal Control and guidelines thereof jointly issued by Ministry of Finance, CSRC, National Audit Office, China Banking Regulatory Commission and China Insurance Regulatory Commission, Guidelines for Internal Control of Securities Companies issued by CSRC, and Guidelines of Shanghai Stock Exchange for the Internal Control of Listed Companies issued by Shanghai Stock Exchange.

During the Reporting Period, the Company formulated or revised and perfected such financial accounting management systems as Financial Information Management Measures, Interim Measures for Accounting of Refinancing Business, Measures for Administration of Expenses Arising from Domestic Business Trips, Measures for Administration of Expenses of Headquarters and Interim Measures for Administration of Expenses Arising from Overseas Business Trips, and other internal control systems, in strict accordance with the Company Law, Accounting Law, Accounting Standards for Business Enterprises, Standardization of Basic Work of Accounting, Financial Rules for Financial Enterprises, Basic Norms for Enterprise Internal Control and other relevant laws and regulations, and in light of industry features and actual conditions of the Company. The Company employed scientific financial accounting structure, qualified financial accounting staff, normative and precise financial accounting management systems and appropriate accounting policies and reasonable accounting estimates to ensure that its financial reports comply with accounting standards and can give a true, exact and complete view of its financial position, operating results, cash flow and relevant information. According to Articles of Association and relevant provisions, the Company's Supervisory Committee and external audit institutions effectively inspected and supervised the Company's financial position and delivered professional audit opinions on its financial reports.

During the Reporting Period, the sound system of internal control over financial reporting of the Company ran well and could ensure the quality of financial reports and high reliability of financial information. During the Reporting Period, the Company did not have any significant defect in internal control over financial reporting and its annual financial reports are true, exact and complete.

(5) Internal Supervision Over Formulation and Implementation of Internal Control Regulations

The Company formulated Haitong Securities Internal Control Self-evaluation Handbook to regulate internal control self-evaluation activities. The Company set up a leading group and a working group for implementation of internal control regulations and an internal control evaluation group, and appointed the compliance and risk management department as the leader of the working group for implementation of internal control regulations to be responsible for guiding the setup and exercise of internal control; appoints the auditing department as the leader of the internal control evaluation group to take charge of internal control self-evaluation and deliver internal control evaluation reports. As specialized supervision departments of internal

SECTION IX INTERNAL CONTROL

control design and operation, the compliance and risk management department and auditing department independently perform their functions in supervising the effectiveness of design and operation of internal control and are responsible for delivering suggestions for improving defects in internal control and urging relevant responsible units to make corrections in time. The main duties of the two departments are as follows:

The compliance and risk management department: performing various compliance duties under the direct leadership of compliance director; conducting preliminary review on the legality and compliance of various contracts and agreements concluded between the Company and clients thereof, and business plans and flows; designing risk control indexes, regulating risk control processes, so as to ensure that all business flows have sound and effective risk control measures; making in-process monitoring and examination over the execution of risk control processes and indexes; providing evaluation report on effectiveness of compliance management to the regulatory institutions.

Auditing department: Inspecting the operation compliance of all businesses of the Company; inspecting various units' execution of rules and regulations and internal control systems of the Company; examining the fund operation and operating efficiency; organising routine audits against various units and audits on retiring or resigning personnel in key positions; following and supervising the execution of rectification measures; providing self-evaluation report of internal control to the Audit Committee of the board.

(6) Defects in Internal Control and Identification Thereof

The Board of the Company determined internal control defects and their specific identification standards applicable to the Company, namely, significant defects, important defects and common defects by the extent of impact of defects, according to requirements in identifying significant defects, important defects and common defects under Basic Norms for Enterprise Internal Control, Guidelines for the Evaluation of Enterprise Internal Controls, Guidelines for Internal Control of Securities Companies and Guidelines of Shanghai Stock Exchange for the Internal Control of Listed Companies, as well as the Company scale, industry features and risk level.

Significant defects refer to a combination of one or more control defects which may lead the enterprise away from control objectives seriously. Important defects refer to a combination of one or more control defects with impacts and economic consequences less serious than those of significant defects but may still lead the enterprise away from control objectives. Common defects refer to any defect other than significant defects and important defects.

Pursuant to the aforesaid identification standards and daily and specific supervisions, from January 1 to December 31, 2012, the Company was not involved in any significant defect in the design or implementation of internal control of the Company or any significant defect which may lead the Company away from control objectives seriously.

SECTION IX INTERNAL CONTROL

(7) Work Plan for Internal Control in 2013

The internal control shall be appropriate according to the business scale, business scope, competitive status and risk level of the Company and shall be adjusted promptly as the situation changes. Work plan for internal control in 2013: Keeping improving internal control system of the Company; promptly upgrading, establishing and improving various foreground, mid-ground and background systems, policies and procedures of the Company based on business needs; revising internal control evaluation handbook and upgrading, perfecting and enhancing the efficiency and effectiveness of internal control according to problems occurring during the implementation of internal control evaluation and development of all kinds of new businesses; continuing to strengthen the publicity and training of internal control regulations, and improving internal control and risk management in an all-round way.

(8) Evaluation of Effectiveness of the Company's Internal Control

The Company evaluated the effectiveness of the design and implementation of its internal control up to 31 December 2012 pursuant to the Basic Norms for Enterprise Internal Control, Guidelines for the Evaluation of Enterprise Internal Controls, Guidelines for Internal Control of Securities Companies and Guidelines of Shanghai Stock Exchange for the Internal Control of Listed Companies. After approved and passed by the Board, the 2012 Internal Control Evaluation Report was provided by the Company. During the Reporting Period, the Company set up internal control systems for businesses and issues included into evaluation scope, and put them into effect earnestly, with relevant goals achieved without any significant defects. From the reporting base date to the date of issuance of internal control evaluation report, there were no major changes in internal control that may have a substantive influence on evaluation results.

During the Reporting Period, its external certified public accountants independently audited the design and implementation of the internal control of the Company. It considered that the Company has set up internal control systems for various businesses and issues, and operated effectively, achieving relevant goals and no significant defects.

Last year, its external certified public accountants claimed in the internal control audit report of the Company that there was insufficient internal control. During the Reporting Period, the internal regulating and implementation team of the Company has completed the reform the related departments.

SECTION IX INTERNAL CONTROL

II. RELEVANT INFORMATION ABOUT AUDIT REPORT ON INTERNAL CONTROL

The Company's domestic internal control audit institution BDO China Shu Lun Pan Certified Public Accountants LLP (Special General Partnership) produced a standard unqualified audit report on internal control of the Company.

For details of audit report on internal control, please refer to relevant announcements dated 27 March 2013 on the websites of the Shanghai Stock Exchange and the Company.

III. INFORMATION ABOUT LIABILITY INVESTIGATION SYSTEM ON MAJOR ERRORS IN DISCLOSURE OF ANNUAL REPORTS AND RELEVANT IMPLEMENTATION

To further improve the internal control system and the quality and transparency of disclosure of annual reports and enhance the awareness of responsibility for information disclosure, the Company, according to requirements and relevant regulations of regulatory authorities, revised Measures for the Administration of Information Disclosure of Haitong Securities Co., Ltd., which optimized identification and handling procedures and responsibility investigation of major errors in annual reports, intensified efforts in liability investigation against relevant responsible persons for disclosure of annual reports, and increased the quality and transparency of disclosure of annual reports. The revised draft of the Measures was considered and approved at the twenty-sixth meeting of the fourth session of the Board of the Company. During the Reporting Period, the Measures were well implemented, and the Company did not have any correction for its significant accounting errors, supplement to significant omission and revision in the performance forecast.

SECTION X FINANCIAL REPORTS

- (I) The 2012 Annual Report (H Shares) of the Company has been audited by Deloitte Touche Tohmatsu, which has issued a standard unqualified audit report.
- (II) Financial statements (H Share) (Appendices).
- (III) Notes to financial statements (H Share) (Appendices).

SECTION XI DOCUMENTS AVAILABLE FOR INSPECTION

- I. Texts of annual reports bearing the signature of legal representative of the Company.
- II. Texts of annual financial reports (H Share).
- III. Texts of audit reports issued by Deloitte Touche Tohmatsu.
- IV. Original copies of all documents and notices disclosed on newspapers appointed by CSRC during the Reporting Period.
- V. Annual reports disclosed in other securities markets.
- VI. Other relevant materials.

SECTION XII INFORMATION DISCLOSURE OF SECURITIES COMPANY

I. RELEVANT INFORMATION ABOUT MAJOR ADMINISTRATIVE LICENSING ISSUES OF THE COMPANY

1. Administrative Licensing of Business Departments during the Reporting Period

<u>New branch offices</u>	<u>New branches</u>	<u>Relocation of branches</u>
4	10	9

(1) Administrative Licensing of Set-up of Branch Offices during the Reporting Period

<u>No.</u>	<u>Branch office</u>	<u>Address</u>	<u>Approval document No.</u>	<u>Approval date</u>	<u>License obtained on</u>
1	Haitong Securities Co., Ltd. (Hebei Branch Office)	No. 2 Shifan Street, Qiaoxi District, Shijiazhuang, Hebei	Hu Zheng Jian Ji Gou Zi [2012] No. 312	13 July 2012	7 November 2012
2	Haitong Securities Co., Ltd. (Shaanxi Branch Office)	West 10/F, Intelligent Starfish Plaza, No. 11 Xixin Street, Xincheng District, Xi'an, Shaanxi	Hu Zheng Jian Ji Gou Zi [2012] No. 312	13 July 2012	7 November 2012
3	Haitong Securities Co., Ltd. (Guangxi Branch Office)	2/F, Building No. 3, Yongzhou Hotel, No. 18 Minzhu Road, Xingning District, Nanning, Guangxi	Hu Zheng Jian Ji Gou Zi [2012] No. 312	13 July 2012	7 November 2012
4	Haitong Securities Co., Ltd. (Hunan Branch Office)	6/F, Yinhua Hotel, No. 618, Wuyi Road, Changsha, Hunan	Hu Zheng Jian Ji Gou Zi [2012] No. 312	13 July 2012	7 November 2012

SECTION XII INFORMATION DISCLOSURE OF SECURITIES COMPANY

(2) Administrative Licensing of New Branches during the Reporting Period

No.	Branch	Address	Approval document. No.	Approval date	License obtained on
1	Branch of Haitong Securities Co., Ltd. in Taishan Middle Road, Zaozhuang	No. 111 Taishan Middle Road, Xuecheng District, Zaozhuang, Shandong	Hu Zheng Jian Ji Gou Zi [2011] No. 603	30 December 2011	22 March 2012
2	Branch of Haitong Securities Co., Ltd. in Youxian, Mianyang	No. 66 Eastern Section of Yihuan Road, Youxian District, Mianyang, Sichuan	Hu Zheng Jian Ji Gou Zi [2011] No. 603	30 December 2011	22 March 2012
3	Branch of Haitong Securities Co., Ltd. in Lijiang Road, Guilin	4/F, No. 4 Lijiang Road, Qixing District, Guilin, Guangxi	Hu Zheng Jian Ji Gou Zi [2011] No. 603	30 December 2011	22 March 2012
4	Branch of Haitong Securities Co., Ltd. in Yuyang, Yulin	No. 41 Fushi Road, Yuyang District, Yulin, Shaanxi	Hu Zheng Jian Ji Gou Zi [2011] No. 603	30 December 2011	22 March 2012
5	Branch of Haitong Securities Co., Ltd. in South Zhengyang Road, Hengyang	6/F, Chongye Commercial Plaza, No. 2 South Zhengyang Road, Yanfeng District, Hengyang, Hunan	Hu Zheng Jian Ji Gou Zi [2011] No. 603	30 December 2011	22 March 2012
6	Branch of Haitong Securities Co., Ltd. in Yuelai Road South, Zhongshan	No. 18 Yuelai Road South, Zhongshan, Guangdong	Hu Zheng Jian Ji Gou Zi [2012] No. 170	4 May 2012	29 August 2012
7	Branch of Haitong Securities Co., Ltd. in Dongfeng East Rd, Baoding	No. 215 Dongfeng East Rd, Beishi District, Baoding, Hebei	Hu Zheng Jian Ji Gou Zi [2012] No. 170	4 May 2012	29 August 2012
8	Branch of Haitong Securities Co., Ltd. in Daijia Road, Shaoyang	Northwest Corner of Daijia Road and Gongyuan Road, Daxiang District, Shaoyang, Hunan	Hu Zheng Jian Ji Gou Zi [2012] No. 170	4 May 2012	19 September 2012
9	Branch of Haitong Securities Co., Ltd. in Yangtou Plaza North Rd, Fuan	No. 6 Yangtou Plaza North Rd, Fuan, Fujian	Hu Zheng Jian Ji Gou Zi [2012] No. 170	4 May 2012	19 September 2012
10	Branch of Haitong Securities Co., Ltd. in Jinxiu Road, Wenzhou	1/F, Ruikang Business Center, Jinxiu Road, Lucheng District, Wenzhou, Zhejiang	Hu Zheng Jian Ji Gou Zi [2012] No. 510	29 November 2012	Handled after date

SECTION XII INFORMATION DISCLOSURE OF SECURITIES COMPANY

(3) Administrative Licensing of Relocation of Business Departments during the Reporting Period

No.	Name of business department before relocated	Name of business department after relocated	New address	Approval Doc. No.	Approved on	License obtained on
1	Branch of Haitong Securities Co., Ltd. in Baizhang East Road, Ningbo	Branch of Haitong Securities Co., Ltd. in Baizhang East Road, Ningbo	11/F, No. 787 Baizhang East Road, Ningbo	Yong Zheng Jian Fa [2011] No. 164	16 December 2011	2 February 2012
2	Branch of Haitong Securities Co., Ltd. in Changjiang Road, Tianjin	Branch of Haitong Securities Co., Ltd. in Xiaguang Road, Tianjin	8/F, Ningtai Plaza, No. 1 Xiaguang Road, Nankai District, Tianjin	Jin Zheng Jian Ji Gou Zi [2012] No. 1	12 January 2012	29 February 2012
3	Branch of Haitong Securities Co., Ltd. in Renmin East Road, Nanning	Branch of Haitong Securities Co., Ltd. in Xinmin Road, Nanning	1&2/F, No. 59 Xinmin Road, Nanning	Gui Zheng Jian Han [2012] No. 35	8 March 2012	11 April 2012
4	Branch of Haitong Securities Co., Ltd. in Youhao North Road, Urumqi	Branch of Haitong Securities Co., Ltd. in Xinyi Road, Urumqi	No. 359 Xinyi Road, Xinshi District, Urumqi	Xin Zheng Jian Ju [2012] No. 39	29 March 2012	17 April 2012
5	Branch of Haitong Securities Co., Ltd. in Huaihai South Road, Huai'an	Branch of Haitong Securities Co., Ltd. in Huaihai North Road, Huai'an	1&4&5/F, No. 50 Huaihai North Road, Huai'an	Su Zheng Jian Ji Gou Zi [2012] No. 204	15 May 2012	20 June 2012
6	Branch of Haitong Securities Co., Ltd. in Xikuang Street, Taiyuan	Branch of Haitong Securities Co., Ltd. in Yingzexi Street, Taiyuan	No. 386 Yingzexi Street, Taiyuan	Jin Zheng Jian Han [2012] No. 231	8 September 2012	31 October 2012
7	Branch of Haitong Securities Co., Ltd. in Beida St., Qingyang	Branch of Haitong Securities Co., Ltd. in Xida St., Qingyang	No. 22 Xida St., Xifeng District, Qingyang	Gan Zheng Jian Fa Zi [2012] No. 98	9 July 2012	14 November 2012
8	Branch of Haitong Securities Co., Ltd. in Linfen Road, Shanghai	Branch of Haitong Securities Co., Ltd. in Gonghexin Road, Shanghai	No. 3703, Gonghexin Road, Zhabei District, Shanghai	Hu Zheng Jian Ji Gou Zi [2012] No. 407	10 September 2012	27 December 2012
9	Branch of Haitong Securities Co., Ltd. in Beisidao Street, Anda, Suihua	Branch of Haitong Securities Co., Ltd. in Niujiie Street, Anda, Suihua	No. 235 Niujiie Street, Anda	Filing	Filing	Handled after date

SECTION XII INFORMATION DISCLOSURE OF SECURITIES COMPANY

2. Administrative Licensing of Collective Financial Services during the Reporting Period

Date	Products	Name of approval document	Approval document No.
27 April 2012	Haitong Hailiang Alpha No. 1 Amount-limited and Specific Collective Asset Management Scheme	Reply on Approving Haitong Securities Co., Ltd.'s Establishment of Haitong Hailiang Aerfa No. 1 Quota Specific Collective Asset Management Plan	Zheng Jian Xu Ke [2012] No. 580
6 June 2012	Haitong Hailan Baoyin Collective Asset Management Scheme	Reply on Approving Haitong Securities Co., Ltd.'s Establishment of Haitong Hailan Baoyin Collective Asset Management Plan	Zheng Jian Xu Ke [2012] No. 767
27 September 2012	Haitong Cash Winner Collective Asset Management Plan	Reply on Approving Haitong Securities Co., Ltd.'s Pilot Work of Cash Management Products and Establishment of Haitong Cash Winner Collective Asset Management Plan	Zheng Jian Xu Ke [2012] No. 1301
8 October 2012	Haitong Hailan Baorun Collective Asset Management Plan	Reply on Approving Haitong Securities Co., Ltd.'s Establishment of Haitong Hailan Baorun Collective Asset Management Plan	Zheng Jian Xu Ke [2012] No. 1320
8 October 2012	Haitong Hailiang Chuangyou Quota Specific Collective Asset Management Plan	Reply on Approving Haitong Securities Co., Ltd.'s Establishment of Haitong Hailiang Chuangyou Quota Specific Collective Asset Management Plan	Zheng Jian Xu Ke [2012] No. 1321
23 January 2013 (conformation letter of archival filing obtained)	Haitong Winner Series – Long-term Winner Collective Asset Management Plan	About Conformation Letter of Record Filing of Haitong Securities Co., Ltd.'s Establishment by Sponsorship of Haitong Winner Series – Long-term Winner Collective Asset Management Plan (Securities Association of China)	Zhong Zheng Xie Han [2013] No. 68

Note: After the CSRC issued the Measures for the Administration of the Customer Asset Management Business of Securities Companies and Detailed Rules for the Collective Asset Management Business of Securities Companies since 18 October 2012, securities companies' establishment of collective management plans is no longer subject to administrative licensing, and only needs to be filed with Securities Association of China and the authority appointed by CSRC in the location of the company.

SECTION XII INFORMATION DISCLOSURE OF SECURITIES COMPANY

3. Other administrative permissions

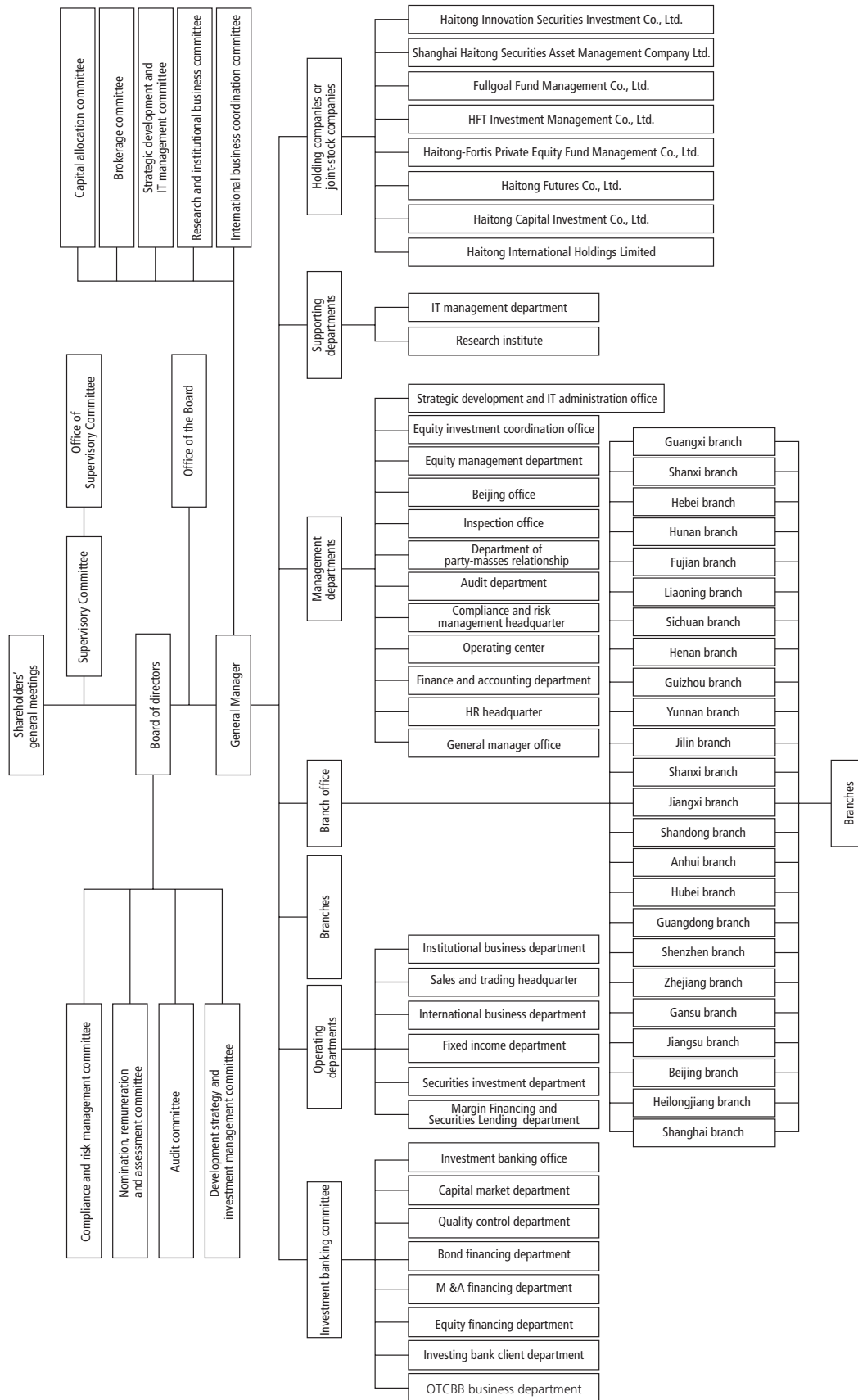
Date	Business qualification	Approval organization	Title of approval document	No. of approval document
21 December 2012	Partnership independent custody business	CSRC	Letter of No Objection on the Launch of Partnership Independent Custody Business Trials by Haitong Securities Co., Ltd.	(Ji Gou Bu Bu Han [2012] No. 686)
21 December 2012	Over-the-counter business	SAC	Letter on Consent of the Filing of Implementation Plan on Over-the-counter Business of Haitong Securities	(Zhong Zheng Xie Han [2012] No. 825)
29 August 2012	Margin and Securities Refinancing Business	Securities Finance Company of China	Reply Letter on Application for Engaging in Margin and Securities Refinancing Business Trials	(Zhong Zheng Jin Han [2012] No. 113)
27 August 2012	Underwriting of Private Debts for SMEs	SAC	Letter on Response to the Professional Assessment Results of Underwriting of Private Debts for SMEs Trials of Securities Companies	(Zhong Zheng Xie Han [2012] No. 561)

II. RESULT OF CLASSIFICATION BY REGULATORY AUTHORITY

In 2012, the Company was rated as a “Grade A, Category AA” company

SECTION XII INFORMATION DISCLOSURE OF SECURITIES COMPANY

APPENDIX I: ORGANIZATIONAL STRUCTURE OF HAITONG SECURITIES CO., LTD.



SECTION XII INFORMATION DISCLOSURE OF SECURITIES COMPANY

APPENDIX II: BRANCH OFFICES AND SECURITIES BRANCHES OF THE COMPANY

As at the end of the Reporting Period, the Company had a total of 24 branch offices and 202 securities branches, please see the table below for details.

Particulars of branch offices

No.	Branch office	Address	Year of Establishment	Person in charge
1	Shanghai branch	20F, No. 285, West Jianguo Road, Shanghai	2009	Xue Aidong (薛愛東)
2	Zhejiang branch	No. 138, Jiefang Road, Hangzhou, Zhejiang	2009	Zhu Yuanyuan (朱元元)
3	Jiangsu branch	Room 1218, Suning Global Mansion, No. 188, Guangzhou Road, Nanjing, Jiangsu	2009	Yang Ming (楊明)
4	Shenzhen branch	49F, Shidai-Caifu Building, No.88, Fuhua Road 3, Futian District, Shenzhen, Guangdong	2009	Zou Erhai (鄒二海)
5	Guangdong branch	9F, G.T.Land Plaza South Tower, No.8, Zhujiang West Road, Guangzhou, Guangdong	2009	Li Jingwei (李井偉)
6	Beijing branch	Room 608, Fangyuan Building, No. B56, Zhongguancun South Yi, Beijing	2009	Li Jiansheng (李建生)
7	Heilongjiang branch	No.99-9, Changjiang Road, Harbin, Heilongjiang	2009	Wu Hongsong (吳紅松)
8	Gansu branch	10F, No. 157, Wudu Road, Lanzhou, Gansu	2009	Han Gang (韓綱)
9	Hubei branch	No. 2, Jiangda Road, Wuhan, Hubei	2009	Tu Huimin (屠惠敏)
10	Anhui branch	6F, Xingdu Building, No. 262, Huangshan Road, Hefei, Anhui	2010	Ding Xueqing (丁學清)
11	Jilin branch	4th Building, Xinglan Area, Nangan District, Changchun, Jilin (No. 550, Dajing Road)	2011	Huang Jinfu (黃金富)
12	Jiangxi branch	4F, Jiangxi Construction Building, No. 97, North Square Road, Nanchang, Jiangxi	2011	Xiao Pingping (肖萍萍)
13	Shanxi branch	No. 92, XinJian Road, Xinghualing District, Taiyuan, Shanxi	2011	Yang Xiaoping (楊小平)
14	Yunnan branch	No. 162, Dongfeng West Road, Kunming, Yunnan	2011	Zhang Chongde (張崇德)
15	Guizhou branch	14F, North Tower, Tianheng City Garden, No. 66, North Fushui Road, Guiyang, Guizhou	2011	Wei Wei (魏衛)
16	Henan branch	6F, Haitong Securities Building, No. 16, Jingqi Road, Zhengzhou, Henan	2011	Zhao Gaohua (趙高華)
17	Shandong branch	3F, No. 15, Quancheng Road, Jinan, Shandong	2011	Wang Yuqiu (王玉秋)
18	Sichuan branch	No. 12, Xiaohe Street, Chengdu, Sichuan	2011	Xu Feng (許鋒)
19	Liaoning branch	No. 364, Daxi Road, Shenyang, Liaoning	2011	Zhang Long (張龍)
20	Fujian branch	3F, 1st building, Riyuexing Garden, No. 278, Qunzhong Road, Fuzhou, Fujian	2011	Zhan Liangyu (詹亮宇)
21	Guangxi branch	2F, 3rd building, No. 18, Minzhu Road, Nanning, Guangxi	2012	Lu Xiangyang (盧向陽)
22	Hunan branch	6F, Yinhua Hotel, No. 618, Wuyi Avenue, Changsha, Hunan	2012	Song Jiaqing (宋家清)
23	Shaanxi branch	West Area, 10F, Haixing Intelligent Square, No. 11, Xixin Street, Xi'an	2012	Meng Liya (孟立亞)
24	Hebei branch	No. 2, Shifan Street, Shijiazhuang, Hebei	2012	Guan Xuefen (關雪芬)

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Particulars of securities branches

No.	Name	Address	Person in charge
1	Anqing Huxin North Road Securities Branch	Room 1-2, 7th building, Cinnamomum Camphora Along A Waterfront, Huxin North Road, Anqing, Anhui	Wang Huaiqi (汪懷其)
2	Bengbu Zhongrong Street Securities Branch	No. 146, Zhongrong Street, Bengbu, Anhui	Sun Wei (孫偉)
3	Fuyang East Qinghe Road Securities Branch	1st building, Yiqingyuan, East Qinghe Road, Yingzhou District, Fuyang, Anhui	Li Benquan (李本權)
4	Hefei Huangshan Road Securities Branch	No. 262, Huangshan Road, Hefei, Anhui	Ni Yu (倪煜)
5	Huaibei Xiangshan Road Securities Branch	No. 292, Xiangshan Road, Huaibei, Anhui	Wang Lingwei (王凌巍)
6	Huainan Tianda Road Securities Branch	Room 101 of 6th building & 1-2F of 7th building, Paris Spring, Tianda Road, Huainan, Anhui	Chen Ke (陳可)
7	Wuhu Wenhua Road Securities Branch	No. 44, Wenhua Road, Wuhu, Anhui	Xia Siqing (夏斯清)
8	Maanshan Middle Hudong Road Securities Branch	9-302, Central Garden, Middle Hudong Road, Huashan District, Maanshan, Anhui	Wang Shangzhong (王尚鐘)
9	Beijing Guanghua Road Securities Branch	Aode Building, No. A8, Guanghua Road, Beijing	Bai Rubin (白汝斌)
10	Beijing Workers Stadium North Road Securities Branch	3F, 1st building, Ruishi Apartment, No. 66, Workers Stadium North Road, Beijing	Ma Hui (馬暉)
11	Beijing Zhichun Road Securities Branch	5F, Weixing Building, No. A63, Zhichun Road, Beijing	Wang Song (王宋)
12	Beijing Zhongguancun South Road Securities Branch	No. A56, Zhongguancun South Road, Beijing	Liu Yi (劉毅)
13	Beijing Miyun Gulou East Street Securities Branch	No. 19, East Gulou Street, Beijing	Xue Chengbin (薛成彬)
14	Beijing Pinggu Jinxiang Road Securities Branch	No. 1, Jinxiang Road, Beijing	Xiong Jun (熊軍)
15	Fuzhou Qunzhong Road Securities Branch	3/F, Tower A, Yuanlimingzhu, No. 278, Qunzhong Road, Fuzhou, Fujian	Zhan Liangyu (詹亮宇)
16	Xiamen Lehaibeli Securities Branch	No. 98-103, Lehaibeli Road, Xiamen, Fujian	Liu Yanxiang (劉雁翔)
17	Quanzhou Tianan Road Securities Branch	4/F, Qingnian Building, Tianan Road, Quanzhou, Fujian	Lin Yupeng (林毓鵬)
18	Fuan YangTou Square North Road Securities Branch	5/F, Building No. 1, Shuianmingzhu, No. 6, YangTou Square North Road, Fuan, Fujian	Lin Huairong (林懷榮)
19	Jiayuguan Xinhua Middle Road Securities Branch	No. 28, Xinhua Middle Road, Jiayuguan, Gansu	Wang Baolin (王保林)
20	Jinchang Changchun Road Securities Branch	China Salt Industry Building, Changchun Road, Jinchang, Gansu	Zhou Youxue (周有學)
21	Lanzhou Wanxin South Road Securities Branch	No. 744, Wanxin South Road, Anning District, Lanzhou, Gansu	Wang Weida (王維達)
22	Lanzhou Tianshui Road Securities Branch	No. 376, Dingxi South Road, Chengguan District, Lanzhou, Gansu	Su Yi (蘇藝)
23	Lanzhou Dong Gang East Road Securities Branch	No. 2070, Dong Gang East Road, Chengguan District, Lanzhou, Gansu	Yang Junfeng (楊俊峰)
24	Lanzhou Wudu Road Securities Branch	No. 157, Wudu Road, Chengguan District, Lanzhou, Gansu	Shen Ziqiang (沈自強)
25	Lanzhou Xijin West Road Securities Branch	No. 9, Xijin West Road, Qilihe District, Lanzhou, Gansu	Xu Yi (徐毅)
26	Cheng County East Street Securities Branch	No. 34, East Street, Chengguan Town, Cheng County, Longnan, Gansu	Hao Xuming (郝續鳴)
27	Qingyang West Street Securities Branch	No. 22, West Street, Xifeng District, Qingyang, Gansu	Zhu Weidong (祝唯東)
28	Tianshui Xinhua Road Securities Branch	3F, Real Estate Trading Center, No. 7, Xinhua Road, qinzhou District, Tianshui, Gansu	Zhou Jun (周軍)
29	Wuwei Jianguo Street Securities Branch	3F, Post Building, Jianguo Street, Liangzhou District, Wuwei, Gansu	Wu Yong (武勇)
30	Dongguan Shenghe Road Securities Branch	3F, Tower B, Shenghe Square, Shenghe Road, Nancheng District, Dongguan, Guangdong	Wang Tieping (王鐵平)
31	Foshan Shunde Xinning Road Securities Branch	Ground Floor, Times Building, No. 60, Xinning Road, Daliang, Shunde District, Foshan, Guangdong	Ma Junen (馬俊恩)
32	Guangzhou Dongfeng West Road Securities Branch	11F & 12F, Tower B, Dongfeng West Road, Guangzhou, Guangdong	Cai Zhaopeng (蔡昭鵬)

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No.	Name	Address	Person in charge
33	Guangzhou Jiangnan West Road Securities Branch	2F, No. 13-16, Qingkui Street, Jiangnan West Road, Guangzhou, Guangdong	Pan Shuming (潘淑明)
34	Guangzhou Zhujiang West Road Securities Branch	Room 903-906, 9F, No. 8, Zhujiang West Road, Tianhe District, Guangzhou, Guangdong	Tian xiangming (田向明)
35	Shantou Zhongshan Middle Road Securities Branch	2F & 3F, Fudu Building, Zhongshan Middle Road, Shantou, Guangdong	Zhang Zhenwen (張鎮文)
36	Shaoguan Wenhua Street Securities Branch	No. 7, Wenhua Street, Zhenjiang District, Shaoguan, Guangdong	Wu Di (吳迪)
37	Zhongshan Yuelai South Road Securities Branch	Gate 8, 1F & 2F, Tower A1, No. 18, Yuelai South Road, Shiqi District, Zhongshan, Guangdong	Ye Tao (葉濤)
38	Nanning Xinmin Road Securities Branch	1F & 2F, No. 59, Xinmin Road, Nanning, Guangxi	Lu Xiangyang (盧向陽)
39	Liuzhou Guizhong Avenue Securities Branch	7th Building, Sunshine 100 City Square, No. 2, Guizhong Avenue (S), Liuzhou, Guangxi	Tang Shiyun (唐世雲)
40	Guilin Lijiang Road Securities Branch	4F, No. 4, Lijiang Road, Qixing District, Guilin, Guangxi	Zhang Ning (張寧)
41	Guiyang Tongxin West Road Securities Branch	3F, Baiyun Building, No. 3, Tongxin West Road, Baiyun Mansion, Baiyun District, Guiyang, Guizhou	Li Fuhui (李福輝)
42	Guiyang Fushui North Road Securities Branch	Tianheng City Garden, No. 66, Fushui North Road, Yunyan District, Guiyang, Guizhou	Wei Wei (魏衛)
43	Zunyi Zhonghua South Road Securities Branch	3F Longjinggou Complex, Zhonghua South Road, Zunyi, Guizhou	Zhong Jian (鐘健)
44	Haikou Longkun North Road Securities Branch	CNAC Bldg, No 15 Longkun North Road Haikou, Hainan	Xiao Rong (肖蓉)
45	Shijiazhuang, Gaocheng Shengli Road Securities Branch	No. 22, Shengli Road, Gaocheng, Hebei	Zhou Peishen (周培琛)
46	Shijiazhuang Shifan Street Securities Branch	No. 2, Shifan Street, Qiaoxi District, Shijiazhuang, Hebei	Guan Xuefen (關雪芬)
47	Baoding Dongfeng East Road Securities Branch	Renhe Yijia Apartment, No. 215 Dongfeng East Road, Beishi District Baoding, Hebei	Liu Tao (劉濤)
48	Luoyang Stadium Road Securities Branch	No. 13 Luoyang Stadium Road Luoyang, Henan	Gong Lan (龔嵐)
49	Xuchang Jianshe Road Securities Branch	Floor 3,4,5 Tianlun Building Chunqiu Square, Jianshe Road Xuchang, Henan	Dong Yixing (凍逸興)
50	Zhengzhou Jingqi Road Securities Branch	No. 16 Jingqi Road Zhengzhou, Henan	Zhao Gaochua (趙高華)
51	Daqing Honggang North Road Dongjie Securities Branch	No. 6 Honggang North Road, Daqing, Heilongjiang	Wang Xibing (王希斌)
52	Daqing Chengfeng Avenue Securities Branch	3401 No. 432-454 Chengfeng Avenue Ranghulu District Daqing, Heilongjiang	Meng Qinlu (孟慶錄)
53	Daqing Kunlun Avenue Securities Branch	No.184 Kunlun Avenue Ranghulu District Daqing, Heilongjiang	Hu Haibin (胡海斌)
54	Daqing Jinsan Street Securities Branch	No. 29 Jinsan Street, Saertu District Daqing, Heilongjiang	Zhou Guohong (周國洪)
55	Daqing Jinliu Street Securities Branch	No. 47 Jinliu Street, Saertu District Daqing, Heilongjiang	Li Guoping (李高平)
56	Harbin Tongjiang Street Securities Branch	No. 163 Tongjiang Street Daoli District, Harbin, Heilongjiang	Liu Songtao (劉松濤)
57	Harbin Xinyang Road Securities Branch	No. 240 Xinyang Road, Daoli District, Harbin, Heilongjiang	Sun Lei (孫雷)
58	Harbin Dongzhi Road Securities Branch	No. 69, Dongzhi Road Daowai District, Harbin, Heilongjiang	Zhao Jia(趙家)
59	Harbin Hulan North Erdao Street Securities Branch	No77 Erdao Street, Hulan District North, Harbin, Heilongjiang	Shi Jiarui (石嘉睿)
60	Harbin Changjiang Road Securities Branch	No. 99-5 Changjiang Road, Nangang District, Harbin, Heilongjiang	Guo Wei (郭威)
61	Harbin Guogeli Street Securities Branch	No. 200 Guogeli Street, Nangang District, Harbin, Heilongjiang	Qu Pu (曲譜)
62	Harbin Xidazhi Street Securities Branch	No. 40 Xidazhi Street, Nangang District, Harbin, Heilongjiang	Zhou Qi (鄒祺)
63	Harbin Zhongshan Road Securities Branch	No. 111 Zhongshan Road, Nangang District, Harbin, Heilongjiang	Li Yanli (李延立)
64	Harbin Shuangcheng Changsheng Street Securities Branch	Workers Committee Integrated Building, Changsheng Street, Shuangcheng, Harbin, Heilongjiang	Qiao Mu (喬木)
65	Harbin Peace Road Securities Branch	Peace Building, No. 2 Peace Road, Xiangfang District, Harbin, Heilongjiang	Zhao Qun (趙群)
66	Hegang Jiefang Road East Securities Branch	No. 27 Jiefang Road East, Hegang, Heilongjiang	Hui Pengying (惠鵬鷹)
67	Heihe Beian Jiaotong Road Securities Branch	No. 81 Jiaotong Road, Beian, Heihe, Heilongjiang	Feng Dafu (馮大富)

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No.	Name	Address	Person in charge
68	Heihe Nenjiang Nenxing Road Securities Branch	No. 8 Nenxing Road, Nenjiang, Heihe, Heilongjiang	Wei Jingzhi (魏璟志)
69	Heihe Zhongyang Street Securities Branch	No. 258 Zhongyang Street, Heihe, Heilongjiang	Gu Hongyi (谷宏毅)
70	Jixi Hulin Hongqi Street Securities Branch	No. 17 Hongqi Street Center, Hulin Town, Hulin, Heilongjiang	He Ming (何明)
71	Jixi Zhongxin Main Street Securities Branch	No. 110 Zhongxin Main Street, Jiguan District, Jixi, Heilongjiang	Guo Haifeng (郭海峰)
72	Jixi Mishan Dongan Street Securities Branch	No. 195 Dongan Street, Mishan Town, Mishan, Jixi, Heilongjiang	Wang Yong (王勇)
73	Jiagedaqi Xingan Street Securities Branch	No. 198 Xingan Street, Jiagedaqi, Heilongjiang	Liu Yaxuan (劉亞軒)
74	Jiamusi Baowei Road Securities Branch	Yifu City Apartment, No. 115 Baowei Road, Qianjin District, Jiamusi, Heilongjiang	Wang Xiaofei (王曉飛)
75	Daxing Anling Mohe Zhenxing Road Securities Branch	Postal Office Building, Zhenxing Road, Xilinji, Mohe, Heilongjiang	Li Zijun (李子軍)
76	Mudanjiang Dongning Fanrong Street Securities Branch	No. 75 Fanrong Street, Dongning Town, Dongning, Mudanjiang, Heilongjiang	Geng Cheng (庚成)
77	Mudanjiang Hailin Linhai Road Securities Branch	2/F, Bank of China Tower, No. 65 Linhai Road, Hailin, Mudanjiang, Heilongjiang	Lin Yanhua (林艷花)
78	Mudanjiang Suifenhe Shancheng Road Securities Branch	7/F, No. 101 Shancheng Road, Suifenhe, Mudanjiang, Heilongjiang	Bao Xiuyong (包修勇)
79	Mudanjiang Peace Street Securities Branch	No. 7 Peace Street, Xian District West, Mudanjiang, Heilongjiang	Liu Changbo (劉昌波)
80	Mudanjiang Mudan Street Securities Branch	No. 1 Mudan Street West, Mudanjiang, Heilongjiang	Zhou Biao (周鵬)
81	Qitaihe Datong Street Securities Branch	No. 40 Datong Street, Taoshan District, Qitaihe, Heilongjiang	Yu Wencai (于文才)
82	Qiqihar Peace Road Securities Branch	No. 81 Peace Road, Fularji District, Qiqihar, Heilongjiang	Liu Yi (劉義)
83	Qiqihar Anshun Road Securities Branch	No. 6 Anshun Road, Longsha District, Qiqihar, Heilongjiang	Tian Yukun (田玉坤)
84	Qiqihar Pukui Street Securities Branch	No. 42 Pukui Street, Longsha District, Qiqihar, Heilongjiang	Wang Hongwei (王宏偉)
85	Qiqihar Nehe Zhongxin Main Street Securities Branch	No. 369 Zhongxin Main Street, Nehe, Qiqihar, Heilongjiang	Shi Qingjiu (石慶九)
86	Shuangyashan Wuma Road Securities Branch	No. 9 Wuma Road, Jianshan District, Shuangyashan, Heilongjiang	Song Junxie (宋俊頤)
87	Suihua Anda Beisidaojie Securities Branch	Side Building of Beisidaojie Passenger Station, Anda, Suihua, Heilongjiang	Wang Xichen (王喜臣)
88	Suihua South Zhongzhi Road Securities Branch	No.9 South Zhongzhi Road, Beilin District, Suihua, Heilongjiang	Cheng Shihai (程世海)
89	Yichun Xinxing Middle Road Securities Branch	No.90 Xinxing Middle Road, Yichun District, Yichun, Heilongjiang	Gu Chunming (顧春明)
90	Wuhan Shisheng Road Securities Branch	6F, Tower A, No.11 Shisheng Road, Hanyang District, Wuhan, Hubei	Tu Huimin (屠惠敏)
91	Wuhan Jiangda Road Securities Branch	No.2 Jiangda Road, Jiang' an District, Wuhan, Hubei	Tang Jun (唐軍)
92	Wuhan Zhongbei Road Securities Branch	No.146 Zhongbei Road, Wuchang District, Wuhan, Hubei	Zhou Lihua (周麗華)
93	Xianning Qianshan Road Securities Branch	No.6 Qianshan Road, Xian' an District, Xianning, Hubei	Liu Shihan (劉士漢)
94	Changsha Wuyi Avenue Securities Branch	5/F, Yinhua Mansion, No. 618 Wuyi Avenue, Changsha, Hunan	Song Jiaqing (宋家清)
95	Changde Langzhou Road Securities Branch	3/F, Kaili Building, No. 137 Langzhou Road, Wuling District, Changde, Hunan	Zhang Wenzhong (張文忠)
96	Hengyang Zhengyang South Road Securities Branch	6/F, Chongye Commercial Plaza, No. 2 Zhengyang South Road, Yanfeng District, Hengyang, Hunan	Ge Xianghong (葛向紅)
97	Shaoyang Daijia Road Securities Branch	2/F of the CCB Branch next to Feicuixingcheng, Daijia Road, Daxiang District, Shaoyang, Hunan	Deng Jiabin (鄧家斌)
98	Changchun Dajing Road Securities Branch	No.550 Dajing Road, Changchun, Jilin	Huang Jinfu (黃金富)
99	Dongfeng Dongfeng Road Securities Branch	No.281 Dongfeng Road, Dongfeng County, Jilin	Qin Jingbo (秦靖波)
100	Jilin Nanjing Street Securities Branch	No.104 Nanjing Street, Jilin City, Jilin	Song Baohong (宋寶紅)
101	Liaoyuan Renmin Avenue Securities Branch	No.367 Renmin Avenue, Liaoyuan, Jilin	Li Ying (李穎)
102	Changshu North Haiyu Road Securities Branch	No.20 North Haiyu Road, Changshu, Jiangsu	Ma Zili (馬自力)
103	Changzhou Jianshen Road Securities Branch	No.16 Jianshen Road, Changzhou, Jiangsu	Tang Jun (唐軍)

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No.	Name	Address	Person in charge
104	Danyang Danjin Road Securities Branch	3/F & 4/F, Fu Kang Yuan, No.14 Danjin Road, Danyang, Jiangsu	Xue Xiaoyan (薛曉雁)
105	Huaian North Huaihai Road Securities Branch	1/F, 4/F & 5/F, No.50 North Huaihai Road, Huaian, Jiangsu	Tang Daquan (唐大權)
106	Jiangdu Longcheng Road Securities Branch	No.79 Longcheng Road, Jiangdu, Jiangsu	Su Jiahong (蘇加宏)
107	Nanjing Changfu Street Securities Branch	3/F, Xindadu Plaza, No.85-7 Changfu Street, Baixia District, Nanjing, Jiangsu	Zhang Songjie (張頌傑)
108	Nanjing Guangzhou Road Securities Branch	No.188 Guangzhou Road, Gulou District, Nanjing, Jiangsu	Qian Jingxing (錢敬星)
109	Nantong Renmin Middle Road Securities Branch	2/F, Postal Office Building, No.88 Renmin Middle Road, Nantong, Jiangsu	Miao Pengfei (繆鵬飛)
110	Suzhou Zhuhui Road Securities Branch	No. 258 Zhuhui Road, Suzhou, Jiangsu	Yue Lan (岳嵐)
111	Taizhou Gulou Road South Securities Branch	No. 315 Gulou Road South, Taizhou, Jiangsu	Qiao Leizhang (喬雷璋)
112	Wuxi Jiefang Road East Securities Branch	No. 1008 Jiefang Road East, Wuxi, Jiangsu	Wu Guohua (吳國華)
113	Yancheng Middle Jianjun Road Securities Branch	No. 68 Middle Jianjun Road, Yancheng, Jiangsu	Liu Aiwu (劉愛武)
114	Yangzhou Wenhe Road South Securities Branch	No. 69 Wenhe Road South, Yangzhou, Jiangsu	Liu Junjie (劉俊傑)
115	Xuzhou Zhongshan Road North Securities Branch	3/F, Longtai Building, No. 12 Zhongshan Road North, Gulou District, Xuzhou, Jiangsu	Zhang Liang (張亮)
116	Zhenjiang Zhongshan Road West Securities Branch	No. 53 Zhongshan Road West, Runzhou District, Zhenjiang, Jiangsu	Cheng Jian (成劍)
117	Xinyu Fenyi Fuqian Road Securities Branch	No. 5 Fuqian Road, Fenyi, Jiangxi	Lai Wensheng (賴文勝)
118	Nanchang Plaza Road North Securities Branch	No. 97 Plaza Road North, Nanchang, Jiangxi	Xiao Fangsheng (肖芳生)
119	Xinyu Labour Road South Securities Branch	No. 1 Labour Road South, Xinyu, Jiangxi	Xiao Pingping (肖萍萍)
120	Ganzhou Hongqi Avenue Securities Branch	1/F - 4/F, Building 1, No. 25 Hongqi Avenue, Zhonggong District, Ganzhou, Jiangxi	Zhu Farong (朱發榮)
121	Anshan Erdao Street Securities Branch	No. 90 Erdao Street, Tiedong District, Anshan, Liaoning	Zhang Long (張龍)
122	Anshan Xiuyan Securities Branch	No. 49-19 Fuchang Road, Xiuyan, Xiuyan Manchu Autonomous County, Anshan, Liaoning	Wang Shidong (王世東)
123	Dalian Tianjin Street Securities Branch	No. 91 Tianjin Street, Zhongshan District, Dalian, Liaoning	Wei Chunmin (衛春敏)
124	Panjin Renmin Road Securities Branch	No. 1-48-6 Caimao Garden, Renmin Road, Xinglongtai District, Panjin, Liaoning	Zhao Hong (趙宏)
125	Shenyang Daxi Road Securities Branch	No. 364 Daxi Road, Shenhe District, Shenyang, Liaoning	Wang Qun (王群)
126	Yingkou Liaohu Street Securities Branch	No. 9 Liaohu Plaza, Zhanqian District, Yingkou, Liaoning	Qiao Wenxuan (喬文選)
127	Feicheng Xincheng Road Securities Branch	No. 039 Xincheng Road, Feicheng, Shandong	Zhang Yong (張勇)
128	Jinan Hongjialou South Road Securities Branch	No. 25 Hongjialou South Road, Jinan, Shandong	Yu Hongquan (于洪泉)
129	Jinan Quancheng Road Securities Branch	No. 15 Quancheng Road, Jinan, Shandong	Zhang Dong (張東)
130	Qingdao Hangzhou Road Securities Branch	No. 20 Hangzhou Road, Qingdao, Shandong	Liu Changbo (劉昌波)
131	Qingdao 1st Zhanshan Road Securities Branch	No. 25 1st Zhanshan Road, Qingdao, Shandong	Cui Ning (崔寧)
132	Taian Daizong Street Securities Branch	No. 10 Daizong Street, Taian, Shandong	Li Meiling (李美玲)
133	Weihai Gaoshan Street Securities Branch	No. 2 Gaoshan Street, Weihai, Shandong	Sun Xiaodong (孫曉東)
134	Yantai Jiefang Road Securities Branch	No. 164 Jiefang Road, Yantai, Shandong	Yang Zhiyi (楊志藝)
135	Zibo Huantai Dongyue Road Securities Branch	Qishang Bank Buiding, No. 1251 Dongyue Road, Huantai, Zibo, Shandong	Liu Shanshun (劉善順)
136	Zibo Shihua Securities Branch	No. 69 Qilu Chemical Plaza, Linzi District, Zibo, Shandong	Jiangshan (姜山)
137	Zibo Tongji Street Securities Branch	No. 140 Tongji Street, Linzi District, Zibo, Shandong	Qi Simin (戚思敏)
138	Zaozhuang Taishan South Road Securities Branch	No. 111 Taishan South Road, Xuecheng District, Zaozhuang, Shandong (opposite to Railway Transportation Office)	Zhai Yiming (翟一鳴)
139	Taiyuan Changfeng West Street Securities Branch	8/F, Tower B, Lihua Building, No. 1 Changfeng West Street, Taiyuan, Shanxi	Heng Yufeng (衡宇峰)
140	Taiyuan Yingzexi Street Securities Branch	No. 386 Yingzexi Street, Taiyuan, Shanxi	Wang Gang (王剛)
141	Taiyuan Xinjian Road Securities Branch	No. 92 Xinjian Road, Taiyuan, Shanxi	Yang Xiaoping (楊小平)
142	Taiyuan Xinghua Road Securities Branch	No. 188 Xinghua Road, Taiyuan, Shanxi	Feng Bing (馮冰)

SECTION XII INFORMATION DISCLOSURE OF SECURITIES COMPANY

No.	Name	Address	Person in charge
143	Xi'an Xixin Street Securities Branch	10/F, Haixing Intellectual Square, No. 11 Xixin Street, Xi'an, Shaanxi	Wei Tao (衛濤)
144	Xianyang Shenxing North Road Securities Branch	3/F, International Commerce Building, No. 1 Shenxing North Road, Xianyang, Shaanxi	Meng Liya (孟立亞)
145	Yulin Yuyang Securities Branch	No. 41 Fushi Road, Yulin, Shaanxi	Hai Xia (海霞)
146	Shanghai Tianshan West Road Securities Branch	4/F, No. 155 Tianshan West Road, Shanghai	He Deyu (何德煜)
147	Shanghai Xuanhua Road Securities Branch	7/F, Huaning Plaza, No. 300 Xuanhua Road, Shanghai	Xu Lan (徐嵐)
148	Shanghai Zhongdeqiao Road Securities Branch	No. 2 Zhongdeqiao Road, Shanghai	Mao Jiajun (茅佳俊)
149	Shanghai Nanxiang Securities Branch	No. 681 Deyuan Road, Shanghai	Zhang Feng (張峰)
150	Shanghai Nanqiao Securities Branch	No. 381 Nanxing Road, Nanqiao, Shanghai	Zhang Cheng (張成)
151	Shanghai Guilin Road Securities Branch	No. 46 Guilin Road, Shanghai	Qian Wengang (錢文剛)
152	Shanghai Hefei Road Securities Branch	No. 293 Hefei Road, Shanghai	Wang Yuan (王園)
153	Shanghai Yutian Branch Road Securities Branch	No. 11 Yutian Branch Road, Shanghai	Lin Jia (林佳)
154	Shanghai Jiangning Road Securities Branch	4/F, No. 1330 Jiangning Road & 4F, No. 351, Aomen Road, Shanghai	Shao Yan (邵豔)
155	Shanghai Yuyao Road Securities Branch	No. 420 Yuyao Road, Shanghai	Zhu Jiangli (朱江力)
156	Shanghai Laohumin Road Securities Branch	No. 777 Laohumin Road, Shanghai	Liu Weizhong (劉巍中)
157	Shanghai Mudanjiang Road Securities Branch	No. 263-265 Mudanjiang Road, Shanghai	Lu Yan (陸雁)
158	Shanghai Pingwu Road Securities Branch	No. 38 Pingwu Road, Shanghai	Wang Yi (王軼)
159	Shanghai Gushan Road Securities Branch	No. 619, Gushan Road, Pudong, Shanghai	Chen Wenyuan (陳文彥)
160	Shanghai Rushan Road Securities Branch	No. 233, Rushan Road, Shanghai	Gao Yanhua (高燕華)
161	Shanghai Zaoyang Road Securities Branch	Room 102, 1F & 12F, No. 108, Zaoyang Road, Shanghai	Lou Gang (樓剛)
162	Shanghai Sichuan South Road Securities Branch	No. 26, Sichuan South Road, Shanghai	Du Jun (杜埃)
163	Shanghai Tianping Road Securities Branch	No. 137, Tianping Road, Shanghai	Yu Youhong (余有紅)
164	Shanghai Tongchuan Road Securities Branch	No. 1869, Tongchuan Road, Shanghai	Yang Zhidi (楊志弟)
165	Shanghai Wuzhong Road Securities Branch	No. 1059, Wuzhong Road, Shanghai	Si Anxiang (司安祥)
166	Shanghai Xianggang Road Securities Branch	No. 117, Xianggang Road, Shanghai	Ye Chaolong (葉潮龍)
167	Shanghai Xietu Road Securities Branch	3F, No. 112 & 1F & 3F, No. 116, Xietu Road, Shanghai	Yang Hong (楊紅)
168	Shanghai Jianguo West Road Securities Branch	3F, No. 285, Jianguo West Road, Shanghai	Zhou Jie (周傑)
169	Shanghai Yanchang West Road Securities Branch	No. 338, Yanchang West Road, Shanghai	Zhao Hui (趙輝)
170	Shanghai Benxi Road Securities Branch	No. 181, Benxi Road, Shanghai	Gu Jianxue (顧建學)
171	Shanghai Gonghexin Road Securities Branch	No. 3703, Gonghexin Road, Shanghai	Lu Zhiqian (盧志泉)
172	Shanghai Zhenhua Road Securities Branch	No. 950, Zhenhua Road & No. 326, Dahua 2nd Road, Shanghai	Gong Zhihong (龔志宏)
173	Shanghai Zhoujiazui Road Securities Branch	No. 3255, Zhoujiazui Road, Shanghai	Li Jianxin (李建新)
174	Shanghai Songjiang Securities Branch	No. 5-8 & No. 26-29, Lane 171, Renmin Road North, Songjiang District, Shanghai	Peng Xiaotong (彭霄彤)
175	Shanghai Qingpu Securities Branch	Block A of 1F & Block A of 4F, No. 458, Garden Road, Qingpu District, Shanghai	Jin Shiwei (金世偉)
176	Shenzhen Fuhua 3rd Road Securities Branch	Unit B, 3F, Times Fortune Building, No.88, Fuhua 3rd Road, Futian District, Shenzhen	Gong Mei (龔錕)
177	Shenzhen Honglingnan Road Securities Branch	2F, Tower 4-5, Hongling Building, Honglingnan Road, Futian District, Shenzhen	Wan Lanming (萬蘭明)
178	Shenzhen Huafu Road Securities Branch	5F, Nanguang Building, No.5, Huafu Road, Futian District, Shenzhen	Nan Yu (南玉)
179	Shenzhen Jingtian Road Securities Branch	2F, Rui Da Yuan, Jingtian Road, Futian District, Shenzhen	Shen Zhijing (沈志敬)
180	Shenzhen Honglingzhong Road Securities Branch	3F, Zhongshen Guoji Mansion, No.2068, Honglingzhong Road, Luohu District, Shenzhen	Wang Lei (王磊)
181	Shenzhen Haide 3rd Road Securities Branch	8F, Tiley Central Plaza, Haide 3rd Road, Nanshan District, Shenzhen	Zeng Yunbei (曾韻蓓)
182	Chengdu West Renmin Road Securities Branch	No. 96, West Renmin Road, Chengdu, Sichuan	Xu Feng (許鋒)
183	Chengdu Wenjiang District East Yangliu Road Securities Branch	No. 31, 34 & 83, East Yangliu Road, Wenjiang District, Chengdu, Sichuan	Xu Jianqiang (徐建強)

SECTION XII INFORMATION DISCLOSURE OF SECURITIES COMPANY

No.	Name	Address	Person in charge
184	Mianyang Youxian Securities Branch	No. 66, East Section of Yihuan Road, Youxian District, Mianyang, Sichuan	Yang Zhou (楊洲)
185	Tianjin Xiaguang Road Securities Branch	Ningtai Plaza, No. 1, Xiaguang Road, Nankai District, Tianjin	Ren Yu (任宇)
186	Urumqi Xinyi Road Securities Branch	No. 359, Xinyi Road, Xinsi District, Urumqi, Xinjiang	Cao Xuesong (曹雪松)
187	Mile Ranweng Road Securities Branch	1F, No.618, Ranweng Road, Miyang Town, Mile County, Honghe Prefecture, Yunnan	Liu Jin (劉晉)
188	Jinghong Galanzhong Road Securities Branch	No.100, Galanzhong Road, Jinghong, Yunnan	Gu Jianxin (顧建新)
189	Kunming West Dongfeng Road Securities Branch	No.162, West Dongfeng Road, Kunming, Yunnan	Zhang Chongde (張崇德)
190	Hangzhou West Huancheng Road Securities Branch	No.46-2, West Huancheng Road, Hangzhou, Zhejiang	Ma Jie (馬劫)
191	Hangzhou Jiefang Road Securities Branch	No.138, Jiefang Road, Hangzhou, Zhejiang	Jin Xiaoyang (金曉陽)
192	Hangzhou Wenhua Road Securities Branch	No.169, Wenhua Road, Xiaoshan District, Hangzhou, Zhejiang	Chen Jianrong (陳建榮)
193	Shangyu Baiguan Town Securities Branch	No.49, Fengshan Road, Baiguan Street, Shangyu, Zhejiang	Ling Rushui (凌如水)
194	Shaoxing Laodong Road Securities Branch	No.158, Laodong Road, Shaoxing, Zhejiang	Chen Qing (陳青)
195	Shengzhou Xiqianjie Securities Branch	No.89, Xiqianjie, Shengzhou, Zhejiang	Zou Ning (鄒寧)
196	Yiwu Xinma Road Securities Branch	No.117, Xinma Road, Yiwu, Zhejiang	Yan Jianting (嚴建庭)
197	Ningbo Baizhang East Road Securities Branch	11F, Yinxin Building, No. 787, Baizhang East Road, Ningbo, Zhejiang	Fang Xianming (方賢明)
198	Ningbo North Jiefang Road Securities Branch	No. 148, North Jiefang Road, Ningbo, Zhejiang	Mei Wensheng (梅文勝)
199	Jiaxing West Zhongshan Road Securities Branch	No. 850 & 852, West Zhongshan Road, Jiaxing, Zhejiang	Wang Honglei (王宏雷)
200	Huzhou Nanxun Securities Branch	No. 389, Dazhong Road, Huzhou, Zhejiang	Du Haiyan (杜海燕)
201	Chongqing California City Garden Securities Branch	Tower 9, California City Garden, Longxi Town, Yubei District, Chongqing	Li Guojing (李國靜)
202	Chongqing Zhongshan 3rd Road Securities Branch	No. 152, Zhongshan 3rd Road, Shangqingsi, Yuzhong District, Chongqing	Yuan Dengfeng (苑登鋒)

INDEPENDENT AUDITOR'S REPORT

Deloitte.

德勤

TO THE SHAREHOLDERS OF

HAITONG SECURITIES CO., LTD.

(Incorporated in the People's Republic of China with limited liability)

We have audited the consolidated financial statements of Haitong Securities Co., Ltd. (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 160 to 276, which comprise the consolidated and company statements of financial position as at 31 December 2012, and the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Directors' Responsibility for the Consolidated Financial Statements

The directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards issued by International Accounting Standards Board and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. We conducted our audit in accordance with International Standards on Auditing issued by International Auditing and Assurance Standards Board. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the consolidated financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

INDEPENDENT AUDITOR'S REPORT

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and the Group as at 31 December 2012, and of the Group's profit and cash flows for the year then ended in accordance with International Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Deloitte Touche Tohmatsu

Certified Public Accountants

Hong Kong

26 March 2013

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2012

	<i>Notes</i>	2012 RMB'000	2011 RMB'000
Revenue			
Commission and fee income	5	5,213,180	6,566,781
Interest income	6	2,876,735	2,553,171
Net investment gains	7	2,402,689	1,506,926
Total revenue		10,492,604	10,626,878
Other income and gains	8	250,558	233,496
Total revenue and other income		10,743,162	10,860,374
Depreciation and amortisation	9	(316,841)	(300,037)
Staff costs	10	(2,142,298)	(2,319,953)
Commission to account executives		(259,035)	(297,519)
Brokerage transaction fees and other services expenses	11	(569,299)	(746,724)
Interest expenses	12	(704,404)	(459,796)
Other expenses		(2,707,679)	(2,509,093)
Total expenses		(6,699,556)	(6,633,122)
Share of results of associates		65,866	72,912
Profit before income tax	13	4,109,472	4,300,164
Income tax expense	14	(874,980)	(1,018,167)
Profit for the year		3,234,492	3,281,997
Attributable to:			
Owners of the Company		3,019,776	3,103,034
Non-controlling interests		214,716	178,963
		3,234,492	3,281,997
Earnings per share (Expressed in RMB per share)			
– Basic	15	0.33	0.38
– Diluted	15	0.33	0.38

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2012

	2012	2011
	RMB'000	<i>RMB'000</i>
Profit for the year	3,234,492	3,281,997
Other comprehensive expense:		
Available-for-sale investments		
Net fair value changes during the year	(59,075)	(1,367,472)
Reclassification adjustment to profit or loss on disposal/impairment	881,006	(43,453)
Income tax relating to components of other comprehensive income	(198,232)	333,258
Share of revaluation loss of associates	(11,596)	(8,084)
	612,103	(1,085,751)
Exchange differences arising on translation	1,023	(196,436)
Other comprehensive expense for the year (net of tax)	613,126	(1,282,187)
Total comprehensive income for the year	3,847,618	1,999,810
Attributable to:		
Owners of the Company	3,631,812	1,867,682
Non-controlling interests	215,806	132,128
	3,847,618	1,999,810

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2012

	Notes	2012/12/31 RMB'000	2011/12/31 RMB'000
Non-current assets			
Property and equipment	16	1,134,459	1,177,137
Investment properties	17	90,143	93,472
Goodwill	18	642,398	642,280
Other intangible assets	19	289,243	308,027
Investments in associates	22	1,727,890	926,114
Available-for-sale investments	23	3,353,761	1,933,565
Loan and receivable investments	24	1,278,302	157,683
Held-to-maturity investments	25	651,858	–
Deferred tax assets	49	369,606	513,100
Restricted bank deposits	36	320,586	326,719
Other assets	26	93,651	84,864
Total non-current assets		9,951,897	6,162,961
Current assets			
Loans and advances to customers	27	11,338,687	6,462,677
Accounts receivable	28	1,113,355	872,552
Other receivables and prepayments	29	1,574,594	740,182
Available-for-sale investments	23	7,427,046	6,826,646
Loan and receivable investments	24	1,894,100	–
Held-to-maturity investments	25	4,861	–
Financial assets held under resale agreements	31	2,193,569	605,900
Financial assets at fair value through profit or loss	32	32,195,783	20,605,107
Deposits with exchanges	33	3,994,752	2,177,814
Clearing settlement funds	34	3,045,330	3,952,038
Bank balances and cash	35	51,991,465	50,571,034
Total current assets		116,773,542	92,813,950
Total assets		126,725,439	98,976,911
Current liabilities			
Borrowings	37	8,626,314	2,520,730
Placements from other financial institutions	38	2,150,000	–
Accounts payable to brokerage clients	39	36,956,823	38,013,807
Other payables and accruals	40	1,897,509	1,818,960
Provisions	41	3,143	248
Tax liabilities		85,471	415,972
Financial liabilities at fair value through profit or loss	42	385,059	–
Financial assets sold under repurchase agreements	43	16,040,561	9,524,534
Total current liabilities		66,144,880	52,294,251
Net current assets		50,628,662	40,519,699
Total assets less current liabilities		60,580,559	46,682,660

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2012

	<i>Notes</i>	2012/12/31 RMB'000	2011/12/31 <i>RMB'000</i>
Equity			
Share capital	44	9,584,721	8,227,821
Capital reserve		32,376,205	22,493,436
Investment revaluation reserve		66,111	(545,232)
Translation reserve		(250,116)	(250,809)
General reserves	47	6,740,034	5,929,525
Retained profits		10,162,728	9,187,634
Equity attributable to owners of the Company		58,679,683	45,042,375
Non-controlling interests		1,750,913	1,568,267
Total equity		60,430,596	46,610,642
Non-current liabilities			
Deferred tax liabilities	49	149,963	72,018
Total equity and non-current liabilities		60,580,559	46,682,660

Wang Kaiguo

Chairman of Board

Li Mingshan

*Executive Director and
General Manager*

Li Chuqian

Chief Financial Officer

STATEMENT OF FINANCIAL POSITION

As at 31 December 2012

	<i>Notes</i>	2012/12/31 RMB'000	2011/12/31 <i>RMB'000</i>
Non-current assets			
Property and equipment	16	1,051,205	1,097,079
Investment properties	17	90,143	93,472
Other intangible assets	19	157,957	159,153
Investments in subsidiaries	21	14,033,130	8,283,130
Investments in associates	22	92,907	92,907
Available-for-sale investments	23	342,353	353,184
Deferred tax assets	49	317,951	463,405
Other assets	26	78,960	73,413
Total non-current assets		16,164,606	10,615,743
Current assets			
Loans and advances to customers	27	6,392,950	3,675,252
Other receivables and prepayments	29	1,109,331	531,719
Amount due from a subsidiary	30	92,557	874,062
Available-for-sale investments	23	6,627,608	6,318,692
Loan and receivable investments	24	200,000	–
Financial assets held under resale agreements	31	1,464,969	32,000
Financial assets at fair value through profit or loss	32	30,631,856	20,299,297
Deposits with exchanges	33	1,607,943	1,031,890
Clearing settlement funds	34	2,211,644	2,792,636
Bank balances and cash	35	42,286,922	38,662,681
Total current assets		92,625,780	74,218,229
Total assets		108,790,386	84,833,972

STATEMENT OF FINANCIAL POSITION

As at 31 December 2012

	<i>Notes</i>	2012/12/31 RMB'000	2011/12/31 <i>RMB'000</i>
Current liabilities			
Borrowings	37	5,000,000	–
Placements from other financial institutions	38	2,150,000	–
Accounts payable to brokerage clients	39	26,410,332	29,127,160
Other payables and accruals	40	906,380	1,321,319
Amount due to a subsidiary	30	11,100	53
Provisions	41	3,143	248
Tax liabilities		134	311,608
Financial liabilities at fair value through profit or loss	42	366,444	–
Financial assets sold under repurchase agreements	43	16,040,561	9,524,534
Total current liabilities		50,888,094	40,284,922
Net current assets		41,737,686	33,933,307
Total assets less current liabilities		57,902,292	44,549,050
Equity			
Share capital	44	9,584,721	8,227,821
Capital reserve	45	32,472,480	22,635,141
Investment revaluation reserve	46	35,470	(587,071)
General reserves	47	6,740,034	5,929,525
Retained profits	48	8,956,105	8,318,500
Total equity		57,788,810	44,523,916
Non-current liabilities			
Deferred tax liabilities	49	113,482	25,134
Total equity and non-current liabilities		57,902,292	44,549,050

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2012

	Attributable to owners of the Company						Non-controlling interests				Total equity RMB'000
	Share capital RMB'000	Capital reserve RMB'000 (Note a)	Investment revaluation reserve RMB'000	Translation reserve RMB'000	General reserves RMB'000 (note 47)	Retained profits RMB'000	Total RMB'000	Share of net assets of subsidiaries RMB'000	Share option reserve of a subsidiary RMB'000	Total RMB'000	
At 1 January 2012	8,227,821	22,493,436	(545,232)	(250,809)	5,929,525	9,187,634	45,042,375	1,562,865	5,402	1,568,267	46,610,642
Profit for the year	-	-	-	-	-	3,019,776	3,019,776	214,716	-	214,716	3,234,492
Other comprehensive expense for the year	-	-	611,343	693	-	-	612,036	1,090	-	1,090	613,126
Total comprehensive (expense) income for the year	-	-	611,343	693	-	3,019,776	3,631,812	215,806	-	215,806	3,847,618
Changes of equity interests in subsidiaries	-	1,294	-	-	-	-	1,294	(7,735)	-	(7,735)	(6,441)
Global offering (note b)	1,356,900	10,330,669	-	-	-	-	11,687,569	-	-	-	11,687,569
Cost of global offering	-	(449,194)	-	-	-	-	(449,194)	-	-	-	(449,194)
Appropriation to general reserves	-	-	-	-	810,509	(810,509)	-	-	-	-	-
Capital injection by a non-controlling shareholder of a subsidiary	-	-	-	-	-	-	-	80,395	-	80,395	80,395
Cash dividend recognised as distribution (note 52)	-	-	-	-	-	(1,234,173)	(1,234,173)	(105,820)	-	(105,820)	(1,339,993)
At 31 December 2012	9,584,721	32,376,205	66,111	(250,116)	6,740,034	10,162,728	58,679,683	1,745,511	5,402	1,750,913	60,430,596
At 1 January 2011	8,227,821	22,551,933	528,344	(89,033)	5,014,289	8,234,009	44,467,363	1,149,384	-	1,149,384	45,616,747
Profit for the year	-	-	-	-	-	3,103,034	3,103,034	178,963	-	178,963	3,281,997
Other comprehensive expense for the year	-	-	(1,073,576)	(161,776)	-	-	(1,235,352)	(46,835)	-	(46,835)	(1,282,187)
Total comprehensive (expense) income for the year	-	-	(1,073,576)	(161,776)	-	3,103,034	1,867,682	132,128	-	132,128	1,999,810
Changes of equity interests in a subsidiary	-	(59,246)	-	-	-	-	(59,246)	37,694	-	37,694	(21,552)
Capital injection by a non-controlling shareholder of a subsidiary	-	749	-	-	-	-	749	367,606	-	367,606	368,355
Appropriation to general reserves	-	-	-	-	915,236	(915,236)	-	-	-	-	-
Cash dividend recognised as distribution (note 52)	-	-	-	-	-	(1,234,173)	(1,234,173)	(123,947)	-	(123,947)	(1,358,120)
Others	-	-	-	-	-	-	-	-	5,402	5,402	5,402
At 31 December 2011	8,227,821	22,493,436	(545,232)	(250,809)	5,929,525	9,187,634	45,042,375	1,562,865	5,402	1,568,267	46,610,642

Note a: Capital reserve of the Group represents primarily (i) the share premium arisen from the issuance of the Company's shares, and (ii) the difference between the considerations paid over the proportionate share of net assets attributable to the acquisition of additional interests in subsidiaries.

Note b: During the year, the Company issued 1,356,900,000 H shares which were listed on the Main Board of the Hong Kong Stock Exchange Limited at the price of HKD10.60 per share.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2012

	2012 <i>RMB'000</i>	2011 <i>RMB'000</i>
OPERATING ACTIVITIES		
Profit before income tax	4,109,472	4,300,164
Adjustments for		
Interest expenses	704,404	459,796
Share-based payment expenses	–	5,402
Share of results of associates	(65,866)	(72,912)
Depreciation and amortisation	316,841	300,037
Reversal of impairment loss in respect of other receivables	(24,001)	(32,773)
Gain on other bond investments and held-to-maturity investments	(102,850)	–
Loss/(Gain) on disposal of property and equipment and other intangible assets	3,218	(693)
Foreign exchange (gains) losses, net	(90,676)	(68,869)
Net gains arising from available-for-sale investments	(252,792)	(754,030)
Impairment loss in respect of available-for-sale investments	865,218	540,409
Operating cash flows before movements in working capital	5,462,968	4,676,531
(Increase)/decrease in deposits and reserve funds and deposits with exchanges	(1,826,227)	216,685
(Increase)/decrease in loans and advances to customers	(4,876,010)	(648,221)
(Increase)/decrease in accounts and other receivables and prepayments	(1,087,364)	(104,306)
(Increase)/decrease in financial assets held under resale agreements	(1,587,669)	1,514,100
(Increase)/decrease in financial assets at fair value through profit or loss	(11,590,676)	(5,587,023)
(Increase)/decrease in restricted bank deposits	6,133	(65,918)
(Increase)/decrease in cash held on behalf of clients	2,098,457	25,748,006
Increase/(decrease) in accounts payable to brokerage clients and other payables and accruals	(938,440)	(26,402,021)
Increase/(decrease) in financial liabilities at fair value through profit or loss	385,059	–
Increase/(decrease) in financial assets sold under repurchase agreements	6,516,027	9,524,534
Increase/(decrease) in placements from other financial institutions	2,150,000	–
Increase/(decrease) in provisions	2,895	(6,605)
Cash used in operations	(5,284,847)	8,865,762
Income taxes paid, net	(1,182,273)	(1,310,236)
Interest paid	(666,360)	(431,687)
NET CASH USED IN OPERATING ACTIVITIES	(7,133,480)	7,123,839

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2012

<i>Note</i>	2012 RMB'000	2011 RMB'000
INVESTING ACTIVITIES		
Dividends received from associates and other investments	52,495	51,995
Purchases of property and equipment and intangible assets	(230,296)	(366,307)
Proceeds on disposal of property and equipment	12,709	28,298
Capital injection to associates	(800,000)	(370,000)
Proceeds on disposal of an associate		
Increase in available-for-sale investments	(1,836,298)	(3,047,813)
Proceeds (payment) on other investment activities	(3,568,588)	(157,683)
NET CASH USED IN INVESTING ACTIVITIES	(6,369,978)	(3,861,510)
FINANCING ACTIVITIES		
Dividends paid	(1,369,034)	(1,329,080)
Purchase of subsidiaries' shares	(4,811)	(18,454)
Proceeds from issuance of H shares	11,278,328	–
Proceeds from issuance of subsidiaries' shares	80,395	368,355
Borrowings raised net of interest paid	1,079,460	(417,877)
Proceeds from/(payment for) other financing activities	1,429,147	(313,925)
NET CASH (USED IN) FROM FINANCING ACTIVITIES	12,493,485	(1,710,981)
NET DECREASE IN CASH AND CASH EQUIVALENTS	(1,009,973)	1,551,348
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR	17,267,139	15,777,118
Effect of foreign exchange rate changes	91,251	(61,327)
CASH AND CASH EQUIVALENTS AT END OF THE YEAR	16,348,417	17,267,139

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

1. GENERAL INFORMATION OF THE GROUP

The Company was transformed from Shanghai Haitong Securities Company (上海海通証券公司), which was established in 1988, to a limited liability company upon the authorisation by the People's Bank of China in September 1994 and had changed its name to 海通証券有限公司. In December 2001, the Company was further transformed to a joint-stock company upon the approval from China Securities Regulatory Commission (the "CSRC"). In January 2002, the Company changed its name from 海通証券有限公司 to Haitong Securities Co., Ltd. (海通証券股份有限公司). In June 2007, the Company's merger with former Shanghai Urban Agro-Business Co., Ltd. (上海市都市農商社股份有限公司) was approved by the CSRC, and was listed on the Shanghai Stock Exchange in July in the same year, with its name changed to "Haitong Securities". On 27 April 2012, the Company issued H shares which are listed on the Main Board of the Stock Exchange of Hong Kong Limited (the "Hong Kong Stock Exchange").

The address of the Company's registered office is Haitong Securities Building, No. 689 Guangdong Road, Shanghai, the People's Republic of China ("PRC"). The principal place of business of the Company is Haitong Securities Building, No.689 Guangdong Road, Shanghai, the PRC.

The Company and its subsidiaries are principally engaged in securities and futures contracts dealing and broking, proprietary trading, margin and other financing, underwriting, assets management and provision of investment advisory and consultancy services.

The consolidated financial statements are presented in Renminbi ("RMB"), which is also the functional currency of the Company.

2. APPLICATION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS

In the current year, the Group has applied the following amendments to International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board.

Amendments to IFRS 7 Disclosures – Transfers of Financial Assets

The Group has applied the amendments to IFRS 7 Disclosures – Transfers of Financial Assets in the current year. The amendments to IFRS 7 increase the disclosure requirements for transactions involving the transfer of financial assets in order to provide greater transparency around risk exposures when financial assets are transferred. The relevant disclosures have been made on application of the amendments to IFRS 7 (see note 43). In accordance with the transitional provisions set out in the amendment to IFRS 7, the Group has not provided comparative information for the disclosures required by the amendments.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

2. APPLICATION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS (continued)

Amendments to IAS 12 Deferred Tax – Recovery of Underlying Assets

In the current year, the Group has also applied, for the first time, Amendments to IAS 12 Deferred Tax – Recovery of Underlying Assets. The application of the above amendments to IFRSs in the current year has had no effect on the amounts reported in these consolidated financial statements and/or disclosures set out in these consolidated financial statements.

New and revised IFRSs issued but not yet effective

The Group has not early applied the following new and revised IFRS that have been issued but are not yet effective.

IFRS 9	Financial Instruments ³
IFRS 10	Consolidated Financial statements ¹
IFRS 11	Joint Arrangements ¹
IFRS 12	Disclosure of Interests in Other Entities ¹
IFRS 13	Fair Value Measurement ¹
Amendments to IFRS 7	Disclosures – Offsetting Financial Assets and Financial Liabilities ¹
Amendments to IFRS 9 and IFRS 7	Mandatory Effective Date of IFRS 9 and Transition Disclosure ³
Amendments to IFRS 10, IFRS 11 and IFRS 12	Consolidated Financial Statements, Joint Arrangements and Disclosures of Interests in Other Entities: Transition Guidance ¹
Amendments to IFRS 10, IFRS 12 and IAS 27	Investment Entities ²
IAS 19 (as revised 2011)	Employee Benefits ¹
IAS 27 (as revised 2011)	Separate Financial Statements ¹
IAS 28 (as revised 2011)	Investments in Associates and Joint Ventures ¹
Amendments to IAS 1	Presentation of Items of Other Comprehensive Income ⁴
Amendments to IAS 32	Offsetting Financial Assets and Financial Liabilities ²
Amendments to IFRSs	Annual Improvement to IFRSs 2009 – 2011 Cycle
IFRIC 20	Stripping Costs in the Production Phase of a Surface Mine ¹

¹ Effective for annual periods beginning on or after 1 January 2013.

² Effective for annual periods beginning on or after 1 January 2014.

³ Effective for annual periods beginning on or after 1 January 2015.

⁴ Effective for annual periods beginning on or after 1 July 2012.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

2. APPLICATION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS (continued)

New and revised IFRSs issued but not yet effective (continued)

IFRS 9 Financial instruments

IFRS 9 issued in 2009 introduces new requirements for the classification and measurement of financial assets. IFRS 9 amended in 2010 includes the requirements for the classification and measurement of financial liabilities and for derecognition.

Key requirements of IFRS 9 are described as follows:

IFRS 9 requires all recognised financial assets that are within the scope of IAS 39 *“Financial Instruments: Recognition and Measurement”* to be subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. All other debt investments and equity investments are measured at their fair values at the end of subsequent reporting periods. In addition, under IFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognised in profit or loss.

With regard to the measurement of financial liabilities designated as at fair value through profit or loss, HKFRS 9 requires that the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of the effects of changes in the liability’s credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value of financial liabilities attributable to changes in the financial liabilities’ credit risk are not subsequently reclassified to profit or loss. Under HKAS 39, the entire amount of the change in the fair value of the financial liability designated as fair value through profit or loss was presented in profit or loss.

IFRS 9 is effective for annual periods beginning on or after 1 January 2015, with earlier application permitted.

The directors anticipate that the adoption of IFRS 9 in the future may have significant impact on amounts reported in respect of the Group’s financial assets and financial liabilities. Regarding the Group’s financial assets and financial liabilities, it is not practicable to provide a reasonable estimate of that effect until a detailed review has been completed.

New and revised standards on consolidation, joint arrangements, associates and disclosures

In June 2011, a package of five standards on consolidation, joint arrangements, associates and disclosures was issued, including IFRS 10, IFRS 11, IFRS 12, IAS 27 (as revised in 2011) and IAS 28 (as revised in 2011).

Key requirements of these five standards are described below.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

2. APPLICATION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS (continued)

New and revised IFRSs issued but not yet effective (continued)

New and revised standards on consolidation, joint arrangements, associates and disclosures (continued)

IFRS 10 replaces the parts of IAS 27 *Consolidated and Separate Financial Statements* that deal with consolidated financial statements and SIC – 12 *Consolidation – Special Purpose Entities* will be withdrawn upon the effective date of IFRS 10. Under IFRS 10, there is only one basis for consolidation, that is, control. In addition, IFRS 10 includes a new definition of control that contains three elements: (a) power over an investee, (b) exposure, or rights, to variable returns from its involvement with the investee, and (c) the ability to use its power over the investee to affect the amount of the investor's returns. Extensive guidance has been added in IFRS 10 to deal with complex scenarios.

IFRS 11 replaces IAS 31 *Interests in Joint Ventures*, and SIC -13 *Jointly Controlled Entities – Non-monetary Contributions by Venturers*. IFRS 11 deals with how a joint arrangement of which two or more parties have joint control should be classified. Under IFRS 11, joint arrangements are classified as joint operations or joint ventures, depending on the rights and obligations of the parties to the arrangements. In contrast, under IAS 31, there are three types of joint arrangements: jointly controlled entities, jointly controlled assets and jointly controlled operations.

In addition, joint ventures under IFRS 11 are required to be accounted for using the equity method of accounting, whereas jointly controlled entities under IAS 31 can be accounted for using the equity method of accounting or proportionate accounting.

IFRS 12 is a disclosure standard and is applicable to entities that have interests in subsidiaries, joint arrangements, associates and/or unconsolidated structured entities. In general, the disclosure requirements in IFRS 12 are more extensive than those in the current standards.

In July 2012, the amendments to IFRS 10, IFRS 11 and IFRS 12 were issued to clarify certain transitional guidance on the application of these five IFRSs for the first time.

These five standards, together with the amendments relating to the transitional guidance, are effective for annual periods beginning on or after 1 January 2013 with earlier application permitted provided that all of these five standards are applied early at the same time.

The application of IFRS 10 may have impact on the asset management products held and managed by the Group, which are currently classified as available-for-sale investments in the consolidated financial statements. Taking into account the new definition of control and the additional guidance on control set out in IFRS 10, the application of IFRS 10 may result in certain asset management products being consolidated. If those asset management products are consolidated, the assets and liabilities as well as income and expenses of the products will be presented as separate line items in the consolidated statement of financial position and in the consolidated statement of comprehensive income respectively, rather than being presented as one line item in the Group's consolidated financial statements. Based on the preliminary review of the application of IFRS 10, the directors of the Group anticipate that there will be no significant impact on the opening balances reported in the consolidated financial statements for the year ended 31 December 2013.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

2. APPLICATION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS (continued)

New and revised IFRSs issued but not yet effective (continued)

Amendments to IFRS 10, IFRS 12 and IAS 27 Investment Entities

The amendments to IFRS 10 introduce an exception to consolidating subsidiaries for an investment entity, except where the subsidiaries provide services that relate to the investment entity's investment activities. Under the amendments to IFRS 10, an investment entity is required to measure its interests in subsidiaries at fair value through profit or loss.

To qualify as an investment entity, certain criteria have to be met. Specifically, an entity is required to:

- obtain funds from one or more investors for the purpose of providing them with professional investment management services;
- commit to its investors that its business purpose is to invest funds solely for returns from capital appreciation, investment income, or both; and
- measure and evaluate performance of substantially all of its investments on a fair value basis.

Consequential amendments to IFRS 12 and IAS 27 have been made to introduce new disclosure requirements for investment entities.

The amendments to IFRS 10, IFRS 12 and IAS 27 are effective for annual periods beginning on or after 1 January 2014, with early application permitted. The directors anticipate that the application of the amendments will have no effect on the Group as the Company is not an investment entity.

IFRS 13 Fair value measurement

IFRS 13 establishes a single source of guidance for fair value measurements and disclosures about fair value measurements. The Standard defines fair value, establishes a framework for measuring fair value, and requires disclosures about fair value measurements. The scope of IFRS 13 is broad; it applies to both financial instrument items and non-financial instrument items for which other IFRSs require or permit fair value measurements and disclosures about fair value measurements, except in specified circumstances. In general, the disclosure requirements in IFRS 13 are more extensive than those in the current standards. For example, quantitative and qualitative disclosures based on the three-level fair value hierarchy currently required for financial instruments only under IFRS 7 *Financial Instruments: Disclosures* will be extended by IFRS 13 to cover all assets and liabilities within its scope.

IFRS 13 is effective for annual periods beginning on or after 1 January 2013, with earlier application permitted. The directors anticipate that IFRS 13 will be adopted in the Group's consolidated financial statements for the annual period beginning 1 January 2013 and that the application of the standard may affect the amounts reported in the consolidated financial statements and result in more extensive disclosures in the consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

2. APPLICATION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS (continued)

New and revised IFRSs issued but not yet effective (continued)

Amendments to IAS 32 Offsetting Financial Assets and Financial Liabilities and amendments to IFRS 7 Disclosures – Offsetting Financial Assets and Financial Liabilities

The amendments to IAS 32 clarify existing application issues relating to the offset of financial assets and financial liabilities requirements. Specifically, the amendments clarify the meaning of “currently has a legally enforceable right of set-off” and “simultaneous realisation and settlement”.

The amendments to IFRS 7 require entities to disclose information about rights of offset and related arrangements (such as collateral posting requirements) for financial instruments under an enforceable master netting agreement or similar arrangement.

The amendments to IFRS 7 are effective for annual periods beginning on or after 1 January 2013 and interim periods within those annual periods. The disclosures should also be provided retrospectively for all comparative periods. However, the amendments to HKAS 32 are not effective until annual periods beginning on or after 1 January 2014, with retrospective application required.

The directors anticipate that the application of these amendments to IAS 32 and IFRS 7 may result in more disclosures being made with regard to offsetting financial assets and financial liabilities in the future.

IAS 19 (as revised in 2011) Employees Benefits

The amendments to IAS 19 change the accounting for defined benefit plans and termination benefits. The most significant change relates to the accounting for changes in defined benefit obligations and plan assets. The amendments require the recognition of changes in defined benefit obligations and in the fair value of plan assets when they occur, and hence eliminate the ‘corridor approach’ permitted under the previous version of IAS 19 and accelerate the recognition of past service costs. The amendments require all actuarial gains and losses to be recognised immediately through other comprehensive income in order for the net pension asset or liability recognised in the consolidated statement of financial position to reflect the full value of the plan deficit or surplus. Furthermore, the interest cost and expected return on plan assets used in the previous version of IAS 19 are replaced with a ‘net-interest’ amount, which is calculated by applying the discount rate to the net defined benefit liability or asset.

The amendments to IAS 19 are effective for annual periods beginning on or after 1 January 2013 and require retrospective application. The directors anticipate that the application of the amendments to IAS 19 would have no significant impact on amounts reported in respect of the Groups’ defined benefit plans.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

2. APPLICATION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS (continued)

New and revised IFRSs issued but not yet effective (continued)

Amendments to IAS 1 Presentation of items of other comprehensive income

The amendments to IAS 1 Presentation of Items of Other Comprehensive Income introduce new terminology for the statement of comprehensive income and income statement. Under the amendments to IAS 1, a 'statement of comprehensive income' is renamed as 'a statement of profit or loss and other comprehensive income' and an 'income statement' is renamed as a 'statement of profit or loss'. The amendments to IAS 1 retain the option to present profit or loss and other comprehensive income in either a single statement or in two separate but consecutive statements. However, the amendments to IAS 1 require items of other comprehensive income to be grouped into two categories: (a) items that will not be reclassified subsequently to profit or loss; and (b) items that may be reclassified subsequently to profit or loss when specific conditions are met.

Income tax on items of other comprehensive income is required to be allocated on the same basis – the amendment do not change the option to present items of other comprehensive income either before tax or net of tax.

The amendments to IAS 1 are effective for annual periods beginning on or after 1 July 2012. The presentation of items of other comprehensive income will be modified accordingly when the amendments are applied in the future accounting periods.

Annual Improvements to IFRSs 2009 – 2011 Cycle issued in June 2012

The Annual Improvements to IFRSs 2009 – 2011 Cycle include a number of amendments to various IFRSs. The amendments are effective for annual periods beginning on or after 1 January 2013. Amendments to IFRSs include the amendments to IAS 1 *Presentation of Financial Statements*, the amendments to IAS 16 *Property, Plant and Equipment* and the amendments to IAS 32 *Financial Instruments: Presentation*.

IAS 1 requires an entity that changes accounting policies retrospectively, or makes a retrospective restatement or reclassification to present a statement of financial position as at the beginning of the preceding period (third statement of financial position). The amendments to IAS 1 clarify that an entity is required to present a third statement of financial position only when the retrospective application, restatement or reclassification has a material effect on the information in the third statement of financial position and that related notes are not required to accompany the third statement of financial position. The directors do not anticipate that the application of the amendments will have a material effect on the Group's consolidated financial statements.

The amendments to IAS 16 clarify that spare parts, stand-by equipment and servicing equipment should be classified as property, plant and equipment when they meet the definition of property, plant and equipment in IAS 16 and as inventory otherwise. The directors do not anticipate that the application of the amendments will have a material effect on the Group's consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

2. APPLICATION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS (continued)

New and revised IFRSs issued but not yet effective (continued)

Annual Improvements to IFRSs 2009 – 2011 Cycle issued in June 2012 (continued)

The amendments to IAS 32 clarify that income tax on distributions to holders of an equity instrument and transaction costs of an equity transaction should be accounted for in accordance with IAS 12 Income Taxes. The directors anticipate that the amendments to IAS 32 will have no effect on the Group's consolidated financial statements as the Group has already adopted this treatment.

3. SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PREPARATION

The consolidated financial statements have been prepared in accordance with IFRSs and included applicable disclosure required by the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited and by the Hong Kong Companies Ordinance. The consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments, which are measured at fair values. Historical cost is generally based on the fair value of the consideration given in exchange for goods.

The preparation of consolidated financial statements in conformity with IFRSs requires the use of certain critical accounting estimates. It also requires the management to exercise its judgement in the process of applying the Group's accounting policies. Areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in note 4.

The principal accounting policies are set out below.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries). Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

Income and expenses of subsidiaries acquired or disposed of during the year are included in the consolidated statement of income statement from the effective date of acquisition and up to the effective date of disposal, as appropriate. Total comprehensive income and expense of a subsidiary is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group.

All intra-group transactions, balances, income and expenses are eliminated in full on consolidation.

Non-controlling interests in subsidiaries are presented separately from the Group's equity therein.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

3. SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PREPARATION (continued)

Basis of consolidation (continued)

Allocation of total comprehensive income to non-controlling interests

Total comprehensive income and expense of a subsidiary is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

Changes in the Group's ownership interests in existing subsidiaries

Changes in the Group's ownership interests in existing subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the Company.

When the Group loses control of a subsidiary, it:

- (i) derecognises the assets (including any goodwill) and liabilities of the subsidiary at their carrying amounts at the date when control is lost;
- (ii) derecognises the carrying amount of any non-controlling interests in the former subsidiary at the date when control is lost (including any components of other comprehensive income attributable to them); and
- (iii) recognises the aggregate of the fair value of the consideration received and the fair value of any retained interest, with any resulting difference being recognised as a gain or loss in profit or loss attributable to the Group. When assets of the subsidiary are carried at revalued amounts or fair values and the related cumulative gain or loss has been recognised in other comprehensive income and accumulated in equity, the amounts previously recognised in other comprehensive income and accumulated in equity are accounted for as if the Group had directly disposed of the related assets (i.e. reclassified to profit or loss or transferred directly to retained earnings as specified by applicable IFRSs).

The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under IAS 39 Financial Instruments: Recognition and Measurement or, when applicable, the cost on initial recognition of an investment in an associate or a jointly controlled entity.

Investments in subsidiaries

Investments in subsidiaries are stated at cost less accumulated impairment losses, if any.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

3. SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PREPARATION (continued)

Goodwill

Goodwill arising on an acquisition of a business is carried at cost less any accumulated impairment losses, if any, and is presented separately in the consolidated statement of financial position.

For the purposes of impairment testing, goodwill is allocated to each of the cash-generating units (or groups of cash-generating units) that is expected to benefit from the synergies of the combination.

A cash-generating unit to which goodwill has been allocated is tested for impairment annually, or more frequently whenever there is indication that the unit may be impaired. For goodwill arising on an acquisition in a reporting period, the cash-generating unit to which goodwill has been allocated is tested for impairment before the end of that reporting period. If the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro rata on the basis of the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognised directly in profit or loss in the consolidated income statement. An impairment loss recognised for goodwill is not reversed in subsequent periods.

On disposal of the relevant cash-generating unit, the attributable amount of goodwill is included in the determination of the amount of profit or loss on disposal.

Investments in associates

An associate is an entity over which the investor has significant influence and that is neither a subsidiary nor an interest in a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

The results and assets and liabilities of associates are incorporated in the consolidated financial statements using the equity method of accounting. Under the equity method, investments in associates are initially recognised in the consolidated statement of financial position at cost and adjusted thereafter to recognise the Group's share of the profit or loss and other comprehensive income of the associates. When the Group's share of losses of an associate exceeds its interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate), the Group discontinues recognising its share of further losses. Additional losses are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of that associate.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

3. SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PREPARATION (continued)

Investments in associates (continued)

Any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of an associate recognised at the date of acquisition is recognised as goodwill, which is included within the carrying amount of the investment.

Any excess of the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition, after reassessment, is recognised immediately in profit or loss.

The requirements of IAS 39 are applied to determine whether it is necessary to recognise any impairment loss with respect to the Group's investment in an associate. When necessary, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with IAS 36 Impairment of assets as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs to sell) with its carrying amount. Any impairment loss recognised forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognised in accordance with IAS 36 to the extent that the recoverable amount of the investment subsequently increases.

When a group entity transacts with its associate of the Group, profits and losses resulting from the transactions with the associate are recognised in the Group's consolidated financial statements only to the extent of interests in the associate that are not related to the Group.

In the Company's statement of financial position, investments in associates are stated at cost less accumulated impairment losses, if any.

Property and equipment

Property and equipment including leasehold land (classified as finance lease) and building held for use in the production or supply of goods or services, or for administrative purpose (other than construction in progress), are stated in the consolidated statement of financial position at cost less subsequent accumulated depreciation and subsequent accumulated impairment losses, if any.

Depreciation is recognised so as to write off the cost of items of property and equipment (other than construction in progress) less their residual values over their estimated useful lives, using straight line method.

Construction in progress for production, supply or administrative purposes are carried at cost, less any recognised impairment loss. Costs include professional fees and, for qualifying assets, borrowing costs capitalised in accordance with the Group's accounting policy. Such properties are classified to the appropriate categories of property and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

3. SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PREPARATION (continued)

Property and equipment (continued)

An item of property and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

The estimated residual value rates and useful lives of each class of property and equipment are as follows:

Classes	Estimated residual value rates	Useful lives
Leasehold land and buildings	3 – 5%	Over the shorter of the lease term and estimated useful life of buildings of 30 – 40 years
Furniture, fixtures and equipment	3 – 10%	5 – 11 years
Motor vehicles	3 – 10%	5 – 8 years
Electronic equipment	3 – 10%	3 – 5 years
Leasehold improvements	0%	Over the lease term ranging from 1 month to 35 years

Investment properties

Investment properties are properties held to earn rentals and/or for capital appreciation.

Investment properties are initially measured at cost, including any directly attributable expenditure. Subsequent to initial recognition, investment properties are stated at cost less subsequent accumulated depreciation and any accumulated impairment losses.

Depreciation is recognised so as to write off the cost of investment properties over their estimated useful lives and after taking into account of their estimated residual value, using the straight-line method.

An investment property is derecognised upon disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from its disposals. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the profit or loss in the period in which the item is derecognised.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

3. SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PREPARATION (continued)

Intangible assets

Intangible assets acquired separately

Intangible assets acquired separately and with finite useful lives are carried at costs less accumulated amortisation and any accumulated impairment losses. Amortisation for intangible assets with finite useful lives is recognised on a straight-line basis over their estimated useful lives. The estimated useful life and amortisation method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis.

Intangible assets with indefinite useful lives that are acquired separately are carried at cost less any subsequent accumulated impairment losses.

An intangible asset is derecognised on disposal, or when no future economic benefits are expected from use or disposal. Gains or losses arising from derecognition of an intangible asset are measured at the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in profit or loss in the period when the asset is derecognised.

The estimated useful lives of each class of intangible assets are as follows:

Computer software	3 – 10 years
Others (car park right, house use right and club membership)	5 – 50 years

Intangible assets acquired in a business combination

Intangible assets acquired in a business combination are recognised separately from goodwill and are initially recognised at their fair value at the acquisition date (which is regarded as their cost).

Subsequent to initial recognition, intangible assets with finite useful lives are carried at costs less accumulated amortisation and any accumulated impairment losses. Amortisation for intangible assets with finite useful lives is provided on a straight-line basis over their estimated useful lives. Alternatively, intangible assets with indefinite useful lives are carried at cost less any subsequent accumulated impairment losses.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

3. SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PREPARATION (continued)

Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Group as lessor

Rental income from operating leases is recognised in profit or loss on a straight-line basis over the term of the relevant lease.

The Group as lessee

Operating lease payments are recognised as an expense on a straight-line basis over the term of the relevant lease.

Leasehold land and building

When a lease includes both land and building elements, the Group assesses the classification of each element as a finance or an operating lease separately based on the assessment as to whether substantially all the risks and rewards incidental to ownership of each element have been transferred to the Group, unless it is clear that both elements are operating leases in which case the entire lease is classified as an operating lease. Specifically, the minimum lease payments (including any lump-sum upfront payments) are allocated between the land and the building elements in proportion to the relative fair values of the leasehold interests in the land element and building element of the lease at the inception of the lease.

To the extent the allocation of the lease payments can be made reliably, interest in leasehold land that is accounted for as an operating lease is presented as "prepaid lease payments" in the consolidated statement of financial position and is amortised over the lease term on a straight-line basis. When a building is under finance lease and the lease payments cannot be allocated reliably between the land and building elements, the entire lease is generally classified as finance lease.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

3. SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PREPARATION (continued)

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets until such time as the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in the respective functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchanges prevailing on the dates of the transactions. At the end of the reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are recognised in profit or loss in the period in which they arise, except for exchange differences arising on a monetary item that forms part of the Company's net investment in a foreign operation, in which case, such exchange differences are recognised in other comprehensive income and accumulated in equity and will be reclassified from equity to profit or loss on disposal of the foreign operation. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in profit or loss for the period, except for exchange differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognised directly in other comprehensive income, in which cases, the exchange differences are also recognised directly in other comprehensive income.

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Group at the rate of exchange prevailing at the end of the reporting period, and their income and expenses are translated at the average exchange rates for the period. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity (the translation reserve).

Goodwill and fair value adjustments on identifiable assets acquired arising on an acquisition of a foreign operation on or after 1 January 2005 are treated as assets and liabilities of that foreign operation and retranslated at the rate of exchange prevailing at the end of the reporting period. Exchange differences arising are recognised in equity under the heading of translation reserve.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

3. SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PREPARATION (continued)

Government grants

Government grants are not recognised until there is reasonable assurance that the Group will comply with the conditions attaching to them and that the grants will be received.

Government grants are recognised in profit or loss on a systematic basis over the periods in which the Group recognises as expenses the related costs for which the grants are intended to compensate. Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognised in profit or loss in the period in which they become receivable.

Social welfare

Social welfare expenditure refers to payments for employees' social welfare system established by the Government of the People's Republic of China, including social insurance, housing funds and other social welfare contributions. The Group contributes on a monthly basis to these funds based on certain percentage of the salaries of the employees and the contributions are recognised in profit or loss for the period when employees have rendered service entitling them to the contribution. The Group's liabilities in respect of these funds are limited to the contribution payable in the reporting period.

Contributions to pension schemes and annuity plans

Payments to defined contribution retirement benefits plan are charged as expenses when employees have rendered service entitling them to the contributions.

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from 'profit before income tax' as reported in the consolidated income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax base used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary difference to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

3. SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PREPARATION (continued)

Taxation (continued)

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries and associates, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of the reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset is realised, based on tax rate (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Current and deferred tax is recognised in profit or loss, except when it relates to items that are recognised in other comprehensive income or directly in equity, in which case the deferred tax is also recognised in other comprehensive income or directly in equity respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

Financial instruments

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

3. SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PREPARATION (continued)

Financial instruments (continued)

Financial assets

The Group's financial assets are classified into one of the four categories, including financial assets at fair value through profit or loss ("FVTPL"), loans and receivables, held-to-maturity investments and available-for-sale investments. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

Financial assets at fair value through profit or loss

A financial asset is classified as financial assets at FVTPL if:

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

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

Loans and receivables

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

Held-to-maturity investments

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

3. SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PREPARATION (continued)

Financial instruments (continued)

Financial assets (continued)

Available-for-sale investments

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

Equity and debt securities held by the Group that are classified as AFS and are traded in an active market are measured at fair value at the end of each reporting period. Changes in the carrying amount of AFS monetary financial assets relating to interest income calculated using the effective interest method and dividends on AFS equity investments are recognised in profit or loss. Other changes in the carrying amount of available-for-sale financial assets are recognised in other comprehensive income and accumulated under the heading of investment revaluation reserve. When the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously accumulated in the investment revaluation reserve is reclassified to profit or loss (see the accounting policy in respect of impairment loss on financial assets below).

Dividends on AFS equity instruments are recognised in profit or loss when the Group's right to receive the dividends is established.

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

Impairment of financial assets

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

3. SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PREPARATION (continued)

Financial instruments (continued)

Financial assets (continued)

Impairment of financial assets (continued)

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

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

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

For financial assets carried at amortised cost, an impairment loss is recognised as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the financial asset's original effective interest rate.

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

3. SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PREPARATION (continued)

Financial instruments (continued)

Financial assets (continued)

Impairment of financial assets (continued)

When an available-for-sale financial asset is considered to be impaired, cumulative gains or losses previously recognised in other comprehensive income are reclassified to profit or loss in the period in which the impairment takes place.

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

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

Financial liabilities and equity instruments

Financial liabilities and equity instruments issued by a group entity are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of the group after deducting all of its liabilities. Equity instruments issued by the Group are recognised at the proceeds received, net of direct issue costs.

Financial liabilities at fair value through profit or loss

A financial liability is classified as financial liabilities at fair value through profit or loss 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 the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative, except for a derivative that is a designated and effective hedging instrument, or a financial guarantee contract, or a derivative that is linked to and must be settled by delivery of an unquoted equity instrument (without a quoted price in an active market) whose fair value cannot be reliably measured.

Financial liabilities at FVTPL are measured at fair value, with any gains or losses arising on remeasurement recognised directly in profit or loss in the period in which they arise. The net gain or loss recognised in the line item in profit or loss and excludes any interest paid on the financial liabilities.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

3. SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PREPARATION (continued)

Financial instruments (continued)

Financial liabilities and equity instruments (continued)

Other financial liabilities

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

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial asset or liability and of allocating interest income or expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees and points 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 recognised on an effective interest basis for debt instruments other than those financial assets classified as at FVTPL, of which interest income is included in net gains or losses. Interest expense is recognised on an effective interest basis.

Derivative financial instruments

Derivative financial instruments are initially measured at fair value at the date a derivative contract is entered into and are subsequently measured at fair value. Changes in fair value of these derivative financial instruments other than those designed as hedge instrument are recognised in profit or loss. Fair values are obtained from quoted market prices in active market or are determined using valuation techniques, including discounted cash flow model and options pricing model as appropriate.

All derivatives are recognised as assets when the fair value is positive and as liabilities when the fair value is negative.

Derivative embedded in non-derivative host contracts are treated as separate derivative when their characteristics and risks are not closely related to those of the host contracts and the host contracts are not measured at fair value with changes in fair value recognised in profit or loss. These embedded derivatives are separately accounted for at fair value, with changes in fair value recognised in profit or loss.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

3. SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PREPARATION (continued)

Financial instruments (continued)

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

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

(a) Financial assets held under resale agreements

Financial assets that have been purchased under agreements with a commitment to resell at a specific future date are not recognised in the statement of financial position. The cost of purchasing such assets is presented under “financial assets held under resale agreements” in the statement of financial position. The difference between the purchasing price and reselling price is recognised as interest income during the term of the agreement using the effective interest method.

(b) Financial assets sold under repurchase agreements

Financial assets sold subject to agreements with a commitment to repurchase at a specific future date are not derecognised in the statement of financial position. The proceeds from selling such assets are presented under “financial assets sold under repurchase agreements” in the statement of financial position. The difference between the selling price and repurchasing price is recognised as interest expense during the term of the agreement using the effective interest method.

Hedge accounting

The Group designates certain derivatives as fair value hedges.

At the inception of the hedging relationship the Group documents the relationship between the hedging instrument and the hedged item, along with its risk management objectives and its strategy for undertaking various hedge transactions. Furthermore, at the inception of the hedge and on an ongoing basis, the Group documents whether the hedging instrument that is used in a hedging relationship is highly effective in offsetting changes in fair values or cash flows of the hedged item.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

3. SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PREPARATION (continued)

Financial instruments (continued)

Hedge accounting (continued)

Fair value hedges

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recognised in profit or loss immediately, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk.

Hedge accounting is discontinued when the Group revokes the hedging relationship, when the hedging instrument expires or is sold, terminated, or exercised, or when it no longer qualifies for hedge accounting. The fair value adjustment to the carrying amount of the hedged item arising from the hedged risk is amortised to profit or loss from that date.

Securities lending

The Group lends investment securities to clients and the cash collaterals balance required under the securities lending agreements and the interest arisen from these are classified as “accounts payable to brokerage clients”. For those securities held by the Group lent to client that do not result in the derecognition of financial assets, they are included in related financial assets.

Derecognition

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred assets, the Group continues to recognise the asset to the extent of its continuing involvement and recognises an associated liability. If the Group retains substantially all the risks and rewards of ownership of a transferred financial assets, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

3. SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PREPARATION (continued)

Financial instruments (continued)

Derecognition (continued)

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

The Group derecognised financial liabilities when, and only when, the Group's obligations are discharged, cancelled or expires. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

Revenue recognition

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

- (i) Commission income for broking business is recorded as income on a trade date basis, and handling fee income arising from broking business is recognised when services are rendered;
- (ii) Underwriting and sponsors fees are recognised as income in accordance with the terms of the underwriting agreement or deal mandate when the relevant significant acts have been completed;
- (iii) Interest income from a financial asset is accrued on a time basis using the effective interest method, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition;
- (iv) Financial advisory and consultancy fee income are recognised when the relevant transactions have been arranged or the relevant services have been rendered; and
- (v) Asset management fee income is recognised when management services are provided in accordance with the management contracts.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

3. SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PREPARATION (continued)

Provisions

Provisions are recognised when the Group has a present obligation as a result of a past event, and it is probable that the Group will be required to settle that obligation, and a reliable estimate can be made of the amount of the obligation. Provisions are measured at the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (where the effect of the time value of money is material).

Share-based payment transactions

Share options granted to employees

The fair value of services received determined by reference to the fair value of share options granted at the grant date is expensed on a straight-line basis over the vesting period, with a corresponding increase in equity (share option reserve).

At the end of each reporting date, the Group revises its estimates of the number of options that are expected to vest ultimately. The impact of the revision of the original estimates during the vesting period, if any, is recognised in profit or loss over the remaining vesting period, with a corresponding adjustment to the share option reserve.

When the share options are exercised, the amount previously recognised in the share option reserve will be transferred to share premium. When share options are forfeited after the vesting date or are still not exercised at the expiry date, the amount previously recognised in the share option reserve will be remained in the reserve.

Impairment losses on tangible and intangible assets as well as investments in subsidiaries and associates other than goodwill and financial assets (see the accounting policy in respect of goodwill and financial assets above)

At the end of the reporting period, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. When it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

3. SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PREPARATION (continued)

Impairment losses on tangible and intangible assets as well as investments in subsidiaries and associates other than goodwill and financial assets (see the accounting policy in respect of goodwill and financial assets above) (continued)

Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment annually, and whenever there is an indication that they may be impaired.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted

If the recoverable amount of an asset (or a cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or a cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately, unless the relevant asset is carried at a revalued amount under another standard.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately.

4. KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in note 3, the directors of the Company are required to make estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Impairment of loans and advances to customers

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

4. KEY SOURCES OF ESTIMATION UNCERTAINTY (continued)

Impairment of goodwill

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

Impairment of available-for-sale investments

The determination of whether an available-for-sale investment is impaired requires significant judgement. For listed available-for-sale equity investments, a significant or prolonged decline in fair value below cost is considered to be objective evidence of impairment. Judgement is required when determining whether a decline in fair value has been significant or prolonged. In making this judgement, the Group evaluates the duration and extent to which the fair value of an investment is less than its cost. In assessing whether it is prolonged, the decline is evaluated against the period in which the fair value of the asset has been below its original cost at initial recognition. In assessing whether it is significant, the decline in fair value is evaluated against the original cost of the asset at initial recognition. The Group also takes into account other factors, such as the historical data on market volatility and the price of the specific investment, significant changes in technology, markets, economics or the law, as well as industry and sector performance and the financial information regarding the investee that provides evidence that the cost of the equity securities may not be recovered. Judgement is also required to determine whether historical performance remains representative of current and future economic conditions.

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

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

Income taxes

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

No deferred tax asset has been recognised on the tax losses arising from the Group's subsidiaries in Hong Kong due to the unpredictability of future profit streams. The reliability of the deferred tax asset mainly depends on whether sufficient future profits or taxable temporary differences will be available in the future. In cases where the actual profits generated are more than expected, a material deferred tax assets would be recognised in profit or loss for the period. Details of the tax losses are disclosed in note 14.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

5. COMMISSION AND FEE INCOME

	2012	2011
	RMB'000	RMB'000
Commission on securities dealing broking and handling fee income	2,894,924	3,933,956
Commission on futures and options contracts dealing and broking and handling fee income	466,497	393,150
Financial advisory and consultancy fee income	175,615	283,067
Underwriting and sponsors fees	798,645	960,006
Asset management fee income	861,837	985,783
Commission on bullion contracts dealing	5,329	7,966
Others	10,333	2,853
	5,213,180	6,566,781

6. INTEREST INCOME

	2012	2011
	RMB'000	RMB'000
Bank interest income	2,034,886	1,944,013
Interest income from loans and advances to customers	727,680	522,773
Interest income from financial assets held under resale agreements (<i>Note</i>)	63,122	83,692
Interest income from held-to-maturity investments	50,858	–
Other interest income	189	2,693
	2,876,735	2,553,171

Note: In the current year, interest income from financial assets held under resale agreements includes the interest income from those resale agreements with investors, which amounted to RMB34,586,000 (2011: Nil).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

7. NET INVESTMENT GAINS

	2012 <i>RMB'000</i>	2011 <i>RMB'000</i>
Net gains arising from available-for-sale investments	256,080	754,030
Net gains arising from financial assets liabilities at fair value through profit or loss	800,602	285,073
Net gains from derivatives financial assets/liabilities	808,909	1,046,672
Fair value change of financial instruments at fair value through profit or loss		
– financial assets/financial liabilities at fair value through profit or loss	465,501	(578,849)
– gain from fair value hedge	11,449	–
Interest income from loan and receivable investments	60,148	–
	2,402,689	1,506,926

8. OTHER INCOME AND GAINS

	2012 <i>RMB'000</i>	2011 <i>RMB'000</i>
Non-recurring government grants (<i>Note</i>)	122,446	107,703
Rental income from investment properties	13,093	13,016
Others	115,019	112,777
	250,558	233,496

Note: The non-recurring government grants were received unconditionally by the Company and its subsidiaries from the local governments where they reside. The main purpose is to subsidise the operation of these entities.

9. DEPRECIATION AND AMORTISATION

	2012 <i>RMB'000</i>	2011 <i>RMB'000</i>
Depreciation of property and equipment	254,615	247,492
Depreciation of investment properties	3,329	3,404
Amortisation of other intangible assets	58,394	48,638
Amortisation of prepaid lease payments	503	503
	316,841	300,037

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

10. STAFF COSTS

	2012 <i>RMB'000</i>	2011 <i>RMB'000</i>
Staff costs (including directors' remuneration (<i>Note 53</i>)):		
Salaries, bonus and allowances	1,708,695	1,926,463
Contributions to annuity plans and retirement scheme	73,604	77,567
Social welfare	359,999	315,923
	2,142,298	2,319,953

The domestic employees of the Group in the PRC participate in a state-managed retirement benefit schemes operated by the respective local government in the PRC. The Group also operates a Mandatory Provident Fund Scheme for all qualifying employees in Hong Kong under the Mandatory Provident Fund Schemes Ordinance. The Group is required to contribute a specified percentage of payroll cost to these pension schemes and annuity plans to fund the benefits. The only obligation of the Group with respect to these schemes and annuity plans is to make the specified contributions.

11. BROKERAGE TRANSACTION FEES AND OTHER SERVICES EXPENSES

	2012 <i>RMB'000</i>	2011 <i>RMB'000</i>
Securities and futures dealing and broking expenses	414,446	645,569
Services expenses for underwriting, sponsorship, and financial advisory, etc.	154,853	101,155
	569,299	746,724

12. INTEREST EXPENSES

	2012 <i>RMB'000</i>	2011 <i>RMB'000</i>
Interest on borrowings wholly repayable within five years:		
– bank loans and overdrafts	26,574	25,308
– deposit taken from other financial institutes	106,621	13,367
– financial assets sold under repurchase agreements (<i>Note</i>)	433,090	209,225
– accounts payable to brokerage clients	120,950	208,991
– advances from China Securities Finance Corporation Ltd.	17,158	–
– others	11	2,905
	704,404	459,796

Note: In the current year, interest expenses from financial assets sold under repurchase agreements includes the interest expenses from those repurchase agreement with investors, which amounted to RMB45,683,000 (2011: RMB2,000).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

13. PROFIT BEFORE INCOME TAX

	2012 <i>RMB'000</i>	2011 <i>RMB'000</i>
The Group's profit before income tax is arrived at after charging (crediting):		
Auditors' remuneration	7,968	9,593
Impairment loss in respect of available-for-sale investments included in other expenses	865,218	540,409
Reversal of impairment loss in respect of other receivables	(24,001)	(32,773)
Loss (gain) on disposal of property and equipment and other intangible assets	3,218	(693)
Foreign exchange gains, net	(90,676)	(68,869)
Operating lease rentals in respect of rented premises	262,307	234,584

14. INCOME TAX EXPENSE

	2012 <i>RMB'000</i>	2011 <i>RMB'000</i>
Current tax:		
PRC Enterprise Income Tax and other jurisdictions	833,782	1,218,733
Hong Kong Profits Tax	38,927	21,395
	872,709	1,240,128
Adjustments in respect of current income tax in relation to prior years:		
PRC Enterprise Income Tax and other jurisdictions	(16,367)	19,198
Hong Kong Profits Tax	(4,569)	1,209
	(20,936)	20,407
Deferred tax:		
Current period	23,207	(242,368)
	874,980	1,018,167

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

14. INCOME TAX EXPENSE (continued)

Under the Law of the People's Republic of China on Enterprise Income Tax (the "EIT Law") and Implementation Regulation of the EIT Law, the tax rate is 25%. According to "Notification of the State Council on Carrying out the Transitional Preferential Policies Concerning Enterprise Income Tax" (Guo Fu [2007] No.39), branches set up in Shenzhen and Haikou in the PRC are subject to tax rates of 24% and 25%, respectively, for the year ended 31 December 2011 and 2012.

Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profit. Taxation arising in other jurisdictions is calculated at the rates prevailing in the relevant jurisdictions.

A reconciliation of the tax expense applicable to profit before income tax using the applicable rate to the tax expense at the effective tax rate is as follows:

	2012	2011
	RMB'000	RMB'000
Profit before income tax	4,109,472	4,300,164
Tax at the statutory tax rate of 25%	1,027,368	1,075,041
Effect of share of results of associates	(16,469)	(18,229)
Tax effect of expenses not deductible for tax purpose	31,945	84,600
Tax effect of income not taxable for tax purpose	(135,270)	(119,637)
Adjustments in respect of current income tax in relation to prior years	(20,936)	18,508
Effect of different tax rates of subsidiaries operating in other jurisdictions	(18,703)	(17,054)
Others	7,045	(5,062)
Tax charge	874,980	1,018,167

The Group has tax losses arising from its subsidiaries in Hong Kong of approximately RMB123 million and RMB142 million as at 31 December 2011 and 2012, respectively, that can be carried forward indefinitely for offsetting against future taxable profits of the respective companies in which the losses arose. Deferred tax assets have not been recognised in respect of these tax losses as it is not probable that sufficient future taxable profits will be available in the subsidiaries in which the losses arose against which the unused tax losses can be utilised in the near future.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

15. EARNINGS PER SHARE

The calculation of basic and diluted earnings per share attributable to owners of the Company is as follows:

	2012 <i>RMB'000</i>	2011 <i>RMB'000</i>
Earnings for the purpose of basic earnings per share:		
Profit for the year attributable to owners of the Company	3,019,776	3,103,034
Effect of dilutive potential ordinary shares:		
Adjustment to the share of profit of a listed subsidiary based on dilution of its earnings per share	–	(281)
Earnings for the purpose of diluted earnings per share	3,019,776	3,102,753
Number of shares:		
Weighted average number of shares in issue ('000)	9,121,796	8,227,821

The weighted average number of shares for the purpose of basic and diluted earnings per share has been adjusted for the H shares issued during the year ended 31 December 2012.

The computation of 2012 diluted earnings per share does not assume the exercise of the listed subsidiary's outstanding share options as the exercise price of these options is higher than the average market price of the listed subsidiary in 2012.

The computation of diluted earnings per share does not assume the exercise of the Company's over-allotment options granted pursuant to the listing of the Company's shares in the Hong Kong Stock Exchange in global offering as the exercise price of the options was higher than the average market price for the shares. The over-allotment options were subsequently exercised on 19 May 2012.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

16. PROPERTY AND EQUIPMENT

THE GROUP

	Leasehold land and buildings RMB'000	Leasehold improvements RMB'000	Electronic equipment RMB'000	Motor vehicles RMB'000	Furniture, fixtures and equipment RMB'000	Construction in progress RMB'000	Total RMB'000
COST							
As at 1 January 2012	830,245	537,375	752,064	144,519	142,425	11,602	2,418,230
Additions during the year	46,242	45,446	77,725	17,901	9,823	26,526	223,663
Disposals during the year	(6,424)	(15,123)	(120,961)	(7,185)	(10,704)	-	(160,397)
Transfer during the year	-	21,434	8,416	-	3,333	(33,183)	-
As at 31 December 2012	870,063	589,132	717,244	155,235	144,877	4,945	2,481,496
ACCUMULATED DEPRECIATION							
As at 1 January 2012	224,098	309,609	522,899	75,740	78,365	-	1,210,711
Provided for the year	24,844	86,849	106,341	19,058	17,523	-	254,615
Eliminated on disposals	(2,986)	(15,123)	(114,084)	(6,605)	(9,873)	-	(148,671)
As at 31 December 2012	245,956	381,335	515,156	88,193	86,015	-	1,316,655
ALLOWANCE FOR IMPAIRMENT LOSSES							
As at 1 January 2012 & 31 December 2012	30,382	-	-	-	-	-	30,382
CARRYING VALUES							
As at 31 December 2012	593,725	207,797	202,088	67,042	58,862	4,945	1,134,459

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

16. PROPERTY AND EQUIPMENT (continued)

THE GROUP (continued)

	Leasehold land and buildings RMB'000	Leasehold improvements RMB'000	Electronic equipment RMB'000	Motor vehicles RMB'000	Furniture, fixtures and equipment RMB'000	Construction in progress RMB'000	Total RMB'000
COST							
As at 1 January 2011	841,155	531,281	712,591	129,068	135,122	11,936	2,361,153
Additions during the year	11,679	27,091	99,996	22,245	16,134	62,708	239,853
Disposals during the year	(26,357)	(81,304)	(62,302)	(6,794)	(9,787)	-	(186,544)
Transfer during the year	3,768	60,307	1,779	-	956	(63,042)	3,768
As at 31 December 2011	830,245	537,375	752,064	144,519	142,425	11,602	2,418,230
ACCUMULATED DEPRECIATION							
As at 1 January 2011	212,004	311,936	472,041	64,181	69,426	-	1,129,588
Provided for the year	24,691	78,977	109,495	17,312	17,017	-	247,492
Eliminated on disposals	(12,597)	(81,304)	(58,637)	(5,753)	(8,078)	-	(166,369)
As at 31 December 2011	224,098	309,609	522,899	75,740	78,365	-	1,210,711
ALLOWANCE FOR IMPAIRMENT LOSSES							
As at 1 January 2011 & 31 December 2011	30,382	-	-	-	-	-	30,382
CARRYING VALUES							
As at 31 December 2011	575,765	227,766	229,165	68,779	64,060	11,602	1,177,137

The carrying values of the Group's leasehold land and buildings are situated on land with the following lease terms:

	2012 RMB'000	2011 RMB'000
Held in Hong Kong		
medium-term lease (10 – 50 years)	1,522	1,584
Held in PRC		
long-term lease (over 50 years)	592,203	574,181
	593,725	575,765

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

16. PROPERTY AND EQUIPMENT (continued)

THE COMPANY

	Leasehold land and buildings RMB'000	Leasehold improvements RMB'000	Electronic equipment RMB'000	Motor vehicles RMB'000	Furniture, fixtures and equipment RMB'000	Construction in progress RMB'000	Total RMB'000
COST							
As at 1 January 2012	824,767	437,892	688,365	129,050	119,554	11,602	2,211,230
Additions during the year	46,242	36,165	64,000	10,875	4,605	26,526	188,413
Disposals during the year	(6,424)	(37)	(120,485)	(6,485)	(6,769)	-	(140,200)
Transfer during the year	-	21,433	8,417	-	3,333	(33,183)	-
As at 31 December 2012	864,585	496,453	640,297	133,440	120,723	4,945	2,259,443
ACCUMULATED DEPRECIATION							
As at 1 January 2012	223,918	234,465	490,536	70,089	64,761	-	1,083,769
Provided for the year	24,651	74,821	94,162	15,714	13,873	-	223,221
Eliminated on disposals	(2,986)	-	(113,608)	(6,291)	(6,249)	-	(129,134)
As at 31 December 2012	245,583	309,286	471,090	79,512	72,385	-	1,177,856
ALLOWANCE FOR IMPAIRMENT LOSSES							
As at 1 January 2012 & 31 December 2012	30,382	-	-	-	-	-	30,382
CARRYING VALUES							
As at 31 December 2012	588,620	186,167	169,207	53,928	48,338	4,945	1,051,205

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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16. PROPERTY AND EQUIPMENT (continued)

THE COMPANY (continued)

	Leasehold land and buildings RMB'000	Leasehold improvements RMB'000	Electronic equipment RMB'000	Motor vehicles RMB'000	Furniture, fixtures and equipment RMB'000	Construction in progress RMB'000	Total RMB'000
COST							
As at 1 January 2011	839,360	445,887	665,233	118,927	112,906	11,936	2,194,249
Additions during the year	11,679	13,987	77,582	16,426	13,957	61,723	195,354
Disposals during the year	(26,272)	(81,304)	(56,229)	(6,303)	(8,265)	-	(178,373)
Transfer during the year	-	59,322	1,779	-	956	(62,507)	-
As at 31 December 2011	824,767	437,892	688,365	129,050	119,554	11,602	2,211,230
ACCUMULATED DEPRECIATION							
As at 1 January 2011	211,937	248,596	447,224	60,704	58,820	-	1,027,281
Provided for the year	24,575	67,173	97,590	14,758	13,371	-	217,467
Eliminated on disposals	(12,594)	(81,304)	(54,278)	(5,373)	(7,430)	-	(160,979)
As at 31 December 2011	223,918	234,465	490,536	70,089	64,761	-	1,083,769
ALLOWANCE FOR IMPAIRMENT LOSSES							
As at 1 January 2011 & 31 December 2011	30,382	-	-	-	-	-	30,382
CARRYING VALUES							
As at 31 December 2011	570,467	203,427	197,829	58,961	54,793	11,602	1,097,079

The Company's leasehold land and buildings are situated on land in the PRC with long-term lease.

As the lease payments included in the Group and the Company's leasehold land and buildings cannot be allocated reliably between the land and buildings, the entire leases are classified as finance leases and accounted for as property and equipment.

As of 31 December 2012 and 31 December 2011, included in leasehold land and buildings, there is a carrying amount of RMB4,146,000, for which the Group and the Company have yet to obtain the relevant land and building certificates.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

17. INVESTMENT PROPERTIES

THE GROUP

	2012/12/31 <i>RMB'000</i>	2011/12/31 <i>RMB'000</i>
COST		
At beginning and end of the year	120,094	125,585
Transfer to property and equipment	–	(5,491)
At end of the year	120,094	120,094
ACCUMULATED DEPRECIATION		
At beginning of the year	26,622	24,941
Provided for the year	3,329	3,404
Eliminated on transfer to property and equipment	–	(1,723)
At end of the year	29,951	26,622
CARRYING VALUES		
At end of the year	90,143	93,472

THE COMPANY

	2012/12/31 <i>RMB'000</i>	2011/12/31 <i>RMB'000</i>
COST		
At beginning and end of the year	120,094	120,094
ACCUMULATED DEPRECIATION		
At beginning of the year	26,622	24,941
Provided for the year	3,329	3,328
At end of the year	29,951	26,622
CARRYING VALUES		
At end of the year	90,143	93,472

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

17. INVESTMENT PROPERTIES (continued)

The fair values of the Group and Company's investment properties at 31 December 2011 and 2012, were RMB256,305,000 and RMB293,050,000, respectively. The fair values have been determined by the directors of the Company by reference to recent market prices for similar properties in the same or similar locations and conditions.

The above investment properties are depreciated over their estimated useful lives of 35 years and after taking into account their estimated residual value of 3%, using the straight-line method.

All investment properties held by the Group and the Company are situated on land in the PRC with long-term lease.

18. GOODWILL

THE GROUP

Cost and carrying value

	2012/12/31	2011/12/31
	RMB'000	RMB'000
At beginning of the year	642,280	673,860
Exchange adjustments	118	(31,580)
At end of the year	642,398	642,280

Particulars regarding impairment testing on goodwill are disclosed in note 20.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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19. OTHER INTANGIBLE ASSETS

THE GROUP

	Trading rights <i>RMB'000</i>	Computer software <i>RMB'000</i>	Others <i>RMB'000</i>	Construction in progress <i>RMB'000</i>	Total <i>RMB'000</i>
COST					
As at 1 January 2012	221,378	321,816	49,230	5,630	598,054
Additions during the year	–	37,571	1,154	841	39,566
Disposals during the year	(600)	(1,121)	(201)	–	(1,922)
Transfer during the year	–	4,430	–	(4,430)	–
As at 31 December 2012	220,778	362,696	50,183	2,041	635,698
ACCUMULATED AMORTISATION					
As at 1 January 2012	119,000	144,389	26,638	–	290,027
Provided for the year	–	54,852	3,542	–	58,394
Eliminated on disposals	(600)	(1,166)	(200)	–	(1,966)
As at 31 December 2012	118,400	198,075	29,980	–	346,455
CARRYING VALUES					
As at 31 December 2012	102,378	164,621	20,203	2,041	289,243
COST					
As at 1 January 2011	222,308	258,933	49,490	6,475	537,206
Additions during the year	170	67,017	48	7,429	74,664
Disposals during the year	(1,100)	(12,408)	(308)	–	(13,816)
Transfer during the year	–	8,274	–	(8,274)	–
As at 31 December 2011	221,378	321,816	49,230	5,630	598,054
ACCUMULATED AMORTISATION					
As at 1 January 2011	118,830	105,700	22,947	–	247,477
Provided for the year	170	44,708	3,760	–	48,638
Eliminated on disposals	–	(6,019)	(69)	–	(6,088)
As at 31 December 2011	119,000	144,389	26,638	–	290,027
CARRYING VALUES					
As at 31 December 2011	102,378	177,427	22,592	5,630	308,027

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For the year ended 31 December 2012

19. OTHER INTANGIBLE ASSETS (continued)

THE COMPANY

	Trading rights RMB'000	Computer software RMB'000	Others RMB'000	Construction in progress RMB'000	Total RMB'000
COST					
As at 1 January 2012	216,020	124,117	47,229	5,630	392,996
Additions during the year	–	26,271	1,154	625	28,050
Disposals during the year	(600)	(7,744)	(201)	–	(8,545)
Transfer during the year	–	4,430	–	(4,430)	–
As at 31 December 2012	215,420	147,074	48,182	1,825	412,501
ACCUMULATED AMORTISATION					
As at 1 January 2012	119,000	89,219	25,624	–	233,843
Provided for the year	–	22,215	3,338	–	25,553
Eliminated on disposals	(600)	(4,052)	(200)	–	(4,852)
As at 31 December 2012	118,400	107,382	28,762	–	254,544
CARRYING VALUES					
As at 31 December 2012	97,020	39,692	19,420	1,825	157,957
COST					
As at 1 January 2011	215,850	99,044	47,529	6,475	368,898
Additions during the year	170	18,054	–	7,429	25,653
Disposals during the year	–	(1,255)	(300)	–	(1,555)
Transfer during the year	–	8,274	–	(8,274)	–
As at 31 December 2011	216,020	124,117	47,229	5,630	392,996
ACCUMULATED AMORTISATION					
As at 1 January 2011	118,830	73,439	22,137	–	214,406
Provided for the year	170	16,989	3,556	–	20,715
Eliminated on disposals	–	(1,209)	(69)	–	(1,278)
As at 31 December 2011	119,000	89,219	25,624	–	233,843
CARRYING VALUES					
As at 31 December 2011	97,020	34,898	21,605	5,630	159,153

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

19. OTHER INTANGIBLE ASSETS (continued)

Trading rights, which the directors of the Company assessed to have indefinite useful lives, mainly comprise the trading rights in the Shanghai Stock Exchange, the Shenzhen Stock Exchange, the Hong Kong Stock Exchange and the Hong Kong Futures Exchange Limited which allow the Group to trade securities and futures contracts on or through these exchanges.

20. IMPAIRMENT TESTING ON GOODWILL AND TRADING RIGHTS WITH INDEFINITE USEFUL LIVES

Impairment testing on goodwill

For the purpose of impairment testing, goodwill set out in note 18 has been allocated to two individual cash generating units (CGUs), including one subsidiary in Shanghai ("Unit A") and one subsidiary in Hong Kong ("Unit B"). The carrying amounts of goodwill as at 31 December 2011 and 2012 allocated to these units are as follows:

	2012/12/31 <i>RMB'000</i>	2011/12/31 <i>RMB'000</i>
Unit A – Haitong Futures Co., Ltd.	5,896	5,896
Unit B – Haitong International Securities Group Limited	636,502	636,384
	642,398	642,280

During the year ended 31 December 2011 and 2012, management of the Group determined that there are no impairments of any of its CGUs containing goodwill as the recoverable amounts of Unit A and Unit B exceed their respective carrying amounts.

The basis of the recoverable amounts of the above CGUs and their major underlying assumptions are summarised below:

The recoverable amounts of Unit A and Unit B have been determined on the basis of value in use calculation. That calculation uses cash flow projections based on financial budgets approved by management covering a 5-year period, and at a discount rate of 8%, 8% and 5.6%, 5.5%, for Unit A and Unit B, respectively, as at 31 December 2011 and 2012. The discount rates used reflect specific risks relating to the relevant CGUs.

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For the year ended 31 December 2012

20. IMPAIRMENT TESTING ON GOODWILL AND TRADING RIGHTS WITH INDEFINITE USEFUL LIVES (continued)

Impairment testing on goodwill (continued)

Other key assumptions for the value in use calculations relate to the estimation of cash inflows/outflows which include budgeted income and gross margin, such estimation is based on the units' past performance and management's expectations for the market development.

Management believes that any reasonably possible change in any of these assumptions would not cause the aggregate carrying amount of Unit A or Unit B to exceed their respective aggregate recoverable amount.

Impairment testing on trading rights with indefinite useful lives

The trading rights held by the Group are considered by the directors of the Company as having indefinite useful lives because they are expected to contribute net cash inflows indefinitely. The trading rights will not be amortised until their useful life is determined to be finite. Instead, they will be tested for impairment annually and whenever there is an indication that they may be impaired. The respective recoverable amounts of the two cash generating units relating to brokerage business whereby these trading rights are allocated to, using a value in use calculation, exceed the carrying amounts. Accordingly, there is no impairment of the trading rights as at 31 December 2011 and 2012.

21. PRINCIPAL SUBSIDIARIES

Investment costs and balances with subsidiaries:

	2012/12/31	2011/12/31
	RMB'000	RMB'000
Unlisted shares, at cost	14,033,130	8,283,130

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

21. PRINCIPAL SUBSIDIARIES (continued)

Details of the principal subsidiaries:

Name of subsidiary	Place of incorporation/ establishment	Equity interest held by the Group		Share capital/ registered and paid-up capital	Principal activities	Statutory auditor ^a
		As at 31 December 2012	As at 31 December 2011			
海富通基金管理有限公司 HFT Investment Management Co., Ltd. ^{a, b}	PRC	51%	51%	RMB 150,000,000	Provision of fund trading, distribution and management services	KPMG Huazhen
海富產業投資基金管理有限公司 Haitong-Fortis Private Equity Fund Management Co., Ltd. ^{a, b}	PRC	67%	67%	RMB 20,000,000	Provision of advisory services and fund management services	Deloitte PRC
海通開元投資有限公司 Haitong Capital Investment Co. Ltd. ^{a, b}	PRC	100%	100%	RMB 5,750,000,000	Provision of advisory services and proprietary trading	Shu Lun Pan
海通國際控股有限公司 (原名海通(香港)金融控股有限公司) Haitong International Holdings Limited ^a (Formerly known as Hai Tong (HK) Financial Holdings Limited) ("HTIH")	Hong Kong	100%	100%	HKD 4,000,000,000	Investment holding	BDO
海通期貨有限公司 Haitong Futures Co., Ltd. ^{a, b}	PRC	66.667%	66.667%	RMB 1,000,000,000	Physical commodities and futures contracts broking and dealing	Zhonghua
海通國際證券集團有限公司 (原名大福證券集團有限公司) Haitong International Securities Group Limited ^a (Formerly known as Taifook Securities Group Limited) ("HTSGL") ^a	Bermuda	69.98%	69.74%	HKD 91,534,271	Investment holding	PWC
海通創新證券投資有限公司 Haitong Chuangxin Securities Investment Company Limited ^{a, b}	PRC	100%	-	RMB 3,000,000,000	Financial products investment investment advisory and investment management services	Shu Lun Pan
上海海通證券資產管理有限公司 Shanghai Haitong Securities Asset Management Company Limited ^{a, b}	PRC	100%	-	RMB 1,000,000,000	Securities investment management	Shu Lun Pan

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

21. PRINCIPAL SUBSIDIARIES (continued)

- * English translated name is for identification only.
- α The subsidiary's shares are listed on the Main Board of the Hong Kong Stock Exchange. On 16 August 2011, the subsidiary has issued new shares at HKD4.25 per share by way of capitalisation of HKD850,000,000 out of the total outstanding amount of intercompany loans due to its immediate holding company, Haitong International Holdings Limited.
- β The subsidiary is directly held by the Company.
- # Statutory auditor of respective subsidiaries of the Group are as follows:
- KPMG Huazhen represents KPMG Huazhen LLP, formerly known as KPMG Huazhen Ltd., certified public accountants registered in the PRC;
 - Deloitte PRC represents Deloitte Touche Tohmatsu CPA LLP. (德勤華永會計師事務所(特殊普通合夥)), formerly known as Deloitte Touche Tohmatsu CPA Limited (德勤華永會計師事務所有限公司) certified public accountants registered in the PRC;
 - Shu Lun Pan represents BDO China Shu Lun Pan Certified Public Accountants LLP. (立信會計事務所(特殊普通合夥)), certified public accountants registered in the PRC.
 - BDO represents BDO Limited, certified public accountants registered in Hong Kong;
 - Zhonghua represents Zhonghua Certified Public Accountants (眾華滬銀會計師事務所), certified public accountants registered in PRC; and
 - PWC represents PricewaterhouseCoopers, certified public accountants registered in Hong Kong.

22. INVESTMENTS IN ASSOCIATES

THE GROUP

	2012/12/31 <i>RMB'000</i>	2011/12/31 <i>RMB'000</i>
Cost of unlisted investments in associates	1,564,207	764,207
Share of post-acquisition profits and other comprehensive income, net of dividends received	163,683	161,907
	1,727,890	926,114

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

22. INVESTMENTS IN ASSOCIATES (continued)

THE COMPANY

	2012/12/31 RMB'000	2011/12/31 RMB'000
Cost of unlisted investments in associates	92,907	92,907

As of each of the reporting period ends, the Group has the following associates:

Name of associates	Place of incorporation/ establishment	Equity interest held by the Group		Principal activities
		As at 31 December 2012	As at 31 December 2011	
富國基金管理有限公司 Fullgoal Fund Management Co. Ltd.*	PRC	27.78%	27.78%	Provision of fund trading distribution services
海富金匯(天津)資本管理企業 (有限合夥) HFT Jinhui (Tianjin) Capital Management Enterprise (Limited Partnership)^	PRC	65.00%	65.00%	Investing in securities
吉林省現代農業和新興產業投資 基金有限公司 Jilin Modern Agricultural and Emerging Markets Investment Fund Limited*	PRC	37.50%	37.50%	Investing in securities
西安航太新能源產業投資有限公司 Xian Aerospace and New Energy Industry Fund* ^β	PRC	37.00%	37.00%	Investing in securities
上海文化產業股權投資基金合夥企業 (有限合夥) Shanghai Cultural Industries Investment Fund (Limited Partnership)**	PRC	47.06%	–	Investing in securities

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

22. INVESTMENTS IN ASSOCIATES (continued)

- * English translated name is for identification only.
- ^ Pursuant to the partnership agreement, the Group is a limited partner of the partnership and therefore the Group does not control HFT Jinhui (Tianjin) Capital Management Enterprise (Limited Partnership) (海富金匯(天津)資本管理企業(有限合夥)). The directors of the Company consider that the Group has the power to exercise significant influence over HFT Jinhui (Tianjin) Capital Management Enterprise (Limited Partnership) (海富金匯(天津)資本管理企業(有限合夥)) through the Group's participation in its operating and financing activities and it is therefore classified as an associate of the Group.
- β The associate was established in 2011 and the Group made capital injection of RMB370,000,000 on its establishment.
- + The associate was established in 2012. The Group made capital injection of RMB800,000,000 on its establishment, of which Haitong Chuangyi Asset Management Company Limited (海通創意資本管理有限公司) invested RMB100,000,000 and the remaining was invested by Haitong Capital Investment Co., Ltd. (海通開元投資有限公司).

The summarised consolidated financial statements in respect of the Group's associates is set out below:

THE GROUP

	2012/12/31 RMB'000	2011/12/31 RMB'000
Total assets	4,665,266	2,882,151
Total liabilities	(236,637)	(207,531)
Net assets	4,428,629	2,674,620
Group's share of net assets of associates	1,723,114	911,602
	2012/12/31 RMB'000	2011/12/31 RMB'000
Income for the year	928,429	900,139
Total profit for the year	253,933	273,547
Other comprehensive expense for the year	(6,893)	(48,007)
Group's share of profits and other comprehensive income of associates for the year	54,271	64,828

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

23. AVAILABLE-FOR-SALE INVESTMENTS

THE GROUP

	2012/12/31	2011/12/31
	RMB'000	<i>RMB'000</i>
Debt securities	2,251,859	507,743
Equity securities	6,615,504	7,644,569
Funds	1,296,724	607,899
Others (<i>note iv</i>)	616,720	–
	10,780,807	8,760,211
Analysed as:		
Listed in Hong Kong	6,767	58,253
Listed outside Hong Kong (primarily in the PRC)	5,858,786	6,211,410
Unlisted	4,915,254	2,490,548
	10,780,807	8,760,211
Analysed as:		
Listed equity securities (<i>note ii</i>)	3,934,431	6,071,117
Unlisted equity securities (<i>note i</i>)	2,681,073	1,573,452
	6,615,504	7,644,569
Analysed for reporting purpose as:		
Current assets	7,427,046	6,826,646
Non-current assets	3,353,761	1,933,565
	10,780,807	8,760,211

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

23. AVAILABLE-FOR-SALE INVESTMENTS (continued)

THE COMPANY

	2012/12/31 <i>RMB'000</i>	2011/12/31 <i>RMB'000</i>
Debt securities	2,251,859	507,743
Equity securities	3,892,167	5,903,543
Funds	587,771	260,590
Others (<i>note iv</i>)	238,164	–
	6,969,961	6,671,876
Analysed as:		
Listed outside Hong Kong (primarily in the PRC)	5,721,344	5,961,083
Unlisted	1,248,617	710,793
	6,969,961	6,671,876
Analysed as:		
Listed equity securities (<i>note iii</i>)	3,796,988	5,808,364
Unlisted equity securities (<i>note i</i>)	95,179	95,179
	3,892,167	5,903,543
Analysed for reporting purpose as:		
Current assets	6,627,608	6,318,692
Non-current assets	342,353	353,184
	6,969,961	6,671,876

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

23. AVAILABLE-FOR-SALE INVESTMENTS (continued)

THE COMPANY (continued)

Note:

- (i) The equity interest in unlisted securities held by the Group and the Company are issued by private companies (including companies in (among others) banking, manufacturing, property development and utilities sectors). As the reasonable range of fair value estimation is so significant that the directors of the Company are of the opinion that the fair value cannot be measured reliably, the value of the securities is measured at cost less the impairment at the reporting date.
- (ii) Included in the Group's listed equity securities are amounts of approximately RMB1,423,849,000 and RMB974,484,000 as at 31 December 2011 and 2012, respectively, which are restricted shares listed in the PRC with a legally enforceable restriction on these securities that prevents the Group to dispose of within the specified period. The fair values of these securities have taken into account the relevant features including the restrictions.
- (iii) Included in the Company's listed equity securities are amounts of approximately RMB1,245,921,000 and RMB926,184,000 as at 31 December 2011 and 31 December 2012, respectively, which are restricted shares listed in the PRC with a legally enforceable restriction on these securities that prevents the Company to dispose of within the specified period. The fair values of these securities have taken into account the relevant features including the restrictions.
- (iv) The others comprise products offered by banks/trusts where funds are mainly invested in listed securities or open ended funds and the Group's return of investment is tied to the result of such investments.

In the opinion of the directors of the Company, non-current available-for sale investments are expected to be realised or restricted for sale beyond one year from the end of the respective reporting periods.

The fair value of the Group and the Company's investments in unlisted funds, which mainly invest in publicly traded equities listed in Hong Kong and the PRC, are valued based on the net asset values of the funds calculated by the respective fund managers by reference to their underlying assets and liabilities' fair values.

The fair value of the Group and the Company's investments in equity securities without restriction, exchange-traded funds and debt securities are determined with reference to their quoted prices as at reporting date.

As at 31 December 2011 and 31 December 2012, the Company has entered into securities lending arrangement with clients that resulted in the transfer of available-for-sale investments with total fair value of RMB254,128,000 and RMB661,409,000 to external clients, respectively, which did not result in derecognition of the financial assets. RMB837,988,000 and RMB1,885,653,000 cash collateral was received from clients for securities lending arrangement and margin financing activities carried out in the PRC, and reported under accounts payable to brokerage clients (note 39).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

24. LOAN AND RECEIVABLE INVESTMENTS

THE GROUP

	2012/12/31	2011/12/31
	RMB'000	<i>RMB'000</i>
Trust products (note)	1,641,300	–
Bond	100,002	157,683
Others (note)	1,431,100	–
	3,172,402	157,683
Analysed for reporting purpose as:		
Current assets	1,894,100	–
Non-current assets	1,278,302	157,683
	3,172,402	157,683

THE COMPANY

	2012/12/31	2011/12/31
	RMB'000	<i>RMB'000</i>
Others (note)	200,000	–
Analysed for reporting purpose as:		
Current assets	200,000	–

Note: The above products comprise fixed-yield bank and trust products, which are recoverable in determinable amount by principle and interest according to the agreement.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

25. HELD-TO-MATURITY INVESTMENTS

THE GROUP

	2012/12/31 <i>RMB'000</i>	2011/12/31 <i>RMB'000</i>
Debt securities listed in Hong Kong	656,719	–
Analysed for reporting purpose as:		
Current assets	4,861	–
Non-current assets	651,858	–
	656,719	–

As at 31 December 2012, the fair value of the held-to-maturity investments was approximately RMB682,213,000. The related interest rates on such bonds for the year ended 31 December 2012 ranged between 2.95% – 13.5% per annum.

26. OTHER ASSETS

THE GROUP

	2012/12/31 <i>RMB'000</i>	2011/12/31 <i>RMB'000</i>
Foreclosed assets	6,500	6,500
Deposits with the Hong Kong Stock Exchange	1,216	1,216
Contributions to reserve funds of		
– HKFE Clearing Corporation Limited	7,311	1,216
– The SEHK Options Clearing House Limited	4,353	7,396
Deposits for trading rights	57,757	51,520
Prepaid lease payments	16,514	17,016
	93,651	84,864

THE COMPANY

	2012/12/31 <i>RMB'000</i>	2011/12/31 <i>RMB'000</i>
Foreclosed assets	6,500	6,500
Deposits for trading rights	55,947	49,897
Prepaid lease payments	16,513	17,016
	78,960	73,413

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

27. LOANS AND ADVANCES TO CUSTOMERS

THE GROUP

	2012/12/31 RMB'000	2011/12/31 RMB'000
Loans to margin clients (<i>note i</i>)	10,203,213	6,462,677
Other loans and advances (<i>note ii</i>)	1,135,474	–
Less: Allowance for doubtful debts	–	–
	11,338,687	6,462,677

THE COMPANY

	2012/12/31 RMB'000	2011/12/31 RMB'000
Loans to margin clients (<i>note i</i>)	6,392,950	3,675,252
Less: Allowance for doubtful debts	–	–
	6,392,950	3,675,252

- (i) The credit facility limits to margin clients are determined by the discounted market value of the collateral securities accepted by the Group and the Company.

The majority of the loans to margin clients which are secured by the underlying pledged securities are interest bearing. The Group maintains a list of approved stocks for margin lending at a specified loan to collateral ratio. Any excess in the lending ratio will trigger a margin call which the customers have to make good of the shortfall.

Loans to margin clients as at 31 December 2011 and 2012 were secured by the customers' securities to the Group as collateral with undiscounted market value of approximately RMB22,610,397,000 and RMB39,241,260,000, respectively.

Loans to margin clients as at 31 December 2011 and 2012 were secured by the customers' securities to the Company as collateral with undiscounted market value of approximately RMB9,661,086,000 and RMB18,657,832,000 respectively.

No ageing analysis is disclosed as in the opinion of the directors, the ageing analysis does not give additional value in view of the nature of business of securities margin financing.

The Group determines the allowance for impaired debts based on the evaluation of collectability and ageing analysis of accounts and on management's judgement including the assessment of change in credit quality, collateral and the past collection history of each client. There is no impaired debt for the year ended 31 December 2011 and 2012. The concentration of credit risk is limited due to the customer base being large and unrelated.

- (ii) All other loans and advances are secured and/or backed by guarantee with contractual maturity from 3 months to 1 year. These loans bear interest at Hong Kong prime note plus 4% to 7% or at a fixed rate of 9% annum (31 December 2011: Nil). The carrying value of the other loans and advances is an approximation of the fair value.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

28. ACCOUNTS RECEIVABLE

THE GROUP

	2012/12/31	2011/12/31
	<i>RMB'000</i>	<i>RMB'000</i>
Accounts receivable from:		
– Cash clients	145,442	42,757
– Brokers, dealers and clearing house	821,463	684,661
– Advisory and financial planning	6,735	3,980
– Asset and fund management	121,886	125,391
– Others	17,829	15,763
	1,113,355	872,552

There are no impaired accounts receivable for the year ended 31 December 2011 and 2012. Ageing analysis of accounts receivable from the trade date is as follows:

	2012/12/31	2011/12/31
	<i>RMB'000</i>	<i>RMB'000</i>
Between 0 and 3 months	1,084,554	859,783
Between 4 and 6 months	11,873	5,558
Between 7 and 12 months	13,953	3,816
Over 1 year	2,975	3,395
	1,113,355	872,552

The normal settlement terms of accounts receivable from clients and brokers, dealers and clearing houses are within two days after trade date. Trading limits are set for clients. The Group seeks to maintain tight control over its outstanding accounts receivable in order to minimise credit risk. Overdue balances are regularly monitored by management.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

29. OTHER RECEIVABLES AND PREPAYMENTS

THE GROUP

	2012/12/31	2011/12/31
	RMB'000	RMB'000
Interest receivable	710,031	448,730
Dividend receivable	–	274
Expenses for underwriting business to be settled by clients	420	420
Other receivables and prepayments	1,384,235	827,065
	2,094,686	1,276,489
Less: allowance for doubtful debts on other receivables	(520,092)	(536,307)
	1,574,594	740,182

THE COMPANY

	2012/12/31	2011/12/31
	RMB'000	RMB'000
Interest receivable	628,525	415,526
Dividend receivable	–	274
Expenses for underwriting business to be settled by clients	420	420
Other receivables and prepayments	991,077	651,806
	1,620,022	1,068,026
Less: allowance for doubtful debts on other receivables	(510,691)	(536,307)
	1,109,331	531,719

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

29. OTHER RECEIVABLES AND PREPAYMENTS (continued)

Movements in the allowance for doubtful debts are as follows:

THE GROUP

	2012/12/31 RMB'000	2011/12/31 RMB'000
At beginning of the year	536,307	562,612
Reversal of impairment allowance, net	(24,001)	(32,773)
Recoveries of other receivables previously written off	7,786	6,468
At end of the year	520,092	536,307

THE COMPANY

	2012/12/31 RMB'000	2011/12/31 RMB'000
At beginning of the year	536,307	562,612
Reversal of impairment allowance, net	(33,402)	(32,773)
Recoveries of other receivables previously written off	7,786	6,468
At end of the year	510,691	536,307

Included in the allowance for doubtful debts of the Group and Company mainly represents a gross receivable of RMB550,000,000 from an independent third party who was in financial difficulties. In the opinion of the directors of the Company, the recoverability of the receivable is remote and a full provision is made in prior year. As of 31 December 2012, amounts of RMB46,341,000 of the above receivable were recovered. In 2012, amounts of RMB18,589,000 (2011: RMB27,752,000) of the above receivable were recovered.

The remaining other receivables and prepayments mainly represent short-term rental deposits placed with landlords under operating leases and other prepaid expenses for daily operation.

30. AMOUNT DUE FROM/TO A SUBSIDIARY

Amount due from/to a subsidiary is unsecured, repayable on demand, and bears interest at prevailing market interest rates. The Company is expected to recover the amount due from a subsidiary within 1 year from the end of the reporting period.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

31. FINANCIAL ASSETS HELD UNDER RESALE AGREEMENTS

THE GROUP

	2012/12/31	2011/12/31
	RMB'000	RMB'000
Analysed by collateral type:		
Bonds	728,600	573,900
Stock (Note)	1,464,969	32,000
	2,193,569	605,900
Analysed by market:		
Bank	415,000	–
Shanghai Stock Exchange	1,778,569	605,900
	2,193,569	605,900

THE COMPANY

	2012/12/31	2011/12/31
	RMB'000	RMB'000
Analysed by collateral type:		
Stock (Note)	1,464,969	32,000
Analysed by market:		
Shanghai Stock Exchange	1,464,969	32,000

Note: The financial assets (pledged by stock) held under resale agreements are those resale agreements which qualified investors entered into with the Company to purchase the specified securities on one day in the future under another agreed price. The maturities are all within one year.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

32. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

THE GROUP

	2012/12/31	2011/12/31
	RMB'000	<i>RMB'000</i>
Held for trading:		
Debt securities	17,829,618	14,803,400
Equity securities	7,359,125	1,508,502
Funds	6,974,851	4,185,923
Derivatives	32,189	107,282
	32,195,783	20,605,107
Analysed as:		
Listed in Hong Kong	7,944	5,585
Listed outside Hong Kong (primarily in the PRC)	16,962,273	10,085,516
Unlisted	15,225,566	10,514,006
	32,195,783	20,605,107

THE COMPANY

	2012/12/31	2011/12/31
	RMB'000	<i>RMB'000</i>
Held for trading:		
Debt securities	17,380,761	14,611,999
Equity securities	6,879,298	1,502,917
Funds	6,357,090	4,083,847
Derivatives	14,707	100,534
	30,631,856	20,299,297
Analysed as:		
Listed outside Hong Kong (primarily in the PRC)	16,473,403	10,085,516
Unlisted	14,158,453	10,213,781
	30,631,856	20,299,297

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

32. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS (continued)

The investments held within the above unlisted fund investments, which were classified as held for trading financial assets, mainly consist of publicly traded equities listed mainly in Hong Kong and the PRC. The fair value of the Group and the Company's investments in funds are valued based on the net asset values of the funds calculated by the respective fund managers with reference to their underlying assets and liabilities' fair values.

The fair value of the Group and the Company's listed equity and debt securities, exchange-traded funds and unlisted debt securities are determined by reference to their quoted prices as at the reporting date.

The Group's derivatives mainly comprise index futures contracts and foreign currency forwards contracts.

33. DEPOSITS WITH EXCHANGES

THE GROUP

	2012/12/31 RMB'000	2011/12/31 RMB'000
Deposits with stock exchanges		
– Shanghai Stock Exchange	15,344	20,158
– Shenzhen Stock Exchange	418,344	536,414
	433,688	556,572
Deposits with futures and commodity exchanges		
– Shanghai Futures Exchange	1,124,119	638,247
– Dalian Commodity Exchange	334,245	98,619
– Zhengzhou Commodity Exchange	229,077	145,162
– China Financial Futures Exchange	1,776,497	695,825
– Shanghai Gold Exchange	10	–
	3,463,948	1,577,853
Guarantee fund paid to Shenzhen Stock Exchange	66,379	43,389
Deposit with China Securities Finance Corporation Ltd.	30,737	–
	3,994,752	2,177,814

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

33. DEPOSITS WITH EXCHANGES (continued)

THE COMPANY

	2012/12/31 RMB'000	2011/12/31 RMB'000
Deposits with stock exchanges		
– Shanghai Stock Exchange	11,881	16,695
– Shenzhen Stock Exchange	415,251	533,620
	427,132	550,315
Deposits with China Financial Futures Exchange	1,083,695	438,186
Guarantee fund paid to Shenzhen Stock Exchange	66,379	43,389
Deposit with China Securities Finance Corporation Ltd.	30,737	–
	1,607,943	1,031,890

34. CLEARING SETTLEMENT FUNDS

THE GROUP

	2012/12/31 RMB'000	2011/12/31 RMB'000
Clearing settlement funds held with clearing houses for:		
The Group	817,467	1,537,006
Clients	2,227,863	2,415,032
	3,045,330	3,952,038

THE COMPANY

	2012/12/31 RMB'000	2011/12/31 RMB'000
Clearing settlement funds held with clearing houses for:		
The Company	817,467	662,944
Clients	1,394,177	2,129,692
	2,211,644	2,792,636

These clearing settlement funds are held by the clearing houses for the Group and the Company and can be withdrawn freely by the Group and the Company. These balances carry interest at prevailing market interest rates.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

35. BANK BALANCES AND CASH

THE GROUP

	2012/12/31 RMB'000	2011/12/31 RMB'000
General accounts (note i)	20,851,536	17,525,952
Cash held on behalf of clients (note ii)	31,460,515	33,371,801
	52,312,051	50,897,753
Less: non-current restricted bank deposits (note iii)	(320,586)	(326,719)
	51,991,465	50,571,034

THE COMPANY

	2012/12/31 RMB'000	2011/12/31 RMB'000
General accounts	17,484,495	11,957,875
Cash held on behalf of clients (note ii)	24,802,427	26,704,806
	42,286,922	38,662,681

Bank balances and cash comprise cash on hand and demand deposits which bear interest at the prevailing market rates.

Notes:

- (i) Included in the general accounts as at 31 December 2011 and 2012 are pledged bank deposits of approximately RMB1,469,100,000 and nil, respectively, used as a security of borrowings (note 37).
- (ii) The Group and the Company receives and holds money deposited by clients in the course of the conduct of the regulated activities. The Group and the Company has recognised the corresponding amount in accounts payable to brokerage clients (note 39). The Group and the Company currently does not have a legally enforceable right to offset these payables with deposit placed.
- (iii) The non-current restricted bank deposits are restricted for fund management risk reserve purpose.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

36. CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprise of the following:

THE GROUP

	2012/12/31	2011/12/31
	RMB'000	RMB'000
Bank balances and cash – general account	20,851,536	17,525,952
Less: Pledged bank deposits and fixed deposits	–	(1,469,100)
Restricted bank deposits	(320,586)	(326,719)
Net of: Temporary bank borrowing repayable on demand	(5,000,000)	–
Clearing settlement funds – the Group	817,467	1,537,006
	16,348,417	17,267,139

37. BORROWINGS

THE GROUP

	2012/12/31	2011/12/31
	RMB'000	RMB'000
Secured short-term borrowings:		
Bank loans (<i>notes (i), (ii), (iii), (iv)</i>)	1,714,948	1,741,384
Unsecured short-term borrowings:		
Bank loans (<i>notes (iii), (iv)</i>)	6,911,366	779,346
	8,626,314	2,520,730

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

37. BORROWINGS (continued)

THE COMPANY

	2012/12/31 RMB'000	2011/12/31 RMB'000
Unsecured short-term borrowings:		
Bank loans (<i>notes (iii), (iv)</i>)	5,000,000	–

Notes:

- i. Bank loans borrowed by the subsidiaries in Hong Kong of approximately RMB525,334,000 and RMB1,706,839,000 as at 31 December 2011 and 2012, respectively, are secured by the listed shares pledged to the Group as a security for advances to customers (with customers' consent) of approximately RMB1,705,713,000 and RMB4,452,377,000 as at 31 December 2011 and 2012, respectively.
- ii. As at 31 December 2012, secured bank loans of RMB8,109,000, were secured by the Group's bond with a fair value of RMB217,500,000. As at 31 December 2011, secured bank loans of RMB1,216,050,000, were secured by the Group's short-term time deposits placed at financial institutions. The deposit secured bank loans were repaid in 2012.
- iii. Bank loans and other loans are repayable on demand or within 1 year.
- iv. An amount of RMB1,919,475,000 of the Group's bank borrowings bear interest at Hong Kong Interbank Offered Rate ("HIBOR") plus 0.55% to 2% per annum or cost of fund plus 0.85% per annum (2011: HIBOR plus 0.41% to 1.75% per annum); the remaining balance bear interest at Shanghai Interbank Offered Rate ("SHIBOR") plus 1.20%.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

38. PLACEMENTS FROM OTHER FINANCIAL INSTITUTIONS

THE GROUP AND THE COMPANY

	2012/12/31 <i>RMB'000</i>	2011/12/31 <i>RMB'000</i>
Placement from banks	1,150,000	–
Placement from non-bank financial institutions	1,000,000	–
	2,150,000	–

Placements from other financial institutions are unsecured and bear interest from 3.97% to 5.8% per annum, with maturities within 1 month.

39. ACCOUNTS PAYABLE TO BROKERAGE CLIENTS

The majority of the accounts payable balance is repayable on demand except where certain accounts payable to brokerage clients represent margin deposits received from clients for their trading activities under normal course of business. Only the excess amounts over the required margin deposits stipulated are repayable on demand.

No ageing analysis is disclosed as in the opinion of the directors of the Company, the ageing analysis does not give additional value in view of the nature of these businesses.

Accounts payable mainly include money held on behalf of clients at the banks and at the clearing houses by the Group and the Company.

As at 31 December 2011 and 2012, included in the Group and the Company's accounts payable to brokerage clients were approximately RMB837,988,000 and RMB1,885,653,000 cash collateral received from clients for securities lending and margin financing arrangement.

Accounts payable to brokerage clients is interest bearing at the prevailing interest rate.

40. OTHER PAYABLES AND ACCRUALS

THE GROUP

	2012/12/31 <i>RMB'000</i>	2011/12/31 <i>RMB'000</i>
Accrued staff cost	838,002	911,275
Business tax and other tax payable	113,078	221,267
Others	946,429	686,418
	1,897,509	1,818,960

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

40. OTHER PAYABLES AND ACCRUALS (continued)

THE COMPANY

	2012/12/31 <i>RMB'000</i>	2011/12/31 <i>RMB'000</i>
Accrued staff cost	571,290	665,203
Business tax and other tax payable	84,569	188,871
Others	250,521	467,245
	906,380	1,321,319

Others represent primarily accrued operating expenses which are non-interest bearing and are repayable within one year.

41. PROVISIONS

THE GROUP AND THE COMPANY

	2012/12/31 <i>RMB'000</i>	2011/12/31 <i>RMB'000</i>
At beginning of the year	248	6,853
Addition for the year	2,895	248
Reversal for the year	-	(6,853)
Provision	3,143	248

As at 31 December 2011 and 2012, the Group has several outstanding litigations with potential claims with maximum total amount of approximately RMB404,000 and RMB3,143,000, respectively, of which RMB248,000 and RMB3,143,000, respectively were accounted for and provided in the consolidated financial statements based on directors' best estimate of the amounts required to settle the claims.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

42. FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS

THE GROUP

	2012/12/31 RMB'000	2011/12/31 RMB'000
Index future contracts	379,394	—
Others	5,665	—
	385,059	—

THE COMPANY

	2012/12/31 RMB'000	2011/12/31 RMB'000
Index future contracts	366,444	—

Hedge accounting

The index futures contracts outstanding as at 31 December 2012 are used to hedge the exposure on the changes in fair values of those investments acquired for the purpose of reducing exposure of certain available-for-sale investments. The index future contract of the Group and the Company is the standard CSI 300 stock index futures contracts listed in China Financial Futures Exchange. The notional amounts of these contracts amounted to RMB8,758,597,000. These futures contracts will be settled on a net basis on each settlement date.

(a) Effective hedge

Fair value hedge

The Group and the Company adopted short hedging strategy, by which the Group and the Company used to CSI 300 stock index future contract to hedge the market risk of securities lent or to be lent to clients.

At the inception of the hedge relationship, the Group and the Company have officially designated the CSI 300 stock index future contract as hedge instrument, and document the hedging relationship, risk management and hedge strategy. According to the effectiveness test of fair value hedge by the Group and the Company, the index future contract was considered hedge instrument is highly effective.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

42. FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS (continued)

Hedge accounting (continued)

(a) Effective hedge (continued)

Fair value hedge (continued)

Included in the derivative financial instruments above are those designated as hedging instruments of fair value hedge by the Group and the Company as follows:

	2012 <i>RMB'000</i>	2011 <i>RMB'000</i>
Fair value loss of the hedging instruments	(324,139)	–
Fair value gain of the hedged item	335,588	–
Total	11,449	–

(b) Non-effective hedge

The gain or loss from fair value change of those CSI 300 stock index future contracts that have not been designated as hedge instrument are recognised directly in profit or loss of the current period (note 7).

43. FINANCIAL ASSETS SOLD UNDER REPURCHASE AGREEMENTS

THE GROUP AND THE COMPANY

	2012/12/31 <i>RMB'000</i>	2011/12/31 <i>RMB'000</i>
Analysed as collateral type:		
Bonds	16,040,561	9,524,534
Analysed by market:		
Shanghai Stock Exchange	7,481,059	6,460,234
Inter-bank market	8,559,502	3,064,300
	16,040,561	9,524,534

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

43. FINANCIAL ASSETS SOLD UNDER REPURCHASE AGREEMENTS (continued)

As of December 2012, the above financial assets sold under repurchase agreements include those repurchase agreements entered into with qualified investors, which amounted to RMB1,471,559,000, with maturities within 3 months (31 December 2011: RMB2,334,000).

Sales and repurchase agreements are transactions in which the Group and the Company sell a security and simultaneously agrees to repurchase it (or an asset that is substantially the same) at a fixed price on a future date. Since the repurchase prices are fixed, the Group and the Company are still exposed to substantially all the credit risks and market risks and rewards of those securities sold. These securities are not derecognised from the financial statements but regarded as “collateral” for the secured lending from these counterparties because the Group and the Company retain substantially all the risks and rewards of these securities. In addition, it recognises a financial liability for cash received.

As at 31 December 2012 and 2011, the Group and the Company enters into repurchase agreements with certain counterparties. The proceeds from selling such securities are presented as financial assets sold under repurchase agreements. Because the Group and the Company sell the contractual rights to the cash flows of the securities, it does not have the ability to use the transferred securities during the term of the arrangement.

The following tables provides a summary of carrying amounts and fair values related to transferred financial assets that are not derecognised in their entirety and the associated liabilities:

As at 31 December 2012

	Financial assets at fair value through profit or loss	Available- for-sale investments	Total
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Carrying amount of transferred assets	15,836,958	2,251,859	18,088,817
Carrying amount of associated liabilities	14,049,192	1,991,369	16,040,561
Net position	1,787,766	260,490	2,048,256

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

44. SHARE CAPITAL

	Listed A shares		Listed H shares		Total	
	Number of shares '000	Amount RMB'000	Number of shares '000	Amount RMB'000	Number of shares '000	Amount RMB'000
Registered, issued and fully paid at RMB1.0 per share: At 1 January 2011 and 31 December 2011	8,227,821	8,227,821	–	–	8,227,821	8,227,821
Issuance and conversion of H shares	(135,690)	(135,690)	1,492,590	1,492,590	1,356,900	1,356,900
At 31 December 2012	8,092,131	8,092,131	1,492,590	1,492,590	9,584,721	9,584,721

In April 2012, upon the approval of the Hong Kong Stock Exchange, the Company has completed its initial public offering of 1,229,400,000 H shares, which are listed on the Main Board of the Hong Kong Stock Exchange. In May 2012, the joint global coordinators exercised the over-allotment option and thus the Company had issued an additional 127,500,000 H shares and are also listed on the Main Board of the Hong Kong Stock Exchange.

Moreover, according to the Interim Measures of the State Council of the PRC (the "State Council") on the Management of Reducing State-owned Shares and Raising Social Security Funds issued by the State Council and the relevant approvals of State-owned Assets Supervision and Administration Commission of the State Council, existing shareholders of the state-owned shares of the Company has reduced their state-owned shares and transferred an aggregate amount of 135,690,000 A shares of the Company to the National Council for Social Security Fund of the PRC, and such shares were converted into H shares on a one-for-one basis in May 2012.

45. CAPITAL RESERVE

The movements of the capital reserve of the Company are set out below:

	2012 RMB'000	2011 RMB'000
At beginning of the year	22,635,141	22,635,141
Share issuance pursuant to the global offering	9,837,339	–
At end of the year	32,472,480	22,635,141

The Company was listed on the Main Board of Hong Kong Stock Exchange on 27 April 2012. The excess of the proceeds over the nominal value of the total number of ordinary shares issued was credited to the capital reserve. The Company incurred RMB493,330,000 as share issuance costs, RMB44,136,000 of which was related to inter-group transactions, and eliminated on consolidation.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

46. INVESTMENT REVALUATION RESERVE

The movements of the investment revaluation reserve of the Company are set out below:

	2012	2011
	RMB'000	RMB'000
At beginning of the year	(587,071)	386,646
Available-for-sale investments		
Net fair value changes during the year	(83,210)	(1,162,892)
Reclassification adjustments to profit or loss on disposal/impairment	913,265	(135,398)
Income tax relating to components of other comprehensive income	(207,514)	324,573
At end of the year	35,470	(587,071)

47. GENERAL RESERVES

The general reserves comprise statutory reserve, general reserve and transaction risk reserve.

Pursuant to the Company Law of The People's Republic of China, 10% of the net profit of the Company, as determined under the PRC accounting regulations and before distribution to shareholders, is required to be transferred to a statutory reserve until such time when this reserve represents 50% of the share capital of the Company. The reserve appropriated can be used for loss-covering, expansion of production scale and capitalisation, in accordance with the Company's articles of association or approved by the shareholders in a shareholders' general meeting.

In accordance with the Financial Rules for Financial Enterprises, the Company is required to appropriate 10% of net profit derived in accordance with the relevant accounting rules in the PRC before distribution to shareholders as general reserve from retained profits.

Pursuant to the Securities Law of The People's Republic of China, the Company is required to appropriate 10% of the net profit derived in accordance with the relevant accounting rules in the PRC before distribution to shareholders as transaction risk reserve from retained profits.

For each of the year ended 31 December 2011 and 2012, the Company transferred approximately RMB305,079,000 and RMB270,170,000, respectively, the same amount to each of the statutory reserve, general reserve and transaction risk reserve pursuant to the above regulatory requirements in the PRC.

Each of the statutory reserve, general reserve and transaction risk reserve amounted to approximately RMB1,976,508,000 and RMB2,246,678,000 as at 31 December 2011 and 2012, respectively.

The Company's PRC subsidiaries are also subject to the statutory requirements to appropriate their earnings to reserves. The total amount of reserves appropriated as at 31 December 2012 is RMB585,188,000 (31 December 2011: RMB482,568,000).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

48. RETAINED PROFITS

The movements of retained profits of the Company are set out below:

	2012 <i>RMB'000</i>	2011 <i>RMB'000</i>
At beginning of the year	8,318,500	7,438,661
Profit for the year	2,682,287	3,029,248
Appropriation to general reserves	(810,509)	(915,236)
Dividends recognised as distribution (<i>note 52</i>)	(1,234,173)	(1,234,173)
At end of the year	8,956,105	8,318,500

49. DEFERRED TAXATION

For the purpose of presentation in the Group and the Company's statements of financial position, certain deferred tax assets and liabilities have been offset. The following is the analysis of the deferred tax balances for financial reporting purposes:

THE GROUP

	2012/12/31 <i>RMB'000</i>	2011/12/31 <i>RMB'000</i>
Deferred tax assets	369,606	513,100
Deferred tax liabilities	(149,963)	(72,018)
	219,643	441,082

THE COMPANY

	2012/12/31 <i>RMB'000</i>	2011/12/31 <i>RMB'000</i>
Deferred tax assets	317,951	463,405
Deferred tax liabilities	(113,482)	(25,134)
	204,469	438,271

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

49. DEFERRED TAXATION (continued)

The following are the major deferred tax assets (liabilities) recognised and movements thereon:

THE GROUP

	Financial assets held for trading	Accelerated depreciation	Derivative assets	Accrued but not paid expenses	Available- for-sale investments	Derivative liabilities	Others	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2011	(22,527)	(17,259)	–	59,597	(157,461)	1,112	1,994	(134,544)
(Charge) credit to profit or loss	142,186	(2,857)	(25,134)	25,425	103,644	(1,112)	216	242,368
Credit to other comprehensive income	–	–	–	–	333,258	–	–	333,258
At 31 December 2011	119,659	(20,116)	(25,134)	85,022	279,441	–	2,210	441,082
Credit (charge) to profit or loss	(168,365)	4,689	21,457	(23,306)	47,876	94,793	(351)	(23,207)
Credit to other comprehensive income	–	–	–	–	(198,232)	–	–	(198,232)
At 31 December 2012	(48,706)	(15,427)	(3,677)	61,716	129,085	94,793	1,859	219,643

THE COMPANY

	Financial assets held for trading	Derivative assets	Accrued but not paid expenses	Available- for-sale investments	Derivative liabilities	Others	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2011	(22,527)	–	42,333	(125,185)	1,112	(1)	(104,268)
(Charge) credit to profit or loss	142,197	(25,134)	(2,010)	104,024	(1,112)	1	217,966
Credit to other comprehensive income	–	–	–	324,573	–	–	324,573
At 31 December 2011	119,670	(25,134)	40,323	303,412	–	–	438,271
Credit (charge) to profit or loss	(164,075)	21,457	(23,157)	47,874	91,611	–	(26,290)
Credit to other comprehensive income	–	–	–	(207,512)	–	–	(207,512)
At 31 December 2012	(44,405)	(3,677)	17,166	143,774	91,611	–	204,469

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

50. OPERATING LEASE ARRANGEMENTS

The Group as lessee

Leases for the properties are negotiated for an average term of three years and rentals are fixed for an average term of three years.

At 31 December 2011 and 2012, the Group had total future minimum lease payments under non-cancellable operating leases in respect of rented premises falling due as follows:

	2012 <i>RMB'000</i>	2011 <i>RMB'000</i>
Within one year	181,873	210,016
In the second to fifth year, inclusive	335,957	344,461
Over five years	81,816	59,586
	599,646	614,063

The Company as lessee

Leases for the properties are negotiated for an average term of three years and rentals are fixed for an average term of three years.

At 31 December 2011 and 2012, the Company had total future minimum lease payments under non-cancellable operating leases in respect of rented premises falling due as follows:

	2012 <i>RMB'000</i>	2011 <i>RMB'000</i>
Within one year	107,610	99,541
In the second to fifth year, inclusive	267,950	284,408
Over five years	81,816	59,309
	457,376	443,258

The Group as lessor

The lease terms are negotiated for an average term of two years and rental are fixed for an average of two years.

At the end of the reporting period, the Group had contracted with tenants for the following future minimum lease payments:

	2012 <i>RMB'000</i>	2011 <i>RMB'000</i>
Within one year	11,883	9,947
In the second to fifth year, inclusive	13,174	18,966
	25,057	28,913

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

50. OPERATING LEASE ARRANGEMENTS (continued)

The Company as lessor

The lease terms are negotiated for an average term of two years and rental are fixed for an average of two years.

At the end of the reporting period, the Company had contracted with tenants for the following future minimum lease payments:

	2012	2011
	RMB'000	RMB'000
Within one year	11,883	9,947
In the second to fifth year, inclusive	13,174	18,966
	25,057	28,913

51. CAPITAL COMMITMENT

THE GROUP

	2012	2011
	RMB'000	RMB'000
Capital expenditure in respect of acquisition of property and equipment:		
– Contracted but not provided for	132,204	21,960

52. DIVIDENDS

	2012	2011
	RMB'000	RMB'000
Dividends recognised as distribution	1,234,173	1,234,173

Notes: Pursuant to the resolution of annual general meeting 2011 and 2010, the Company declared 2011 and 2010 final dividend of RMB0.15 per share respectively, satisfied by cash.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

53. DIRECTORS', SENIOR MANAGEMENT'S AND SUPERVISORS' EMOLUMENTS

The emoluments of the Directors, Senior Management and Supervisors of the Company paid/payable by the Group for the year ended 31 December 2012 and 2011 are set out below:

For the year ended 31 December 2012

Name	Director	Salary and	Employer's	Bonuses*	Total
	fee	commission	contribution		
	RMB'000	RMB'000	to pension	RMB'000	RMB'000
			schemes/ annuity plans		
			RMB'000		
<i>Executive Directors and Senior Management:</i>					
Wang Kaiguo ^{&}	–	1,296	109	919	2,324
Li Mingshan ^{&}	–	1,296	109	919	2,324
Shen Degao	–	909	109	665	1,683
Ji Yuguang	–	909	109	665	1,683
Ren Peng	–	908	109	664	1,681
Wu Bin	–	834	109	639	1,582
Li Xunlei	–	785	109	419	1,313
Gong Lizhehui	–	717	109	315	1,141
Wang Jianye	–	838	109	640	1,587
Li Chuqian	–	838	109	640	1,587
Jin Xiaobin	–	838	109	640	1,587
Chen Chunqian	–	609	109	242	960
Li Jianguo	243	2,326	–	388	2,957
<i>Independent Non-executive Directors and Supervisors:</i>					
Xia Bin	120	–	–	–	120
Chen Qiwei	120	–	–	–	120
Zhang Huiquan	120	–	–	–	120
Zhang Ming	120	–	–	–	120
Dai Genyou	120	–	–	–	120
Liu Zhimin	120	–	–	–	120
Wang Yimin	–	1,293	109	917	2,319
Yang Qingzhong	–	907	109	664	1,680
Qiu Xiaping	–	522	109	165	796
Du Hongbo	–	513	109	165	787
	963	16,338	1,744	9,666	28,711

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For the year ended 31 December 2012

53. DIRECTORS', SENIOR MANAGEMENT'S AND SUPERVISORS' EMOLUMENTS (continued)

For the year ended 31 December 2011

Name	Director fee <i>RMB'000</i>	Salary and commission <i>RMB'000</i>	Employer's contribution to pension schemes/ annuity plans <i>RMB'000</i>	Bonuses* <i>RMB'000</i>	Total^ <i>RMB'000</i>
<i>Executive Directors and Senior Management:</i>					
Wang Kaiguo ^{&}	–	1,184	140	1,012	2,336
Li Mingshan ^{&}	–	1,184	140	1,012	2,336
Shen Degao	–	839	140	735	1,714
Ji Yuguang	–	840	140	735	1,715
Ren Peng	–	838	140	735	1,713
Ma Yong	–	592	105	419	1,116
Jin Xiaobin	–	737	140	626	1,503
Li Chuqian	–	736	140	626	1,502
Wang Jianye	–	738	140	626	1,504
Wu Bin	–	728	140	623	1,491
<i>Independent Non-executive Directors and Supervisors:</i>					
Xia Bin	120	–	–	–	120
Li Guangrong	120	–	–	–	120
Gu Gongyun	60	–	–	–	60
Chen Qiwei	120	–	–	–	120
Wu Xiaoqiu	60	–	–	–	60
Zhang Huiquan	120	–	–	–	120
Dai Genyou	80	–	–	–	80
Liu Zhimin	20	–	–	–	20
Zhang Ming	120	–	–	–	120
Wang Yimin	–	1,166	134	1,011	2,311
Yang Qingzhong	–	836	140	735	1,711
Qiu Xiaping	–	483	140	376	999
Du Hongbo	–	465	129	374	968
Nai Xuegang	–	287	130	191	608
	820	11,653	2,038	9,836	24,347

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

53. DIRECTORS', SENIOR MANAGEMENT'S AND SUPERVISORS' EMOLUMENTS (continued)

- * The bonuses are discretionary and are determined by reference to the Group's and the individuals' performance.
- ^ The Company did not operate any share option scheme during the reporting periods. However, there was share-based payment expenses arising from the share options granted to the directors, senior management and supervisors by a subsidiary of the Company, amounting to approximately RMB156,000 for the year ended 31 December 2011, which were not included in the above total emoluments. Details of the subsidiary's share option scheme are disclosed in note 55.
- & Mr. Wang Kaiguo and Mr. Li Mingshan are also the Chief Executives of the Company and their emoluments disclosed above include those for service rendered by them as Chief Executives.

For the year ended 31 December 2012 and 2011, no directors, supervisors or senior management of the Company waived any emoluments and no emoluments were paid by the Company to any of the directors, supervisors or senior management as an inducement to join or upon joining the Group or as compensation for loss of office.

54. HIGHEST PAID INDIVIDUALS

Of the five individuals with the highest emoluments, none of them are directors, supervisors or senior management. Details of the remuneration of the highest paid employees during the year ended 2011 and 2012 are as follows:

	2012	2011
	RMB'000	RMB'000
Salary and commission	6,489	5,814
Bonuses	43,612	29,963
Employer's contribution to pension schemes/annuity plans	468	522
	50,569	36,299

Bonuses are discretionary and are determined by reference to the Group's and the individuals' performance. No emoluments have been paid to or receivable by these individuals as an inducement to join or upon joining the Group or as compensation for loss of office for the year ended 31 December 2011 and 2012.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

54. HIGHEST PAID INDIVIDUALS (continued)

The emoluments of the highest-paid individuals of the Group fall within the following bands:

	2012	2011
Emolument bands		
– HKD9,000,001 to HKD9,500,000	1	1
– HKD10,500,001 to HKD11,000,000	1	3
– HKD12,000,001 to HKD12,500,000	2	1
– HKD18,000,000 to HKD18,500,000	1	–
	5	5

55. SHARE OPTION SCHEME OF A SUBSIDIARY

One of the Company's subsidiaries, HISGL, a Hong Kong listed company, operates a share option scheme mainly for its directors and employees. HISGL was acquired by the Group on 21 December 2009.

The shareholders of HISGL approved the adoption of a share option scheme (the "2002 Share Option Scheme") on 23 August 2002.

A summary of the principal terms of the 2002 Share Option Scheme is set out as follows:

The 2002 Share Option Scheme was adopted for the purpose of attracting, retaining and motivating talented employees to strive towards long-term performance targets set by HISGL and its subsidiaries and at the same time allowing the participants to enjoy the results of HISGL attained through their effort and contribution. Under the 2002 Share Option Scheme, options may be granted to any full time employees, executive and non-executive directors of HISGL or any of its subsidiaries or associates.

The maximum number of shares which may be issued upon exercise of all options to be granted under the 2002 Share Option Scheme and any other share option schemes of HISGL shall not in aggregate exceed 10% of the total number of shares in issue as at the date of adoption of the 2002 Share Option Scheme (the "Scheme Mandate Limit") but HISGL may seek approval of its shareholders at general meetings to refresh the Scheme Mandate Limit, save that the maximum number of shares in respect of which options may be granted by directors of HISGL under the 2002 Share Option Scheme and any other share option schemes of HISGL shall not exceed 10% of the issued share capital of HISGL as at the date of approval by the shareholders of HISGL at general meetings where such limit is refreshed. Options previously granted under the 2002 Share Option Scheme and any other share option schemes of HISGL (including those outstanding, cancelled, lapsed or exercised options) will not be counted for the purpose of calculating such 10% limit as refreshed. Notwithstanding the aforesaid in this paragraph, the maximum number of shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the 2002 Share Option Scheme and any other share option schemes of HISGL shall not exceed 30% (or such higher percentage as may be allowed under the Listing Rules) of the total number of shares in issue from time to time.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

55. SHARE OPTION SCHEME OF A SUBSIDIARY (continued)

The maximum number of shares issued and to be issued upon exercise of the options granted to each participant under the 2002 Share Option Scheme and any other share option schemes of HISGL (including both exercised and outstanding options) in any twelve-month period shall not exceed 1% of the total number of HISGL's shares in issue. Any further grant of share options in excess of this limit is subject to approval by the shareholders of HISGL at a general meeting.

Share options granted to a director, chief executive or substantial shareholders of HISGL, or to any of their associates, are subject to approval in advance by the independent non-executive directors. In addition, any share options granted to a substantial shareholder or an independent non-executive director of HISGL, or to any of their associates, in excess of 0.1% of the total number of shares of HISGL in issue at the date on which such grant is proposed by the directors of HISGL or with an aggregate value (based on the closing price of HISGL's shares at the date on which such grant is proposed by the directors of HISGL) in excess of HKD5 million, within any twelve-month period, are subject to shareholders' approval in advance at a general meeting of HISGL.

The offer of a grant of share options may be accepted within 30 days from the date of the offer upon payment of a consideration of HKD1 by the grantee. The exercise period of the share options granted is determinable by the directors of HISGL, and such period shall commence not earlier than six months from the date of grant of the options and expire not later than ten years after the date of grant of the options. The vesting period of the share options is from the date of the grant until the commencement of the exercise period. All share options under the 2002 Share Option Scheme are subject to a six-month vesting period.

The exercise price of the share options is determinable by the directors of HISGL, and shall be at least the highest of (i) the closing price of HISGL's shares as stated in the Hong Kong Stock Exchange's daily quotations sheet on the offer date; (ii) the average closing price of HISGL's shares as stated in the Hong Kong Stock Exchange's daily quotations sheets for the five trading days immediately preceding the offer date; and (iii) the nominal value of HISGL's shares.

Share options do not confer rights on the holders to dividends or to vote at shareholders' meetings of HISGL.

The 2002 Share Option Scheme shall be valid and effective for a period of ten years commencing from the date on which it is conditionally adopted by resolution of HISGL at a general meeting and expired on 22 August 2012.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

55. SHARE OPTION SCHEME OF A SUBSIDIARY (continued)

The following table discloses movements of share options granted to the directors and employees of HISGL under HISGL's 2002 Share Option Scheme during the year:

	2012		2011	
	Weighted average exercise price HKD per share	Number of options '000	Weighted average exercise price HKD per share	Number of options '000
At beginning of the year	5.25	43,216	5.26	54,807
Granted during the year	–	–	–	–
Adjusted during the year	–	–	–	–
Exercised during the year	–	–	4.85	(310)
Forfeited during the year	5.24	(11,076)	5.34	(11,281)
Acquisition of HISGL	–	–	–	–
At end of the year	5.25	32,140	5.25	43,216

In respect of the share options exercised in 2011, the weighted average share price at the date of exercise for the year was HK\$5.05.

The exercise prices and exercise periods of the share options outstanding as at respective reporting dates are as follows:

Number of options '000	Exercise price ¹ HKD per share	Exercise period
2012		
12,367	5.88	1 June 2008 to 31 May 2016
19,773	4.85	3 March 2011 to 2 March 2019
32,140		
2011		
16,570	5.88	1 June 2008 to 31 May 2016
26,646	4.85	3 March 2011 to 2 March 2019
43,216		

¹ The exercise price of the share option is subject to adjustment in case of rights or bonus issues, or other similar changes in HISGL's share capital.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

55. SHARE OPTION SCHEME OF A SUBSIDIARY (continued)

No new share options were granted during the year. During the year, HISGL recognised a share option expense of nil (2011: HKD6,396,000) in relation to certain share options granted in prior period.

In 2011, 310,000 share options were exercised and resulted in 310,000 ordinary shares of HISGL and new share capital of HKD31,000 and share premium HKD1,473,740 (before issue expenses).

At the balance sheet date, HISGL had 32,139,525 (2011: 43,215,758) share options outstanding under the 2002 Share Option Scheme, which represented approximately 3.51% (2011: 4.72%) of HISGL's shares in issue as at that date. The exercise in full of the remaining share options would, under the present capital structure of HISGL, result in the issue of 32,139,525 (2011: 43,215,758) additional ordinary shares of HISGL and additional share capital of HKD3,213,953 (2011: HKD4,321,576) and share premium of HKD165,467,571 (2011: HKD222,431,316) (before issue expenses).

At the date of approval of these consolidated financial statements, HISGL had 32,139,525 (2011: 43,215,758) share options outstanding under the 2002 Share Option Scheme, which represents approximately 3.5% (2011: 4.72%) of HISGL's shares in issue at that date.

56. RELATED PARTY TRANSACTIONS

In addition to the transactions and balances set out in notes 30 and 53 above, the Group had the following material transactions with the associate for the year ended 31 December 2011 and 2012:

	2012	2011
	RMB'000	RMB'000
Administration fee income		
– Fullgoal Fund Management Co. Ltd.	991	988
Interest expense		
– Fullgoal Fund Management Co. Ltd.	(16)	(32)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

56. RELATED PARTY TRANSACTIONS (continued)

The followings are the material transactions between the Group's subsidiary, HFT Investment Management Company Limited and BNP Paribas Investment Partners BE Holding SA ("BNP") (formerly known as Fortis Investment Management S.A.), its non-controlling shareholder and BNP Paribas Investment Partners Japan Ltd, BNP's subsidiary:

	2012	2011
	RMB'000	RMB'000
Consultancy and financial advisory fee income received and receivable from:		
– BNP	–	83,073
– Shinhan BNP Paribas Asset Management Co., Ltd.	399	–
– BNP Paribas Investment Ltd (Asia)	71,394	–
Other expenses paid and payable to:		
– BNP	–	(87)
– BNP Paribas Investment Partners Japan Ltd	(529)	(1,004)
– BNP Paribas Wealth Management Bank	(26)	–
– BNP Paribas Investment Partners Singapore Ltd	(17)	–
	2012/12/31	2011/12/31
	RMB'000	RMB'000
Accounts receivable from:		
– BNP	1,362	831
– BNP Paribas Investment Partners Japan Ltd	15,834	11,232
Other payables and accrued expenses to:		
– BNP	(5)	(87)
– BNP Paribas Wealth Management Bank	(7)	–
– BNP Paribas Investment Partners Japan Ltd	(156)	(397)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

56. RELATED PARTY TRANSACTIONS (continued)

The followings are the material transactions between the Group's subsidiary, Haitong Capital Investment Co., Ltd., and the Group's associates, Jilin Modern Agricultural and Emerging Markets Investment Fund Limited ("Jilin"), Xi'an Aerospace and New Energy Industry Fund ("Xi'an Aerospace") and Shanghai Cultural Industries Investment Fund (Limited Partnership) ("Cultural Industries Fund"):

	2012	2011
	RMB'000	RMB'000
Asset management fee income		
– Jilin	20,000	20,000
– Xi'an Aerospace	20,000	16,820
– Cultural Industries Fund	14,289	–

The remuneration of the key management personnel of the Group was as follows:

	2012	2011
	RMB'000	RMB'000
Short-term benefits:		
– Fees, salaries, commission and bonuses	26,967	22,309
Post-employment benefits:		
– Employer's contribution to pension schemes/annuity plans	1,744	2,038
Share-based payment	–	156
	28,711	24,503

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

57. SEGMENT REPORTING

Information reported to the chief operating decision maker (the “CODM”), being the board of directors of the Company, for the purposes of resource allocation and assessment of segment performance focuses on the nature of products sold and services provided by the Group, which is also consistent with the Group’s basis of organisation, whereby the businesses are organised and managed separately as individual strategic business unit that offers different products and serves different markets. Segment information is measured in accordance with the accounting policies and measurement criteria adopted by each segment when reporting to management, which are consistent with the accounting and measurement criteria in the preparation of the consolidated financial statements.

Specifically, the Group’s reportable and operating segments are as follows:

- (a) the brokerage segment engages in the trading of equities, bonds, funds, and warrants, as well as futures on behalf of the customers, and also providing margin financing and securities lending services (the “Securities and futures brokerage” segment);
- (b) the assets management segment offers traditional asset management products and services through the Company and HFT Investment Management Co., Ltd. (海富通基金管理有限公司), one of the Group’s subsidiaries. The Group operates the private equity asset management business and culture industry business through its subsidiaries, Haitong-Fortis Private Equity Fund Management Co., Ltd., (海富產業投資基金管理有限公司), Haitong Jihe Private Equity Investment Fund Management Company Limited (海通吉禾股權投資基金管理有限責任公司), Haitong Chuangxin Capital Management Company Limited (海通創新資本管理有限公司), Haitong Securities Asset Management Company Limited (海通證券資產管理有限公司) and Haitong Chuangyi Asset Management Company Limited (海通創意資本管理有限公司) (the “Asset management” segment).
- (c) the proprietary trading segment engages in trading of equities, bonds, funds, derivative and other financial products for the Group (the “Proprietary trading” segment);
- (d) the investment banking segment provides corporate finance services, including equity underwriting, debt underwriting and financial advisory services to institutional clients (the “Investment banking” segment);
- (e) the direct investment segment makes direct equity investments in private companies and earns capital gains by exiting from these private equity investments through IPOs or share sales, or receives dividends from these portfolio companies. In addition, the Group invests in private equity funds (the “Direct investment” segment”).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

57. SEGMENT REPORTING (continued)

- (f) the headquarters and others segment mainly represents head office operations, investment holding as well as interest income and interest expense incurred for general working capital purpose (the “Headquarters and others” segment); and
- (g) the overseas operations segment mainly represents the business operation of HISGL, a listed subsidiary of the Company, which mainly engages in broking, margin financing, corporate advisory, placing and underwriting, trading and investment and financial planning and advisory services (the “Overseas operations” segment).

Inter-segment transactions, if any, are conducted with reference to the prices charged to third parties and there was no change in the basis during the years ended 31 December 2011 and 2012.

Segment profit/loss represents the profit earned by/loss measured by each segment without allocation of share of result of associates and income tax expenses. This is the measure reported to CODM for the purposes of resource allocation and performance assessment.

Segment assets/liabilities are allocated to each segment, excluding investments in associates, deferred tax assets/liabilities. Inter-segment balances eliminations mainly include amount due from/to another segment arising from investing activities' carried out by a segment for another segment.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

57. SEGMENT REPORTING (continued)

The segment information provided to the CODM for the operating and reportable segments for the years ended 31 December 2011 and 2012 is as follows:

Operating and Reportable segment

For the year ended 31 December 2012

	Securities and futures brokerage RMB'000	Asset management RMB'000	Proprietary trading RMB'000	Investment banking RMB'000	Direct investment RMB'000	Headquarters and others RMB'000	Overseas operations RMB'000	Segment total RMB'000	Eliminations RMB'000	Consolidated total RMB'000
Segment revenue and results										
Revenue										
– External	3,579,819	925,067	1,731,553	741,950	182,086	2,367,156	964,973	10,492,604	-	10,492,604
– Inter-segment	705,722	56	-	3,106	197	266,952	44,135	1,020,168	(1,020,168)	-
Other income and gains	26,900	26,349	6,000	997	3,913	188,804	(2,405)	250,558	-	250,558
Segment revenue	4,312,441	951,472	1,737,553	746,053	186,196	2,822,912	1,006,703	11,763,330	(1,020,168)	10,743,162
Segment expenses	(2,653,246)	(599,289)	(1,164,834)	(493,969)	(35,114)	(1,770,161)	(736,159)	(7,452,772)	753,216	(6,699,556)
Segment result	1,659,195	352,183	572,719	252,084	151,082	1,052,751	270,544	4,310,558	(266,952)	4,043,606
Share of results of associates	-	(4)	-	-	(6,033)	71,903	-	65,866	-	65,866
Profit before income tax	1,659,195	352,179	572,719	252,084	145,049	1,124,654	270,544	4,376,424	(266,952)	4,109,472
Segment assets and liabilities										
Segment assets	47,918,461	2,419,052	36,570,439	428,099	4,589,822	98,588,484	13,480,794	203,995,151	(79,367,208)	124,627,943
Investments in associates										1,727,890
Deferred tax assets										369,606
Group's total assets										126,725,439
Segment liabilities	45,353,571	284,452	32,981,476	176,015	75,910	43,222,241	9,275,089	131,368,754	(65,223,874)	66,144,880
Deferred tax liabilities										149,963
Group's total liabilities	45,353,571	284,562	32,985,936	176,015	92,414	43,335,724	9,290,495	131,518,717	(65,223,874)	66,294,843
Other segment information										
Amounts included in the measure of segment profit or loss:										
Depreciation and amortisation	168,353	15,238	1,265	4,722	592	87,250	39,420	316,841	-	316,841
Impairment losses of available-for-sale investments	-	-	773,122	-	-	65,054	27,042	865,218	-	865,218
Reversal of impairment loss in respect of other receivables	10	18	-	72	-	(33,485)	9,384	(24,001)	-	(24,001)
Interest income	593,336	44,512	18,149	511	43,174	1,773,709	403,344	2,876,735	-	2,876,735
Interest expenses	140,129	11	339,556	-	-	198,769	25,939	704,404	-	704,404

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

57. SEGMENT REPORTING (continued)

Operating and Reportable segment (continued)

For the year ended 31 December 2011

	Securities and futures brokerage RMB'000	Asset management RMB'000	Proprietary trading RMB'000	Investment banking RMB'000	Direct investment RMB'000	Headquarters and others RMB'000	Overseas operations RMB'000	Segment total RMB'000	Eliminations RMB'000	Consolidated total RMB'000
Segment revenue and results										
Revenue										
- External	4,143,204	1,094,573	1,144,784	1,068,459	54,961	2,249,115	871,782	10,626,878	-	10,626,878
- Inter-segment	653,049	332	-	893	140	269,039	-	923,453	(923,453)	-
Other income and gains	19,883	(2,474)	-	124	-	133,227	82,736	233,496	-	233,496
Segment revenue	4,816,136	1,092,431	1,144,784	1,069,476	55,101	2,651,381	954,518	11,783,827	(923,453)	10,860,374
Segment expenses	(2,943,670)	(662,840)	(655,496)	(520,139)	(17,460)	(1,654,279)	(833,652)	(7,287,536)	654,414	(6,633,122)
Segment result	1,872,466	429,591	489,288	549,337	37,641	977,102	120,866	4,496,291	(269,039)	4,227,252
Share of results of associates	-	310	-	-	(930)	73,532	-	72,912	-	72,912
Profit before income tax	1,872,466	429,901	489,288	549,337	36,711	1,070,634	120,866	4,569,203	(269,039)	4,300,164
Segment assets and liabilities										
Segment assets	48,167,107	1,311,585	25,996,744	959,543	3,529,474	88,294,868	11,487,414	179,746,735	(82,209,038)	97,537,697
Investments in associates										926,114
Deferred tax assets										513,100
Group's total assets										98,976,911
Segment liabilities	45,463,691	369,868	26,639,694	410,206	42,346	45,730,963	7,518,288	126,175,056	(73,880,805)	52,294,251
Deferred tax liabilities										72,018
Group's total liabilities										52,366,269
Other segment information										
Amounts included in the measure of segment profit or loss:										
Depreciation and amortisation	164,652	15,575	1,273	4,869	1,452	78,578	33,638	300,037	-	300,037
Reversal of impairment loss in respect of other receivables	-	-	-	(9)	-	(32,764)	-	(32,773)	-	(32,773)
Impairment losses of available for sale investments	-	-	416,258	-	-	-	124,151	540,409	-	540,409
Interest income	369,533	20,402	128	1,170	45,114	1,799,053	317,771	2,553,171	-	2,553,171
Interest expenses	203,497	44	143,549	2	-	84,596	28,108	459,796	-	459,796

The Group operates in two principal geographical areas, the People's Republic of China (excluding Hong Kong) and Hong Kong, representing the location of majority of the income from external customers and non-current assets of the Group. Segment revenue and non-current assets in respect of overseas operations segment are substantially attributable to Hong Kong. The remaining segment revenue and non-current assets are attributable to the PRC. No single customers contribute more than 10% of income to the Group's income for the years ended 31 December 2011 and 2012.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

58. MATURITY PROFILE OF ASSETS AND LIABILITIES

An analysis of the maturity profile of certain assets and liabilities of the Group based on the remaining contractual maturity as at 31 December 2012 and 2011 is as follows:

	Repayable on demand <i>RMB'000</i>	Less than 1 year <i>RMB'000</i>	More than 1 year but less than 5 years <i>RMB'000</i>	More than 5 years <i>RMB'000</i>	Total <i>RMB'000</i>
As at 31 December 2012					
Assets					
Loans and advances to customers	10,203,213	1,135,474	–	–	11,338,687
Bank balances and cash (including restricted bank deposits)	36,099,805	15,891,660	320,586	–	52,312,051
Clearing settlement funds (client money)	2,227,863	–	–	–	2,227,863
Debt securities classified as:					
Financial assets held for trading	–	2,060,381	6,996,095	8,773,142	17,829,618
Available-for-sale investments	–	48,004	745,079	1,458,776	2,251,859
Held-to-maturity investments	–	4,861	651,858	–	656,719
Loan and receivable investments	–	1,894,100	1,278,302	–	3,172,402
	48,530,881	21,034,480	9,991,920	10,231,918	89,789,199
Liabilities					
Borrowings from banks	5,000,000	3,626,314	–	–	8,626,314
Placements from other financial institutions	–	2,150,000	–	–	2,150,000
Accounts payable to brokerage clients (money held on behalf of clients only)	33,688,378	–	–	–	33,688,378
	38,688,378	5,776,314	–	–	44,464,692
As at 31 December 2011					
Assets					
Loans and advances to customers	6,462,677	–	–	–	6,462,677
Bank balances and cash (including restricted bank deposits)	43,349,176	7,221,858	326,719	–	50,897,753
Clearing settlement funds (client money)	2,415,032	–	–	–	2,415,032
Debt securities classified as:					
Financial assets held for trading	–	–	5,696,683	9,106,717	14,803,400
Available-for-sale investments	–	–	30,000	477,743	507,743
Bond investments included in other assets	–	–	157,683	–	157,683
	52,226,885	7,221,858	6,211,085	9,584,460	75,244,288
Liabilities					
Borrowings from banks	2,073,224	447,506	–	–	2,520,730
Accounts payable to brokerage clients (money held on behalf of clients only)	35,786,833	–	–	–	35,786,833
	37,860,057	447,506	–	–	38,307,563

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

59. FINANCIAL INSTRUMENTS

Categories of financial instruments

THE GROUP

	2012 <i>RMB'000</i>	2011 <i>RMB'000</i>
Financial assets		
Loans and receivables	78,815,377	65,879,726
Available-for-sale investments	10,780,807	8,760,211
Fair value through profit or loss		
– Held for trading	32,195,783	20,605,107
Held-to-maturity investments	656,719	–
Financial liabilities		
Fair value through profit or loss	385,059	–
Amortised cost	64,720,127	50,745,489

THE COMPANY

	2012 <i>RMB'000</i>	2011 <i>RMB'000</i>
Financial assets		
Loans and receivable	55,422,263	47,601,916
Available-for-sale investments	6,969,961	6,671,876
Fair value through profit or loss		
– Held for trading	30,631,856	20,299,297
Financial liabilities		
Fair value through profit or loss	366,444	–
Amortised cost	49,862,514	39,118,993

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

60. FINANCIAL RISK MANAGEMENT

The Group's and the Company's major financial instruments include equity and debt investments, loans and advances to customers, accounts receivable, other receivables, amount due from/to a subsidiary, financial assets held under resale agreements, deposit with exchange, clearing settlement funds, bank balances and cash, pledged bank deposits, borrowings, financial assets sold under repurchase agreements, accounts payable to brokerage clients and other payables. Details of the financial instruments are disclosed in respective notes. The risks associated with these financial instruments include market risk (price risk, currency risk and interest rate risk), credit risk and liquidity risk. The policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Market risk

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

The Group and the Company's exposures to market risk include price risk, currency risk and interest rate risk.

Price risk

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

The Group and the Company are exposed to price risk arising from individual investment classified as financial assets held for trading and available-for-sale investments. The directors of the Company manage the exposure by closely monitoring the portfolio of investments and have started hedging exposure by entering into derivatives contracts.

Price risk exposures are measured using value-at-risk (VaR) at the Company level.

There has been no change to the Company's exposure to market risks or the manner in which it manages and measures the risk.

Value at Risk (VaR) analysis

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

60. FINANCIAL RISK MANAGEMENT (continued)

Market risk (continued)

Price risk (continued)

Value at Risk (VaR) analysis (continued)

VaR methodologies employed to calculate the month end risk numbers include the historical approach.

Historical VaR (95%, one-day) by risk type

	2012 <i>RMB'000</i>	2011 <i>RMB'000</i>
Total VaR exposure	105,000	166,000

Historical VaR (95%, one-day) by risk type

	Average 2012 <i>RMB'000</i>	2011 <i>RMB'000</i>
Total VaR exposure	106,000	154,000

Historical VaR (95%, one-day) by risk type

	Minimum 31.12.2012 <i>RMB'000</i>	31.12.2011 <i>RMB'000</i>
Total VaR exposure	79,000	116,000

Historical VaR (95%, one-day) by risk type

	Maximum 2012 <i>RMB'000</i>	2011 <i>RMB'000</i>
Total VaR exposure	139,000	185,000

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

60. FINANCIAL RISK MANAGEMENT (continued)

Market risk (continued)

Price risk (continued)

Value at Risk (VaR) analysis (continued)

The subsidiaries of the Company have utilised the effect of stock price variation on net profit and revaluation reserve within the period, rather than VaR methodology, to manage and analyse the price risk. When reporting internally to the key management on risk, the management estimates that reasonable possible change in price is 10%. If the prices of the respective equity instruments had been 10% higher/lower, and held other variables constant, the impacts to the profit for the year and investment revaluation reserve are as follows:

	2012 RMB'000	2011 RMB'000
Profit for the year		
Increase by 10%	37,261	22,936
Decrease by 10%	(37,261)	(27,304)
Investment revaluation reserve		
Increase by 10%	10,816	23,932
Decrease by 10%	(10,816)	(19,564)

In the above analysis, management also considers the case of an available-for-sale equity investment that a reasonably possible downward fall in the equity price would lead the investment to be impaired, the effect of loss would be shown as affecting profit or loss and the cumulative loss previously recognised in investment revaluation reserve would be reclassified to profit or loss, but an equivalent upward shift in the equity price would be shown as affecting investment revaluation reserve.

In the case that an available-for-sale equity investment that has already been impaired, a reasonably possible downward fall in the equity price may continue to be recognised in profit or loss but an equivalent upward shift in the equity price would be shown as affecting investment revaluation reserve.

In management's opinion, the sensitivity analysis is unrepresentative of inherent price risk as the year end exposure does not reflect the exposure during the year.

Currency risk

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

The Group's currency risk arises principally from its leveraged foreign exchange business carried out through HISGL. The Group hedges the majority of its client trades in its leveraged foreign exchange business back-to-back with external counterparties, such that the Group is not exposed to significant foreign currency risk.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

60. FINANCIAL RISK MANAGEMENT (continued)

Market risk (continued)

Currency risk (continued)

The other amounts of financial assets and liabilities of the Group are substantially denominated in the functional currency of the respective entity within the Group except that as at 31 December 2012, the Group's Hong Kong subsidiaries', whose functional currency is Hong Kong dollar ("HKD"), have significant monetary assets denominated in RMB.

Sensitivity analysis

The sensitivity analysis below has been determined based on the exposure to foreign exchange rates for financial assets and liabilities denominated in RMB for the Group's Hong Kong subsidiaries. The analysis is prepared assuming the financial instruments outstanding at 31 December 2012 were outstanding for the whole year. When reporting to the management on the currency risk, the Company will adopt a 50 basis points increase or decrease for sensitivity analysis, while considering the reasonably possible change in RMB/HKD.

Group

If RMB strengthened/weakened against HKD by 5% with all other variables held constant, the Group's profit for the year ended 31 December 2011 and 2012 would increase/decrease by RMB103,925,000 and RMB37,543,000, respectively.

Interest rate risk

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

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

Fluctuations of prevailing rate quoted by the People's Bank of China and Hong Kong Inter-bank Offered Rate are the major sources of the Group and the Company's cash flow interest rate risk.

The Group and the Company's exposures to interest rates on financial liabilities are detailed in the liquidity risk management section of this note.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

60. FINANCIAL RISK MANAGEMENT (continued)

Market risk (continued)

Interest rate risk (continued)

Sensitivity analysis

The sensitivity analysis below has been determined based on the exposure to interest rates for variable rate financial assets and liabilities. The analysis is prepared assuming the financial instruments outstanding at the end of the reporting period were outstanding for the whole year. When reporting to the management on the interest rate risk, the Company will adopt a 50 basis points increase or decrease for sensitivity analysis, while considering the reasonably possible change in interest rates.

THE GROUP

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

- Profit for the year would decrease/increase for the year ended 31 December 2011 and 2012 by RMB141,996,000 and RMB205,516,000, respectively. This is mainly attributable to the Group's exposure to interest rates on its bank balances, accounts payable to brokerage clients and held for trading debt securities; and
- Investment revaluation reserve for the year ended 31 December 2011 and 2012 would decrease/increase by RMB9,521,000 and RMB32,420,000, respectively, mainly as a result of the changes in the fair value of available-for-sale debt investments.

THE COMPANY

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

- Profit for the year ended 31 December 2011 and 2012 would decrease/increase by RMB155,397,000, and RMB228,321,000, respectively. This is mainly attributable to the Company's exposure to interest rates on its bank balances, held for trading debt securities, and accounts payable to brokerage clients; and
- Investment revaluation reserve for the year ended 31 December 2011 and 2012 would decrease/increase by RMB9,521,000 and RMB32,420,000, respectively, mainly as a result of the changes in the fair value of available-for-sale debt investments.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

60. FINANCIAL RISK MANAGEMENT (continued)

Credit risk

The Group and the Company take on exposure to credit risk, which is the risk that a counterparty will be unable to pay amounts in full when due. The tables below show the maximum credit risk exposure of the Group and the Company, being the carrying amount of the respective recognised financial assets before the effect of mitigation through the use of collateral.

THE GROUP

	2012 <i>RMB'000</i>	2011 <i>RMB'000</i>
Loans and advances to customers	11,338,687	6,462,677
Accounts receivable	1,113,355	872,552
Other receivables and prepayments	1,574,594	691,961
Loan and receivable investments	3,172,402	157,683
Held-to-maturity investments	656,719	–
Available-for-sale debt investments	2,251,859	507,743
Financial assets held under resale agreements	2,193,569	605,900
Financial assets at fair value through profit or loss	17,861,807	14,910,682
Deposits with exchanges	3,994,752	2,177,814
Clearing settlement funds	3,045,330	3,952,038
Bank balances and cash	51,991,465	50,571,034
Restricted bank deposits	320,586	326,719
Other assets	70,637	61,348
Maximum credit exposure	99,585,762	81,298,151

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

60. FINANCIAL RISK MANAGEMENT (continued)

Credit risk (continued)

THE COMPANY

	2012 <i>RMB'000</i>	2011 <i>RMB'000</i>
Loans and advances to customers	6,392,950	3,675,252
Other receivables and prepayments	1,109,331	483,498
Amount due from a subsidiary	92,557	874,062
Available-for-sale debt investments	2,251,859	507,743
Loan and receivable investments	200,000	–
Financial assets held under resale agreements	1,464,969	32,000
Financial assets at fair value through profit or loss	17,395,468	14,712,533
Deposits with exchanges	1,607,943	1,031,890
Clearing settlement funds	2,211,644	2,792,636
Bank balances and cash	42,286,922	38,662,681
Other assets	55,947	49,897
Maximum credit exposure	75,069,590	62,822,192

Credit exposures arise principally from investments in debt securities, loans and advances to customers, accounts receivable, clearing settlement funds and bank balances which are included in the Group and the Company's asset portfolios.

Credit exposure arising from investments in debt securities and trust products with fixed yield include downgrading of credit rating of the debt securities and/or of its underlying issuers and default of payments by the issuers. Management also closely monitors the credit ratings of respective debt securities on a regular basis and the financial soundness of the underlying issuers.

Credit exposure arising from bank products is considered to be limited as the Group only invest in low-risk bank products issued by state-owned banks and large commercial banks.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

60. FINANCIAL RISK MANAGEMENT (continued)

Credit risk (continued)

There is neither impaired nor overdue other advances to customers as of the balance sheet dates. All these other advances to customers are secured and/or backed by guarantee with contractual maturity from 3 months to 1 year. Credit limits are set for borrowers. Apart from collateral monitoring, the Group seeks to maintain tight control over its loans and advances in order to minimise credit risk by reviewing the borrowers' or guarantors' financial positions.

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

Accounts receivable from cash clients which are past due but not impaired represent client trades on various securities exchanges which are unsettled beyond the settlement date. When the cash clients failed to settle on settlement date, the Group and the Company has a right to force-sell the collateral underlying the securities transactions. The outstanding accounts receivable from cash clients as at 31 December 2011 and 2012 are considered not to be impaired after taking into consideration the recoverability from collateral. Collateral held against such receivables are publicly traded securities.

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

Other than concentration of credit risk on liquid funds which are deposited with several banks with high credit ratings, the Group and the Company's major credit exposures are with counterparties domiciled in the PRC as of 31 December 2011 and 2012.

Liquidity risk

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

60. FINANCIAL RISK MANAGEMENT (continued)

Liquidity risk (continued)

Undiscounted cash flows by contractual maturities

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

THE GROUP

As at 31 December 2012

	On demand RMB'000	Less than 3 months RMB'000	3 months to 1 year RMB'000	Total RMB'000
Borrowings	5,000,704	3,539,239	89,965	8,629,908
Placements from other financial institutions	–	2,155,018	–	2,155,018
Accounts payable to brokerage clients	34,815,410	2,141,413	–	36,956,823
Other payables	928,766	–	17,663	946,429
Financial assets sold under repurchase agreements	–	16,071,927	–	16,071,927
	40,744,880	23,907,597	107,628	64,760,105

As at 31 December 2011

	On demand RMB'000	Less than 3 months RMB'000	3 months to 1 year RMB'000	Total RMB'000
Borrowings	2,075,209	447,934	–	2,523,143
Accounts payable to brokerage clients	36,972,208	203,611	837,988	38,013,807
Other payables	674,537	–	11,881	686,418
Financial assets sold under repurchase agreements	–	9,532,001	–	9,532,001
	39,721,954	10,183,546	849,869	50,755,369

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

60. FINANCIAL RISK MANAGEMENT (continued)

Liquidity risk (continued)

Undiscounted cash flows by contractual maturities (continued)

THE COMPANY

As at 31 December 2012

	On demand RMB'000	Less than 3 months RMB'000	3 months to 1 year RMB'000	Total RMB'000
Borrowings	5,000,704	–	–	5,000,704
Placements from other financial institutions	–	2,155,018	–	2,155,018
Accounts payable to brokerage clients	24,510,316	1,900,016	–	26,410,332
Other payables	232,858	–	17,663	250,521
Amount due to a subsidiary	11,100	–	–	11,100
Financial assets sold under repurchase agreements	–	16,071,927	–	16,071,927
	29,754,978	20,126,961	17,663	49,899,602

As at 31 December 2011

	On demand RMB'000	Less than 3 months RMB'000	3 months to 1 year RMB'000	Total RMB'000
Accounts payable to brokerage clients	28,289,172	–	837,988	29,127,160
Other payables	455,365	–	11,881	467,246
Amount due to a subsidiary	53	–	–	53
Financial assets sold under repurchase agreements	–	9,532,001	–	9,532,001
	28,744,590	9,532,001	849,869	39,126,460

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

60. FINANCIAL RISK MANAGEMENT (continued)

Fair value of financial assets and liabilities

The fair value of financial assets and financial liabilities are determined as follows:

- the fair value of financial assets with standard terms and conditions and traded in active liquid markets are determined with reference to quoted market bid prices;
- the fair value of derivative instruments is calculated using quoted prices. Where such prices are not available, use is made of discounted cash flow analysis using the applicable yield curve for the duration of the instruments for non-optional derivatives, and option pricing models for optional derivatives; and
- the fair value of other financial assets and financial liabilities (excluding those described above) is determined in accordance with generally accepted pricing models based on discounted cash flow analysis.

The directors of the Company consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the Group and the Company's statements of financial position approximate their fair values.

Financial instruments measured at fair value

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable.

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active market for identical assets or liabilities.
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

60. FINANCIAL RISK MANAGEMENT (continued)

Fair value of financial assets and liabilities (continued)

Financial instruments measured at fair value (continued)

THE GROUP

As at 31 December 2012

	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000	Total RMB'000
Available-for-sale investments	4,756,408	2,119,340	1,233,494	8,109,242
Financial assets at fair value through profit or loss	16,970,217	15,225,566	–	32,195,783
	21,726,625	17,344,906	1,233,494	40,305,025
Financial liabilities at fair value through profit or loss	385,059	–	–	385,059

As at 31 December 2011

	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000	Total RMB'000
Available-for-sale investments	5,393,570	961,228	836,056	7,190,854
Financial assets at fair value through profit or loss	10,091,102	10,514,005	–	20,605,107
	15,484,672	11,475,233	836,056	27,795,961

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

60. FINANCIAL RISK MANAGEMENT (continued)

Fair value of financial assets and liabilities (continued)

Financial instruments measured at fair value (continued)

THE COMPANY

As at 31 December 2012

	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000	Total RMB'000
Available-for-sale investments	4,599,278	1,340,310	935,194	6,874,782
Financial assets at fair value through profit or loss	16,473,403	14,158,453	–	30,631,856
	21,072,681	15,498,763	935,194	37,506,638
Financial liabilities at fair value through profit or loss	366,444	–	–	366,444

As at 31 December 2011

	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000	Total RMB'000
Available-for-sale investments	5,308,746	603,399	658,127	6,570,272
Financial assets at fair value through profit or loss	10,085,517	10,213,781	–	20,299,298
	15,394,263	10,817,180	658,127	26,869,570

There were no transfers between instruments in Level 1 and Level 2 during the year ended 31 December 2011 and 2012.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

60. FINANCIAL RISK MANAGEMENT (continued)

Fair value of financial assets and liabilities (continued)

Financial instruments measured at fair value (continued)

The following table represents the changes in Level 3 available-for-sale investments for the year ended 31 December 2011 and 2012.

THE GROUP

	2012 RMB'000	2011 RMB'000
At beginning of the year	836,056	1,188,769
Recognised in other comprehensive income	9,853	(193,854)
Purchases	1,177,155	762,470
Transfer out of Level 3*	(789,570)	(921,329)
At end of the year	1,233,494	836,056

THE COMPANY

	2012 RMB'000	2011 RMB'000
At beginning of the year	658,127	1,013,846
Recognised in other comprehensive income	73,682	(161,928)
Purchases	927,155	723,769
Transfer out of Level 3*	(723,770)	(917,560)
At end of the year	935,194	658,127

* The transfer out of Level 3 was due to the termination of restricted period of restricted shares and the financial assets have been transferred out of Level 3.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

60. FINANCIAL RISK MANAGEMENT (continued)

Capital management

The Group's objectives when managing capital are:

- To safeguard the Group's ability to continue as a going concern so that it can continue to provide returns for shareholders and benefits for other stakeholders;
- To support the Group's stability and growth;
- To maintain a strong capital base to support the development of its business; and
- To comply with the capital requirements under the PRC and Hong Kong regulations.

In accordance with Administrative Measures for Risk Control Indicators of Securities Companies (Revision 2008) (the "Administrative Measures") and "The Provisions on Adjusting the Basis of Calculation of the Net Capital of Securities Companies (amended in 2012)" (CSRC Announcement [2012] No.37) issued by the China Securities Regulatory Commission (CSRC), the comparative figures have been restated in accordance with the related regulations, the Company is required to meet the following standards for risk control indicators on a continual basis:

1. The ratio between its net capital and the sum of its various risk capital provisions shall be no less than 100% ("Ratio 1");
2. The ratio between its net capital and its net assets shall be no less than 40% ("Ratio 2");
3. The ratio between its net capital and its liabilities shall be no less than 8% ("Ratio 3");
4. The ratio between its net assets and its liabilities shall be no less than 20% ("Ratio 4");
5. The ratio between the value of equity securities, derivatives held and its net capital shall not exceed 100% ("Ratio 5"); and
6. The ratio between the value of fixed income securities held and net capital shall not exceed 500% ("Ratio 6").

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

60. FINANCIAL RISK MANAGEMENT (continued)

Capital management (continued)

Net capital refers to net assets minimises risk adjustments on certain types of assets as defined in the Administrative Measures.

As at 31 December 2011 and 2012, the Company has maintained the above ratios as follows:

	2012/12/31	2011/12/31 (restated)
Net capital (RMB'000)	39,007,731	32,441,465
Ratio 1	1428.52%	1456.85%
Ratio 2	67.29%	72.60%
Ratio 3	161.10%	292.73%
Ratio 4	239.42%	403.23%
Ratio 5	35.02%	30.56%
Ratio 6	66.30%	58.31%

The above ratios are calculated based on the underlying financial information prepared in accordance with the relevant accounting rules and financial regulations applicable to enterprises in the People's Republic of China.

Certain subsidiaries of the Group are also subject to capital requirements under the PRC and Hong Kong regulations, imposed by the CSRS and the Hong Kong Securities and Futures Commission, respectively.

The capital of the Group mainly comprises its total equity.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

61. LITIGATIONS

As at 31 December 2011 and 2012, the Group had several outstanding litigations with potential claims for a total maximum amount of approximately RMB404 thousand and RMB3,143 thousand, respectively, of which RMB248 thousand and RMB3,143 thousand, respectively were accounted for and provided in the consolidated financial statements based on directors' best estimate of the amount required to settle the claims. Certain outstanding litigations as at the respective reporting dates were settled subsequently. For details, please refer to note 41.

In prior years, a branch of the Company was involved in a few interrelated legal proceedings arising from one case relating to a stock trading dispute. Pursuant to the final judgment of the Higher People's Court of Hubei made in 2009, the relevant case was closed, and the Company was ordered to pay a compensation of approximately RMB26.3 million (excluding interest ordered in the final judgment). The Company had performed the obligated compensation, and provision had been reflected in the financial statements in the period in which true legal proceedings took place. In November 2011, the Company received a summons from the Supreme People's Court, stating that the PRC Supreme People's Procuratorate had filed a formal protest for the above case with the PRC Supreme People's Court, and the PRC Supreme People's Court had decided to start the retrial process. Pursuant to the written protest, the maximum possible claim against the Company in this case was RMB26.8 million (excluding the interest that could be ordered to be borne by the Company pursuant to the judgment of the retrial). Based on the advice of the legal counsel, the directors of the Company considered that the final judgment of Higher People's Court of Hubei conformed to the principles of fairness and would be upheld by the PRC Supreme People's Court. Based on this expectation, no outflow of economic benefits would be required to settle the obligation and accordingly, no provision for any potential liabilities was made in this respect. The above case was closed in 2012.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

62. SUBSEQUENT EVENT

(1) Right issue by a subsidiary

On 6 March 2013, one of the Company's subsidiaries, HISGL, proposes to raise not less than approximately HKD1,167.06 million but not more than approximately HKD1,202.36 million, before expenses, by way of a rights issue of not less than 457,671,353 rights shares but not more than 471,515,533 rights shares to the qualifying shareholders on the basis of one (1) rights share for every two (2) existing shares held on the record date at a price of HKD2.55 per rights share.

The Group legally and beneficially own 640,543,118 shares, which amount to approximately 69.98% of the issued share capital of the HISGL, through HTIH. Pursuant to the underwriting agreement, HTIH has provided an irrevocable undertaking to the HISGL and The Hong Kong and Shanghai Banking Corporation Limited, among other things, by no later than 4:00 p.m. on the fifth business day after the rights issue becomes open for acceptance, to accept all of the rights shares to be provisionally allotted to it under the rights issue and to lodge the provisional allotment letter(s) ("PAL(s)") together with payment therefor in accordance with the terms of the prospectus documents (the Prospect as, PAL(s) and EAF(s)). For details, please refer to the Prospectus issued by HISGL.

(2) Profit distribution resolution

On 26 March 2013, based on a total of 9,584,721,180 shares in issue as at 31 December 2012, the board of directors of the Company proposed a cash dividend of RMB1.2 per 10 share (inclusive of tax), or a total of RMB1,150,166,541.60, to both A and H share shareholders who are registered in the register of shareholders on the record date.

The cash dividend will be calculated and declared in RMB, and paid in RMB to A share shareholders and in HKD equivalent to H share shareholders. The actual HKD amount will be converted from RMB at the average benchmark exchange rate for the last 5 working days published by the People's Bank of China before the 2012 annual general meeting.

After the profit distribution resolution has been approved at the annual general meeting, the cash dividend will be paid out within two months from the date of approval.

Other than those disclosed above, the Group had no material events for disclosure subsequent to 31 December 2012 and up to the date of these consolidated financial statements.